

# The growing importance of Supplier Relationship Management



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A research report



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If you would like to  
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At the beginning of last year EdburyDaley conducted some online research into the impact of the recession on the procurement profession. One very interesting theme which emerged from this research was the rise in importance of supplier relationships and in particular how they are being managed.

Encouraged by both clients and contributors we decided to follow up the findings with more detailed research into the subject

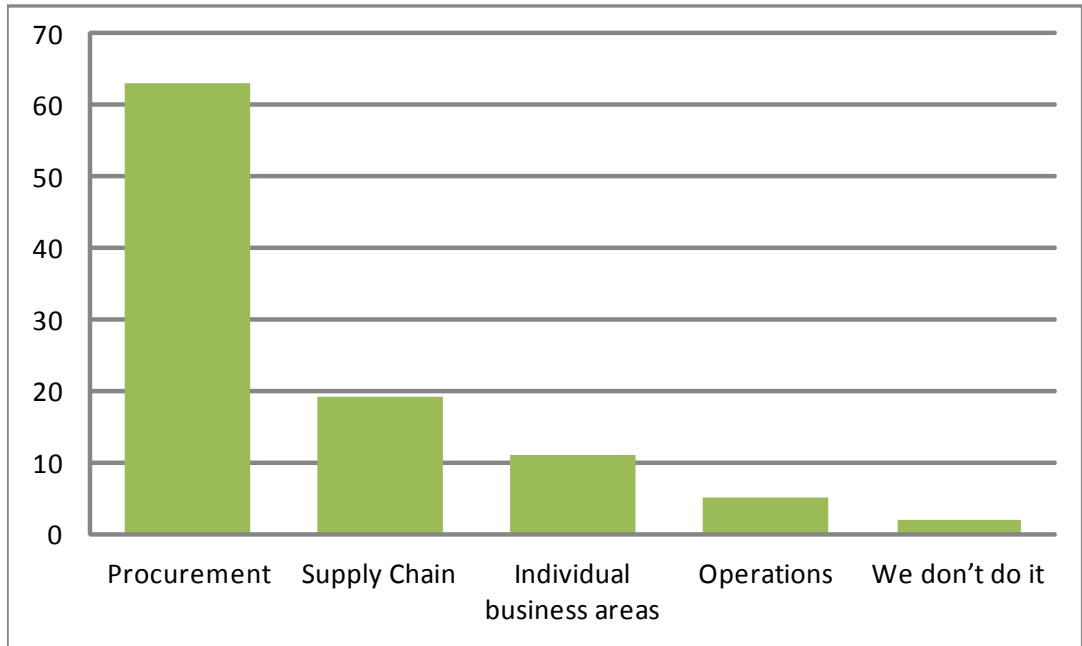
Over the course of Q4 2009 Edbury Daley invited a wide range of procurement and supply professionals to answer a number of questions and also offer their comments on the increasingly important topic of Supplier Relationship Management.

Over 300 people took part in the survey, the vast majority being experienced professionals with specific responsibilities in this area. The results are fascinating and we are very grateful to the Directors of 105 Consulting for their expert analysis on the findings.



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### **1. Who leads Supplier Relationship Management (SRM) within your organisation?**

With 'Procurement' and 'Supply Chain' claiming 82% of the responses this indicates that SRM is very much a 'procurement-led' agenda – which is encouraging.

However, the real benefits of effective SRM are released and delivered into the business areas – this is where value is identified, seized and delivered. So for these figures to be fully effective then Procurement and Supply Chain needs to be well integrated into the wider business to drive this agenda.

The reality is that Procurement is often not well integrated into the wider business and, in the extreme, not fully recognised as a major business enabler.

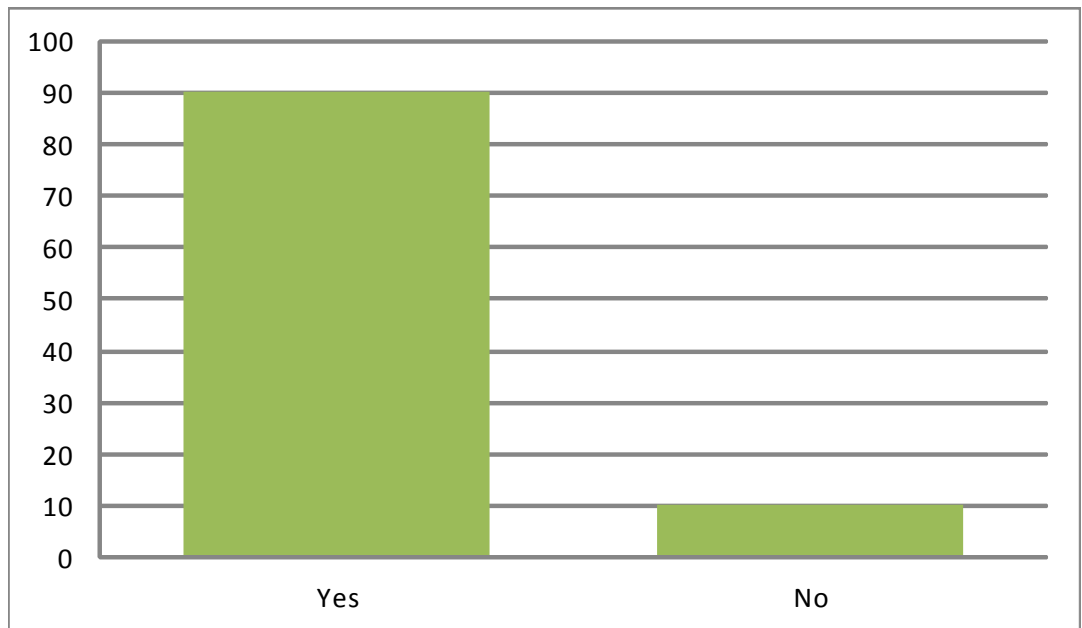
So, with such a high response claiming that Procurement and Supply Chain lead on the SRM agenda we wonder if this is a case of the procurement teams trying to 'push up' the practice of SRM, rather than the business recognising the value and its key role within it and sucking in the need for highly effective SRM capabilities and programmes.

We cover this issue in more detail in question 5 ***“How would you characterise the approach that your organisation takes to SRM?”***



