



STANDARD

Good Supplier Relationship Management (SRM) is an effective practice that will allow an organization to:

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

RELATED VALUES & GUIDING PRINCIPLES

Impartiality:

- Treat suppliers equitably, without discrimination, and without imposing unnecessary constraints on the competitive market
- Be open, fair, impartial, and non-discriminatory in all processes

Ethics:

- Maintain consistency in all processes and actions
- Act and conduct business with honesty and integrity, avoiding even the appearance of impropriety

Definition

Supplier Relationship Management (also called Vendor Relationship Management) is a set of principles, processes, and tools that can assist organizations to maximize relationship value with suppliers and minimize risk and management of overhead through the entire supplier relationship life cycle.² Supplier Relationship Management has two aspects, which are:

- Clear commitment between the supplier and the buyer, and
- The objective of understanding, agreeing, and whenever possible, codifying the interactions between them.³

Element 1.1: Supplier Stratification

Effective SRM requires a clear understanding of which suppliers are the most strategic to the organization and which are less important. Rather than viewing the suppliers on which the organization spends the most resources as the most important, additional factors should be considered such as:

- Risk,
- Operational criticality,
- Technical integration,
- Total value,
- Long-term fit with the organization,
- Profitability,
- Distributor services,
- Performance, and
- Loyalty.



Public Procurement Practice

SUPPLIER RELATIONSHIP MANAGEMENT (SRM)

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Identifying strategic suppliers will help organizations:

- Optimize resource allocation across a broad supplier base;
- Establish and manage relationship expectations by suppliers;
- Provide strategic and operational groups with consistent partnering strategies within their supply bases;
- Provide strategic and operational groups with a strategic view of their supplier portfolios based on relationship value; enabling improved decisions on further supplier consolidation and leading to further strategic sourcing opportunities; and
- Motivate suppliers to strive for advancement across supplier tiers.

Element 1.2: Governance and Organization:

Once the importance of an individual supplier is established via supplier stratification, the next step is for the entity 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 skills and activities and knowledge that team members will be expected to possess. 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, transparent to management, and consistent throughout the organization. An effective set of governance practices establishes:

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

Element 1.3: Supplier and Organization Development:

An organization benefits greatly when key suppliers reduce costs, introduce new services designed to address the organization's needs, and work with the organization to streamline joint processes. For the purchasing organization, this process develops new services and products that can:

- 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; and
- Prioritize capability development and supplier investment.

The supplier benefits as well. For the supplier, this process:

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

Organizations can address these supplier development needs by establishing a formal supplier and organization 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.

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Sample supplier and organization 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;
- Multi-organization collaboration;
- Joint personnel training; and
- Systems and process integration.

Element 1.4: Service Level Agreements and Performance Management:

- Organizations should support continuous performance improvement by holding suppliers accountable for poor performance and providing incentives for outstanding performance. Performance management consequently adds value to the organization.
- If service level and performance management is to maximize value to the organization, the first step is to identify the organization'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 even be advantageous to redefine the scope of the supplier relationship to ensure that the supplier can truly impact 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 overperforming to an agreement, the specific trigger points and conditions for remediation once a service level agreement (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 and what specific steps must occur as consequences of the supplier's non-performance. Even where SLA's 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.



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SUPPLIER RELATIONSHIP MANAGEMENT (SRM)

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Element 1.5: 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**, which allow for streamlined SRM adoption through an easily accessible system while reducing reliance on individual development of SRM processes and tools, and facilitate training;
- **Enabling supplier relationship data management**, which allows for a single source of data with which everyone involved in the relationship may access a common and consistent repository of supplier relationship information (versus use of individuals' hard drives). It also enables common understanding of status and current relationship activities, and its secure storage and maintenance reduces the risk of data loss; and
- **Enabling relationship visibility**; which provides availability of all relevant relationship information and allows staff to manage and audit supplier relationships more proactively, access consistent reports which facilitate executive and management reviews of supplier performance and status across supplier relationships, and roll-up capability which allows for visibility of overall relationship factors such as risk, performance, and resource allocation.

Element 1.6: Holding Regular Supplier Reviews:

Organizations should hold regular supplier reviews to facilitate on-going supplier performance management and provide a senior management overview of the relationship between the organization and the supplier.

- 1 Scottish Government. (1997). *Scottish Public Procurement Toolkit - A step by step guide to producing a strategic sourcing strategy*. (ISBN 0 7559 1436 8)
- 2 McCue, C. P. and Johnson, B. R. (2010). *Strategic Procurement Planning in the Public Sector*. Herndon, VA: NIGP, and *the Scottish Public Procurement Toolkit - A step by step guide to producing a strategic sourcing strategy*, August 17, 2010.
- 3 CIPS Intelligence, *Supplier Performance Management*, 2012

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