



Supplier Relationship Management - SRM

The process for managing the two aspects in the interaction between two entities - one entity is the supplier of goods or services and the other entity is the customer/end-user organisation



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Introduction

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Definition

The purpose of the P&SM profession is to create value for an organisation as a result of its need to acquire goods and services from external sources. One of the strategic ways that this objective is achieved is by relationship management. Relationships have two aspects:

- a) Clear commitment between the two parties involved
- b) The objective of understanding, agreeing, and whenever possible codifying the interactions between the two parties

CIPS defines SRM as 'the process for managing these two aspects in the interaction between two entities - one entity is the supplier of goods or services and the other entity is the customer/end-user organisation'.

CIPS believes that the term supplier relationship management should be reserved for the more complex relationship development associated with period contracts, rather than the more straightforward performance management of individual orders. SRM is a mutually beneficial two-way process in that it should improve the performance of both the buying and the supplying organisations. It involves proactively developing relationships with particular suppliers.

Background

There are three common levels of management that are applied by buyers when dealing with suppliers. They overlap by some degree but may be generally considered as follows:

- Contract Management – Managing the process of developing a contract and post-contract administration, including ensuring the performance of the contract
- Supplier Management – This includes the aspects of contract management but additionally involves a focus on improving the performance of the supplier in fulfilling the needs of the buying organisation.
- Relationship Management - This includes aspects of contract management & supplier management, but additionally both parties actively seek to become sufficiently familiar with each other that they can predict how each other will react even in situations that have not so far been experienced.

The purpose of investing in a relationship with a supplier is to improve their performance in fulfilling the needs of the buying organisation. Equally, the buying organisation may have to implement changes in order for the supplier's performance to improve. Performance management, and managing changes to improve that performance, and monitoring performance are at the core of SRM.

Relationships with suppliers vary in business intimacy – even those that are proactively managed. A relationship can be deliberately arms-length but nevertheless cordial when there is no business benefit in developing it further e.g. a supplier of relatively low-value items required on an irregular basis with minimum risk in respect of, for example, security of supply. At the other extreme, relationships can be close, long-term and enacted on a partnering basis as may be appropriate in high-value, high-risk projects such as joint ventures

It can be argued that relationship management is the ‘art’ of effective P&SM which supports the science of using appropriate strategies, tools and methodologies tailored to particular situations and suppliers.

Explanation

Whilst CIPS encourages SRM, it can be a resource-intensive process that should only be undertaken when measurable value can be extracted from the relationship greater than the costs involved.

SRM is a structure and a process that brings all of the players together to identify, plan and deliver measured improvements based on agreed objectives. CIPS' view is that the P&SM function should be the facilitator and focal point of supplier relationships and the manager of the overall SRM process. For example, the P&SM function will be responsible for ensuring that all suppliers and their own company's staff act ethically at all times in accordance with the CIPS Code of Ethics.

One of the difficulties holding back greater deployment of supplier relationship management is the perception of a lack of clarity surrounding the term. When we think of relationships we most commonly think of interpersonal relationships such as kinship, friendship, and marriage. However, there is another form of relationship; the link between properties in the physical world. This means that the buyer's organisation has an effect on the supplier's business, and vice-versa. Aspects of both of these meanings of relationship are important to the successful deployment of supplier relationship management.

Pre-Contract Phase

CIPS believes that the proactive process of successfully managing a relationship begins at the pre-contract stage and involves the careful selection of the appropriate supplier based on an analysis of market information and clear user requirements. From the outset, P&SM professionals must be aware of the impact of power and dependency in buyer-supplier relationships.

It is important to bear in mind that a supplier's perception of a relationship might be different from that of the P&SM function. If a supplier operates an equivalent of SRM, called customer relationship management or CRM, as a first step it would be useful to ascertain how the supplier sees your organisation as a customer as this could be a critical factor in deciding whether or not to pursue a 'relationship' approach.

An activity which should be undertaken at the outset as part of the strategic sourcing exercise is the supply positioning process. This allows the buying organisation to determine the effect of the supplier on the buyer and the value of that effect. Following this process a strategy can be developed to build an appropriate relationship.