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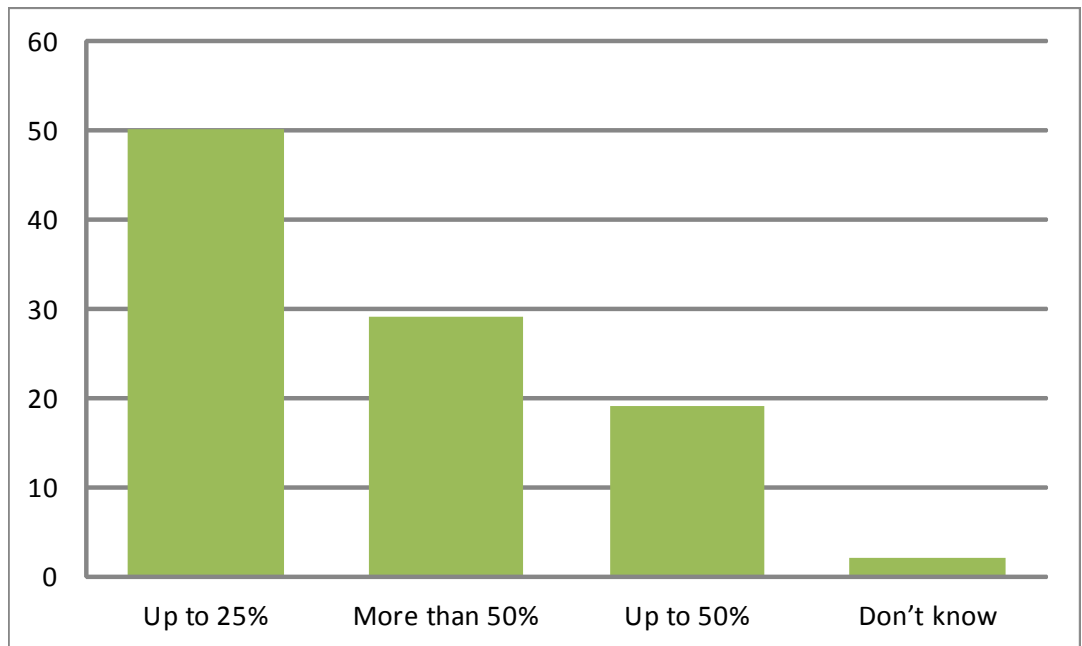
### *2. Does SRM form part of your responsibilities?*

At first glance this suggests that 90% of respondents have personal responsibility for SRM. It is interesting to see later in the survey what they believe SRM is and what it is capable of delivering for their business.



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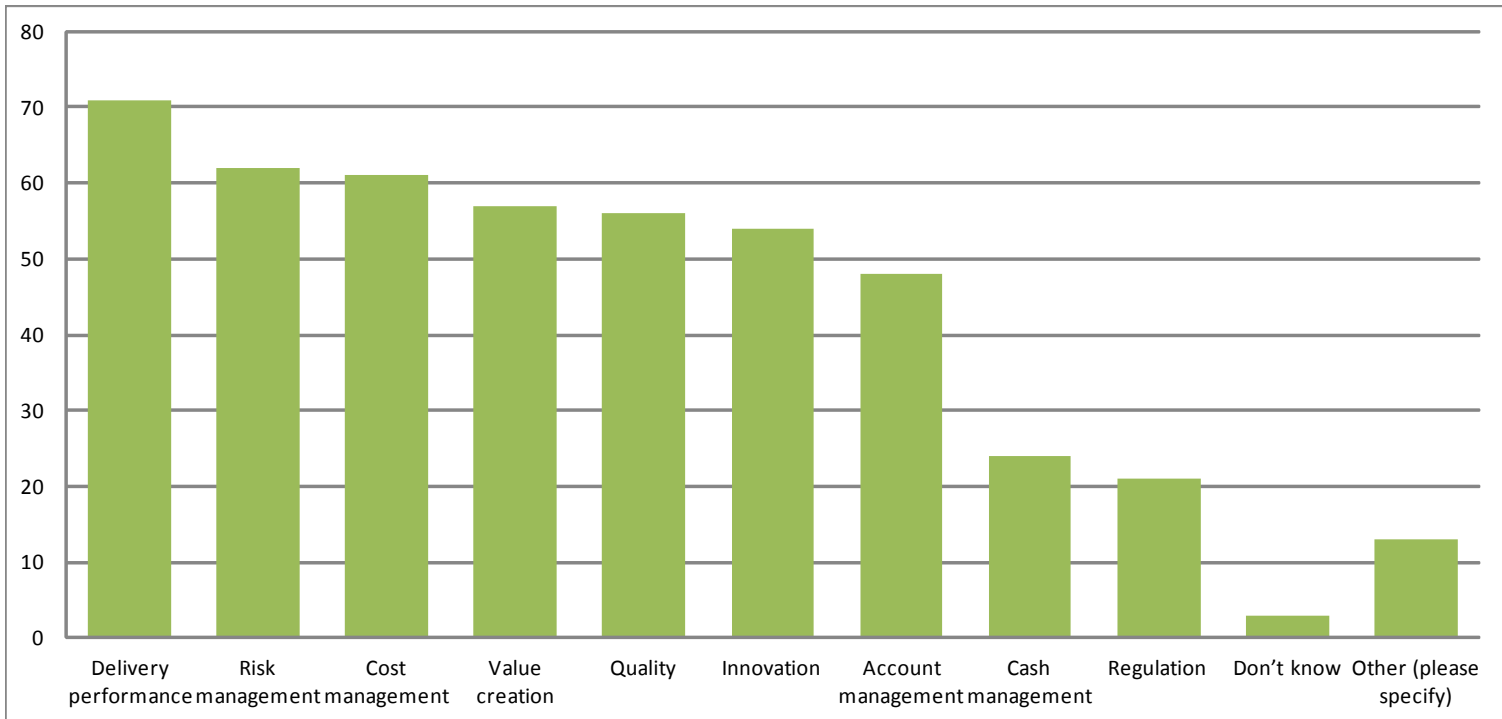
### ***3. What proportion of your time is spent on SRM?***

Again it is encouraging that 50% of us are spending more than 25% of our time on SRM. However, the responses later in the survey suggest that some of the activity is on operational or transactional performance delivery (and within that perhaps reactive fire-fighting) rather than focus on the value of a high-performing *relationship* to drive incremental value.



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#### 4. What does SRM comprise, in the way that your organisation defines it? (Tick all that apply)

This response now starts to show an emerging theme from this survey – that SRM is a hugely fragmented and dispersed agenda within our community. For some the focus is on more conventional *Contract Management* agendas centred on delivery performance and cost management for example, whilst others recognise that SRM can deliver far wider-reaching benefits to their organisation.

Given all areas of value could have been selected in this response, surprisingly few consider innovation or cash management as sources of value from its SRM agenda. The results show that 76% of respondents do not see cash management as a key source of value to their business – particularly in the current climate for both suppliers and buyers, this is surprising.

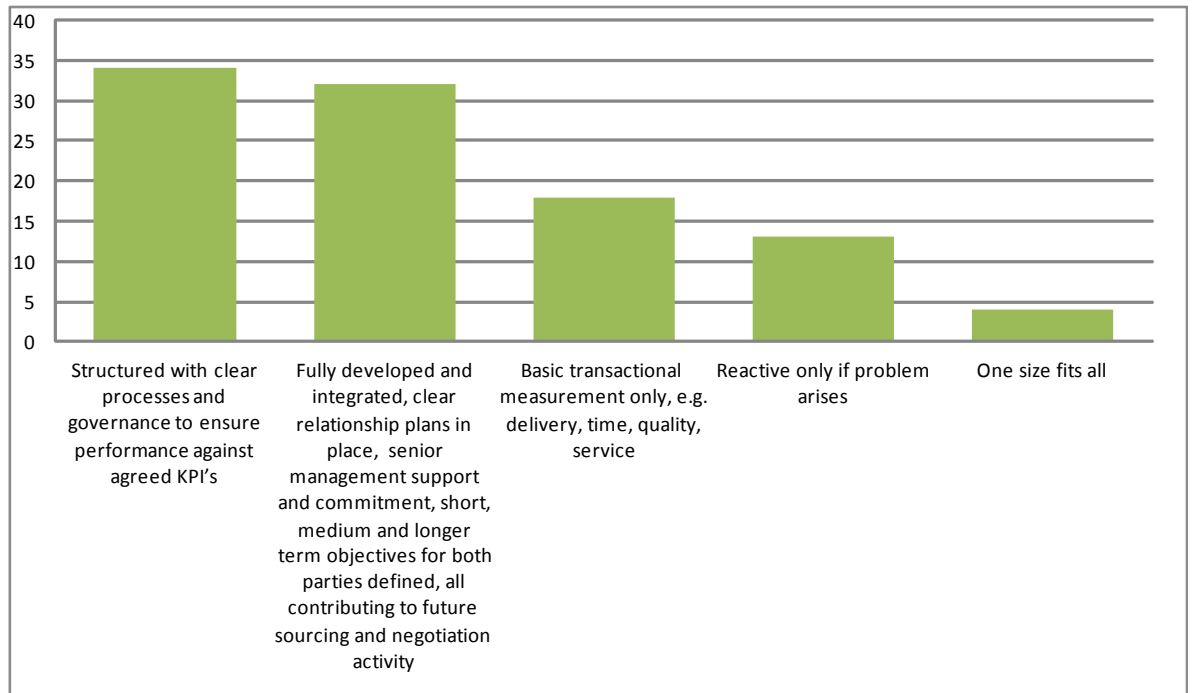
It's also interesting to see 'quality' as a middle-ranking area of focus for SRM. Again we would expect this to rate higher.

