

THE BENEFITS OF LOOKING AT SUPPLY CHAIN MANAGEMENT AS PART OF AN SRM APPROACH

January 2019

Supplier Relationship Management

Although not traditionally regarded as such, supply chain management (SCM) is a key component of an SRM (Supplier Relationship Management) approach. But what exactly is SCM? There are many definitions around and the one that I favour (Christopher 2011), while a few years old, is perhaps one of the simplest:

“The management of upstream and downstream relationships with suppliers and customers in order to deliver superior customer value at less cost to the supply chain as a whole.”

Historically, SCM has been regarded as separate to strategic procurement. It's more about the movement of goods - a tactical and transactional approach to take care of transportation, logistics and warehousing.

Today, however, effective SCM is more than that. It is increasingly being recognized as a strategic contributor, especially in companies where the performance and security of the supply chain is critical.

Despite this, SCM and strategic procurement are still quite different professions. SCM has been around for millions of years and focuses on delivering the right products to the right place in good condition exactly when needed, time and time again. Its very principles have altered little from the building of the pyramids to the relief of hunger in Africa (Christopher, 2011).

Strategic procurement and SRM are the new kids on the block. Over a quarter of a century ago, there was very little knowledge or thinking on this subject. However, since then, procurement has been transformed in many leading organizations. No longer the subservient department that buys the pencils, procurement is now the function that adds significant value and helps drive the strategy by using approaches such as category management to help deliver the results.

A distinction between SCM and strategic procurement also remains in the educational space. In the UK candidates study separate courses - an MSc in Logistics and Supply Chain Management or an MSc in Strategic Procurement Management - before making a choice to go into one profession or the other. This disparity continues in the workplace with functional divides. The 'running' of supply chains often sits separate from a procurement function, perhaps being the remit of a dedicated logistics function, operations, production or even a commercial function.

So why change? Surely procurement can look after the immediate suppliers and categories of spend while the supply chain function manages logistics and the flow of materials in order to satisfy the customer?

Put simply yes, they could, but today there is an imperative for the convergence of SCM with strategic procurement as the significant demands and increasing risk of our changing environment is now driving these two worlds to collide. For example:

- the global marketplace drives global supply chains and distribution networks;
- global distribution now drives fewer 'super-sized' production facilities and provides economies of scale over many regional factories;
- these same global supply chains drive fewer, 'super-sized' inventories;
- CSR (Corporate Social Responsibility) means that we are more interested in what happens in a global supply chain, but first-hand knowledge and understanding is more difficult to secure;
- consumer demands for personalization are now being met through clever production technology and good logistics; and
- regional variations and localization can be catered for at one facility, resulting in a range of products for different markets being manufactured on the same production line in real time.

All of the above present new challenges and levels of risk that need to be taken seriously. As supply chains expand, becoming more technical and complex, so they become more vulnerable to environmental catastrophes and global changes.

Things also don't stand still. The benefits of global sourcing demand a trade-off between economies of scale and low-cost production to cost of transportation. What might be beneficial today could be the complete opposite tomorrow.

An example of this is the trend towards offshoring and shifting production to low-cost providers. In recent years, this has begun to reverse due to the squeezing of costs. As the economies in developing countries evolve, the knock-on effect is that transportation costs have increased, the actual costs of low-cost country sourcing are now more than anticipated and there are growing concerns over carbon footprints (Christopher, 2011).

Supply chain management is no longer just about logistics. It can now help bring significant value to a business by reducing and managing risk and bringing competitive advantage, enabling a company to meet the demands and needs of its customers. However, the greatest impact comes when SCM is connected to and integrated with, a company's wider strategic procurement and SRM is the means by which to do this.

SCM: THE BENEFITS GAINED

There is great potential in the supply chain. Likewise, there is vast potential to be found for us and other players if we can look beyond our immediate position in the overall supply chain and influence it to the advantage of all. That is the essence of SRM and, if done effectively, it can bring many benefits such as:

- reduced costs through the confidence to use new low-cost suppliers, open up the market and source globally, and reduced cost of inventory through just-in-time supply;
- competitive advantage through shorter time to market and improved ability to connect supply base possibilities with end customer desires, vertical integration, linkages of activities and economies of scale;
- increased innovation by better understanding and grasping supply base possibilities;
- reduced risk through better understanding and risk management of the entire network;
- reduced asset base through increased confidence to rely on others;
- greater flexibility to respond to events and fluctuations; and
- a greater certainty and confidence through relationships and obligations between individuals in the network.

This article is adapted from 2nd edition Supplier Relationship Management: Unlocking the Hidden Value in Your Supply Base (9780749480134) by Jonathan O'Brien © 2018 and reproduced by permission of Kogan Page Ltd. It first appeared on the Public Spend Forum website on September 4, 2018.

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