



Supplier Relationship Management

Frequent interactions and close relationships with suppliers can have a positive effect on the exchange and flow of information and knowledge, and thus can improve processes and performance (BBS, CIPS and Oracle: I-RELATE)



This knowledge paper is supportive of Procurement professionals operating at professional level of the CIPS Global Standard



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Introduction

Frequent interactions and close relationships with suppliers can have a positive effect on the exchange and flow of information and knowledge, thus improving processes and performance (BBS, CIPS and Oracle: I-RELATE) and leading to substantial rewards (Cousins et al., 2008).

In the late 1980s academics and practitioners began exploring the foundations of success of Japanese companies. They found that managers in Japanese companies treated suppliers as a valuable resource essential for their companies' success. Hence, a lot of efforts were made to sustain good relationships with suppliers. At the time this approach differed from that taken by Western companies who treated relationships with their suppliers as 'additional' to the main procurement management role (Cousins et al., 2008). Since the 1990s European and American companies have been paying more attention to relationship management in procurement. Recent trends, such as the growing complexity of technologies, global competition, and the need to search for competitive advantage are requiring even more collaborative relationships with suppliers. In many cases this means increasingly involving the suppliers and at early stages of product development (BBS, CIPS and Oracle: I-RELATE).

Relationship management for procurement is a complex task which goes beyond just setting up an agreement. It also incorporates dependency issues between the firms, and allocation and management of business risks. Relationship management can vary in tools and approaches and is dependent on the type of relationship: one time/spot buy, infrequent purchases, single order with scheduled multiple deliveries, multiple orders for multiple requirements or joint ownership of deliverables (single or multiple orders) (BBS, CIPS and Oracle: I-RELATE). In procurement, relationships are usually long-term and must be managed and maintained continuously through establishing mutual strategic and operational goals, measuring performance of both parties and incorporating formal and informal feedback mechanisms (Bowersox et al., 2007).

Definition

Supplier relationship management (SRM) is a complex business process that requires "resource allocation from the buyer and supplier to achieve a set of complex outputs". These relationships are influenced by external environments and can be constrained by the parties' strategies, goals and power mechanisms (Cousins et al., 2008:173).

Successful Application

Relationships as a process should be designed to deliver some business outcomes and should be differentiated. The relationship process should be managed at the product/service level, not at company level. The desired business outcomes should determine the level of the relationship process. For example, some products require a relatively simple process to achieve a simple business outcome (e.g. a negotiation to achieve a price reduction). Other more complex types of purchases may require larger long-term investments and complex relationship processes in order to deliver them (Cousins et al., 2008).

Steps to successful application

- Assess a supplier's potential.
- Help supplier to set and achieve standards of quality, quantity, delivery, price, service, flexibility etcetera.
- Rationalise suppliers by reducing their numbers and increasing purchases/spend per supplier.
- Undertake supplier alignment by ensuring systems and communication fit.
- Maintain relationships with suppliers

Hints and Tips

- One essential aspect of SRM is efficient and fair contract management (SupplyManagement.com, 2001).
- Trust in SRM as an enabler of close collaborative arrangements with vendors can be beneficial for both supplier and buyer (Chopra and Meindl, 2007).
- Some pre- and post-contract activities are important to achieve successful SRM. Pre-contract activities may include managing proximity, performance and commitment; post-contract can refer to managing risk, performance and responsibilities (BBS, CIPS and Oracle: I-RELATE).

Potential Advantages

- When successful, SRM can reduce costs and improve quality (Cousins et al., 2008).
- SRM can lead to greater product innovation through early supplier involvement (ESI) (Cousins et al., 2008).
- SRM can reduce (Bowersox et al., 2007; Cousins et al., 2008) and help achieve a certain degree of control over risks (Supplier Performance Management, 2010).

