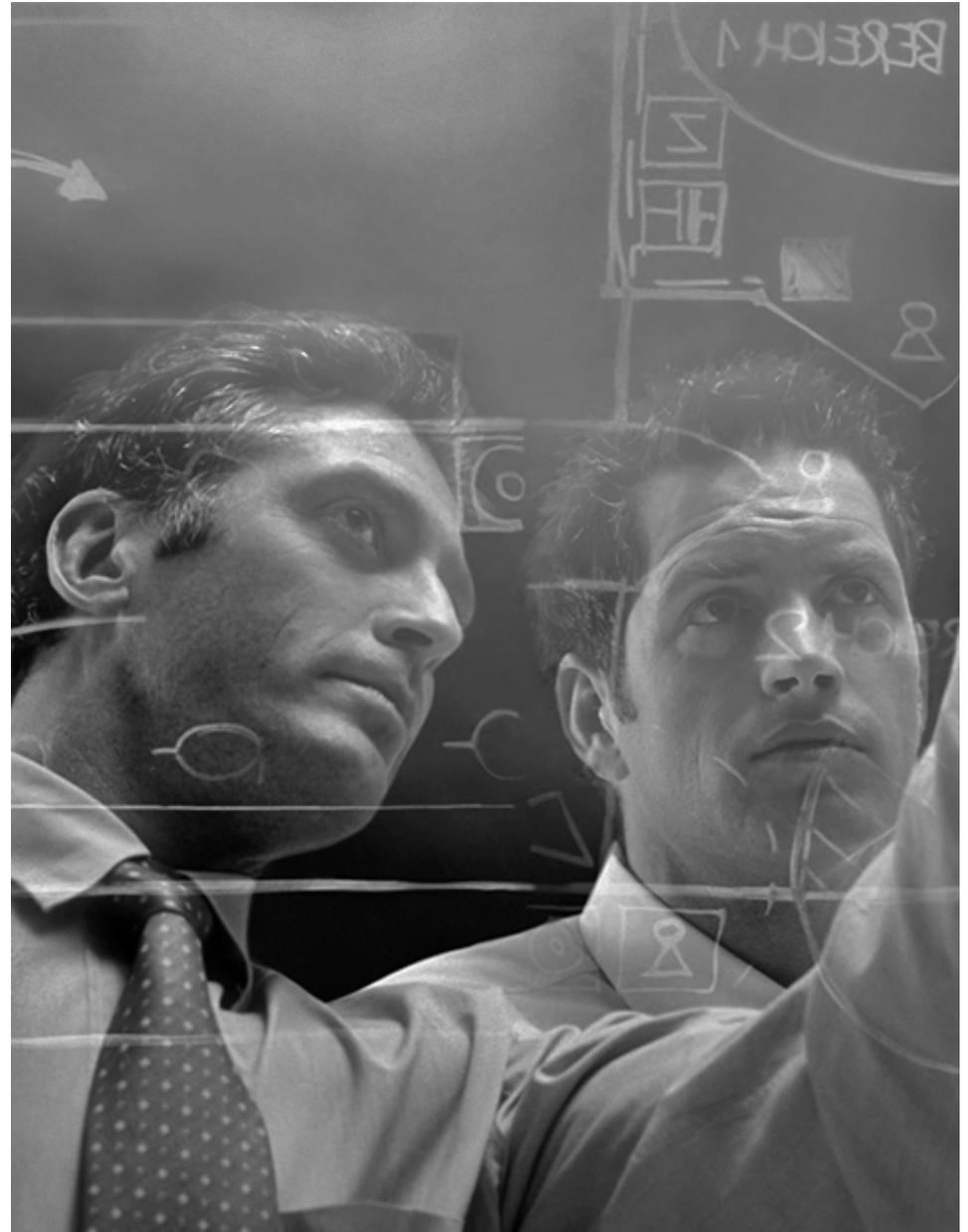




How to Leverage SRM for Supply Chain Resiliency

Contents

- Introduction 3
- Know Your Network 4
- Map Criteria to the Right SRM Tool 5
- Go Further: Define Processes for Resiliency 6
- Execute Consistently for Success 8



Introduction

Simply stated, supplier relationship management (SRM) is a comprehensive approach to managing your organization’s interactions with its vendors. Historically, SRM’s main goals have been to streamline the B2B technology and processes used for Procure-to-Pay (P2P) transactions in order to maximize quality and profit while lowering production and distribution costs. SRM has also proved instrumental in enforcing regulatory compliance and using data analytics tools to effectively rate supplier performance with:

- scorecards – tools that deliver supplier performance data in reports or dashboards, or
- key performance indicators (KPIs) – measurements of supplier performance as numeric or percentage values.