We wonder whether these results show a focus amongst the community towards the age-old traditional areas of delivery, cost and risk, which, whilst important, do appear to dominate what many respondents are describing as their SRM agenda – perhaps at the expense of other additional sources of value.



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### 5. How would you characterise the approach that your organisation takes to SRM?

At one-level this response suggests that we are generally well organised and 'match fit' for deploying SRM within our organisations. Two-thirds of the respondents have adopted a structured approach to the agenda.

However, with responses to Question 4 in mind, we question what is the *real* value that is being created here? Are we simply getting what we needed from the contract? [contract management]. Or are we getting a little more from the contract? [performance management]. Or, are we really unlocking the full value from our investment in suppliers, particularly as supply markets change and our business needs change? [relationship management].

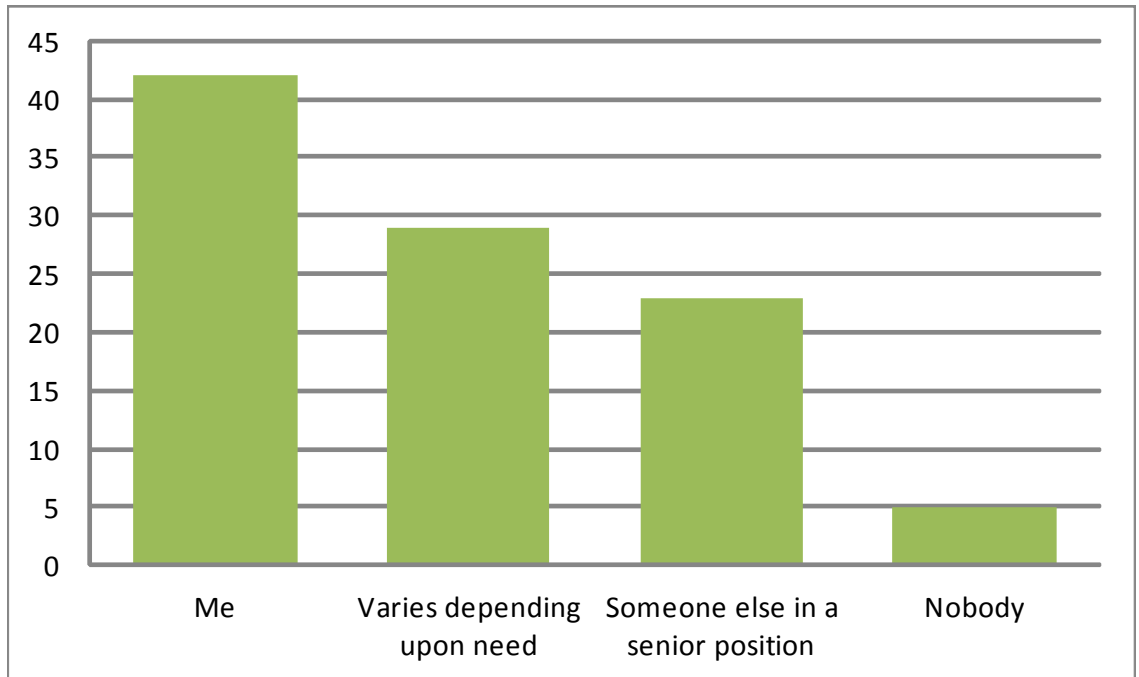
We are also alerted to the point that only one of the responses highlights the need to have 'objectives for both parties' and that this response attracted only one-third of the votes. Are we seeing signs of SRM being a fashionable phrase to describe some conventional or rudimentary management practices?

Finally, it's encouraging that many see the need for structured plans and processes to secure the benefits from SRM. Of course this will likely be sub-optimal if a similar focus is not placed on the need to develop the right skills and competencies in this area. Let's see what is revealed on this point later in the survey.



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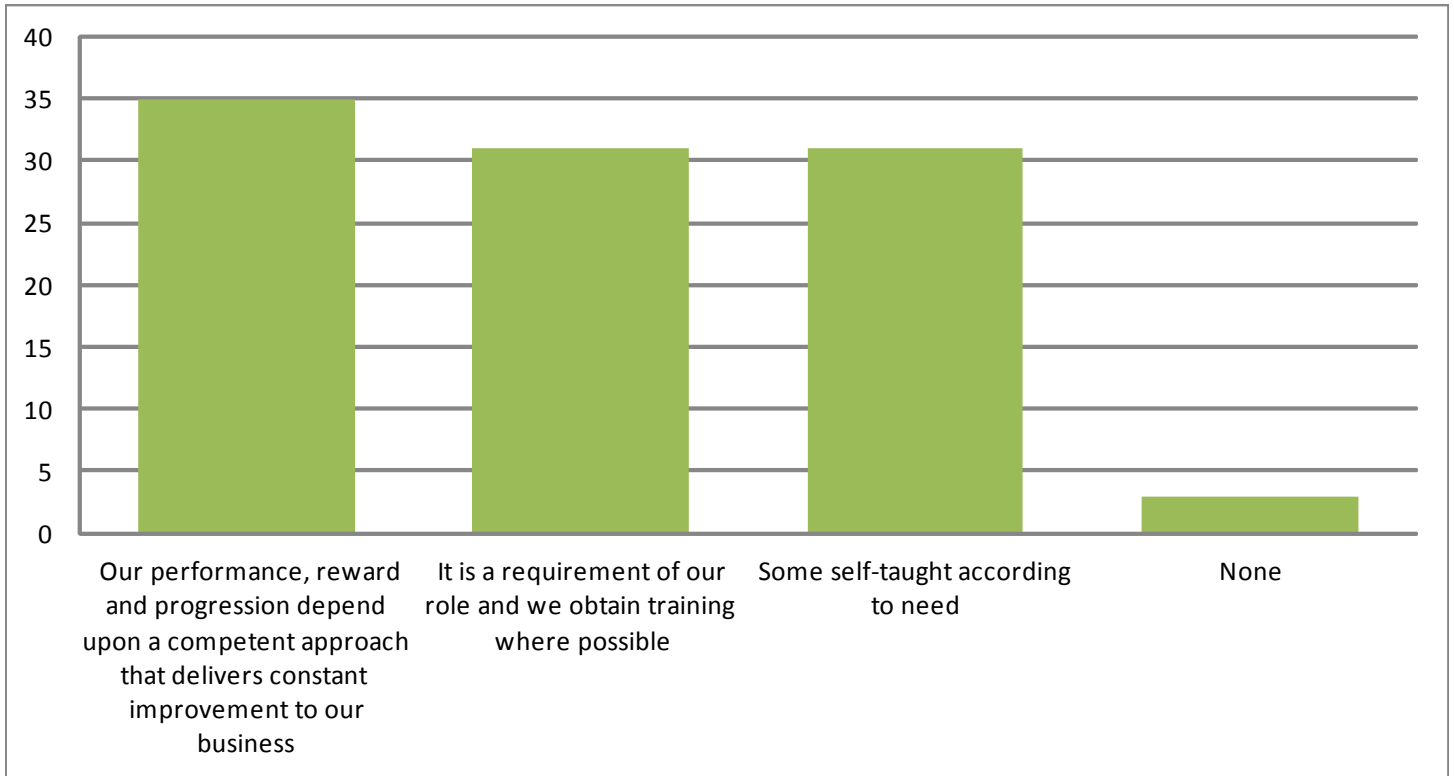


