Building a Business Case for Strategic Supplier Relationship Management

Strategic Supplier Relationship Management (SRM) takes category management to the next level because it builds cross-supplier and cross-business unit relationships. It is a means of providing structure for developing and managing supplier relationships for value creation and encompasses sourcing, marketing, finance, manufacturing and other critical organizational processes that contribute to profitability.

A challenge of any strategic initiative that claims to produce value, and requires a commitment of business resources, is proving the benefits are truly produced. Building the business case for SRM is challenging because it is strategic or forward looking and because there are so many ways that SRM impacts financial and operational performance. Developing benchmarks and metrics is critical to garnering executive support and driving progress.

SRM is a process that is concerned with identifying crucial suppliers and the products and services they provide, and then managing and leveraging current and future relationships to maximize organizational performance. SRM is not a one-time success story about a successful supplier collaboration that ends once the sourcing transaction process, usually involving RFPs, is completed.

As a value creation process, SRM focuses on developing trust-based relationships with critical suppliers to achieve growth with value, supply chain optimization and innovation, and to manage risks. The structured aspect includes two-way communications, feedback, performance management programs, training and development, and analytics. The strategic aspect focuses on buyer-supplier alignment, supplier continuous improvement, joint improvement efforts, new product development, and innovation for competitive advantage.

Pieces of the Whole Make Better Whole

To begin SRM, the corporate operational strategies in various business units are first reviewed to determine key supplier segments. For example, identifying long-term financial goals helps the company determine which supplier relationships would lead to product innovations.

Early in the process the criteria for evaluating supplier segments is developed and includes factors like service level criticality, technology capability, and the supplier's culture of innovation, to name a few. A segmentation scheme is developed, and the suppliers are evaluated by using the criteria.

Ultimately, the goal is to identify the strategic suppliers that are critical to the organization's competitive advantage and long-term profitable growth. They represent high risk to the business because their loss would have a large negative financial and operational impact. Other suppliers are positioned as high risk/low value (bottleneck); low risk/low value (tactical acquisition); and low risk/high value (leverage). All need attention but not all are included in SRM.

The analytics is where some of the biggest challenges arise for those organizational managers building the business case for SRM. How does a company measure the value of moving beyond cost cutting and into optimization of strategic supplier relationships?

For example, Coca-Cola considers innovation and technology, degree of integration in the supply chain, pricing, strategic alignment with business, access to assets, capabilities, and degree of financial impact, plus some others. The SRM team identifies the business objectives for strategic relationships with key suppliers, manages risk and vulnerability, maximizes supply performance, promotes close supplier management, and develops potential relationships. To reach these objectives, the company commits management resources, conducts extensive business planning, includes the suppliers in new product development, customizes supplier metrics, and develops a partnership relationship to align strategies.

A cross-functional SRM team develops the metrics for measuring value. SRM can produce numerous benefits or advantages and not all of them are financial. The strategic aspect of SRM brings measurable opportunities to improve product design and manufacturing, gain access to innovative supplier technology, jointly develop new products or product features, better manage inventories, and reduce supply chain risks. Obviously, it is easier to measure traditional factors like cost reductions than it is to value risk reduction, but both measurements are needed.

Justifying Potential ROI

Getting executive buy-in requires linking SRM initiatives to overall business strategies. Top management wants to know how suppliers can innovate to support strategic goals, increase a company's competitive positioning, contribute to technology, and so on.

What is R&D working on? What does market research indicate? What contributions can suppliers make across the business if they are engaged as initial business partners?

The SRM cross-functional team oversees smaller teams at business unit levels because SRM is applied across sectors and categories, meaning there will be joint measures of success and metrics for each product category.

Vantage Partners surveyed the status of SRM among businesses. The results indicated that only 44 percent of the potential value is being realized, but the companies investing in SRM achieved results that were not possible otherwise. However, the survey also indicated that SRM initiatives remain relatively immature. One way to drive progress is through tracking, measuring and holding managers accountable for results.

There are a number of value factors that can be assessed. They include the more traditional ones like total cost reduction and increased revenue generation. Just as important are measuring product innovation, quality improvement, process improvement, service levels, speed to market, supply stability and quality of relationships. Assessing quantity and quality is a key characteristic of an SRM analytical framework.

The first step is baselining strategic suppliers during the segmentation process. Scorecard software is commonly used to manage the complex relationships between suppliers and between suppliers and the organization. More advanced systems also help with management of supplier collaboration systems.

The software supports cross-supplier comparisons, categorization of SRM savings, internal and external collaboration, narratives, and the development of baseline of adverse events and trends. The benchmarking and metrics capture the information in the business and procurement data systems and adds SRM project tracking. All of the information is used to develop supplier improvement projects specifically designed to drive value like process efficiency and reduced risk exposure.

Some measures are lagging in that they capture outcomes like cost reductions, revenue increases, and innovative new products that are developed. Other measures are leading and measure means or organizational participation and relationships. Narratives and data assess the type, number and quality of joint processes initiated or the frequency of communication within the SRM system. Also emerging from a quality SRM system are post contract targets for cost reductions or relationship building. Finally, add narratives to capture senior management attention to the success of SRM.