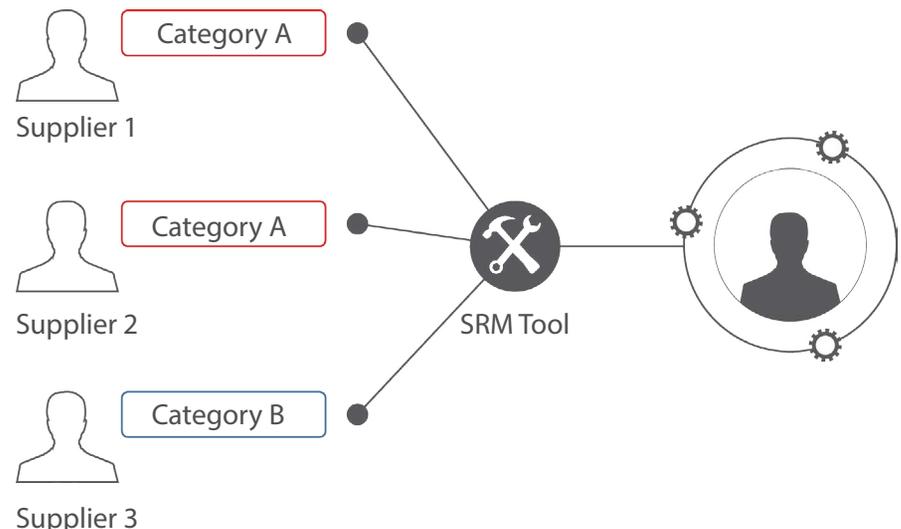
Although these aspects of SRM are critical for success, the “relationship” part of SRM has often been at best managerial and at worst mutually adversarial, and it would be more accurate to describe the process as “supplier management.” This approach worked well enough in the past for many organizations, but not without its costs in the form of excessive inventory, short-term vendor relationships, negative brand reputation with suppliers,¹ and an inability to take advantage of discounts, to name a few.

However, today’s economy presents new concerns that must be deftly and efficiently navigated in order to gain competitive advantage, including:

- complex global supply chains, with suppliers in varying degrees of compliance, performance, volume, size, and technical capability
- increased demand volatility
- unpredictability from suppliers, the economy, or the environment
- increased technology and the “networked economy”

Modern SRM requires a strategic approach to partnering with suppliers to achieve common goals of competitive advantage. This ebook provides three key strategic approaches to build and maintain a lasting SRM practice that hinges on the right combination of tools and business processes:

1. Assess the size and scope of your supply network by categorizing your suppliers.
2. Select an SRM tool that has the capabilities to evaluate suppliers based on the KPIs you require and retain accurate supplier records and policy agreements.
3. Build processes and leverage relationships to make your SRM program a cornerstone of resilience.



Know Your Network

The importance of deep knowledge of your supplier network cannot be overstated. Thus, the first critical strategy to developing an effective SRM system is to list and categorize all of your suppliers. Suggested categories include:²

- **Strategic** suppliers are key to your organization’s ability to be successful and competitive. It is critical to manage strategic suppliers more closely than others for this reason, if you do not do this already. Your SRM effectiveness will depend on carefully working with strategic suppliers to ensure they can meet the performance and quality metrics you require.

As you build your list and categorize your suppliers, keep in mind that truly strategic suppliers are those that you would have difficulty functioning without, which should help keep the list in this category limited to a relatively small number.

- **Tactical** suppliers comprise a significant amount of your business, but have less overall impact on your organization’s successful product delivery. Although you will not need to manage tactical suppliers as closely as strategic suppliers, it is important to ensure they are regularly monitored for quality improvement.
- **Operational** suppliers have less importance than tactical or strategic suppliers, and can be managed less strictly.
- **Commodity** suppliers have the lowest value to your organization and are also typically easily replaced. You may have strategically engaged multiple commodity suppliers that provide the same material or service so that you can use them interchangeably based on their ability to deliver to your demand requirements.