*6. In your organisation, who takes the lead in developing your SRM practices?*

Inconclusive.



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### ***7. How much formal skill do you and your team have in managing supplier relations?***

This elicited a fascinating response. Given we have a picture now that SRM is important to our organisations, with many of us spending significant time on it, we now see an equal split across three levels of skills development.

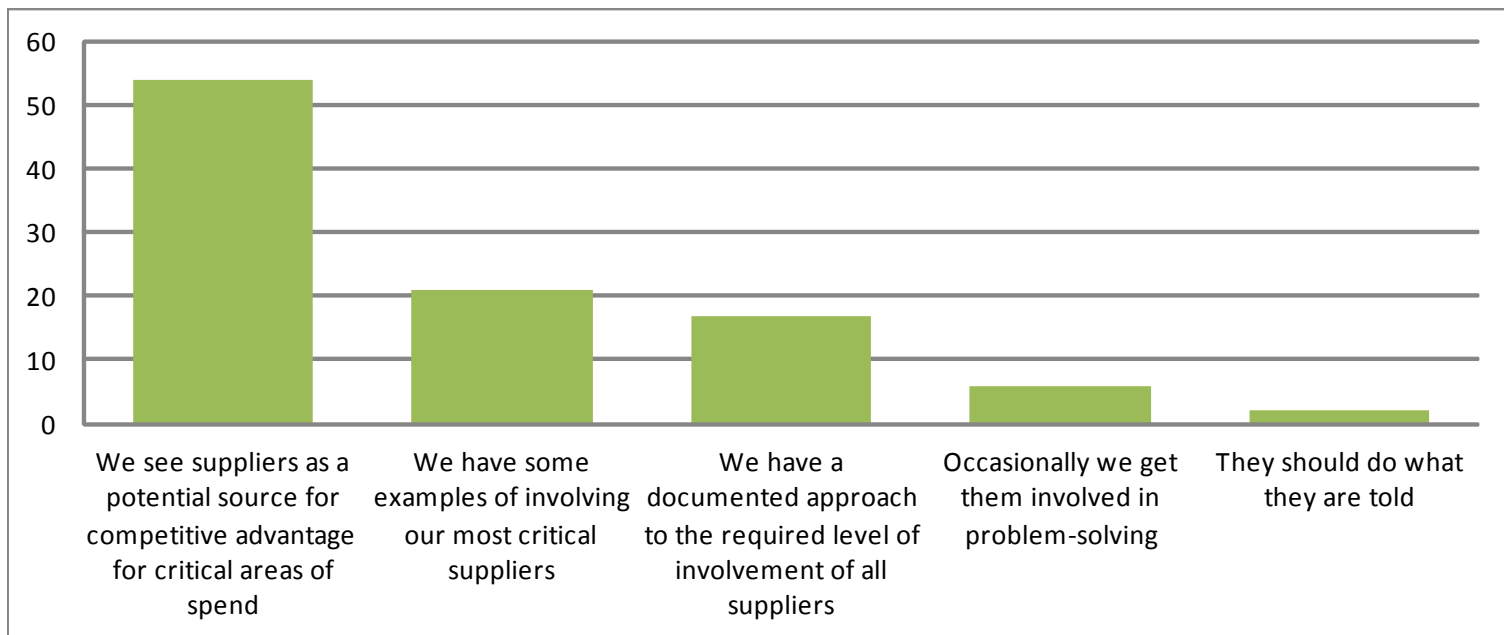
Approximately one-third adopt a competency-based approach to installing SRM. They are linking the need to develop SRM capabilities with business objectives.

However a further one-third have a rather ad-hoc approach to the subject and “take training when we can”. And, rather worryingly a further one-third is ‘self-taught’.

So we could suggest that up to two-thirds of practitioners are perhaps “getting by” where they can. This does put the credibility and performance of an SRM agenda at risk. Perhaps we can draw an analogy for SRM, with motoring; SRM is a bit like driving – everyone thinks they are good at it. But, are they? Really?



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### 8. What is your attitude towards involving suppliers in the SRM process?

In this question 54% of respondents consider SRM as a potential source for competitive advantage – which is positive. But, why then do 46% of respondents not see suppliers as a source of value?

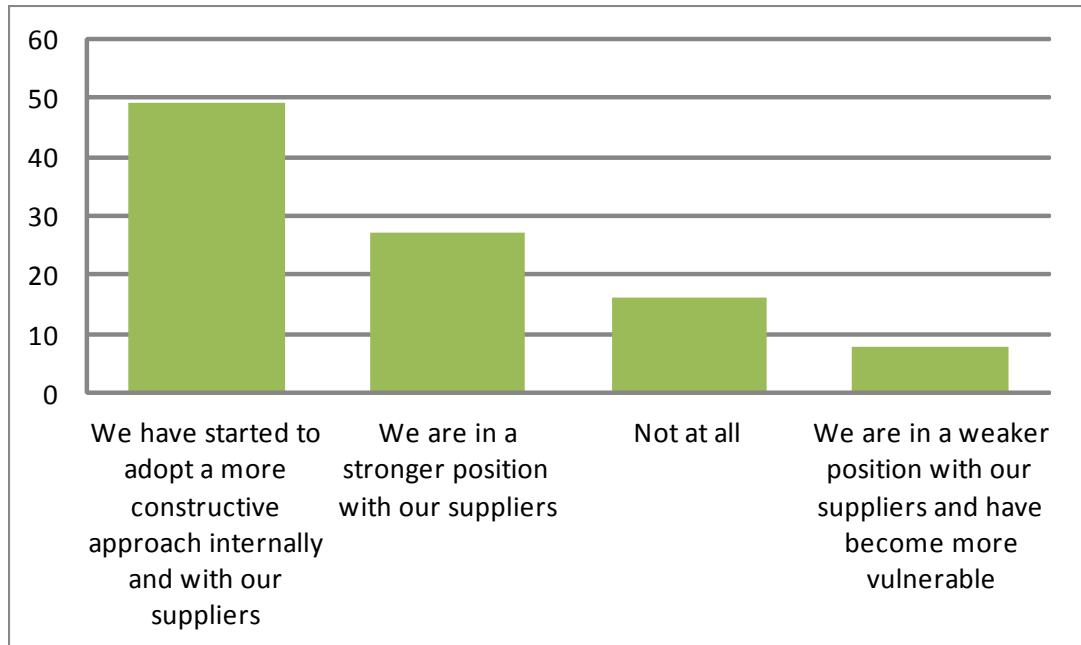
And, of the 54% that do consider suppliers as assets it does appear that this view doesn't always align with other responses in this survey. For example why is the need for structured skills development considered ad-hoc for so many (question 7)? And what exactly is this 'competitive advantage'? (Question 4) and how do we really access and secure the value? (Question 5).