Potential Disadvantages

- SRM is a high-maintenance task: to achieve improvement in the long-run, goals must be constantly tracked, reviewed and updated (Bowersox et al., 2007).
- Market conditions often influence the options available to both buyers and suppliers and can influence the relationships with vendors. In a seller's market contracts will usually have clauses that minimise the risk for suppliers in case of delivery failure and very few things can be done to influence this (Leenders et al., 2002).
- In practice, SRM performance measures often focus on supplier performance (e.g. on-time delivery) and fail to address joint measures of success (Bowersox et al., 2007).

Performance Monitoring

- Post-contract appraisal: allows the buyer and supplier to monitor compliance, identify noncompliance, trigger corrective action (including contractual penalties), quantify important performance attributes and measure change and improvement, assess supplier performance and compare it with other suppliers (Procurement team, 2010).
- Measurements of important product or service attributes: size, weight, quality, availability or cost (Procurement team, 2010).
- Supplier performance can be measured in relation to the execution of the contract: measuring responsiveness to queries, quality of account management and accuracy of invoicing (Procurement team, 2010).

Case Studies

- At the end of the 2000s, Peugeot Citroen reported improvements in its supplier relationship management. The company received an index score of 557 out of 1,000 in 2010, an increase from 508 out of 1,000 in 2009. The company suggested that these improvements were linked to the pricing policy, payment terms and volume planning (SupplyManagement.com: 2011).
- Relationship management between K-Mart and Fred Meyer, which incorporated vendor managed inventories (VMI), resulted in an increase of inventory turns on seasonal items at K-Mart from three per cent to 11%, and of non-seasonal items from 12% to 20%. Inventories at Fred Meyer dropped by 30%-40% while fill rates increased to 98% (Chopra and Meindl, 2007). In 2010, in order to improve supplier relationships in Poland, Tesco announced the launch of its 'academy for suppliers'. The 'academy' offers training sessions delivered by Tesco's buying and technical teams on general procedures and supplier relationships. In addition, the company conducts supplier surveys to learn how suppliers view their relationship.
- In 2010 Tesco surveyed 3,887 suppliers representing 54% of their international supplier base (SupplyManagement.com, 2010).

Books

- The Power of Two: How Smart Companies Create Win:Win Customer- Supplier Partnerships that Outperform the Competition: Carlos Cordón and Thomas E. Vollmann - Collaborative relationships with suppliers/customers and competitive advantage.
- The Relationship-driven Supply Chain: Creating a Culture of Collaboration Throughout the Chain: Stuart Emmett and Barry Crocker - Embedding a collaboration culture into the supply chain.
- The Science of High-performance Supplier Management: A Systematic Approach to Improving Procurement Costs, Quality and Relationships: Randy A. Moore - Guide for practitioners, providing a strategic review of buyer-supplier relationships.
- Managing Buyer-Supplier Relations: The Winning Edge Through Specification Management (Routledge Studies in Business Organizations and Networks): Rajesh Nellore - Research on supplier relationships carried out by a practising manager in the automotive industry.
- Excellence in Supplier Management: Stuart Emmett and Barry Crocker - Guidelines on how to manage contracts and vendors.

References

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- Chopra, S. and Meindl, P. (2007) Supply Chain Management. Strategy, Planning and Operation. (3rd ed.) Pearson/Prentice Hall: Upper Saddle River, N.J.
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- Cousins, P., Lamming, R., Lawson, B. and Squire, B. (2008) Strategic Supply Management: Principles, Theories and Practice. FT/Prentice Hall: Harlow.
- Leenders, M.R., Fearon, H.E., Flynn, A.E. and Johnson, P.F. (2002) Purchasing and Supply Management. (12th ed.) McGraw-Hill Irwin: Boston, MA.
- Procurement team (2010) Assessing Supplier Performance. Procurement Manual. Good Practice 4. August. University of Exeter.

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Video

Managing supplier relationships: Presentation by Prof. Daniel Corsten.

<https://www.youtube.com/watch?v=hVX7lb1Wdpw#t=22>

