SUPPLIER RELATIONSHIP MANAGEMENT (SRM)

A CRITICAL ENABLER OF BUSINESS PERFORMANCE AND DRIVER OF VALUE AND REPUTATION

FEBRUARY 2016

IACCM
International Association for Contract & Commercial Management
SECTION 1

Setting the scene-Changes in Procurement driven by the UK Public Service
Outcome of the UK Public Service Reform

**Focusing capability and effort to deliver better outcomes**

- **Before going to market**
- **Procurement Process**
- **Contract and supplier management**

Developing requirements that shape markets and the supply base to Government through a more strategic approach

Simplifying the process via the new directives and Reforms

Improving contract and supplier management capability and leveraging value

Deploying specialist capability
IACCM

The International Association for Contract and Commercial Management
IACCM: Leaders in Value-Driven Commercial Relationships

- 37,000+ members
- 15,000+ corporations/agencies
- 164 countries
- Offices in Europe, North America, South America and New Zealand
- Representatives worldwide

“Focusing on increasing commercial capability”
2015 IACCM highlights

Successful launch of JSCAN, now one of the top 20 academic journals in the world

Over 40,000 people globally took part in the first contract management MOOC

Launch of new IACCM website

Continued worldwide growth of Corporate Memberships

Increased public sector engagement
Services to support members

- Focused around 5 core offerings
  - Membership (with enhanced content)
  - Managed learning (refreshed plus new blended option)
  - Skills assessment & benchmark (custom capabilities)
  - Contract Design assessment (benchmarking option)
  - Capability Maturity assessment
- Supplemented by:
  - Advisory and research services
  - Conferences and other events
Contracts & Relationships

Contact jvickers@iaccm.com if you are interested in copies of these research reports
Jennie Vickers

- Director of IACCM Australia and New Zealand
- IACCM Certified SRM Expert
- 25 years as a lawyer and GC/manager in corporates
- Buy side and sell side
- Trainer in Mind Mapping and advanced thinking techniques
- Long term passion for better business and better contracting practices
What is SRM and what does the 2014 and 2015 research say?
Why SRM is getting so much focus

• SRM is emerging as an important business activity & professional discipline within major organisations globally

• Research evidence suggests that SRM can deliver significant tangible benefits in addition to those achieved through world-class strategic sourcing, negotiation, and contract and performance management

• Despite this potential, investment in SRM training remains limited and there has not been an internationally recognized qualification that recognizes excellence in this area

• Relationship management requires a blend of technical capabilities – for example, in process and organizational design, structuring of appropriate contracts and future-facing measurement systems – and key behavioral competencies such as communication, influencing and trust building

• The IACCM programme sets out to equip SRM practitioners with the core skills and knowledge they need to develop successful, collaborative customer-supplier relations
Definition of SRM

SRM is “the function that seeks to develop successful, collaborative relationships with key suppliers for the delivery of significant tangible business benefits for both parties”.
2015 Research Report

THE BUSINESS OF SUPPLIER RELATIONSHIPS

STATE OF FLUX
SRM Values Outcome

**Contract Value to You**
- **Optimal Negotiated Value**
- **Value from Business Engagement**
- **Historic Value**

**Time**
- **Requirements Definition**
- **Sourcing Implementation**

**Supplier Relationship Management** delivers value over and above the scope of the contract.

**Performance Management**
Incremental value gains over the life of the contract and continuous improvement.

**Contract Management**
Retaining full contract value.

**Value Eroded**
As contract never effectively implemented and from day one.

**Value Lost**
Due to overzealous negotiation and continuous price squeeze is unsustainable.

State of Flux 2014 Research
State of Flux 2015 Research

- “Organisations that want to make a real difference with SRM – and that should be any organisation that wants to maintain its competitive edge – need to be led by people who understand its importance.
- That means recognising that changing business dynamics are giving suppliers more power and choice about who they partner with, and how.
- It means in turn recognising that becoming a key supplier’s customer of choice will bring access to a range of benefits, from price advantages to innovation – and that failing to do so will mean such benefits accruing to competitors instead. “

Alan Day, chairman and founder of State of Flux
SRM-Executive Support is Critical

• “There is a direct correlation between companies that are leading in supplier relationship management and strong senior backing … 46% of leading companies say that SRM has the support of their top executives.

• This understanding must be paired with a board-level commitment to investing in the technology and training that underpin successful SRM and to creating an organisational culture in which all employees understand the part they play in SRM and the part it can play in meeting their own needs.”
SRM Benefits-Financial

FIGURE 1.6
What is the average post-contract financial benefit you have achieved as a result of SRM activity with your key suppliers? (%)

BY INDUSTRY SECTOR
- Financial services
- Public sector
- Manufacturing
- Food & beverage
- Professional services
- IT/ high tech

<table>
<thead>
<tr>
<th>Percentage of Respondents</th>
<th>More than 8%</th>
<th>6.1% to 8%</th>
<th>4.1% to 6%</th>
<th>2.1% to 4%</th>
<th>0.1% to 2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Respondents</td>
<td>9%</td>
<td>9%</td>
<td>13%</td>
<td>2%</td>
<td>9%</td>
</tr>
</tbody>
</table>
SRM Benefits

FIGURE 1.4
In which of these areas have you seen tangible benefits from your SRM programme/activities so far? (%)

- Observation of tangible benefits
- Ability to measure a financial benefit

- Cost Reduction
- Risk Management/Reduction
- Cost Avoidance
- Service Level Improvements
- Supplier Innovation
- Improved Speed to Market
- Improved Competitiveness
- Improved Profitability
- Helped Achieve Your Sustainability and CSR Goals
- Growth of Sales and Revenue
SRM Leaders Benefit

![Graph showing the benefit of SRM leaders across different stages of development: Advanced, Established, Developing, and Undeveloped. The graph compares leaders, fast followers, followers, and others based on responses in various categories such as Business Drivers & Value, Stakeholder Engagement & Support, Governance & Process, People & Skills, Information & Technology, and Relationship Development & Culture. Each category is represented with different colored lines and the number of responses is noted for each group.](image)
SRM-Range of Benefits

FIGURE 1.3
Which, if any, of the following benefits would you say your organisation has derived from the suppliers engaged in your SRM programme in the last 12 months?