So, for many perhaps, it's beginning to *feel* like we should be talking about SRM, with the key word being 'relationship'. And that we *need* to secure genuine 'competitive advantage' for our organisations. However the questions in this survey that inform us what SRM looks like and how we secure the benefits to our organisations, tells us that we are not there yet. If the phrase "if we always do what we've always done, we'll always get what we've always got" is a truism – then what are we doing differently to secure value from SRM?



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### ***9.As the economy has transformed over recent months, how has the importance of managing supplier relationships changed?***

It's encouraging that approximately half of the respondents are adopting more constructive approaches internally and externally.

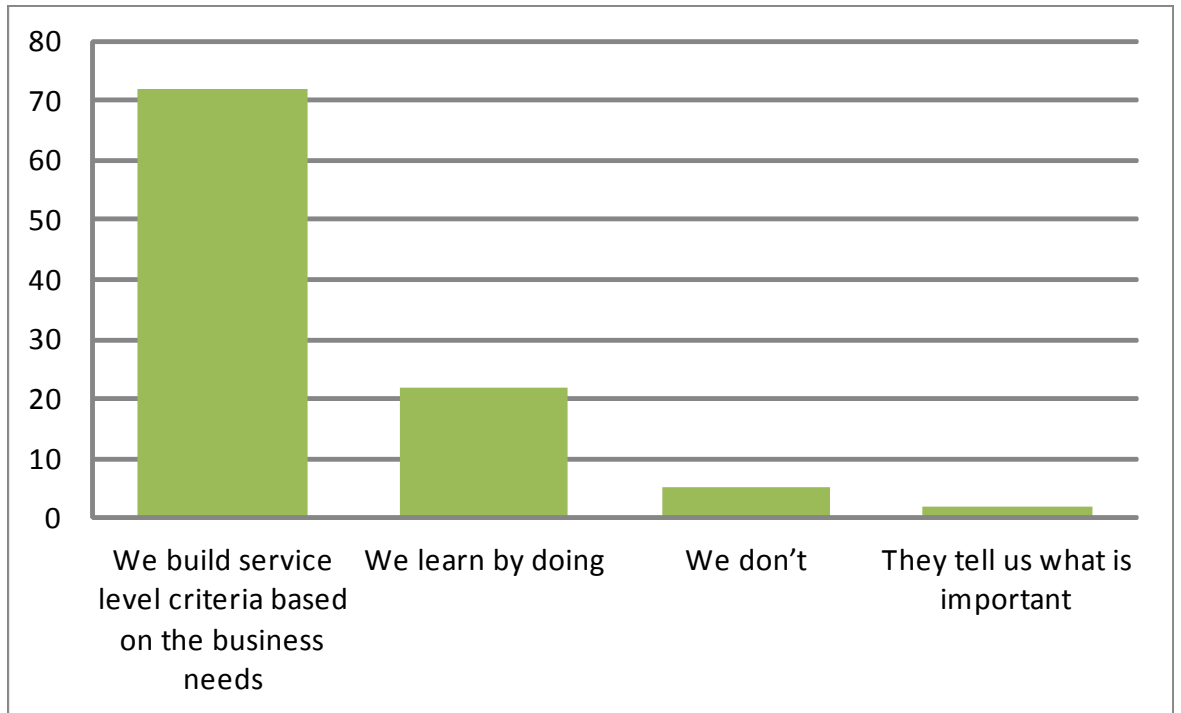
However, approximately one-third feel that they are in a stronger position with their suppliers. Really? We see supply chains becoming increasingly fragile as this economic downturn takes grip. This will not put you in a stronger position – especially those buyers who are unaware of the supply chains they are utilising.

In addition, as suppliers start to come under their own margin pressures we see many suppliers adopting a somewhat predatory stance to commercially exploiting certain customers in order to keep their own financial performance up.

And finally, as buyers, you are in competition too. You are in competition against other buyers to secure the very best outcomes with a supplier. No supplier can give their best, commercially and operationally, to all customers. So as other customers of your suppliers start to raise their game to drive the most value out of a relationship, you may well be re-positioned if you are not at the top of your game. You may want to consider that you need to compete to be treated as a *genuinely* core or preferred customer.



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### ***10. With your most critical or strategic suppliers, how do you define and manage what you need from them?***

With 72% of respondents favouring business-driven service level criteria this reinforces the importance of ensuring underpinning relationships need to be driven by business objectives.

However, as previously highlighted, we are a little concerned that the investment in management skills to identify sources of value and then install high-performing relationships may be out of synchronisation with these business needs (see questions 4 and 5).

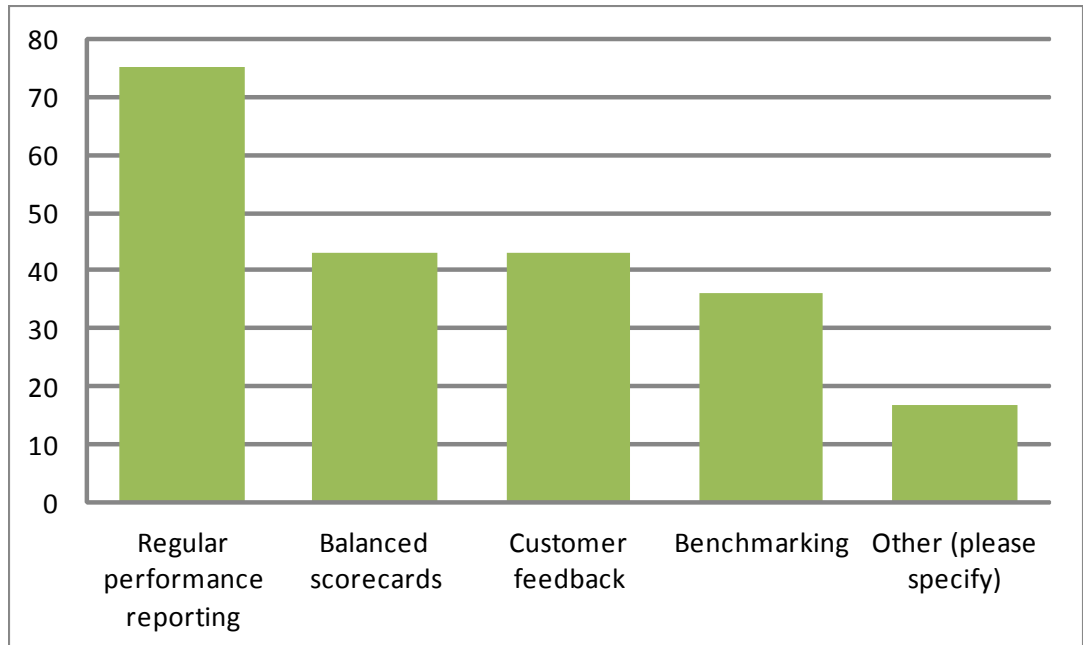
In addition, with critical or strategic suppliers there is sometimes a tendency to focus on identifying what the supplier should do – and the consequences to them if they don't. That's partly because we know we need a contract that sets out these expectations and provisions.

