



# The Value of Supplier Relationships

The Impact on Your  
Strategic Goals

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FORUM2016



# SRM: Impact on Your Strategic Goals and Objectives

## Topics to be covered today

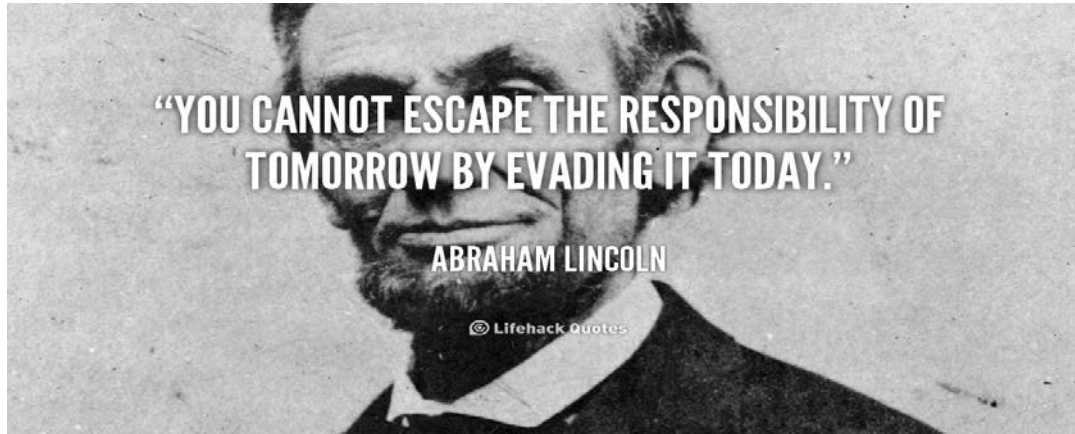
- Role of Procurement in your entity
- Goals of a Successful SRM Program
- Six Principles of SRM
- Supplier Life-Cycle Management
- Path to an effective SRM Program
- Legislative Session and the impact to Procurement

# SRM: Impact on Your Strategic Goals and Objectives

## Role of Procurement in your entity

- Is your procurement department's role defined?
- Do you have performance metrics identified to measure success and progress of desired outcomes?
- Is your entity aligned with another "pillar"?
- Is your culture one to embrace change – to "Shape the Future of Procurement"?
- Do you have defined workforce capabilities and processes?

# SRM: Impact on Your Strategic Goals and Objectives



## “Responsibility” Definition:

- Answerable or accountable, as for something within one’s power, control or management
- Involving accountability or responsibility, as in having the power to control or manage
- Chargeable with being the author, cause, or occasion of something
- Having a capacity for moral decisions and therefore accountable

# SRM: Impact on Your Strategic Goals and Objectives

- What is SRM?

NIGP recognizes SRM as a set of principles and tools that assist organizations in the management of supplier relationships to maximize value and minimize risk through the entire supplier relationship life cycle

## Primary Objectives of SRM

- Clear commitment between the supplier and the entity
- Organized process of understanding, agreement and interaction

# SRM: Impact on Your Strategic Goals and Objectives

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**“It’s the next level of real-time vendor relations. But we’re still beta testing.”**  
Is this your reality?

# SRM: Impact on Your Strategic Goals and Objectives

## Value of SRM

SRM creates close and collaborative relationships with suppliers in an effort to discover additional value while reducing the risk of failure

Identify and maintain a sense of your supplier base.

- Who are your top/bottom suppliers? (Segmentation)
- Which internal stakeholders need your support most?
- Where are these internal stakeholders located?
- Which suppliers should you focus on...this quarter?
- How can documentation reduce meetings/tasks

# SRM: Impact on Your Strategic Goals and Objectives

## Value of SRM

- S) Look beyond “compliance” to supplier engagement
- S/T) Evaluation of performance and operational effectiveness
- S) Identify your “strategic” suppliers
- S) Request supplier “health check”?
- S/T) Keep a supplier scorecard for review on performance, self-assessment, independent assessment
- S/T) Measuring the appropriate criteria for your group
- S) Use “root cause analysis” to address issues and improve performance, both internal and external
- S/T) Ensure metrics are inclusive of the “full set of Stakeholders”: internal customers, employees, policy makers, suppliers, etc





