Supplier Relationship Management:
Maximizing the Value of Your Supply Base

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Over the past decade, the majority of the Fortune 1,000 (and beyond) have realized dramatic savings by applying strategic sourcing principles to both their indirect and direct expenditures. Sourcing efforts frequently yielded remarkable reductions in cost; often in the range of 5 to 15% or even higher as spend was consolidated and purchasing was streamlined. What's more, these efforts demonstrated eye-popping returns on investment of up to 100-x and higher due to their relative ease of execution and made many Chief Procurement Officers (CPOs) heroes of the boardroom, if only for a time. Despite these gains, companies today face intensifying competitive and global pressures, and are responding by pushing the boundaries of outsourcing and low cost country sourcing in a quest for further cost reduction.

Even as they seek new opportunities in sourcing, leading companies are finding themselves dependent on an increasingly complex supply base, with the need to drive further cost and performance improvements, manage supply risk, and streamline costs of supplier interaction. These companies are developing a new set of Supplier Relationship Management (SRM) capabilities – including processes, governance mechanisms, and systems to manage suppliers on a day-to-day basis over the full relationship life-cycle.

Early adopters of SRM are realizing savings in existing relationships, remediating relationships that are not working, working with suppliers to build joint capabilities and improve joint processes, effectively managing supplier risk, and reducing internal costs of supplier management. Typical benefits include:

- Maintaining negotiated savings and driving incremental savings of up to 5% beyond the initial sourcing transaction
- Streamlining relationship touch-points and processes to eliminate non-value-added work and reduce associated FTE's by up to 10%
- Creating real accountability and incentives for suppliers to deliver business value
- Maximizing relationship lifetime value, and gaining competitive advantage by effectively managing suppliers that are truly strategic
- Managing supply risks and challenges effectively to further decrease supply costs

This paper describes the new supply environment, the challenges it brings, and the Supplier Relationship Management best practices that leading edge companies are applying to deliver maximum value from their supply base.

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The New Supply Environment:

For organizations that are applying strategic sourcing, outsourcing, and low-cost-country sourcing, the supply environment has changed or is changing dramatically. These efforts have created more concentrated supply bases, often with a handful of large suppliers playing a major role in supporting the organization. Further, these efforts have shifted business critical processes and value chain activities that had previously been performed internally to outsourcers creating new major supply relationships that are often vital to operational continuity. Accelerated product cycles, vastly more sophisticated supply chains, rapid pace of process and systems change, and the need to work seamlessly with offshore suppliers have made effective supplier relationship management more demanding and more critical than ever before.

Simultaneously, for many companies, a large portion of external spend has reached a mature state after one or more waves of aggressive sourcing. Spend consolidation, improved supplier selection, spec rationalization, and shrewd negotiation have yielded impressive benefits. However, in categories where these techniques have been applied, further year-on-year improvements through repeated sourcing are likely to provide diminishing returns – fundamental improvement in supplier relationships and joint processes will be required to address remaining inefficiencies.

Along with the changes in companies' external supply environments, there have also been major changes in the procurement function as well as in procurement practices, processes, and systems. In many companies, the procurement function, traditionally the owner of transactional purchasing, has taken on a broader role leading the business through application of strategic sourcing and outsourcing in category after category, spreading procurement best practices. In addition, many companies have adopted best practice models for strategic sourcing and many have deployed procurement systems to support the sourcing process and streamline on-going purchasing activities.

However, procurement is rarely the gatekeeper for all procurement activities – far from it. In many large organizations, individual functional groups, such as IT, HR, and Logistics, having gone through the sourcing process with the help of the procurement organization, have now built their own sourcing skill sets and a deep understanding of the supply market, often choosing to drive sourcing activities without inviting the procurement organization to the table. Furthermore, many product manufacturing organizations have gained a high degree of competency in outsourcing and offshoring production, often in a complex, multi-tiered supply environment.

Many organizations have been successful at establishing the new supply environments and obtaining savings through negotiation of new contracts. However, few organizations are adept at or prepared for managing the new set of supplier relationships they have created.

