

# Supplier Relationship Management: Manage your suppliers or they will manage you

ELAINE PORTEOUS

---

## Definition

Supplier Relationship Management (SRM) is a hot topic right now. A well-defined SRM strategy guides the buyers and suppliers of goods and services on how to get the best out of a key contracted relationships that are intended to be for the long term.

You can choose from many definitions available. This one is pretty good:

*“Supplier Relationship Management (SRM) is the discipline of working collaboratively with suppliers in order to maximise the value derived from those supplier relationships.”*

- State of Flux

In large organisations, with many suppliers of varying importance to the business, suppliers are assessed according to various criteria such as how much we depend on them, how much we spend with them and whether we could replace them easily. We are only concerned with key suppliers here.

## Why should we manage our key suppliers?

Research shows that up to 35% of supply contracts underperform. This is mainly because of a lack of focus on the deliverables of that contract by the users and departments impacted. What we are looking for in key contracts is:

### Continuity and security of supply

- Businesses are dependent on suppliers to stay in business. Security of supply is uppermost in the minds of procurement people, being out of stock or unable to use a vital service because of supplier failure causes loss of sales and reputational damage. An early warning system is necessary to ensure that your suppliers do not go out of business.

### To manage our costs

- First, and foremost, in the minds of senior management is cost control. In fact, this is usually one of the main reasons to enter into a contract. Managing price increases needs constant vigilance, especially when escalations are agreed and firmed up beforehand. (Remember to have a plan for this in the contract).

### Harmonious working relationship

- It sounds obvious but antagonistic relationships, at whatever level, are detrimental to long-term success. Make sure it doesn't come to this. Suppliers are people too.

### Encourage innovation

- Key suppliers should partner with you to consolidate a good working relationship for the long term. Long term, high spend suppliers should be urged to provide input into possible cost savings and value-adding activities. More mature suppliers are expected to propose product or service innovations for mutual benefit.

### What are the benefits of a well-run SRM program?

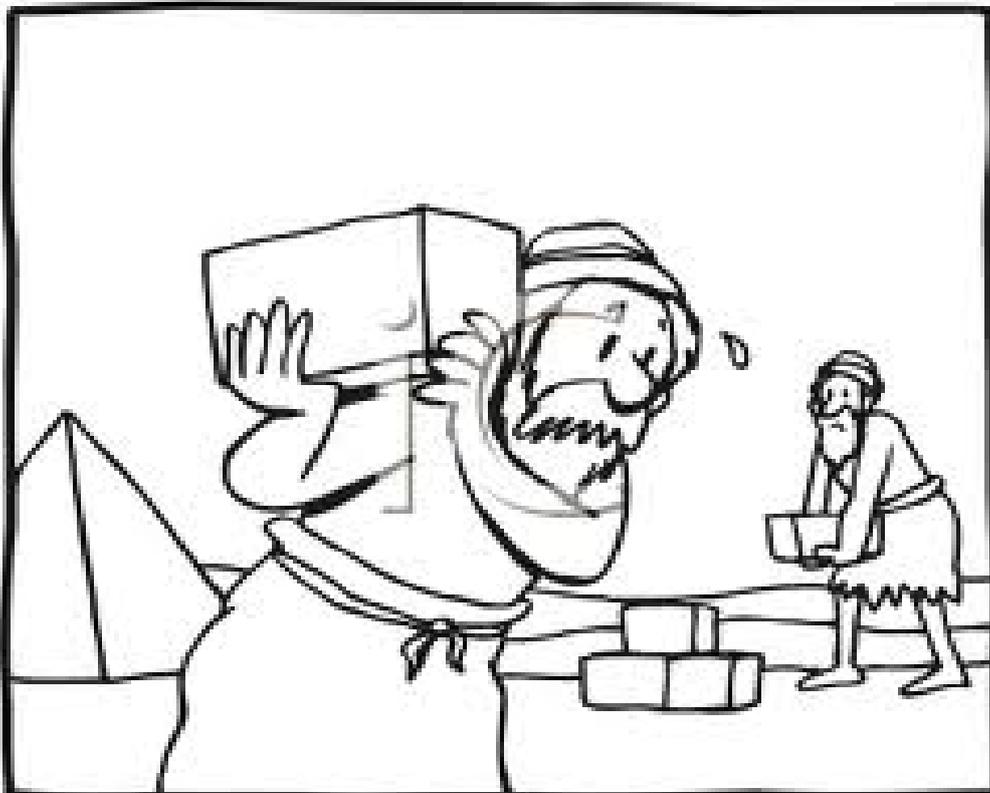
Organisations that have successfully implemented SRM programs report many reasons why they support the practice. The automobile industry and the retail and Fast-Moving-Consumer-Goods (FMCG) sectors are acknowledged to include many companies that are leaders in SRM. Honda, Toyota and Volvo have been using SRM since the 1960's and leading firms in FMCG such as Unilever, Proctor and Gamble and Dell are known for their expertise and success in managing their suppliers.

They identify the following as benefits:

- Lower costs
- Continuous improvement in both product and services
- Sustainable relationships
- Reduced risk of reputational damage

Top companies also use their suppliers to gather market intelligence and keep up to date with trends in their industry.