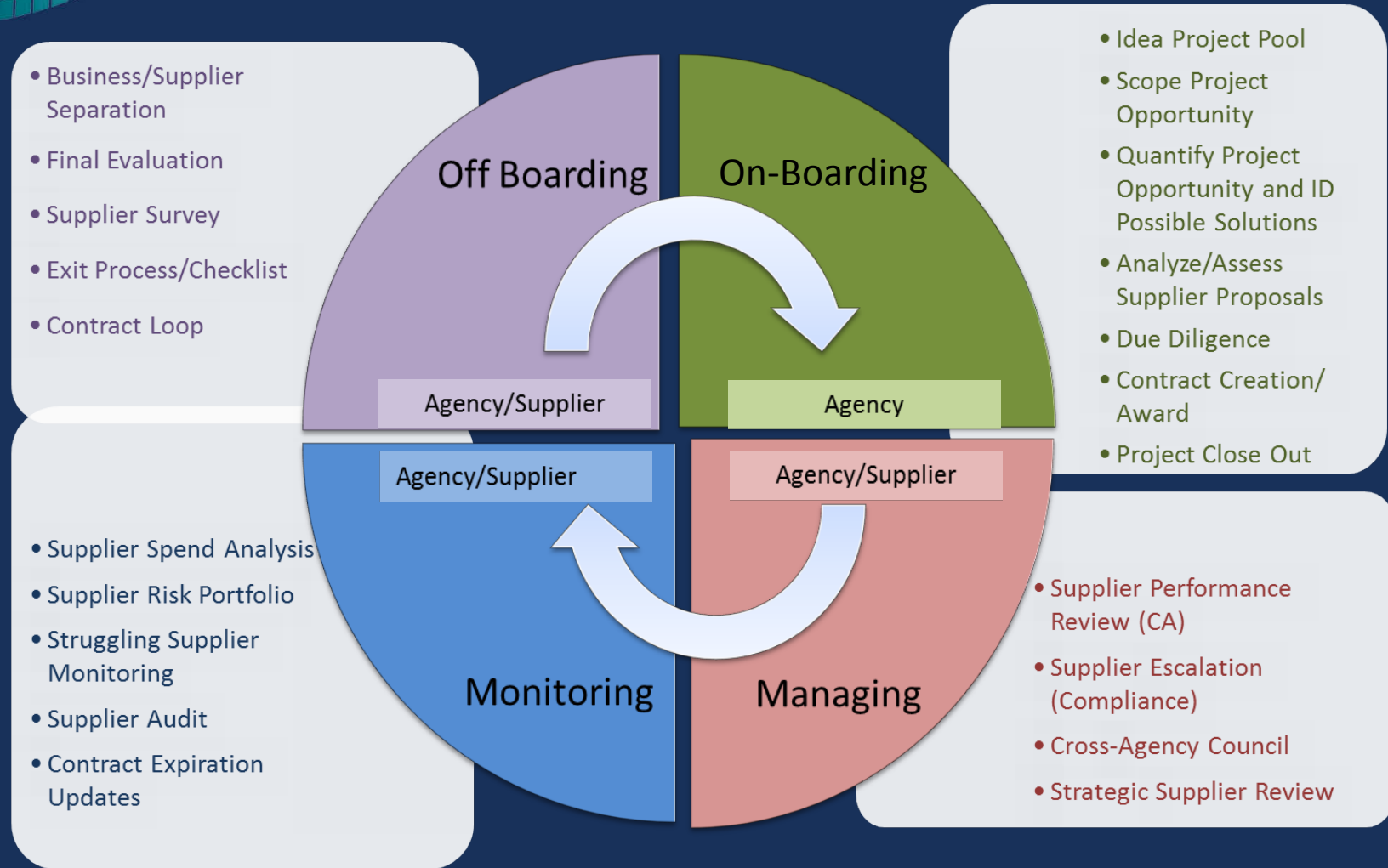
# Goals of a Successful SRM Program

- Reduce the number of Procurement Complaints
- Create more flexible contracts and less need to revise or renegotiate
- Measure Supplier performance and encourage innovation
- Identify Strategic contracts
- Improve decision-making tools and processes for awarding solicitations
- Identify and simplify the escalation process

# Goals of a Successful SRM Program

- Improve cost and reduce the number of hours spent on “mulligans”
  - 291 hours: create, negotiate, award a contract
  - 57 hours: administer, manage, update contracts
  - 69 hours: re-solicit tactical purchases
    - ~30% of Quick Quotes and resulted in re-solicitation
  - \$75-125: cost to create and process one PO

# Tools to Assist your Decision-Making Process: 4-Phase Supplier Lifecycle Management



# Tools to Assist your Decision-Making Process: 4-Phase Supplier Lifecycle Management

## Principles of SRM

- Three C's
  - Communication
  - Collaboration
  - Commitment
- D.I.E.-ing to get it Right!
  - Due Diligence
  - Innovation
  - Engagement

