

Northeast Supply Chain Conference

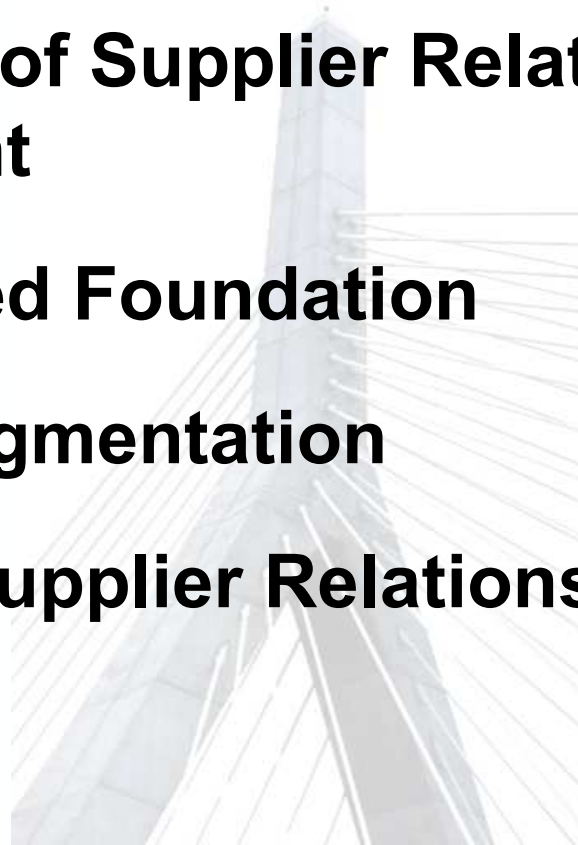
# Effective Supplier Relationship Management

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# Presentation Outline

- **Importance of Supplier Relationship Management**
- **The Required Foundation**
- **Supplier Segmentation**
- **Managing Supplier Relationships**



