

SRM: HOW TO SECURE THE NEW VALUE THAT SUSTAINABILITY CAN BRING

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Supplier Relationship Management

In supplier relationship management (SRM), the fundamental question we ask ourselves is, 'What do we need from our supply base?'

This sounds simple enough and you would be forgiven for thinking that the answer is equally straightforward. Surely our requirements are to have products or services supplied to the correct specification at the right time and at an acceptable price?

But in today's rapidly changing world there are many more factors at play. In fact, in order to survive and thrive in the current environment, firms must look to their suppliers to deliver so much more.

When managed effectively, the supply base travels far beyond fulfilment to establish security of supply, unlock new value, develop innovation and competitive advantage and deliver sustainability.

With such opportunities at stake, how we regard and manage our supply base has never been more important.

A good starting point is to first understand the shifting landscape around us as the sustainability imperative gets set to revolutionize the world in which we operate.

Sustainability is now firmly centre stage, driven not only by legislation but also by the need to establish security of supply against a background of supply-side volatility.

At the same time, organizations are realizing that a firm's stakeholders and responsibilities exist far beyond the immediate business owners and instead extend to families, communities and the wider world. Ignoring this is, quite simply, bad for business.

The motivation to become more sustainable goes beyond protecting the organization and is now a means to create competitive advantage, increase market share and build brand value, as today's consumers demand more from the brands with which they engage.

SUPPLY CHAIN SUSTAINABILITY

Make no mistake, sustainability in the supply chain is a real challenge, especially where operations are geographically and contractually distant and employment practices, attitudes, and legislation differ. These lower tiers of the supply base often contain the biggest risk.

Managing an entire supply chain creates transparency and with that comes potential for growth. Once we can demonstrate, with confidence, what happens in our supply chains, we can secure competitive advantage and even create new sustainable brand propositions.

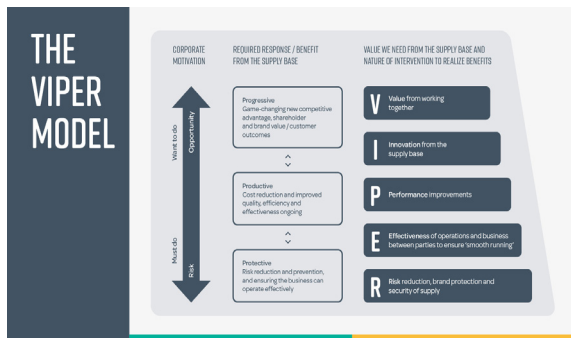
Our supplier base therefore harbours huge potential, ranging from preventing damage to our business through to generating growth and adding value.

SECURING THE SUSTAINABLE VALUE WE NEED

At the heart of SRM is the need to determine the value the organization requires from its supply base. The VIPER model – pictured here – categorizes this in a defined list – value, innovation, performance improvements, effectiveness (of business and operations) and risk.

These headings define what is possible and provide the cause to get close to suppliers, instigate intervention and build relationships.

But, in today's changing environment, we should consider applying a sustainability lens throughout VIPER to illustrate the ultimate value that can be realized.



'R': MANAGING SUPPLY BASE RISK

The foundation of the hierarchy, 'risk' represents the most important motivator for intervention. Recent history has taught us that crises can cause the biggest brand damage through reputational risk that can decimate the value of a business. Avoiding these, or being prepared for them, is arguably the greatest source of value the supply base can deliver.

Not all catastrophes can be avoided. Managing supply chain risk is as much about preparation and management. This demands a keen understanding of risk areas, the chance of these happening and the likely impact. It may require supplier intervention and prior identification of those suppliers that present risk.

Supplier or supply chain risk may not even be contemplated by organizations until it is too late. VIPER prompts us to address this and deploy resources where necessary. In practice, this might include supplier-specific sustainability requirements, such as ensuring they adhere to agreed employment practices in order to avoid the significant PR risk and potential brand damage caused by slave labour accusations.

'E': EFFECTIVENESS OF OPERATIONS

The next source of supply chain value is ensuring that the business runs smoothly and effectively. This applies where operations require the involvement of, or ongoing communication with, particular suppliers. In such cases a close operational working relationship is essential.

For many suppliers, effectiveness simply means fulfilment. However, in certain situations, suppliers need to be much more involved than others.

Consider a business where the brand proposition is based entirely around sustainability. This is only possible if we can demonstrate exactly what is happening in our supply chains. For example, a tea company might choose to celebrate its farmers by including a photo on the packaging of the person responsible for growing the tea. This would necessitate a close operational relationship as buyer and supplier will need to know the farmers personally and interact regularly.

Such a strategy is entirely dependent upon a deliberate and well-structured close working relationship for operational matters. Here, achievement of the required outcome, ie a sustainable proposition, is only possible with good interaction between parties.

'P': PERFORMANCE

Supplier performance can encompass many areas, such as quality, timeliness, and price. But performance can also be measured in terms of sustainability criteria.

Supplier performance improvements can potentially add value when there are unacceptable supply chain risks that must be addressed. Here, as we might otherwise stand to lose significantly, any effort to drive improvement is likely to be worthwhile.

VIPER helps the organization define areas where performance improvements might be required. For example, we may be seeking to reduce our emissions across our entire supply base or establishing acceptable working conditions at remote factories in line with corporate sustainability goals.

'I': AN ENDLESS SOURCE OF INNOVATION

When innovation happens, it can truly transform a business, through setting up and building a brand, creating points of difference, growing market share and driving expansion.

Sustainability is a great driver of innovation and may fuel product improvements, energy efficiencies, packaging developments, waste management strategies and even entire brand propositions.

While supplier innovation can mean taking advantage of new offerings or new technologies that are available to all, the optimum value comes through collaboration with the supplier throughout the entire process.

'V': TOGETHER WE ARE BETTER; TOGETHER WE CREATE VALUE

At the top of the VIPER hierarchy, the ultimate motivation for a supplier relationship is the additional value that it brings. This could include many things: price and cost reduction, innovation, outsourcing benefits and many others. However, the point with value here at the top of the hierarchy is the ability to unlock the next level of value, beyond the traditional list of standard benefits, that can really make a difference.

With the right model of engagement and relationship, certain suppliers can contribute significant value that, in turn, will help create and grow brand equity. Some suppliers can be instrumental in the development of a competitive edge or even an entire brand identity.

Where suppliers help us to differentiate or gain competitive advantage, perhaps through pursuing joint sustainability goals, they are, in fact, creating valuable brand equity.

Unlocking this next level of value requires a new form of buyer and supplier collaboration, where what is achieved together can be greater than the sum of each party's individual achievement.

REALIZING VALUE THROUGH SUSTAINABILITY

Whatever it is that we need from our supply base, the starting point in SRM is to determine what this is and, amid the rapidly changing global landscape, our requirements will necessarily extend far beyond fulfilment.

The VIPER framework allows us to go further and determine the specific contribution we require from our suppliers. It not only forms the basis for how we identify those who are important but also allows us to recognize when intervention is required. Applying a sustainability lens here will ensure we adopt the necessary focus on this imperative and pursue the value and innovation we seek.

In today's world, whether our goals involve securing supply, delivering innovation, avoiding PR risk or even generating brand equity, it is only through realizing sustainability through our supply base that ultimate value will be achieved.

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