The table below provides some general criteria to help you determine which of your suppliers belong in each category:³

For each supplier, determine:	Result:
How much you spend and the volume of goods you order on a monthly or annual basis	High volume / spend: Strategic or Tactical Mid-volume / spend: Operational or Commodity Low volume / spend: Commodity
Whether your organization would have difficulty functioning without this supplier	If yes, then this is most likely a Strategic supplier, possibly Tactical
If multiple suppliers provide the same products or materials as this supplier	If yes, then this is most likely a Commodity supplier
The region in which the supplier is located. Is the supplier a subsidiary of another important supplier? Is that company in a strategic region?	Suppliers in the most strategic regions could be Strategic, Tactical, or Operational. Duplicated or easily replaced suppliers are likely Commodity or Operational.
Operational, environmental, financial, and regulatory risk metrics	Greater potential supplier risks necessitate closer performance monitoring, which could influence your categorization. For example, a supplier that would otherwise fall in the mid-range, or Operational, categories for volume and spend may need to be classed as a Tactical supplier if their products must comply with strict regulatory requirements, or if the company is located in a region susceptible to environmental or political upheavals.
The suppliers for your suppliers and their general levels of risk	Higher levels of risk, including sourcing unpredictability, in the suppliers to your supplier may impact categorization if it means you will need to monitor that company more closely for performance, quality, and/or fulfillment.

Map Criteria to the Right SRM Tool



Now that you have divided your suppliers into meaningful categories based on their value, importance, potential risk, and impact, the next step is to define the criteria you will need to manage your suppliers. This will help you know what to look for in an SRM software tool.

In addition to the key criteria discussed below, you will be looking for a tool that can successfully integrate with your suppliers' disparate systems. There are a few possible approaches to this, including the use of:

- web-based (cloud) portals that allow your suppliers to log on and securely submit credentials/certificates as well as inventory and shipment data
- EDIs to transmit real-time data
- a tool that serves as an integration layer between your systems, so that your organization can collaborate with suppliers with mutual visibility into inventory, order, and payment status

For more information about supplier onboarding and integration software selection, please see [*From Chaos to Control: Streamline Supplier Management with Cloud Portals*](#).

KPIs

An ideal SRM software solution will be configurable so you can input the exact key performance indicators (KPIs) you want to measure for each supplier. Look for a tool that can automate reporting on these measurements, by setting up automated email notifications that help you manage by exception (MBE) to take action when a supplier is underperforming in an agreed-upon area such as on-time deliveries or fulfillment commitments.

Supplier scorecards/analytic dashboard reporting tools

Good Business Intelligence (BI) analytics tools are becoming a requirement for supply chain organizations to remain competitive. Look for the abilities to create custom reports for your suppliers on demand, compare them side-by-side, and rate them using dashboard tools that can score each supplier based on how they performed against their custom KPIs.

Terms & Conditions / Regulatory Compliance

One of the most important tools now available in SRM solutions is digital contract management – including terms, conditions, and regulatory compliance certifications – where all agreements with your suppliers are formalized and stored in a centralized repository.⁴ This functionality helps you better manage your supplier partnerships with the abilities to mutually alter agreements quickly and transparently, to measure the success of the relationship, and identify areas of improvement.

Dynamic discounting for early payments to suppliers

Successful supplier relationships involve strategic negotiation on payment terms. Look for a tool that provides flexibility in payment options and workflow to allow for customizations such as invoice tolerances, and provides a mechanism to maximize working capital by taking advantage of dynamic discounting for early payments to suppliers. You will also want to benefit from greater control and visibility into your payables maturity and invoice status.

Go Further: Define Processes for Resiliency

Resilient organizations not only practice good risk management of their suppliers and products, they also gain advantage to bounce back from unforeseen risks by implementing *as standard practices* solutions that do more than just protect the organization: these strategies give them competitive advantage in difficult times. Consider how you might implement some of the following practices in your organization to better manage your supplier relationships and position your company for success in uncertain climates.

Institute business practices that will maintain your brand integrity and give you a competitive edge.

What these practices will be depends entirely on the nature of your industry and products, but one place to look is an area where your competitors tend to cut corners to achieve short-term cost savings, or execute based on a “nothing bad will happen” mentality.

Here’s a recent, instructive example of a company that did this: Earlier this year, many food companies and grocers in the UK and Ireland suffered recalls and negative publicity in the wake of the discovery of horsemeat contamination in beef products. This contamination was the result of companies not enforcing strict regulatory compliance in an environment of lax food inspections. However, the Sainsbury’s supermarket chain, which was unaffected by this scandal, is currently basking in increased sales due to policies instituted a decade ago which included DNA testing and only buying British beef.⁵

Think “out of the box” to research suppliers for risk management.

