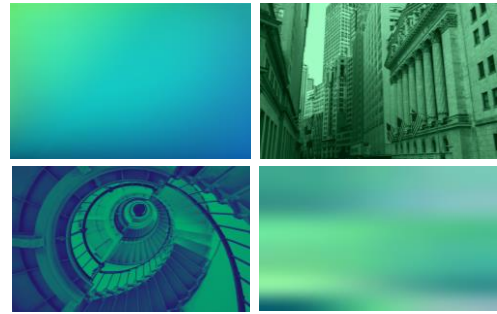


The 5 S's of Supplier Relationship Management

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The environment in 2020 is characterized by market uncertainty, shifts in customer preferences, and ongoing cost pressures. Especially considering the challenges associated with the coronavirus pandemic, Sourcing is being called upon more than ever to deliver value and competitive advantage to the business. Beyond delivering transactional cost reductions, Sourcing is the main line to tap into the capability and market access of the supply base, a source of value that has not been fully leveraged by many organizations.

Supplier Relationship Management (SRM) holds the key to unleashing this untapped value from the supply base. And Sourcing is uniquely positioned to lead proactive governance activities that will deliver value outcomes to the business, as well as short-term transactional cost reductions.

So how do Sourcing teams optimize these supplier relationships? An effective yet simple way to manage an SRM program is to use what we call the 5 S's: Strategy; Stakeholders; Selection; Structure; and Solutioning. Get these five elements right and SRM will deliver value to your organization.

1. **Strategy** – The first S of effective SRM is Strategy, as we must “Begin with the end in mind”. Be sure to define exactly what your SRM program is being established to achieve, set quantifiable targets and then track progress against those targets. If you are rolling out a new process across an entire functional group, have a plan for how your colleagues and stakeholder can be on-boarded to assure effective adoption throughout the organization. Consider change management techniques such as internal champions to help with implementation. To be effective, a new SRM program must have a plan for how it will be implemented and then operate within the broader organization, and must be measured to demonstrate how it is adding value.
2. **Stakeholders** – The second S is Stakeholder, as these people are instrumental to defining and monitoring supplier relationships. In fact, it is universally agreed that stakeholder alignment is critical for Sourcing organizations to not only have a view to company objectives beyond cost, but also to ensure requirements are consolidated and met by suppliers in a way that leverages company needs. To fully capture value from suppliers, stakeholders must be involved in the ongoing relationship management of the supplier. For larger suppliers with multiple stakeholders, a tiered approach to managing the supplier may be best. These can not be managed by one person or one function within the business – it is a collective effort. Sourcing organizations should be leading the effort to coordinate and ensure all Stakeholders (and requirements) are included.
3. **Selection** – The third S is Supplier Selection, because impactful SRM should begin even before a supplier is awarded the business. When conducting a competitive bidding event, we often define supplier selection criteria. Does the supplier meet our cost targets? Does the supplier have the capability and supply reach that we need? Is the supplier financially sound? These are all important considerations, but there is more. Sourcing organizations should lead the effort across the business to define more strategic questions for selection, such as: Is the supplier a good fit for our long term needs? Are there cultural elements that impact how we will work together? Is the supplier structured to support our unique organizational set up and areas of focus? Can we grow with this supplier? These

broader selection criteria consider longer term, relational considerations beyond the individual product or service that is being sourced through the RFP.

4. **Structure** – The fourth S is the SRM Structure, as successful SRM is supported by consistent framework elements. These include standard communication protocols, issue resolution processes, and performance tracking and reviews. It's important that you adopt these across the board for all suppliers in the most critical categories of spend. These elements should be jointly defined with the supplier, and can even be drafted during the contract negotiation phase. Proactively adopting such a structure to manage the relationship with strategic suppliers is critical to ensuring benefit and growth can be captured with the supplier.

5. **Solutioning** – The fifth S is really the heart of the SRM program, as Solutioning focuses on joint innovation and continuous improvement. These transformational activities enable collaboration with suppliers that can lead to sustained incremental value. The Solutioning of the relationship can include aligning purchase requirements, jointly identifying improvements to costs and operations, proactively conducting joint development activities, and a willingness to consider shared risk and reward. In outsourcing relationships, this also includes trusting in the supplier to provide the service in a way that focuses on the outcome, not on the process for providing the service. It is through Solutioning that a company can truly leverage its suppliers' capabilities, however it can only be done once the other 4 S's are in place.

Value-focused SRM is within your reach – if you implement each of these 5 S's as a foundation for your supplier governance program. The type of supplier and its significance to your company will dictate the level of effort and investment you make to develop the SRM program. And, while some effort is required to put the 5 S's into place and drive their consistent use by your organization, the result will be a new level of sustainable value from these critical suppliers. Your return on investment will far exceed your effort as your suppliers work with you to achieve your targets.

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