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Supplier Relationship Management Challenges:

Many companies that have transformed their supplier environment in recent years advanced procurement techniques experience a common set of pain-points and challenges:

- ***Increasing reliance on suppliers and exposure to supplier risks***: ***While risk management has received significant boardroom attention, in most organizations, supplier risk remains largely unmanaged while reliance on suppliers and exposure to supplier risk continues to increase dramatically.*** Increased focus on strategic sourcing, outsourcing, and low-cost country sourcing has transferred to suppliers many activities that were previously performed in-house and has simultaneously driven consolidation in the supply base. The result has been dramatically increased reliance on key suppliers, often accompanied by development of more complex supplier interactions with growing numbers of touch-points and dependencies. While this rapid deployment of sourcing has increased most organizations' exposure to supply risks, mechanisms to enable visibility and management of these risks have not kept pace. Many companies do not have a comprehensive view of the risks associated with their supply base, nor do they have a well-thought-out, repeatable approach to managing these risks. Furthermore, it is not clear who in the organization has the responsibility to evaluate and manage supplier risks, what risk conditions should trigger actions or, even what those actions should be.

- ***Ill-defined post-contract supplier management processes and roles***: ***Processes and roles post-transaction are ill-defined, often inhibiting further performance improvements, limiting value from supplier relationships, and making performance gains difficult to sustain***. In many large and even mid-sized companies,

SRM Case Study: Fortune 100 Manufacturer

Challenge:
The client had realized significant savings through aggressive sourcing and outsourcing of multiple functions. However, lack of supplier management capabilities resulted in:

- Proliferation of suppliers and supplier managers
- Inability to sustain supplier performance and further drive down costs
- Executive frustration with poor transparency and manageability of the supply base
- Lack of supplier incentives and accountability for performance
- Lack of proactive approaches to supplier management and clear roles resulted in continuous firefighting and confusion on who should do what.

As a result, the client realized the need to develop improved supplier management capabilities.

Approach:
The company launched an SRM program, beginning with a 10-week effort to develop the SRM model, followed by pilots and full-scale rollout.

- Stratified suppliers to define importance of each supplier and resulting relationship expectations and governance structures
- Developed a common company-wide SRM model that worked across all functions and supplier types. (Model included processes, tools, roles, skills.)
- Trained key SRM executives and developed computer-based-training materials for roll-out to the broader organization
- Implemented SRM the organization's top supplier relationships, addressing key relationship issues
- Created a communications program around SRM expectations and actions for both employees and suppliers

Results:
The organization has adopted a consistent set of SRM best practices and has begun to see significant operational improvements:

- Enabled further cost reduction in a number of categories: up to 10% for some categories
- Drove 40% consolidation of strategic suppliers
- Enabled 10%+ reduction in supplier management FTEs
- Created improved supplier accountability for business results
- Accelerated remediation of supplier non-performance
- Improved joint objective setting, planning and collaboration with suppliers
- Greater visibility of supply base performance, risks, and information to executives

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the sourcing discipline is well established and repeatable enabling companies to lock in savings in category after category. However, while typical sourcing methodologies provide guidance leading up to execution of a supplier contract, once a contract is signed and the relationship moves into ramp-up and operation phases, there is remarkably little clarity and definition around what management processes must be in place, who within the company is (and, equally importantly, is not) responsible, how executives should be involved, how management activities can be conducted in an efficient manner, and how the relationship can be managed. In such environments, supplier relationship activities are little more than a series of reactive firefighting exercises with duplicated effort across the organization, with little management transparency of what actions have been taken or will be needed. The result is relationships that are inefficient and fail to harness the full capabilities of the supplier translating into increased lifetime costs.