# **Importance of Supplier Relationship Management**

***What is the goal of Supplier Relationship Management?***

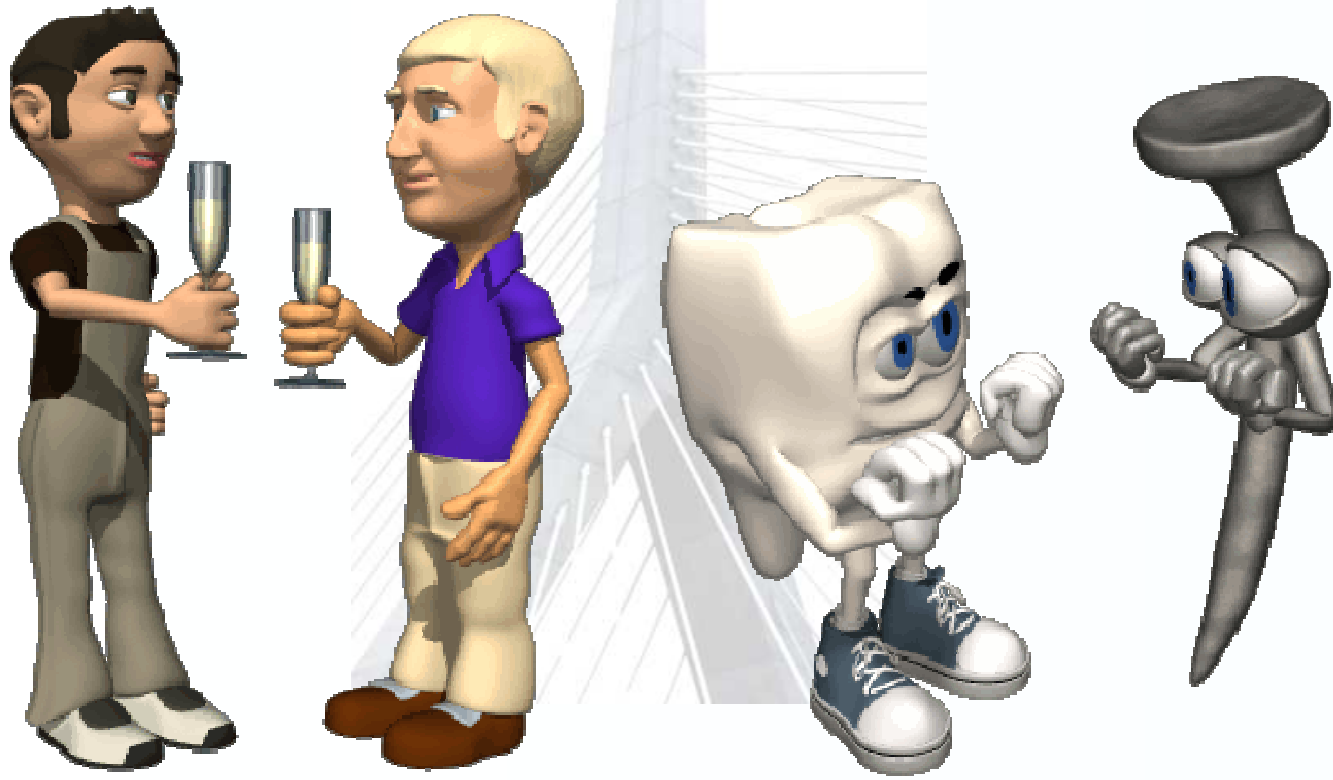
***Achievement of desired results***

***(e.g. best product and/or best service, delivered cost effectively)***

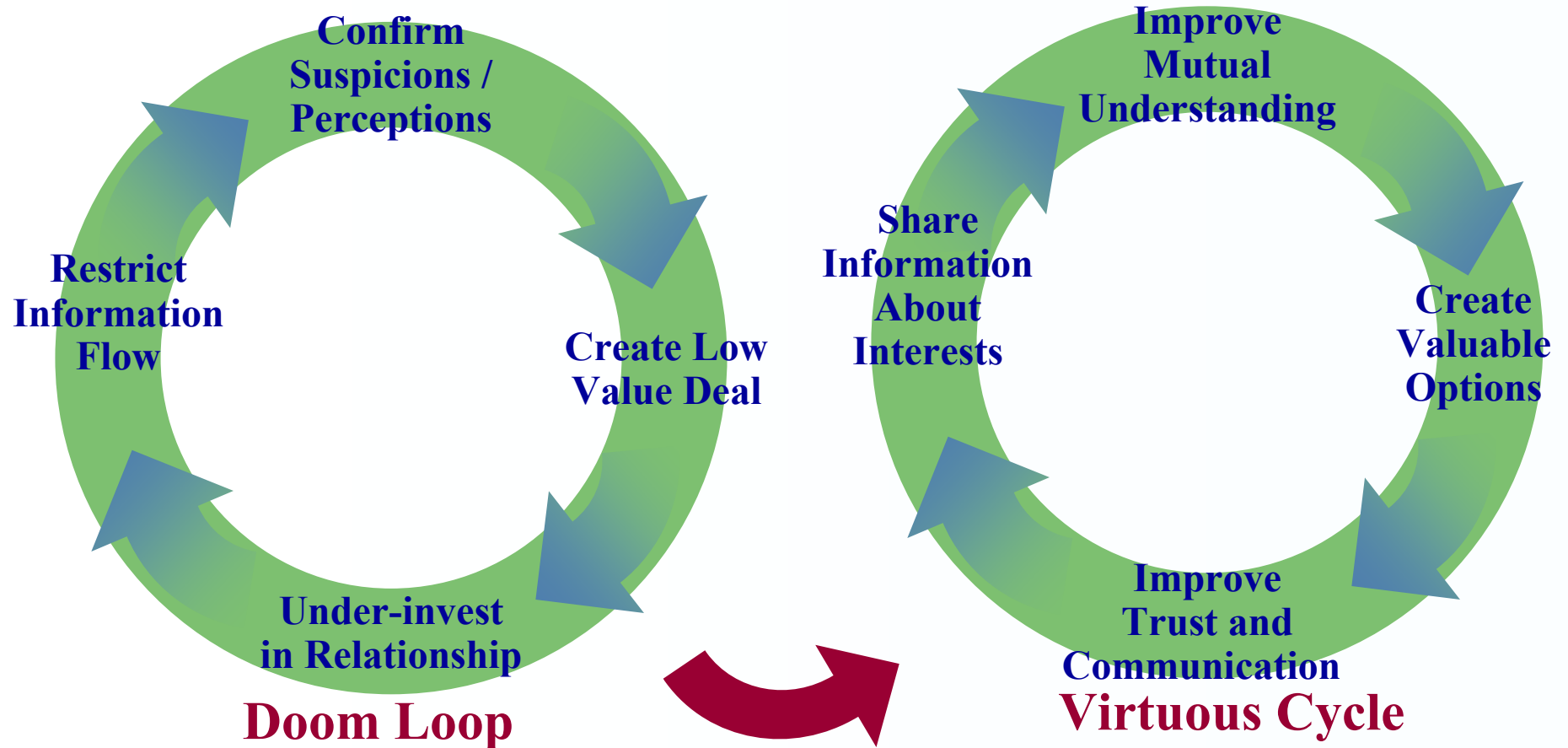
***Ultimately- client satisfaction***

# Importance of Supplier Relationship Management

*Why do supplier relationships fail?*



# How Relationships Work



# Two Views of Relationship Management

Common assumptions	Better assumptions
<ul style="list-style-type: none"> <li>• A good relationship can/must be bought</li> <li>• Deal with them the way they deal with us</li> <li>• The bottom line sometimes requires sacrificing the quality of the relationship</li> </ul>	<ul style="list-style-type: none"> <li>• A good relationship needs to be built, it cannot be bought</li> <li>• Do what is good for the relationship, and us, regardless of whether or not they reciprocate</li> <li>• A strong relationship is essential to sustainable bottom line results</li> </ul>
Common measures	More robust measures
<ul style="list-style-type: none"> <li>• You do what I want</li> <li>• I keep you happy</li> <li>• We have little or no conflict</li> </ul>	<ul style="list-style-type: none"> <li>• Communication is robust and efficient</li> <li>• Tensions are surfaced early and easily</li> <li>• We trust each other</li> <li>• We understand and respect each other, even when we don't agree</li> <li>• We rely on persuasion rather than coercion</li> </ul>

