

## WHY WE NEED SRM LIKE NEVER BEFORE

### Adapting to survive... why the fittest companies demand the evolution of procurement with SRM at its core

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Supplier Relationship Management

Supplier Relationship Management (SRM) is the trending topic of the moment in procurement circles, but what is driving this heightened interest? Jonathan O'Brien considers why we need SRM like never before and how we can make it happen.

In today's operating environment, companies need to better know and move closer to their most important suppliers and supply chains. It is no longer enough, nor good practice, for arms-length relationships to prevail across the entire supply base, nor to regard procurement as a sourcing function alone. Future survival and prosperity for many organizations depends upon adopting fresh approaches where the supply base is regarded as a vital extension of the business and one capable of adding the next generation of value, brand protection, preservation and competitive advantage.

But what has changed to lead us to this point? Quite simply, evolution. Evolution of the world, of companies and of procurement – and only the fittest will adapt to the rapid changes around us. We exist and compete on the global stage where there is no place for complacency. Companies that once held dominant positions through limited competition or control over routes to market have seen these footholds start to erode in recent times. Branding and differentiation remain the last bastions maintaining strength of position, but only until someone else does it better.

#### **“Only the fittest will adapt to the rapid changes around us”**

Why? Sea changes in technology, the migration and education of people, and once under-developed nations becoming ready to replace other world players, mean there are hungry and very capable rivals that can (or might soon be able to) do what we do, but do it better or steal the march on us. Thus, the imperative for corporates to adapt and survive in this changing landscape is perhaps more acute than ever. So how do we respond? If the answer were within, we would have discovered it. Instead, the answer lies in our supply base where the landscape is being altered by the same

driving factors we face. This brings a wealth of new possibilities - all we need to do is determine how to unlock them.

## SO HOW CAN WE IMPLEMENT GOOD SRM?

### I. CHANGE THE MINDSET, CHANGE THE GAME

Leading SRM from within procurement will mean it is only ever a procurement initiative – and the rest of the business will leave procurement to do its thing. Effective SRM starts in the board room where the executive team first needs to come to appreciate the opportunity and imperative SRM presents. Changing the mindset here so that the supply base is viewed as an important extension of the business can start to change the game. After that, it is about how to facilitate the flow of value from key suppliers into the organization so as to add value for our end customers. Then how to organize and manage the entire organization in order to connect end customer needs and aspirations with the supply base. The second step is a top down rhetoric that our relationship with the supply base is a joined up, organization-wide concern.

### 2. TRAIN THE ENTIRE ORGANIZATION

It is rare for those in functions outside of procurement to receive training in how to work with and manage suppliers. Engineers, marketing, research and development people rarely undertake a 'good procurement 101' module when they learn their craft! Whilst the job of looking after suppliers gets left to procurement, in most organizations it is easy to find multiple interfaces and relationships with suppliers, eg: in supporting operations, new product development or marketing. All will claim fundamental rights and supremacy of need in this respect, with any 'interference' from procurement that might stand in the way of 'doing my job' being viewed unfavorably. A strict regime restricting the supplier interface and management to procurement, with centralized responsibility, might seem the solution, but companies that try this find it is self-limiting. If we want to gain competitive advantage from our supply base, then we need those interfaces up and down the organization.

The solution is not restriction or control, but education, empowerment and coordination. It is as simple as agreeing who in the organization should interface with suppliers, agreeing these points of interface firmly on both sides, training those involved in the 'do's and don'ts' of supplier engagement, and ensuring an aligned and coordinated approach so everyone knows what everyone else is talking to the supplier about. Do this and suppliers will no longer be able to divide and conquer but, more importantly, we can present a united and aligned front to the supplier and maximize our potential.

### 3. CHASE THE ACE

We only have so much resource, so it is self-defeating to create complex relationship rules and supplier management or performance measurement systems that must be applied to all suppliers that meet the importance criteria. Sadly, many organizations fail to progress past this point with SRM and drown trying to find the small army who can do this. Instead, prioritize interventions with suppliers according to where the time spent will have the greatest impact. This means we need to be smart about knowing what makes the supplier important in the first place, then design and prioritize tailored interventions in response to this. It doesn't follow that all suppliers who have made it to the top tiers of our importance graphic must have quarterly business reviews as standard. There may be benefit in this for some; for others it may turn out to be nothing more than an expensive and unnecessary routine. In fact, there may be many suppliers who are important for some reason (eg: high spend, significant risk, potential to add value, degree of dependency, future opportunity, etc) with whom we can spend time.

#### **“Prioritize interventions with suppliers according to where the time spent will have the greatest impact”**

However, Pareto principles apply. So, if we really want to develop competitive advantage and see the supply base as being poised to help us do this, we must spend 80% of our time and resources with the 20% of suppliers who hold the potential to make a significant contribution to our business. That is unlikely to be time spent reviewing scorecards or regular meetings, but collaborative joint-working towards a mutually beneficial, shared objective. Steve Jobs didn't create the suite of products that are commonplace today through quarterly business reviews, but by finding suppliers who might be able to create something different, then integrating people on both sides toward the pursuit of this. Consider where review will add value – and that alone will free resources to work on supplier interventions that yield greater value.

### 4. MANAGE IT

This is where the role of procurement fits – to manage, or perhaps more co-ordinate the SRM program for the organization. It is about understanding which supplier intervention projects are most important in the short to medium term and tracking these. It is about knowing what contribution and value the organization wants from its SRM program, and the individual contributions it will secure from each important supplier relationship. Then it is about project managing the priority supplier projects that will deliver this, tracking and reporting benefits along the way. It also addresses the need to develop capability and equip those involved with the skills, process, toolkits and common ways of working they need. Lastly, it is selling the benefits.

### 5. SELL IT, MAKE IT REAL, MAKE IT WORTHWHILE

SRM is a program that takes significant resources on both sides to make it work, as well as being one that will have to compete against all the other initiatives in a company to survive. If we are to maintain momentum and keep the rest of the business interested, then we need to help them understand why it is worthwhile and why it is a priority for their support. This takes effort and demands an ongoing mini marketing communications program, perhaps with its own mini-brand aimed at both internal stakeholders and the suppliers.

How we do this can take many forms, ranging from a supplier engagement program, perhaps a supplier recognition scheme, stakeholder do's and don'ts for those who work with suppliers, and so on. Whatever we do, we must make sure all involved understand that we have a program, understand their role is to support it and work to actively deliver that support. Active support comes from feedback and one of the most important factors is to share success and tell the stories of how working closer with key suppliers has unlocked new benefit and helped bring competitive advantage. If those involved can see how SRM contributes and why it is essential to ensure future survival, they will be more inclined to get on board and be part of it.

Jonathan O'Brien is the CEO of the international procurement and negotiation consultancy, training and tools provider, Positive Purchasing Ltd. As a specialist management consultant with over 27 years' experience in purchasing, he has worked all over the world helping global blue-chip organizations transform their procurement capability. Jonathan is also author of a trilogy regarded by many as instrumental in defining best practice strategic procurement comprising Category Management in Purchasing, Supplier Relationship Management, and the award-winning Negotiation for Procurement Professionals, and The Buyer's Toolkit - all published by Kogan Page.

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