- ***Suppliers are not accountable for performance – the organization is left holding the bag***: ***While hundreds or even thousands of supplier metrics are tracked and reported, performance problems can persist and organizations often do not recoup resulting costs***. While contracting with a supplier after a major sourcing effort often locks in significant savings, it also locks in a number of headaches and challenges. A flaw in most companies' sourcing efforts is that they treat contracts as legal exercises or transactions. This results in contracts that do not hold suppliers accountable, that do not motivate suppliers to improve, and that omit actionable steps the organization can take to improve supplier performance. As a result, many organizations find themselves with contractual Service Level Agreements (SLAs) that are not aligned with business value drivers, few, if any individuals that understand what suppliers are actually accountable for, and a lack of clarity in what actions should be taken when issues occur. The result is significantly diminished value from the supplier relationships, lost opportunity in recouping costs from ill-performing suppliers, and frustrated employees who know that suppliers are underperforming, but can not correct the problem.
- ***Strategic suppliers are not truly strategic***: ***Most organizations can not precisely identify which suppliers are truly strategic or even how such strategic supplier relationships should be managed, leading to an inability to effectively focus resources or realize strategic value from the supply base.*** When managed effectively, strategic relationships can deliver impressive returns and competitive advantage to both companies and their suppliers. Through strategic relationships, companies and their suppliers can drive lower total lifetime costs while allowing suppliers to profit, can reduce risk for both parties, can help create advanced joint capabilities not available to other competitors, and can provide strategic options for additional value for both parties. Sadly, the word "strategic" is often over used when it comes to suppliers. While most organizations are proud to declare that they view some suppliers as strategic, few organizations can describe the implications of making a supplier strategic. Many organizations have not formally spelled out a set of expectations for what makes suppliers strategic, how such suppliers will be managed differently, and what suppliers must deliver in return to maintain their strategic status. Furthermore, in many organizations, asking 10 individuals to name the strategic suppliers will yield 10 different answers. As a result, many organizations manage strategic and non-strategic

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suppliers in an undifferentiated fashion, resulting in too much time wasted on non-strategic suppliers while little strategic value is derived from strategic relationships.

- ***<u>Companies should manage suppliers vs. having suppliers manage the organization to extract profits</u>***: ***In the absence of a clear set of supplier management processes and roles in the organization, suppliers are often able to set the agenda and canvass the organization to build business.*** Major supplier relationships tend to have multiple facets and touch points – operational, contractual, financial, executive-to-executive, etc. Through multiple touch-points, supplier account teams often "work the relationship", seeking to protect their existing business with the organization and to make inroads into new areas to build further sales. While the organization can gain value from consolidating business with key suppliers and forming strategic, multi-faceted relationships, such relationships should be defined in a structured transparent manner rather than through a free-for-all sales frenzy, that can distract many individuals across the organization, consume a lot of time, and lead to poor procurement choices.
- ***<u>Diminishing sourcing returns</u>***: ***While initial aggressive sourcing in a category has for many companies yielded dramatic savings and other benefits, sustaining those benefits and attaining further reductions can be difficult without effective SRM.*** For many companies that have undertaken sourcing initiatives, initial efforts have unlocked large savings opportunities, often delivering savings of 15% or more. However, re-sourcing categories where significant savings have already extracted often yields disappointing returns and often has a very poor ROI. This is because once spend is consolidated, specs rationalized, excess supplier profit margins removed, and work offshored (where applicable), sourcing offers little on-going opportunity. In order to unlock the next layer of savings, companies are finding that they must address the structural and process inefficiencies in supplier relationships and collaborate with suppliers to improve joint capabilities.
- ***<u>Employees are not equipped with supplier management skills and knowledge</u>***: ***Procurement brings to bear resources with transactional or sourcing skill sets, operations brings to bear resources with functional and people management skills – none are a good fit for day-to-day supplier management***. In most organizations, the personnel responsible for on-going supplier management are the same individuals who drove strategic sourcing and those who managed internal functional departments before they were outsourced. In both cases, such individuals often lack both the knowledge and the skills required to manage supplier relationships effectively. Procurement personnel are trained in sourcing methodologies, negotiation, and other procurement skills. Operational personnel have a deep functional understanding and can be excellent people managers; however, they often lack the understanding of procurement best practices. The result is that the best skills and knowledge are not brought to bear in managing supplier relationships. In addition, these legacy skill-sets combined with individuals' desire to do what is best for the company can actually prevent suppliers from being held accountable for performance and can increase internal costs – employees that are accustomed to being responsible for a function's performance will often take on the responsibility of solving issues and will apply internal resources even when the function has been outsourced. The result is that supplier accountability is diminished and internal costs can rise.