However, with major contracts we perhaps need to consider the 'double-entry' transaction and ask ourselves; "what do we need to do to equip ourselves to manage this - and extract the highest level of value from the relationship?" Consider major contracting as an exchange of skills. There are some things we now want the supplier to carry out. Others we now have to acquire for ourselves.



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### ***11. In managing critical or strategic suppliers, which supplier management tools does your organisation use? (Tick all that apply)***

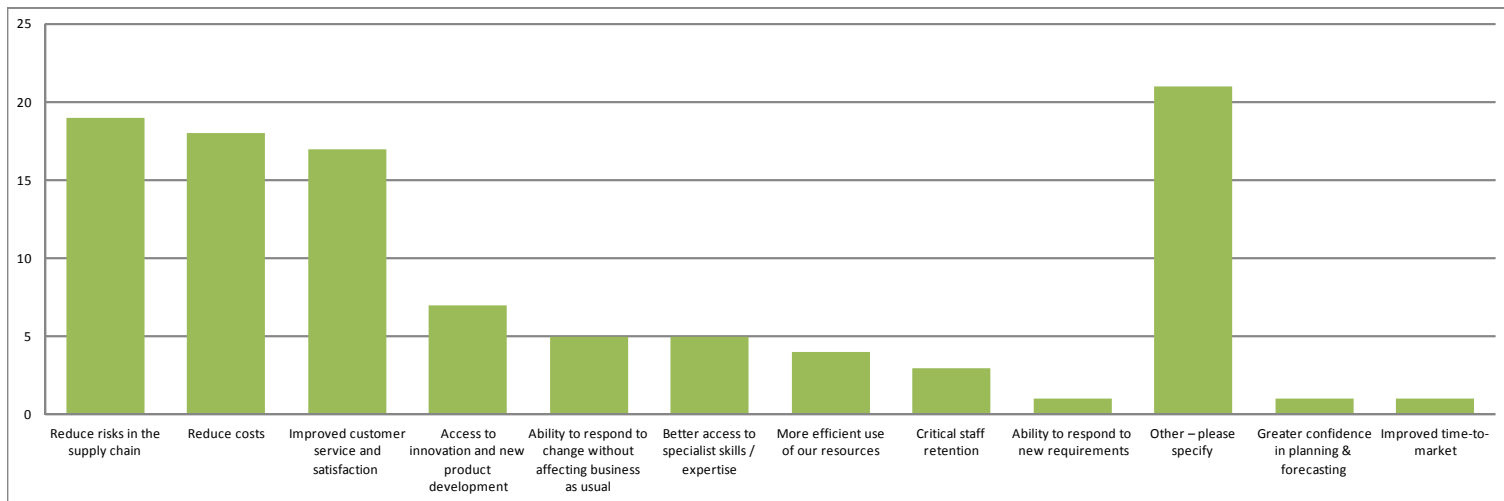
This response indicates that the majority of respondents are focused on task outputs from a relationship (performance monitoring). Considerably fewer would consider measuring and taking action around the *quality* of a relationship, alerted by a balanced scorecard.

We also wonder how many strategic situations invite the supplier to measure and report back on the performance of the customer, both in terms of task performance and relationship qualities. As one respondent commented “*we get the quality of supplier our efforts deserve*” [from Deming].



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### ***12. What are the biggest benefits that you can obtain by taking a structured approach to SRM with your most important suppliers? (Tick all that apply)***

Given that all responses could have been selected we are a little surprised that the hardy perennials of cost and risk management are not supplemented more with other sources of value.

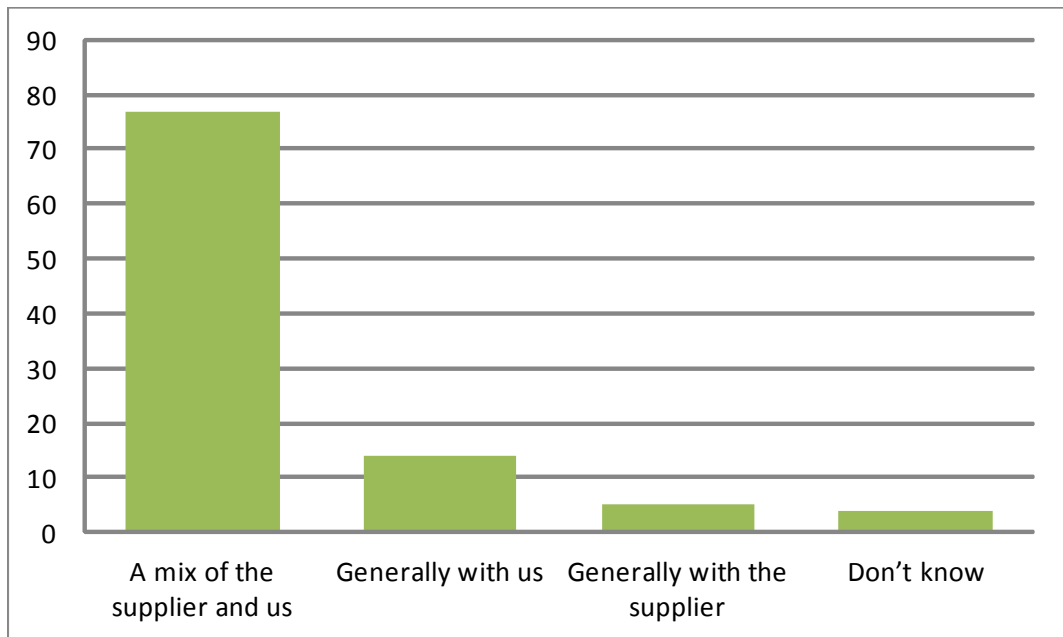
For example we had a relatively low response to the need to respond to change without affecting business as usual – given the high degree of organisational change and changes in supply markets that exist these days we would expect this response to rate higher. As one respondent said; *“change is constant”*.

In question 8, 54% of respondents considered suppliers as a source of competitive advantage – which is an encouraging outlook. However, we now provoke the thought, if you aren't getting these sources of value identified in this question 12 response, then which of your competitors is? Are you happy about that?