The previous idea focused on honing internal practices within your control to maintain brand integrity and a positive reputation with your customers. Another useful strategy is to consider how your suppliers’ practices could adversely affect your brand in ways that might not be detected by technology or internal practices. For example, there is a huge push to increase supplier audits in emerging economies, Asia, and the Middle East



due to concerns around child, slave, and other unethical labor practices that have negatively impacted the brands of their American and European customers.

Go Further: Define Processes for Resiliency



In addition to powerful software tools that provide data about current conditions, build your own predictive risk management approaches, which could include any or a combination of the following:⁶

- Do your own internet research to gain supplier data from press reports, trade shows, advertising, business publications, public financial reports, and web sites.

- Purchase market intelligence from commercial research analyst firms.
- Monitor social media platforms including Google+, LinkedIn, Twitter and Facebook. Follow their company pages to stay current on their latest news, and view customer interactions. This is one of the best ways to get a “feel” for the company and also become aware of potential brand reputation risks.
- Leverage informal networks and personal relationships with colleagues and others outside your organization to gain information about your suppliers.

Leverage collaboration to build and nurture relationships with your suppliers.

Excellent supplier management involves building relationships with your suppliers that will positively impact the success of both businesses. The goal is not to simply try to negotiate the best price (although you should always get competitive bids) – it is to collaborate to agree on contract and performance terms that will prove mutually beneficial.

One strategy for building and strengthening this relationship is to leverage your collaboration software tools to provide increased visibility to suppliers in the form of forecasts or other changes that will affect their business with you. They will be better able to meet your needs and it will instill trust and goodwill. If, in the case, of strategic suppliers, they are invited to give input on strategies involving their products, the outcome is more likely to be successful for both of you.⁷

Strong, nurtured relationships with your strategic suppliers will make it more likely to continue operations in the face of catastrophic disruptions in the chain.

Execute Consistently for Success

Optimizing the process for working with a diverse network of suppliers is one of the most difficult challenges facing many manufacturers today, as networks are increasingly global and demand is more volatile. On top of this, supplier fraud is rising sharply, according to the 2013 Kroll Global Fraud Report, which found that 20% of companies experienced some type of procurement-related fraud in the past 12 months, up 8% from the previous year.⁸ Of the firms that were victims of procurement fraud, one-third experienced vendor or supplier wrongdoing. One of the risks, therefore, in expanding globally and increasing the use of outsourced vendors is the exposure to fraud and corruption from some of the riskier overseas markets.

All of these factors underscore the importance of building a comprehensive SRM system that includes a software tool to streamline processes such as onboarding, terms and conditions compliance, KPI measurement, and analytic reports of supplier performance - as well as the human-powered strategies of relationship-building and intelligence gathering from other sources.

The bottom line is that one key to remaining a successful organization in turbulent times is to create systems and business processes that not only lower costs while delivering higher quality products, but also take vendor relationships to much higher, strategic levels. By implementing SRM tools and strategies combined with collaborative capabilities, supply networks can achieve better forecasting, faster fulfillment, increased regulatory compliance, higher customer satisfaction and, ultimately, less tension between organizations and their suppliers when they have achieved a win-win relationship.



Endnotes

¹Global KnowledgeTraining LLC. "Supplier Management: Five Simple Things Your Organization Can Do To Improve Supplier Performance," 2013.

²Global KnowledgeTraining LLC. "Supplier Management: Five Simple Things Your Organization Can Do To Improve Supplier Performance," 2013.

³Hingorani, Naresh, "Building a supplier risk management strategy through spend management," SearchManufacturingERP.com, June 22, 2009.

<http://searchmanufacturingerp.techtarget.com/news/1359884/Building-a-supplier-risk-management-strategy-through-spend-management>

⁴Capgemini Consulting, "Supplier Relationship Management (SRM) Research 2012-2013."

⁵National Center for the Middle Market, "The Resilient Supply Chain: Competing on the ability to come back from disaster," 2013.

⁶Ashcroft, Stephen, "How to keep tabs on your suppliers," SupplyManagement.com. October 16, 2013.

<http://blog.supplymanagement.com/2013/10/how-to-keep-tabs-on-your-suppliers/>

⁷Bucki, James. "Vendor Management Success Tips." <http://operationstech.about.com/od/vendormanagement/tp/VendMgtTips.htm>

⁸Green, Will. "Third of companies suffer supplier fraud," SupplyManagement.com, October 22, 2013.

http://www.supplymanagement.com/news/2013/third-of-companies-suffer-supplier-fraud/?utm_source=Adestra&utm_medium=email&utm_term=