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- ***Formal supplier development programs are lacking or ineffective***: ***Formal programs for supplier development often do not exist limiting the organization's ability to create win-win value improvements with the supply base.*** When a company's suppliers develop capabilities to perform valuable new services, expand coverage to regions where the company has locations, improve processes and technology to deliver better performance and lower total cost, both the company and the supplier benefit. However, most companies lack effective programs for supplier development. Without formal criteria for selecting the suppliers for development, pre-defined development "tracks" that accelerate specific development techniques, and standardized supplier development management tools, companies must rely on the blunt instruments of contract negotiation and performance penalties to drive improvement.

- ***Everybody has become a vendor manager***: ***Inefficiency introduced as too many employees spend time on unnecessary or redundant interactions with suppliers***. As companies outsource more activities to suppliers, they often find that not all the internal work goes away – an alarming number of employees across the organization end up spending time and effort managing and interacting with the supplier. This overhead is exacerbated by the duplication of supplier management effort that typically occurs across different corporate functions, business divisions, and geographies. Because internal roles and responsibilities are not clear, because many aspects of the relationship are ill-defined, because vendor management is seen as a viable job in departments where headcount reductions routinely occur, and because suppliers make every attempt to spread their relationship footprint, too many employees become involved in performing supplier management tasks that are often redundant, inefficient, unnecessary, or even competing. In our experience this can translate into dozens or even hundreds of employees involved with tracking supplier activities, dealing with issues, interacting with supplier personnel, etc. This "relationship creep" can lead to increases in retained cost of up to 10%.

- ***Procurement, what have you done for me lately?***: ***While the procurement function has played a leadership role in sourcing and outsourcing activities, as sourcing matures in an organization, the objectives and value proposition of the procurement function need to evolve.*** In many organizations, the procurement function has played a leading role in deploying strategic sourcing, outsourcing, and low cost country sourcing. However, as sourcing has become mature in many organizations, as the key categories have already been sourced, as sourcing practices have been institutionalized, and as many functions and business groups have become more or less self sufficient when it comes to further sourcing, procurement organizations are finding that they must develop a new value proposition. One path is for procurement organizations to champion effective SRM become centers of excellence, not just of strategic sourcing, but of on-going SRM across the entire lifecycle of supplier relationships. The procurement function can add significant value by spreading SRM best practices, by helping to add structure to the organization's existing key relationships and by helping to flush out excess retained costs in the form of multiple redundant vendor management roles across the organization.

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- ***<u>System support for end-to-end supplier management is not effective</u>*: Many organizations lack the systems capabilities needed to support day-to-day supplier management across the supplier life-cycle. The result is excessive manual effort, lack of a single view of supplier impact on the organization, and reduced ability to improve supplier performance.** While many large organizations have deployed systems for e-procurement and ERP systems to manage purchasing transactions and accounts payable (AP), supplier data remains fragmented between corporate systems and desktop hard drives and system support for SRM across the entire relationship life-cycle is often minimal. Instead of a single source of supplier information, most companies have "islands" of data with minimal integration; purchase / AP data along with supplier master data often resides in an ERP system (though it typically requires significant cleansing and structuring before it can be used); supplier performance data often resides in one-off standalone spreadsheets on user desktops and is rarely linked with contracts and their SLAs which are typically stored in a stand-alone contract management system. Data pertaining to supplier relationship governance, supplier development activities, etc. can reside on various desktop hard drives and email in-boxes. Forming a single picture of a supplier relationship is not easy. In addition, very few companies have systems that support day-to-day SRM activities such as relationship governance, SLA management, joint process improvement, and supplier stratification. Where such system capabilities exist, they are fragmented leading to inefficient processes.

To address these challenges, companies are adopting SRM capabilities and revisiting their processes, organizations, and systems to manage their new supply environments.