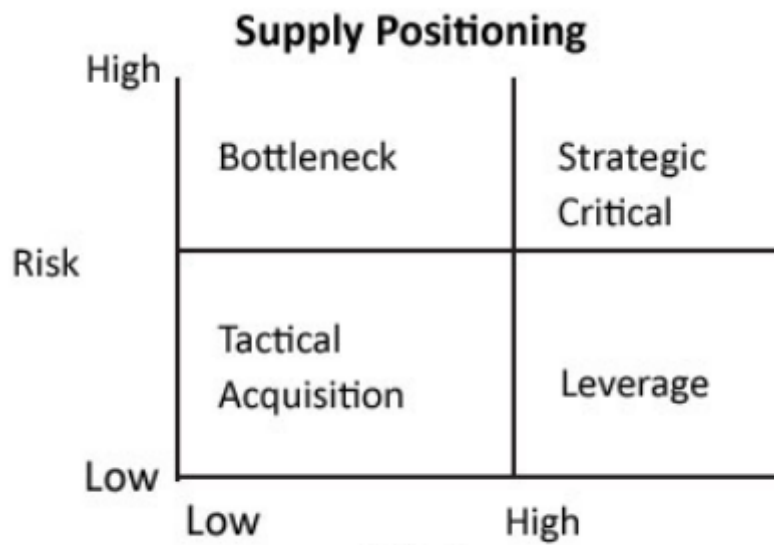


Figure 1

For example, if the buying organisation's requirement is 'strategic critical' (Figure 1) and the supplier perceives the organisation as 'core' then there is potential for an intimate relationship where both parties are prepared to invest equal resources. On the other hand, if the supplier perceives the buying organisation's 'strategic critical' requirement as 'exploitable', then the P&SM professional would have to take great care and preferably search for a new supplier, or undertake extensive 'supplier conditioning' in the hope of making their business appear more attractive and lessening the risk of exploitation.

The supply positioning technique is an appropriate method of determining the extent to which relationships with different suppliers need to be managed, i.e. the resources that should be invested in the relationship. CIPS advises that P&SM professionals should concentrate on the strategic critical, bottleneck and leverage areas, usually in that order of priority. SRM is about determining the relationship that the buying organisation has with the supplier in question, what type of relationship it would prefer or requires, and developing a situation that leads to the desired relationship.

CIPS advises that another issue to consider when evaluating suitable suppliers with whom to develop a close relationship is culture; it is essential that there is a cultural fit between the buying organisation and the selected supplier. This is because norms and values affect behaviour and attitude and therefore need to be compatible between the two (or more) parties.

CIPS strongly recommends that such details about the buyer/supplier relationship be carefully considered in advance as there are many unfortunate, and in some cases high-profile, examples of projects failing due largely to the lack of clarity when setting up the relationships in the first place.

Contract Phase

Irrespective of the type of relationship between the buying organisation and the supplier, CIPS believes that the relationship should be underpinned by a contract. The contract should be clear and professionally written. It is the P&SM professional's responsibility, in liaison with legal advisers, to ensure their organisation is adequately protected from litigation.

The contract should be of benefit to both parties and agreed on a 'win-win' basis (albeit not necessarily on a 50:50 basis). CIPS advocates that contracts be formed with the objective of continual improvement and therefore the aspirational aims of both parties should be established. It is the fulfilment of these aims, and the development of mutual trust, that helps enable a relationship to become more established.

It is important to have the performance expected from the supplier defined clearly in the contract in terms of a performance definition or description. The contract documentation should be constructed so that new players can manage the relationship should the need arise.

The P&SM professional should be integral to the decision regarding the extent to which commercially sensitive information about the organisation can be shared with the supplier – ensuring confidentiality agreements are set up as appropriate. However, CIPS believes that it should be borne in mind that relationships are two-way processes; openness by the supplier requires a degree of reciprocal openness by the customer.

CIPS has long advocated the importance of exit strategies in contracts and these should provide an appropriate escape route should the relationship begin to founder.

Supplier Management Phase

Although relationships are often said to exist between organisations, they are more often than not a person-to-person relationship. Relationships exist between buying organisations and all their suppliers even if it is simply a case of both organisations' accounts staff discussing invoice issues, or order placers expediting deliveries. Ad-hoc contact by individuals such as this can achieve positive results at a tactical level, but a successful outcome one day does nothing to ensure future quality improvements that would make regular fire-fighting discussions and expediting a thing of the past, as SRM can.