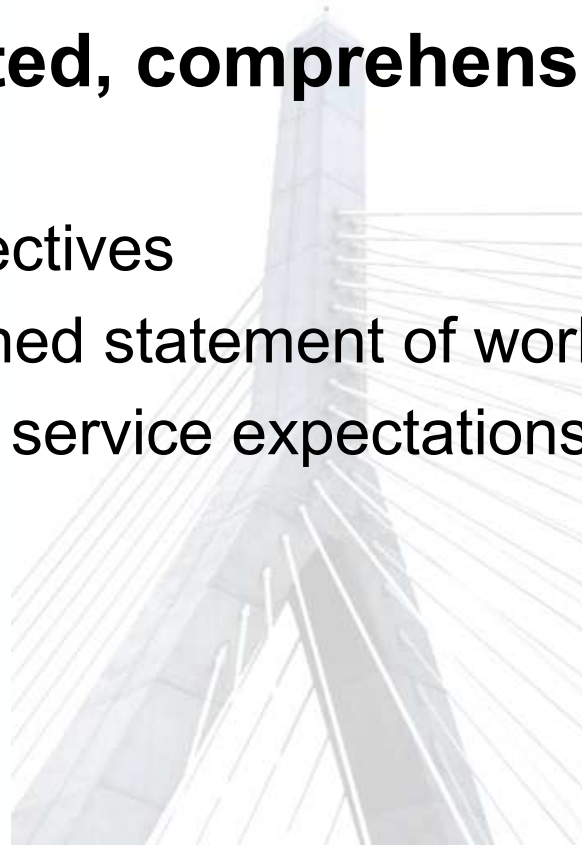
# The Required Foundation

***What do you need for a strong supplier relationship?***



# The Required Foundation

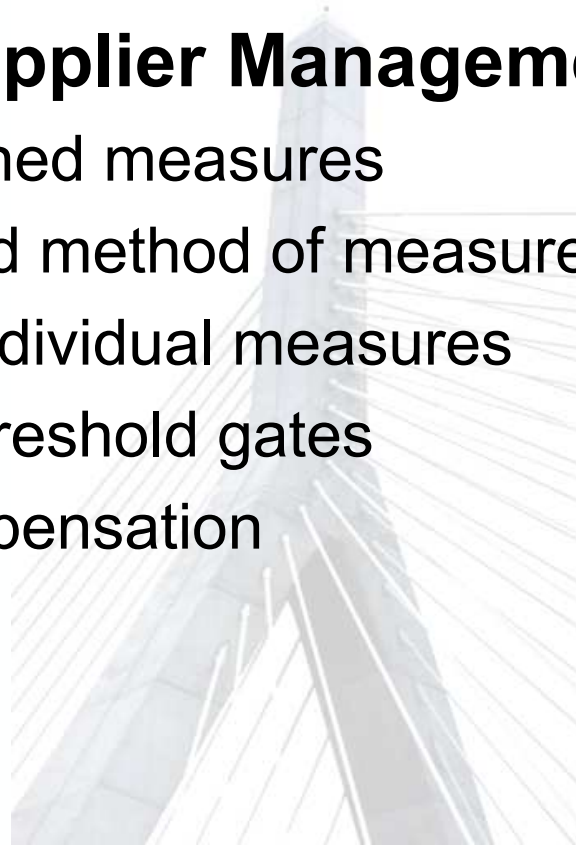
- **Fully executed, comprehensive supplier agreement**
  - Aligned objectives
  - Clearly defined statement of work
  - Measurable service expectations





# The Required Foundation

- **Effective Supplier Management Program**
  - Clearly defined measures
  - Documented method of measurement
  - Weighted individual measures
  - Minimum/threshold gates
  - Link to compensation



# The Required Foundation

- **Skilled Relationship Managers**
  - Managers of relationships (supplier/client), not functions
  - Subject matter experts, credible
  - Masters of communication
  - Enablers (solution driven, not fault driven)
  - Integral, honest and appropriately biased

# Supplier Segmentation

***Does one approach to Supplier Relationship Management work for all?***



# Segmentation Benefits

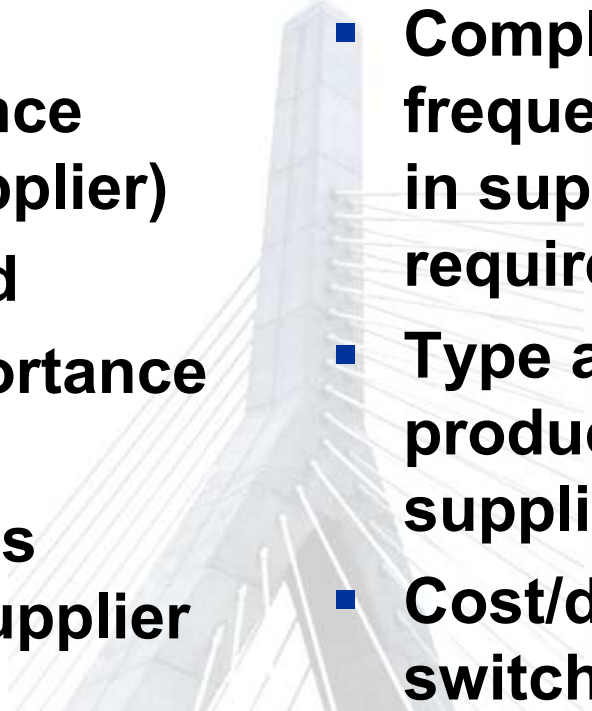
- **Ensures optimal allocation of limited management time and resources**
- **Helps determine what kind of relationship to develop for different types of suppliers**
- **Ensures internal alignment re: supplier management roles, responsibilities, actions**