World Class Supplier Relationship Management:

Supplier Relationship Management (SRM) is a set of principles, processes, templates, and tools that help companies maximize relationship value and minimize risk and management overhead over the entire supplier relationship lifecycle. SRM enables organizations to effectively:

- Stratify suppliers based on importance and define relationship expectations
- Establish the governance structure and process for internal and supplier interactions across the lifecycle of the supplier relationship
- Define formal processes for management involvement in the relationship
- Clarify internal roles and responsibilities, and required skills
- Put in place processes to effectively manage performance and develop supplier capabilities to continuously improve value

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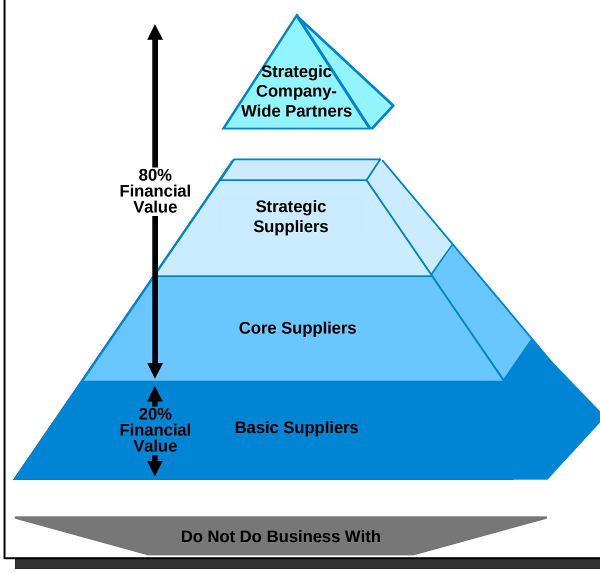
SRM is comprised of five key elements:

Figure 1: Supplier Stratification



- ***Supplier Stratification***: Effective SRM requires a clear company-wide understanding of which suppliers are the most strategic to the organization and which are less important. However, in the absence of balanced, formal criteria for supplier stratification, suppliers on which the organization spends the most are inevitably viewed as the most important and tend to capture the greatest relationship focus and effort. Factors such as business criticality, operational / technical integration, and long-term fit with the organization are often ignored, reducing the organization's supplier management effectiveness. In addition, effective stratification requires a set of common definitions of how suppliers in strategic and non-strategic tiers should be managed. This common set of definitions enables companies to:
  - Optimize resource allocation across a broad supplier base
  - Establish and manage relationship expectations by supplier tier, providing a common reference point for what it means for a supplier to be strategic
  - Provide functional and business groups with consistent partnering strategies within their supply bases
  - Provide functional and business groups with a fresh view of their supplier portfolios based on relationship value, enabling improved decisions on further supplier consolidation and leading to further strategic sourcing opportunities
  - Motivate suppliers to strive for advancement across supplier tiers
- ***Governance and Organization***: Once the importance of an individual supplier to the organization is established via Supplier Stratification, the next step is for the organization to define the team structure that will be required to manage the supplier on a day-to-day basis as well as the roles involved in those activities and skills and knowledge that team members will be expected to bring to the table. Formalizing these definitions across the organization typically results in a dramatic rationalization of vendor management resources, typically eliminating 10% or more of vendor management headcount by reducing duplication and inefficiency. In addition, the streamlined structures eliminate many of the dropped hand-offs and help to make supplier management more proactive.

  Once a team structure with roles and responsibilities is defined, the next step is to formalize the on-going governance processes to make supplier management repeatable,

