

## THE SEVEN FACETS OF SUPPLIER RELATIONSHIP MANAGEMENT

January 2019

Supplier Relationship Management

Supplier Relationship Management, or SRM, is one of the primary enablers of how a modern procurement function can be effective and add value to a company.

But what does SRM actually mean? It can be defined as follows:

*The overarching strategic approach to determine and implement different supplier-based interventions, including the development of collaborative relationships with the critical few suppliers who can make the greatest difference; prioritized against available resources, applied as appropriate across an entire supply base to maximize value to the organization, reduce supply chain risk and enable the organization to achieve its goals and enhance value to the end customer.*

It's important to understand that SRM is not a single linear process but rather an organization-wide philosophy and concern which requires all the different functions to work together. While it has a 'supplier and supply chain' focus, it's not feasible for a company to focus on every supplier or supply chain so, quite clearly, prioritization is required.

One of the reasons many companies don't get SRM 'right' is that they fail to understand the complex nature of it and how a number of separate, yet interrelated things need to come together to make it work. These are unique to each individual organization and are not sequential but rather each forms part of and creates the whole, like the individual facets on a precious gem.

The seven facets of SRM comprise the interrelated strategic components that enable, inform, direct and support each other and that surround, shape and determine the central facet which is the specific interventions and what exactly a company will do with its chosen suppliers or supply chains to unlock value.

These seven facets are:

### 1 - STRATEGY

In other words, how SRM enables, supports, as well as flows from, our company goals and how we will achieve these. Any strategy will comprise the mission, aims and goals of the organization and these must inform and be informed by our SRM program as part of a cohesive Sourcing, Satisfying and Strategy approach company-wide.

### 2 - REQUIREMENTS

What value do we need? We must be clear about the value that we need to secure from the supply base overall in order to realize our strategy and therefore the specific value we need from our relationships with our most important suppliers or supply chains.

### 3 - GOVERNANCE

How will we make it happen? The company-wide day-to-day arrangements that ensure we are organized and equipped for SRM and its ongoing management for results across the entire organization.

### 4 - SEGMENTATION

How do we decide who is important? Segmentation is a structured approach to determine which suppliers are important if we are to unlock value from the supply base.

### 5 - IMPORTANCE

Who is important? Based upon the answer to question four, for our important suppliers we must decide how important they are, or if they are strategic, and also what makes them so.

## 6 - PRIORITIZATION

Where and when should we focus our efforts? Who takes priority? This helps to determine the suppliers or supply chains that hold the greatest opportunity and what we might need to do to unlock this value.

## 7 - INTERVENTION

What do we need to do, with whom and when? The specific supplier and supply base interventions with those suppliers and supply chains we have determined to be important.

While there are seven very clear facets, as outlined earlier, SRM is a complex beast. Every supplier is different, and those that are important are important for different reasons; each requiring a unique relationship or series of interventions according to our and their circumstances and what each one needs.

To use an analogy, SRM is like an orchestra.

Each section of an orchestra plays when needed and according to the piece of music, all working in unison and taking their lead from a single conductor. This is how SRM needs to work in order to be successful. Every component of the SRM orchestra must play as and when needed and according to what is appropriate for the circumstances, environment and point in time with the conductor providing the governance framework which guides how the various interventions come in or drop back.

Every important supplier has its own piece of music and the melody changes constantly. It is this new mindset for SRM that helps us understand how to build and develop truly effective SRM programs.

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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 Procurement Leaders blog on July 2, 2018.