In terms of SRM, it is imperative that the people representing both parties who manage the contract post-award can work comfortably together. A relationship cannot easily be managed without mutual respect and, ideally, the people involved liking one another. If the relationship chemistry is wrong then the relationship is usually more susceptible to failure. However, one hallmark of a professional buyer is their ability to establish and maintain effective working relationships even with those they have no great liking for.

An important consideration, during the selection process, is to meet the team who will be assigned to the contract; in many cases the sales and marketing team conduct the pre-contract presentations and subsequent negotiations and then introduce other people to manage the contract. CIPS strongly advocates the importance of meeting, prior to the contract award, the people with whom the buying organisation is to be working.

Equally, CIPS recommends that, where practical, there be a contractual requirement for the buying organisation to have an active part in the supplier's selection of a replacement contract manager(s) should the person originally identified then move on to another role.

Another issue that P&SM professionals should be mindful of is that relationships are dynamic and change over time. This is why the contract should include relationship assessment criteria that both parties agree are fundamental to the contract. In particular, the power relationship alters, especially if the buying organisation becomes increasingly dependent on the supplier. Equally, the supplier may prefer to allocate its best resources to a more attractive account at some point during the contract duration. It is issues such as these that the person responsible for managing the supplier relationship should be aware of.

CIPS believes that the role of the P&SM professional is to be the custodian of the supply base, thereby ensuring that internal customers are satisfied with the service from suppliers. However, it is good practice to investigate complaints from internal customers before raising it with suppliers as sometimes the fault may lie with the buying organisation and so some measure of diplomacy may be required.

Relationship Management

The goal of supplier relationship management is akin to the relationship between physical properties in that it seeks to link supplier and buyer actions under a wide variety of circumstances so that the outcomes are predictable in either direction. Contracts traditionally include linkages such as supplier price in respect of buyer volume but relationship management attempts to cover a far wider range of such linkages. An example would be if the customer has a complaint, the supplier has a clearly defined procedure to resolve it and prevent future occurrences. In other words, greater predictability exists between the two parties, with the commensurate benefits of improved sustainability and cost savings.

The method of achieving the goal relationship management, however, is highly dependent on some of the factors that are responsible for achieving successful interpersonal relationships. They are as follows:

- Regular communications
- Openness and the sharing of information
- Commitment and equality

With contract and supplier management the supplier's rewards, such as increased business, come indirectly from responding positively to the buying organisation's unilateral determination of benefits that add value for its internal customers. The focus is on the internal customer and the assessment of benefits is independent of the supplier.

In relationship management the buyer focuses on the supplier organisation and uses openness and information sharing to learn about unknown potential benefits that the supplier may be able to provide and in reciprocation the supplier learns something of the buyer's organisation's operations and can possibly spot opportunities to enhance the benefits of his offering.

Key Skills

CIPS has advocated for a long time that SRM is a key skill of P&SM professionals.

To be proficient in SRM they should have, in addition to the core P&SM technical expertise, the following skills:

- Interpersonal skills
- Communication skills
- Listening skills
- Presentation skills
- Persuasion skills
- Diplomacy skills
- Negotiation skills
- Motivational skills
- Arbitration skills
- Emotional intelligence/intuition skills

- Project management skills
- Facilitation skills
- Performance measurement skills

SRM skills can be acquired or learned through training and CIPS encourages heads of P & SM to develop their P&SM colleagues' job profiles in this respect.

In some cases the P&SM function cannot be responsible for managing all commercial relationships with suppliers and so SRM is undertaken by other colleagues who should ensure P&SM are kept informed, before and after events. In such circumstances it is important that P&SM sets the tone and expectations of the relationship and becomes involved at critical points in the course of the contract. This may take the form of an 'honest broker' that is impartial, particularly if the relationship becomes unsound at any point.

Conclusion P&SM is increasingly about the procurement of services; even if the contract requirement is actually for supplies, customers expect a professional service. This is at the heart of the SRM process. SRM is an emerging field in P&SM, but it can be argued that relationship management is equally applicable to the relationships between the P&SM function and its internal customers and stakeholders. CIPS suggests that the skills are fundamentally the same for both types of P&SM 'constituents' and can be applied accordingly.