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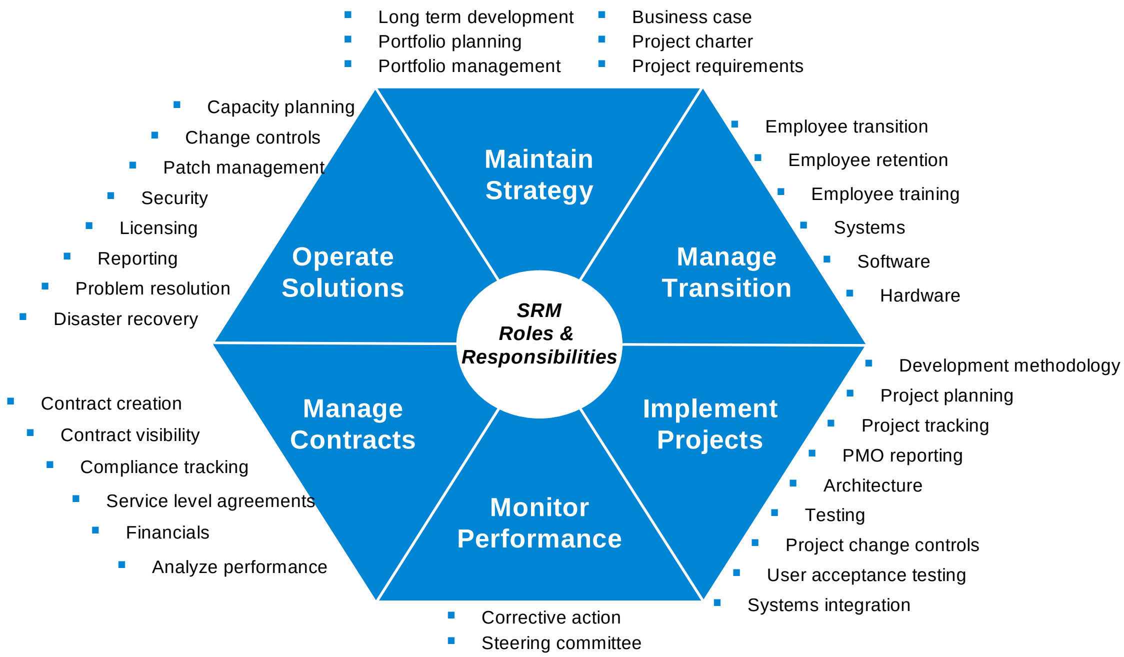
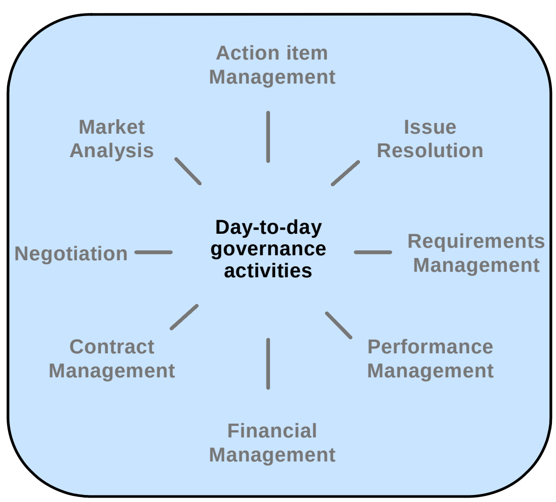
transparent to management, and consistent throughout the organization. An effective set of governance practices lays out:

Figure 2: Example of SRM Roles



- o Schedules, attendee lists, and agendas for key supplier relationship review meetings
- o Templates for supplier relationship reviews
- o Detailed designs of day-to-day supplier management activities such as contract management, financial management, and issue resolution
- o Triggers and escalation paths for supplier issue resolution

Figure 3: Sample Day-to-Day SRM Activities



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- ***Supplier Development***: Due to increasing supply consolidation, a company's overall performance and efficiency is more and more dependent on the capabilities of its suppliers. An organization benefits greatly when key suppliers dramatically reduce costs, introduce new services designed to address the organization's needs, expand their footprint to provide seamless coverage in multiple regions, and work with the organization to streamline joint processes.

Benefit to Organization

- Develops new services and products that can drive competitive advantage
- Closes capability and performance gaps
- Creates a reliable and long-term source of supply
- Provides access to new ideas and opportunities for improvement
- Prioritizes capability development and supplier investment

Benefit to Supplier

- Creates additional revenue generation opportunities
- Enables the development of a long-term relationship
- Creates opportunities for joint investments
- Provides opportunity for supplier to advance to next tier
- Gives insight into customer organization's business needs

Overall benefits can be quite high – eclipsing even strategic sourcing benefits by creating true partnering and by driving objective-based breakthrough capability improvements. Several supplier development needs are prevalent in direct, indirect, and outsourced environments:

- **Capability Gap Closure:**
  - Supplier does not offer the services and/or products that the organization needs
  - Supplier does not have the global capabilities to meet the organization's objectives
  - Supplier has capabilities that require further development to meet the organization's requirements
- **Continuous Improvement**
  - Corporate/Functional objectives require year-on-year cost and/or service level improvements
  - Competition drives need to identify and implement best practices
  - Ineffective processes and systems in relationship drive increased costs and reduce performance