# Segmentation Benefits

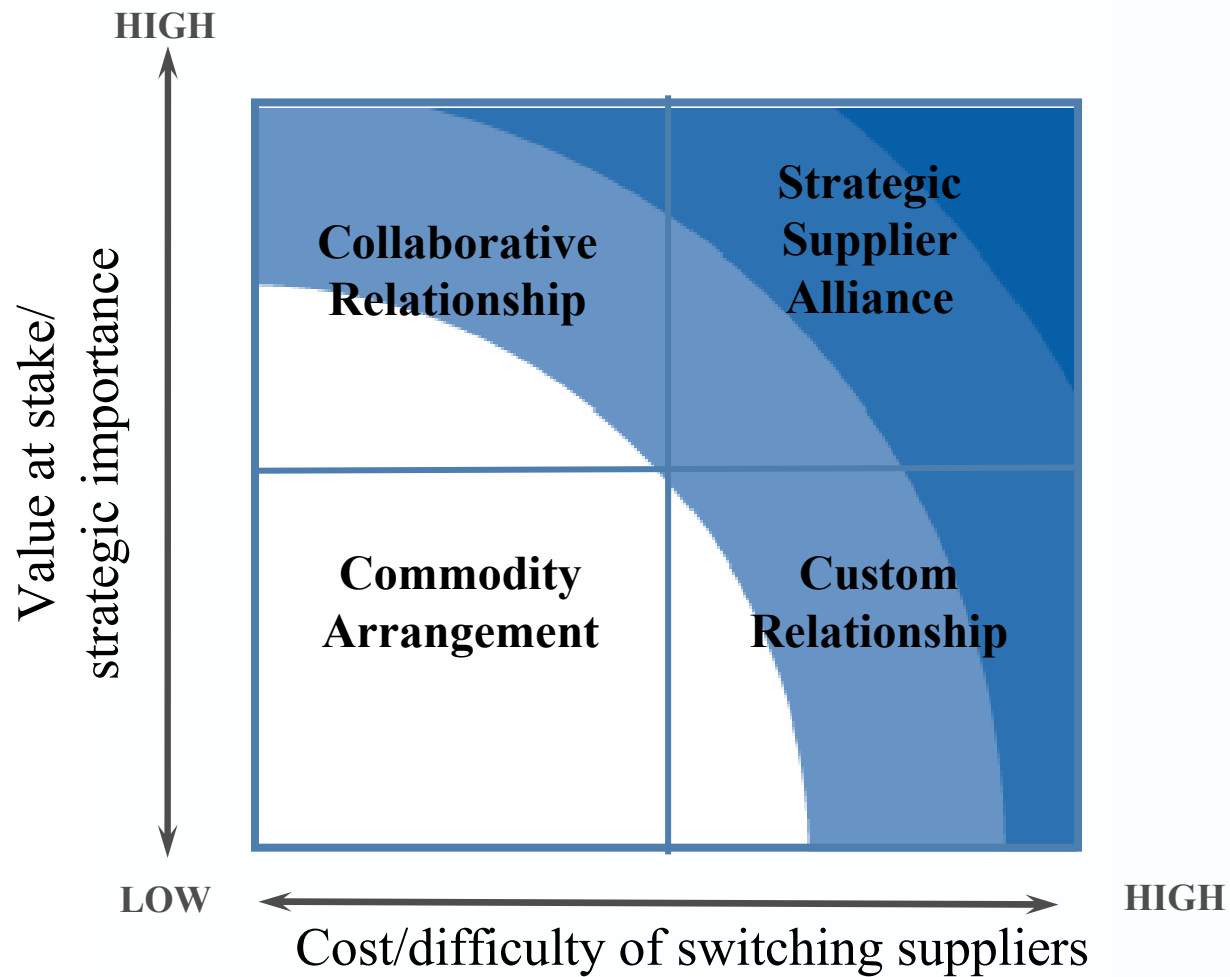
- **Guides sourcing and negotiation strategy, relationship management structure and supplier activity**
- **Helps clarify and manage supplier expectations**



# Segmentation Criteria

- 
- Degree of interdependence (customer/supplier)
  - Level of spend
  - Strategic importance of supplier
  - Number of BUs served by a supplier
  - Complexity and frequency of changes in supplier requirements
  - Type and number of products or services a supplier provides
  - Cost/difficulty of switching suppliers