### Starting an SRM initiative



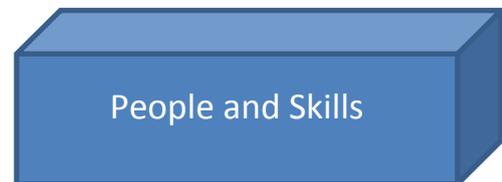
High level support and endorsement is needed for an SRM initiative. Without this it will fail. Some investment is needed.



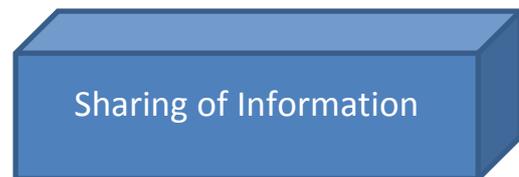
Choose your strategic suppliers carefully. Put the effort where it will deliver results.



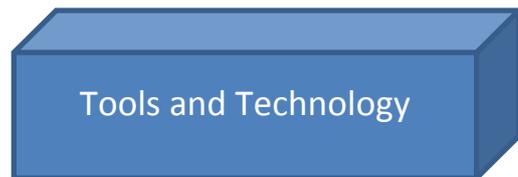
Open all lines of communication and train your SRM leaders well. Honesty and humility are traits to develop.



Data sharing is important. Joint planning can be undertaken if everyone is in full possession of the facts.



Implement ways to track performance  
Do not over-engineer the system.



Build trust with the key suppliers using sustainable and fair processes



## Why SRM programs fail

There are a few reasons that ambitions in this area do not deliver the expected results. Some problems are due to bad planning, lack of focus and some are directly related to people and to the tools:

**Lack of visible leadership**

- Because of the need for resources and employee time, SRM cannot function without active support from top management. Supplier relationships are developed at all levels in the organization.

**Misalignment of priorities internally**

- Everyone needs to understand how supplier relationships are set and nurtured. The best programs use cross-functional teams to achieve understanding of the overall needs of the organization. This strategy is put into place whenever anyone engages with the supplier.

**Tools and technology is too complicated**

- It is best not to leave the design of the tools and templates to technical people. Suppliers have a limited time to complete forms and reports, make it easy for them. There are enough difficulties working with aging and incomplete data.

**Being unresponsive to suppliers' ideas**

- Every buying organization says they encourage innovation and new ideas from suppliers but not many carry them through. Suppliers continually complain that their ideas are not heard, nor acted upon.

**What can you do to get SRM moving ?**

<b>Step 1</b>	Find out what your organization is doing in this area. If nothing, introduce key people at senior level to best practice in SRM. If they have some idea, update them on the latest thinking.
<b>Step 2</b>	Identify gaps between your current practice and the best-in-class in your industry.
<b>Step 3</b>	Raise skills and knowledge internally to close the gaps, both technical understanding of the hard facts and developing soft skills.
<b>Step 4</b>	Implement supplier guidelines and educate suppliers about what you expect of them. If you have already use guidelines, update and reinforce them with your key suppliers. Publish them on your website as well.
<b>Step 5</b>	Put yourself in the supplier's shoes. What does he need from you to do a better job and rise to your expectations?

**Building solid supplier relationships**

To ensure continuity of supply and fair pricing from your suppliers, treat them in such a way that you are seen as a key customer to them. Communicate and honestly, directly and clearly with

customers. Be prompt in your responses and, where possible, use the same style of communication. Do not lie or fudge the truth.

*“The challenge now for those in procurement is to develop the skills and capabilities that will enable them to spread these good practices more widely and make SRM a way of operating rather than just another initiative or programme that can be shelved when economic conditions are tough.”*

- Alan Day, CEO of State of Flux

### What does good supplier management look like?

- Executive support and commitment to key supplier relationships
- Standard processes and formal workflow
- Full visibility of the conditions of the contract for all users
- Clear lines of approval for changes and variations
- Constantly seeking improvements and innovation
- Open lines of communication between all stakeholders
- Published supplier guidelines to guide behaviour and communication

### Last words - WIIFM

Remember the phrase “What’s in it for me?” This SRM process has to work for both the buyer and the supplier who has a vested interest in the success of your business. Remember,

## Suppliers are people too

### References

Supply Management Magazine <http://www.supplymanagement.com/analysis/features/2010/what-does-good-srm-look-like>

---

## SPEAKER PROFILE



Elaine Porteous is a procurement and contracts specialist with more than 20 years management experience in Strategic Sourcing and Category Management and Contracts and Supplier Relationship Management. Her corporate career was spent mostly in the Oil and Gas industry at Total South Africa and Chevron Inc. (Caltex in SA) as well as at Absa. More recently, she has consulted to Eskom, Sasol, Total Coal and a listed mining company on supplier management and contracting projects, both through well-known management consultancies and directly with her own clients.

Elaine has a specific interest in the role of the HR function within Supply Chain. She designs, writes and edits learning material for in-house clients and is a trained external facilitator for Stellenbosch Business School – Executive Education.

### Contact details

<b>Email address</b>	dugport@icon.co.za
<b>Telephone</b>	+27 11 884 3515
<b>Cellphone</b>	+27 82 412 5831
<b>Twitter</b>	@elaineporteous