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- **Value Creation**
    - Few contracts encourage suppliers to identify opportunities to add value
    - Lack of process to identify new value creation ideas
    - Lack of incentives for suppliers to identify new opportunities

Companies can address these supplier development needs by establishing a formal supplier development program that first selects suppliers where development effort will have the highest value to the organization, determines the specific development need(s), and applies the appropriate development techniques. Sample development techniques include:

- Joint investment in new capabilities
- Intellectual capital sharing
- Joint value creation opportunity identification
- Joint process mapping and improvement
- Capability acquisition by supplier
- Multi-supplier collaboration
- Joint personnel training
- Systems and process integration

However, without pre-defined “tracks” for development, including guidelines for development trigger identification, toolkits for simplified execution of development activities and program management toolkits, organizations can find it difficult to scale supplier development efforts across functions and business groups.

- ***Service Level and Performance Management***: Effective management of supplier service levels and performance is a critical element of SRM. Organizations that measure the supplier impact on business value drivers, hold suppliers accountable for poor performance, and provide incentives for outstanding performance, benefit by:
    - Enabling continuous improvement in supply performance and efficiency
    - Ensuring adherence to contractually defined SLAs and performance targets
    - Providing improved visibility and documentation to supplier performance issues
    - Supporting supplier governance by providing data on supplier performance and value added to the organization

However, performance management, in its current form, falls short of achieving this ideal, amounting to a mere tactical reporting exercise. If service level and performance management is to maximize value to the organization, the first step is to identify the function’s key business value drivers and to understand how the supplier can impact those as well as the target performance levels and tolerance ranges. In some cases it may

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even be advantageous to redefine the scope of the supplier relationship to ensure that the supplier can truly impact business value. The next step is to establish a contractual agreement that clearly defines supplier performance expectations, target levels, and tolerance ranges. In addition, it is critical to formalize the consequences of underperforming or over-performing to an agreement, the specific trigger points and conditions for remediation once an SLA breach occurs, the process for remediation, and ownership of the supplier performance within the organization.

To enable truly effective performance management, the resulting relationship agreement elements must be captured and presented in an integrated fashion. This is typically accomplished by creating a "performance map" that outlines what the supplier is truly accountable for, what specific steps must occur as consequences of the supplier's non-performance, and so on.

In many cases, after examining existing SLAs and performance measures and developing a performance map for the relationship, organizations implementing SRM find that they must go back and re-define contractual SLAs. However, even where SLAs are already effective, developing and using a performance map ensures that all parties involved in the relationship understand how performance will be managed and who will manage it. The result is a dramatic improvement in performance.

Figure 4: Example of SLA / Performance Map

Supplier SLA & KPI Reference – Supplier X / Global / N. America / S/C America / Asia / **Europe**

Metric	SLA Y/N	Definition	Target Range	Owner	Reporting Process and Source	Triggers: Condition	Triggers: Work Flow	Triggers: Consequence	Metric Location
Uptime	**Y**	Percent system uptime	**90 – 99.8%**	**Supplier**	**Calculated weekly. Published in weekly updates and all periodic scorecards**	**80 – 90%**	Alert supplier of non-performance	5% fee reduction	Supplier contract renegotiated, dated 06/30/03, section 5.3.7
						< 80%	Escalate to Business Office	10% fee reduction and escalation	
						> 99.8%	Begin credit next quarter	2% credit earn back	
Capacity Utilization	**Y**	**Percent** system resource usage	**60 – 80%**	**Supplier**	**Daily automated feed from system monitor**	**< 60%**	Assess user compliance	Potential reduction in install base	Supplier contract renegotiated, dated 06/30/03, section 5.2.3
						> 80%	Identify additional user groups	First bid opportunity for additional install	
User Satisfaction	**N**	**Survey** score	**4 – 4.5**	**Performance Management**	**Bi-annual internal, end-user survey**	**< 3.5**	Communicate during monthly review	Addressed as appropriate in renegotiation	Non-SLA