# Tools to Assist your Decision-Making Process: SRM – the 3C's

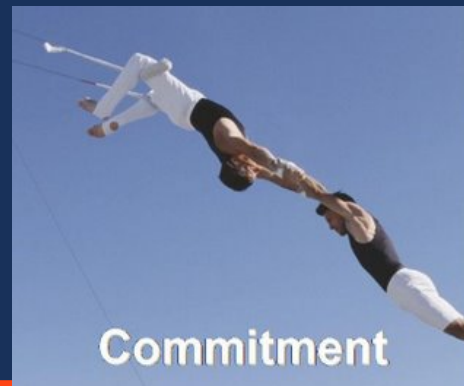
## ❖ Communication



## ❖ Collaboration



## ❖ Commitment



# Tools to Assist your Decision-Making Process: SRM -D.I.E.-ing to get it Right!

- **D – I – E-ing to get it right!**
  - Due Diligence
    - Making sure WE get it right when awarding business
    - Remember, suppliers will perform their own to decide if they will do business with YOU
  - Innovation
    - Supply base gets it right through performance and innovation
    - We get it right when we seek innovation from suppliers
  - Engagement
    - Work together to ensure we BOTH get it right

# The Path to an Effective SRM Program

(Principles and Practices of Public Procurement)

Good SRM is an effective practice that will allow an organization to:

- ✓ Identify strategic suppliers based on relative importance
- ✓ Define operational expectations and establish a governance structure and process for internal and supplier interactions across the life cycle of the relationship
- ✓ Define formal processes for management involvement in the relationship
- ✓ Clarify internal roles and responsibilities
- ✓ Establish processes to effectively manage performance
- ✓ Develop supplier capabilities to continuously improve the value of the organization

# The Path to an Effective SRM Program: Elements

1. **Supplier Stratification** – Requires a clear understanding of which suppliers are the most strategic to your entity and which are least important instead of the amount of “spend”.

Factors to consider:

- Risk
- Operational criticality
- Technical integration
- Total value
- Long-term fit with the organization
- Profitability
- Performance
- Loyalty



# The Path to an Effective SRM Program: Elements

**2. Governance and Organization:** Define the team structure that will be required to manage the day-to-day activities and define the skill sets, activities, knowledge that team members will be expected to possess. Formalize the on-going governance processes to make supplier management repeatable

- Schedules
- Attendee Lists
- Agendas for key supplier relationship meetings
- Templates for supplier relationship reviews
- Detailed designs of day-to-day supplier management activities (i.e. contract management, financial management and issue resolution)
- Triggers and escalation paths for supplier issue resolution

# The Path to an Effective SRM Program: Elements

**3. Supplier and Organization Development:** Benefits received when suppliers reduce cost, introduce new services to meet organizations needs, and work with the organization to streamline joint processes.

Procurement benefits:

- Increase customer and/or taxpayer value
- Close capability and performance gaps
- Create a reliable and long-term source of supply
- Provide access to new ideas and opportunities for improvement
- Prioritize capability development and supplier investment

# The Path to an Effective SRM Program: Elements

**3. Supplier and Organization Development (cont.):** Benefits received when suppliers reduce cost, introduce new services to meet organizations needs, and work with the organization to streamline joint processes.

Supplier benefits:

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

# The Path to an Effective SRM Program: Elements

## 4. Service Level Agreements and Performance Management

- Support continuous performance improvement
  - Hold Suppliers accountable for poor performance
  - Provide incentives for outstanding performance
  - Performance management consequently adds value to the organization
- Identify the organization's key business value drivers and how supplier can impact those
  - Target performance level and tolerance ranges
  - Establish a contractual agreement that clearly defines supplier performance expectations, target levels and tolerance levels
  - Formalize the consequences of under/over performing; specific trigger points; conditions for remediation; process for remediation and ownership of the supplier performance with the organization

# The Path to an Effective SRM Program: Elements

## 5. SRM Systems – We're not here yet!

Effective systems play three key roles in enabling SRM

- Provide standardized tools and templates
  - Allows for streamlined and easily accessible system
  - Reduces reliance on individual processes and tool
  - Facilitates training
- Enables a single source for supplier relationship data management
  - Common and consistent repository of information
  - Enable common understanding of status and current activities
  - Secure storage and maintenance reduces risk of data loss
- Enable relationship visibility
  - Provides availability of all information
  - Allows staff to manage and audit supplier relationships more proactively
  - Roll-up capability for visibility of overall relationship factors (risk, performance and resource allocation)

# The Path to an Effective SRM Program: Elements

## 6. Supplier Reviews

- Hold regular Supplier reviews
- Facilitates performance management
- Provides senior management overview of relationship between organization and supplier

# SRM: Impact on Your Strategic Goals and Objectives

## What's in it WE!

- There were ~16 Bills that were passed in the 2016 Legislature that pertained to procurement
  - Some of the Bills were instigated by suppliers!
- Kate Vitasek July 2016 article in *Contract Magazine*
  - Minnesota DOT I-35W bridge collapse in 2007
    - Completed in 11 months (scope called for 18 months)
    - Project awards “..best in innovative management, accountability and timeliness”
    - Contractor incentives for meeting the desired outcomes were significant

# SRM: Impact on Your Strategic Goals and Objectives

## What's in it for YOU!

- Andy Akrouche, *Relationships First*
  - Three pillars of Relationship Charter
    - Shared Mission and Vision
    - Joint Governance
    - Open Book Framework (Transparency)



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