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### ***13. Where relationships within an SRM programme have failed to deliver the expected results, where is the typical source of the problem?***

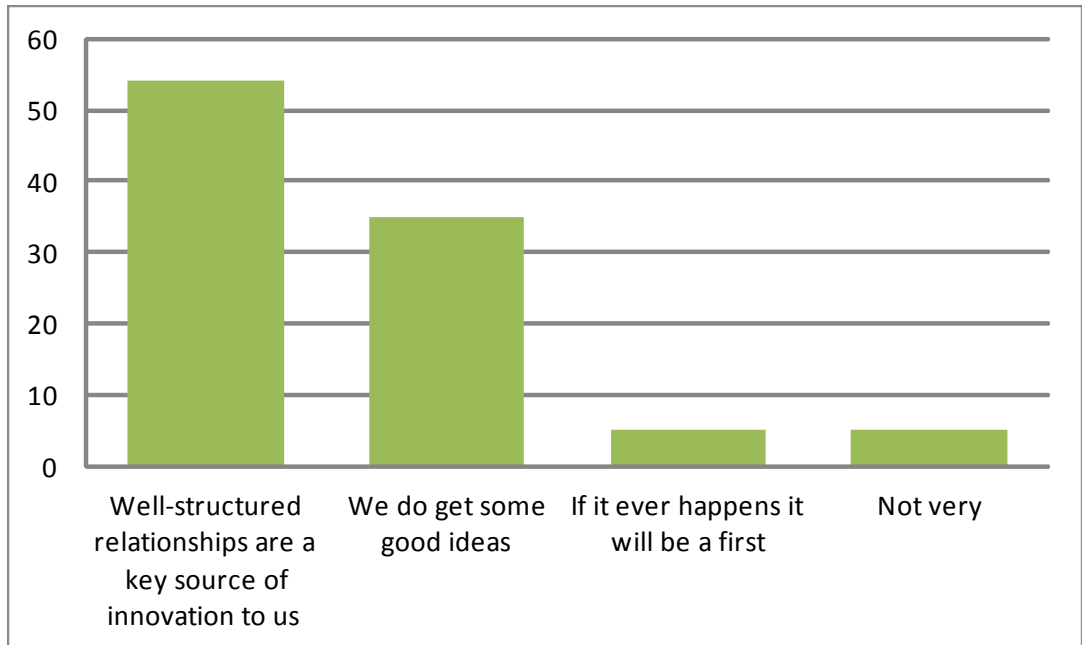
There is an overwhelming recognition that the customer recognises that the source of problems can originate as much with them as they can with the supplier. So what are we doing about that?

And, as we look a little further there is a trend that may suggest issues reside more often with the customer than with the supplier. So, are we really 'match fit' to operate SRM with our chosen suppliers?

Are our objectives from SRM really aligned to our business needs? Do our processes ensure the right focus and successful completion of the required tasks and activities? Does the governance structure allow for the appropriate management interventions to be taken? Do we have the right skills and competencies to be proficient? And, what's our approach to measurement? As Einstein once said *"not everything that counts can be counted and not everything that can be counted counts!"*



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### *14. How important is attracting value, innovation and new ideas from suppliers?*

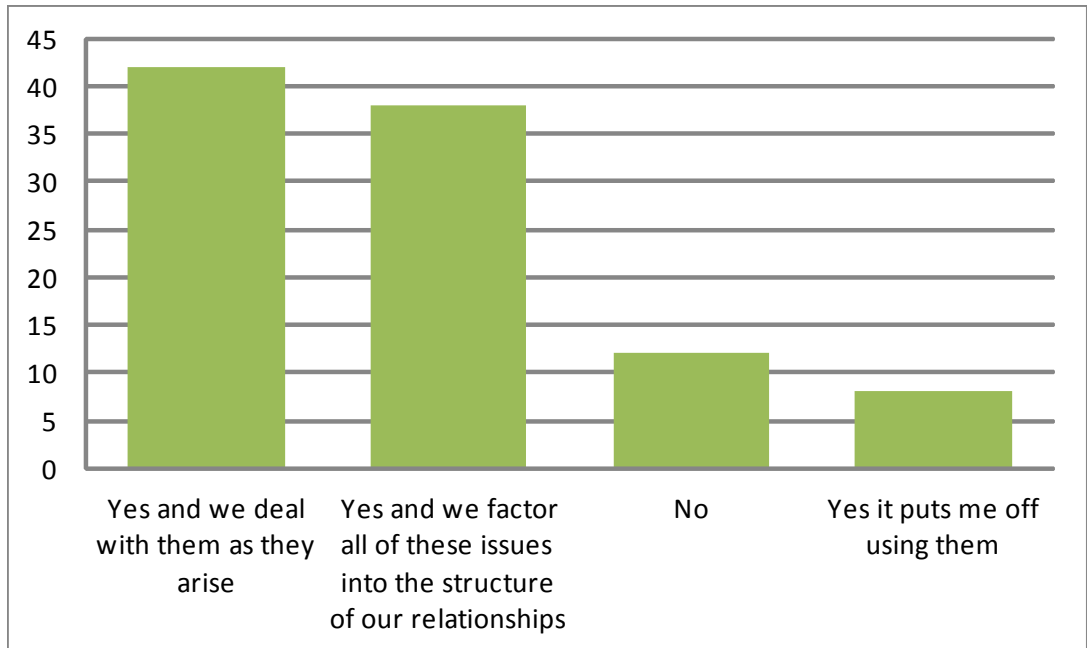
89% of respondents consider this as important. The opportunity it raises though is “what are they doing about it?” What strategies, behaviours and processes are being installed to drive innovation and value?

One telecoms provider said to us recently that they rely on clause 37.1 in the contract to secure incremental value from one of their suppliers. The clause was written to say ‘you [the supplier] will give us all of your good ideas, all of the time’. Needless to say very few incremental ideas were ever offered. It’s relationships that drive value, not clauses.



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### *15. Do you consider that sourcing abroad from countries with language / time zone / culture differences creates additional SRM challenges?*

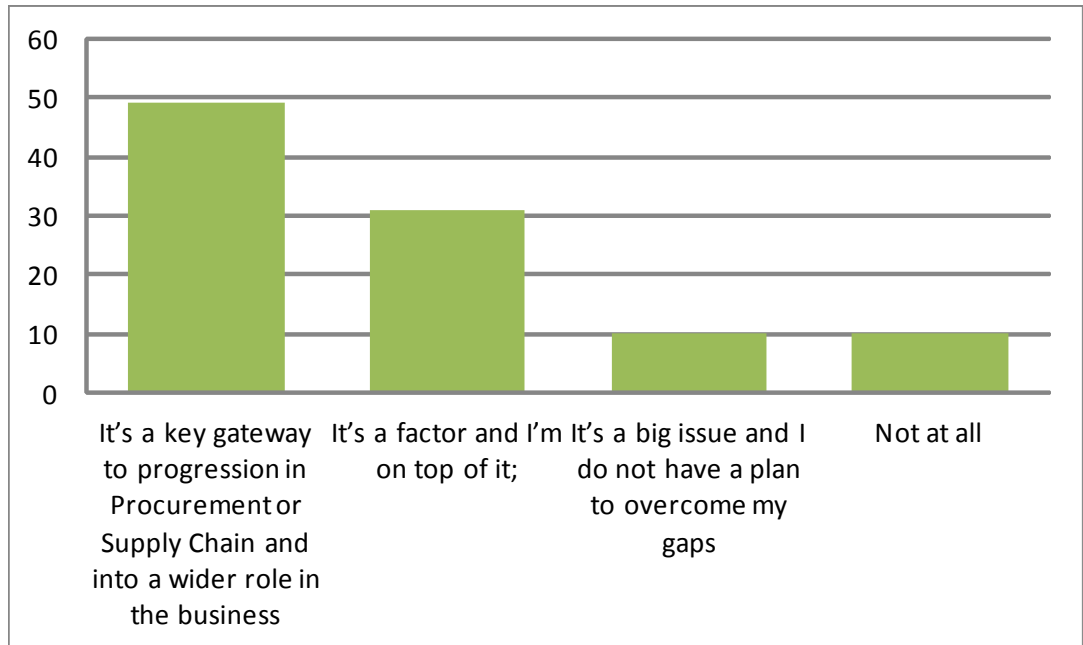
80% of respondents do not see these characteristics as a problem, which is a very positive outlook. However when we look further we see that 42% “deal with them as they arise”. This suggests a rather unplanned approach to dealing with such suppliers. This is a worry! More upfront assessment and impact analysis might be useful here – don’t leave it to chance once you have pressed the ‘go’ button.