# Segmentation Model



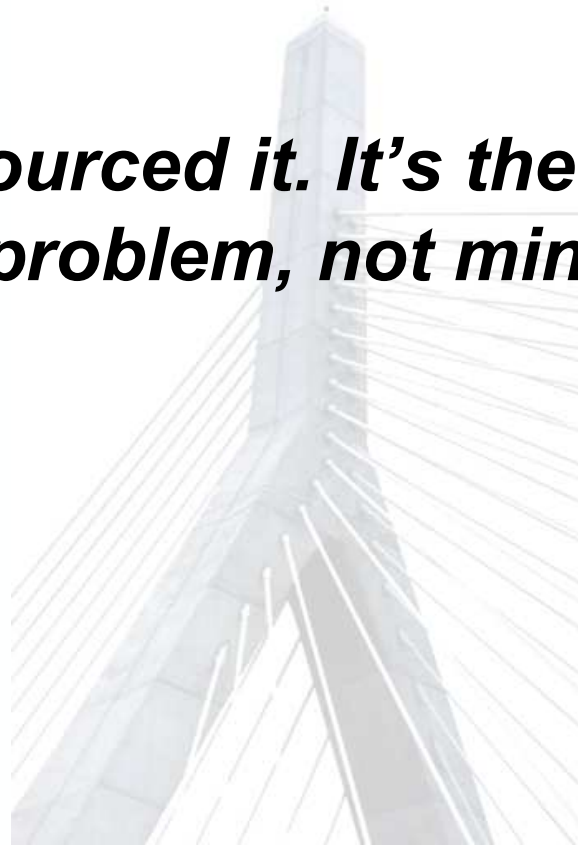
# Segmentation Implementation

Relationship Category	Commodity	Custom	Collaborative	Strategic
<b>Implication</b>				
<b>Driver</b>	Price	Competitive advantage	Maximize value; lowest total cost	Critical need
<b>Negotiation Strategy</b>	Maximize price leverage	Sole source	Leverage number of suppliers and business volume awarded	“Win/Win” maximize joint gain and good precedent
<b>Presumed Duration</b>	Short to medium term	Dependent on market environment	Medium to long term	Long term
<b>Governance</b>	Commodity group portfolio manager	Dedicated relationship manager	Dedicated relationship manager; internal customer coordination committee	Joint customer-supplier oversight board; dedicated relationship manager
<b>Communication</b>	Limited to transactional exchange of info	Regular, though limited in scope	Robust and frequent, with some executive contact	Robust and multi-level, with senior executive contact
<b>Quality Management</b>	Managed on exception basis; leverage penalties	Managed on exception basis; leverage incentives	Joint effort; customer investment driven by switching costs	Joint effort, equal investment
<b>Planning</b>	Annual; narrow in scope	Regular, but limited in scope	Joint and frequent; time horizon varies by context	Integrated, frequent, and long term focused
<b>Supplier’s Viability</b>	N/A	Safeguard when benefits outweigh costs	Understand and monitor	Safeguard
<b>Investment in Relationship</b>	<b>Low</b>	<b>Medium to low</b>	<b>Medium</b>	<b>High</b>