- ***Supplier Relationship Management Systems***: While successful supplier relationship management is largely driven by changes in policies, processes, roles, and supplier agreements, effective systems are a critical enabler. Systems play three key roles in enabling SRM: providing Standardized Tools and Templates, enabling Supplier Relationship Data Management, and enabling Relationship Visibility.
  - Supplier Relationship Data Management:

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    - A single source of data that allows everyone involved in relationship to access common and consistent information
    - Common repository of supplier relationship information (versus use of individuals' hard drives) enables common understanding of status and current relationship activities
    - Secure storage and maintenance reduces the risk of data loss
  - Relationship Visibility:
    - Availability of all relevant relationship information allows staff to manage and audit supplier relationships more proactively
    - Access to consistent reports facilitates executive and management reviews of supplier performance and status across supplier relationships
    - Roll-up capability enabling visibility of overall relationship factors such as risk, performance, resource allocation, etc.
  - Standardized Tools and Templates:
    - Common SRM tools and templates facilitate SRM adoption across the company
    - Common SRM model through an easily accessible system reduces reliance on individual development of SRM processes and tools and facilitates training

Figure 5: Key SRM Systems Functionality Requirements

Real-Time and Secure Access	Required to maintain accuracy and safety of internal and supplier information
Document Management	Required to effectively manage, update, and publish forms and templates
Scorecard / Dashboard publication	Assists in performance reporting, increasing accuracy and efficiency
Web-based templates and forms	Gives internal and supplier personnel easy, up-to-date access from any location
Database	Allows historical trend analysis, multi-supplier or multi-category dashboard roll-up, and other data functions
Project management	Facilitates planning and management of supplier relationship management activities, such as supplier development
Workflow	Automates notification of the most urgent SRM activities to appropriate personnel based on criticality, exceptions, and escalations

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Benefits of Effective SRM:

Companies that have adopted SRM best practices are realizing a number of important benefits:

Improvements

- Streamlined supplier management processes to reduce internal costs
- Improved ability to concentrate spend with “strategic” partners resulting in further leverage and efficiency
- Accelerated development of supplier capabilities and improvement in value delivery
- Greater supplier accountability for business results reducing non-performance and improving recovery of non-performance costs
- Alignment of supplier agreements with business performance and cost objectives
- Performance visibility to allow for continuous improvement of supplier relationships

Benefits

- 5% - 15% improvement in ongoing supply costs
- 10% reduction in FTEs focused on partner / supplier management
- Improved execution against delivery schedules and quality standards
- Improved joint objective setting, planning and collaboration with suppliers
- Improved visibility and manageability of supply risks and information

Conclusion and Next Steps:

To realize the full benefits of strategic sourcing, outsourcing, and low cost country sourcing, leading organizations need to build the capabilities required to effectively manage the resulting supply base by deploying SRM best practices. To define a starting point and prioritize SRM activities, companies should consider the following questions:

- What are the pain points and opportunities related to the organization’s supply base and supplier relationships?
- Does the organization have a well established definition / vision of SRM and a common understanding of the scope of needed SRM practices?
- Is there a clearly defined, common set of processes, policies, and tools governing the on-going day-to-day management of suppliers?
- Are the roles and responsibilities for the various aspects of supplier management clearly defined to bring to bear the right skills and focus and to avoid redundant, non-value-added activities?
- Has the procurement function evolved from having a transactional or sourcing capability-set to becoming a Center of Excellence for on-going SRM capabilities?

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- Does the staff that interfaces with suppliers on a day-to-day basis have the skills to manage suppliers effectively to maximize value?
- Are strategic suppliers delivering strategic value? Is there clarity around which are the strategic, which are the non-strategic suppliers, and how those groups should be managed differently?
- Does the organization have the processes in place to develop the capabilities of important suppliers to boost supplier performance, direct supplier investment in new services, etc.?
- Are suppliers truly accountable for performance in areas that drive the most value for the organization?

For organizations that are looking to get the ball rolling, an effective first step may be to develop a business case for SRM that focuses on the organization's most pressing supplier management pain-points and challenges, and recognizes the value of applying SRM best practices. The business case can then guide the definition of SRM scope, the vision, and the deployment going forward.

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