Remember too that in an economic phase like the present one, the criteria used to establish and drive an overseas relationship may change, and therefore may need more vigilance than would be required in a stable period.



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### ***16. Finally, how much do you think that mastery of SRM will influence your career progression?***

A high level of respondents (80%) considers SRM as key to their personal success and career development. This is a key message and a very positive one.

However 10% do not see SRM as key – that might (or might not) be a worry for them, or for their organisation. However a further 10% of respondents see SRM as important to them but do not have a plan to overcome their gaps. That is not a good position to be in for these individuals.



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### SRM Survey Summary

Is Supplier Relationship Management (SRM) widely embraced and fully installed as a business-led core competence? Well – no. In fact it appears to have an identity crisis across the respondents’ organisations.

Although over 50% of respondents claim to spend more than 25% of their time on SRM, it is hard to identify from the responses precisely what value is being created, overall.

For many, “SRM” is simply “SM” re-badged - the focus being on operational improvements in cost and risk management. Whilst there is always a need for strong and effective supplier management / contract management / performance management, few respondents have tuned in to the “R” dimension.

Perhaps for these people, SRM is emerging as a fashionable term to describe standard contract and performance management - a trend not helped by the plethora of IT and technology providers offering SRM modules to ‘enhance the contribution from Procurement’.

However others have recognised that the ‘relationship’ dimension is pivotal in *creating* value to benefit both parties – particularly critical with the most strategic suppliers. Key enablers to success include the need for a clear, jointly agreed, business-led, set of strategic imperatives led by senior management in both organisations.

Effective SRM requires installation of competencies, values and behaviours aligned to the delivery against these imperatives and objectives. These competencies and skills are rarely found in the “standard” procurement toolkit.



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So, when we are looking to create value from our most critical relationships, the results of this survey apparently indicate a rather diluted approach to the subject.

Firstly it appears that SRM is a procurement-led agenda, which may lack impact if the function is not well integrated within its business. Secondly, many respondents confirm that the objectives of SRM are largely limited to operational cost & risk management objectives (for instance, why did 46% of respondents not consider SRM as a source of competitive advantage?). Finally, only one-third of respondents adopt a competency-based approach to developing the vital skills and capabilities. The majority either undertake training 'where they can', or, more worryingly are self-taught.

Deming said "*you get the quality of suppliers your efforts deserve*", so it's interesting that in reality the customer/buying organisation is often the source of supplier or supply problems; we advocate a greater focus on better demand-management and supplier-related processes, skills and resources, to drive an increase in the effectiveness of relationship management.

On the subject of measurement, there is a need to build on the traditional measures that track outcomes (time, quality, cost etc) and install measures that track the *quality* of the relationship. We need to examine our own performance in the relationship as well as that of our suppliers. Some of these measures will be subjective – let's embrace that. People make good things happen, (rather than contracts) and a balanced two-way scorecard informs the relationship managers on both sides of the balance sheet where focus needs to be placed and why.

We advocate the construction of Relationship Plans with the most critical suppliers. These will set out ambitious but credible goals for both parties. Key performance indicators should be geared to inform everyone that the relationship is an unequivocal success - and if it is not, what needs to be done to bring the relationship back on track to the original agenda and strategic direction.



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This level of value creation is rarely 'free'. A Relationship Plan should also consider the areas of investment needed to turn strategic intent into reality for both organisations. Often, this investment is needed in processes, capabilities and resources. Very often the approach is phased, with success in one phase being a pre-requisite of progression to the next.

Some of the survey's respondents view SRM in this way, but it appears many do not. SRM has a somewhat split personality it seems. To add to the dislocation the majority see SRM as being important to organisations and to personal career progression. So although importance may be high, structured approaches are perhaps less commonplace.

If we don't do this, who will? Competitors perhaps? That doesn't sound good, especially as there is increased competition in most markets.

The 'do nothing' option doesn't look so good either. Some suppliers will take the opportunity to offer mediocre or poor performance to you coupled with potential commercial exploitation.

We conclude that, based on the survey responses, the SRM agenda and the range of approaches to it are:-

- Fragmented, and disparate in terms of objectives, tools, and skills;
- Not competency-based in any structured way;
- Devoid of any commonly-accepted core processes and tools, (in stark contrast to pre-contract award processes and tools used in strategic sourcing and category management for example);
- Almost certainly leaving a considerable amount of value on the table, (in addition to any operational deficiencies).



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SRM is not simply SM re-badged. It's an investment in one of your most critical assets. As one respondent commented "it's not a couple of hours a week bolted on to the day job". Perhaps, right now, SRM is a bit like driving – lots of people think they are good at it. However few really are. Even fewer invest in developing to a higher level of competency.

So as we look back over the survey results and our practical experiences, we would like to provoke the thought – in this environment with increasingly complex variables, are you really match-fit to secure genuine points-of-difference and competitive advantage from good SRM?

Can you afford not to be?

**David Pomfret**

Director

105 Consulting

**105 Consulting**  
Engineering value into your procurement



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### Final comments on the market for SRM expertise

Our research suggests that there is real scope to raise the level of SRM capability in a number of different ways. Our personal experience is that many organisations with high calibre procurement departments are addressing this and several have been doing so for some time.

There are undoubtedly pockets of excellence but many organisations are working to put an appropriate SRM framework in place and adapt it to work for their business, hopefully addressing some of the key issues raised by the above analysis.

This is of course interesting to us at EdburyDaley because we have witnessed a growth in the demand for people with SRM competence, both on an interim and permanent basis, particularly during 2008 and 2009.

Typically the best opportunities appear to be with organisations where the existing procurement department has already made a sustainable and measurable contribution to corporate performance giving the function the credibility it needs to really effect change in how they manage relationships with suppliers.

The results of our research support our theory that true SRM specialists are in short supply because only a relatively small number of organisations have reached the highest standards mentioned in the analysis above, and therefore few people have had exposure to what leading edge SRM actually looks and feels like in practice.

With demand likely to grow again in 2010, our belief is that SRM specialists will be presented with a range of career opportunities, and there will undoubtedly be competition for the best people in this area.



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We have experienced this with shortages of specialists in particular category areas in the past and seen market conditions change accordingly. We expect 2010 to see some growth in salaries in this area particularly as we recover from the recession.

At EdburyDaley we see this as a growth area where we already have significant experience of recruiting so as usual we will be working hard to identify the very best SRM specialists in the country, and working closely with them to identify exciting career opportunities.

If you plan to recruit to strengthen your SRM team then please talk to us about how we can help. If you are interested in career opportunities in this area we are confident we can help so please get in touch via: [info@edburydaley.com](mailto:info@edburydaley.com)

For more information on our research projects, copies of past results or even suggestions for future surveys please contact Andrew Daley on 0161 776 4603 or [andrew@edburydaley.com](mailto:andrew@edburydaley.com)

If you have been impressed with the quality of the analysis in this report then we suggest you visit the 105 Consulting SRM page on their website: <http://105consulting.com/105/srm> particularly if you are considering retaining consultants to help you develop your businesses SRM capability.

What do you think of the research and analysis? Anything to add to the debate? You can contribute here: <http://www.edburydaley.com/wp/category/blog/>

**Andrew Daley**

Director

EdburyDaley Ltd