# Managing Supplier Relationships

***“We outsourced it. It’s the supplier’s problem, not mine!”***



# Supplier Relationship Management = Paradigm Shift

## Attributes of a typical customer-vendor relationship

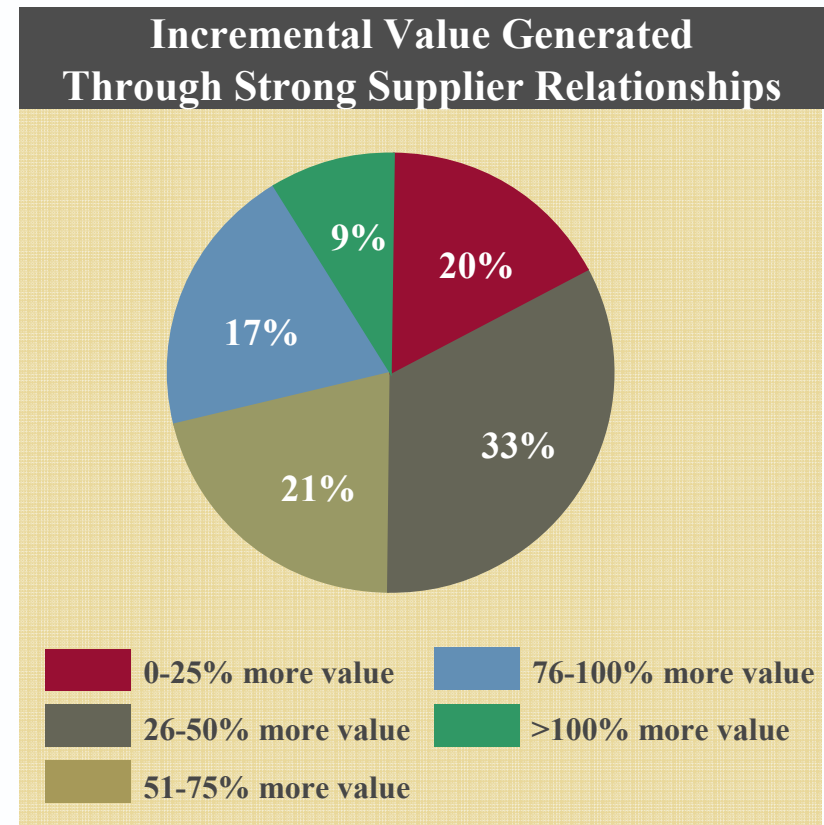
- “This is about getting them to meet our needs”
- When things go wrong, assign blame and apply contractual penalties
- Customer decides, vendor executes
- Customer defines metrics; supplier is evaluated
- Negotiations are often adversarial; produce arbitrary outcomes
- Each party is often surprised and learns of decisions after they’re made

## Attributes of a strategic supplier partnership

- “This is about meeting both our needs in a sustainable way”
- When things go wrong, diagnose joint contributions and work to avoid repetition
- Wise decisions need joint input
- At least some metrics are jointly developed and shared, or symmetrical
- Negotiations focus on problem-solving; produce good precedents
- Surprises are rare; planning is highly integrated; communication is frequent and robust

# Stronger Relationships Generate More Value \*

- Almost 80% of respondents said that strong working relationships with suppliers deliver **at least 25% greater value** than poor relationships with suppliers.
- Procurement professionals report that they would **increase their company's bottom line by \$43 million annually** if they were to implement strategic relationship management practices with key suppliers



\* Source: *Negotiating and Managing Key Supplier Relationships: A Cross-Industry Study of 20 Best Practices*. Vantage Partners, 2003.

# Good Relationship Characteristics = Value

## Characteristics of a good relationship

- High degree of trust
- Robust and efficient communication
- Collaborative and creative problem solving
- High degree of mutual understanding
- Conflicts and tensions are surfaced early
- Differences in goals, culture, and competencies are respected
- Disagreements are resolved through mutual persuasion, not coercion
- Emphasis on diagnosing joint contribution – not assigning blame

## Dimensions of relationship value

- Reduced compliance monitoring costs
- Reduced transaction costs of working together
- Greater value through improved leveraging of assets and capabilities
- Fewer damaging or costly surprises
- Greater value through low-cost, high value trade-offs
- Reduced switching costs
- Problems spotted early (before significant costs are incurred) and resolved effectively

# Ongoing Management Sustains Value

- Demand management
- Market management (benchmarking)
- Supplier management



# **Benefits of Supplier Relationship Management**

- **Minimize supplier-related risks**
- **Maximize opportunities to reduce/avoid costs**
- **Capitalize on potential synergies revealed through greater integration between supplier and client**
- **Maximize client satisfaction**
- **Maximize client investment in supplier relationship**

# **Benefits of Supplier Relationship Management**

***Achievement of desired results***  
***(e.g. best product and/or best service, delivered  
cost effectively)***  
***Ultimately- client satisfaction***

# Effective Supplier Relationship Management

***THANK YOU!***

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