- Increased commitment and support from suppliers' senior management: 51%
- Improved account management: 51%
- Proactive ideas for continuous improvement: 46%
- Collaborative problem-solving: 45%
- Preferential pricing: 39%
- General increased commitment ('going the extra mile'): 38%
- Increased willingness to accept and manage risk: 30%
- Access to market intelligence: 23%
- Priority access to the best people and resources: 21%
- Best-practice insights: 20%
- Priority access to scarce materials and/or manufacturing capacity: 20%
- Unsolicited free-charge time and/or materials: 16%
- First refusal on supplier innovation: 9%
- Other: 7%
- None of the above: 

[Diagram showing the percentage distribution of benefits derived from SRM programmes.]
Suppliers’ Perspectives

Slow decision-making is suppliers’ biggest complaint, with 58 per cent reporting that client-led delays are a major barrier to innovation. This is suppliers’ biggest complaint, with 58 per cent reporting that client-led delays in making decisions are a major barrier to successful implementation of innovation and change. Things do not seem to get better once the decision is finally taken, with 55 per cent reporting that bureaucratic approval and sign-off processes cause problems too.
Suppliers’ Perspectives

LACK OF ENGAGEMENT OR ALIGNMENT BETWEEN DIFFERENT FUNCTIONS
A supplier will only want to invest in innovation to support its client if it is confident that the client is actually interested in its ideas. If not, it makes more sense to find someone else who is. The problem here, say 53 per cent of suppliers, is that many organisations lack the internal alignment needed to know this themselves.

CORPORATE SOCIAL RESPONSIBILITY
Effective management of CSR risk shapes the reputation of both organisations and the chief executives that lead them. Despite this, a large number of companies fail to engage with their suppliers on this issue, with 38 per cent of suppliers saying that their clients are not receptive to ideas that promote CSR improvements.

UNWILLING TO SHARE RISK AND REWARD
Suppliers want to work in partnership with their most important customers by exploring joint investment opportunities and ways to

UNWILLING TO CONSIDER IDEAS OUTSIDE CURRENT PRIORITIES
Some of the most powerful, market-changing innovations in recent years have come from people and companies thinking outside
C-Suite Support for SRM

What our research tells us about senior stakeholder engagement and support for SRM

46% of leading companies indicate that they have the backing of their chief executive. And 40% the strong and active engagement of a wider senior stakeholder group.

Not a surprise as only 43% have created a stakeholder management plan for their senior and executive members.

"Just 21 per cent of all respondents feel that their senior managers are strongly and actively engaged in SRM"

STATE OF FLUX
© 2015 State of Flux Ltd
The Challenge with Leadership

So why aren’t the C suite more engaged?
Our research says:

They are not sufficiently aware of the SRM value proposition

They have other priorities

Procurement is not high enough on the corporate agenda

They don’t listen to the business case
SRM is not about…

Ownership:
SRM is not about owning the relationship with suppliers it is about supporting the delivery of a consistent experience for suppliers regardless of which team or division or SPO deals with them

Adversarial behavior:
Traditional category management focused training on negotiation—an adversarial tool. SRM requires and benefits from a range of different competencies
The Value of SRM

SOURCES OF BENEFIT

CUSTOMER OF CHOICE
- Best resource
- Capacity prioritisation
- Preferred pricing
- Responsiveness
- Access to R&D
- Executive focus
- Account management

VALUE CREATION
- Contract value retained
- Cost reduction/avoidance
- Revenue generation
- Speed to market
- Risk reduction
- Incremental value
- Competitive edge

STRATEGIC ALIGNMENT
- Shared vision
- Joint goals and objectives
- Investment
- Improved planning
- Market knowledge
- Vested interest in success
- Win : Win

INNOVATION & IMPROVEMENT
- Breakthrough innovation
- Guided innovation
- Shared intelligence
- Joint R&D
- Continuous improvement
- Shared road maps
- Value engineering

GOVERNANCE & ACCOUNTABILITY
- "One truth"
- Improved decision making
- Consistency
- Clear RACI
- Optimise time & resource
- Transparency
- Compliance

COLLABORATIVE WORKING
- Decision making
- Problem solving
- Development
- Shared risk and reward
- Open book
- Value chain improvement
- Risk management

State of Flux 2014 Research
Where is the value in it?

Leaders are more than twice as likely to be receiving certain customer of choice benefits.

Post contract financial benefits over 6%:
- Leaders: 40%
- Followers: 20%

- Supplier willingness to invest: Leaders 40%, Followers 20%
- Access to supplier ‘A’ team: Leaders 50%, Followers 20%
- First refusal on innovation: Leaders 30%, Followers 10%
SECTION 4

The value of SRM
The Value of SRM

- **46%**
  - Percent of leaders report post contract financial benefits of 4%+

- **Suppliers report that customer of choice benefits are real**

- **Supplier innovation is a benefit for 6 in 10 food and beverage companies**

- **Cost and risk benefits are achieved for over 60% of oil and gas companies.**

- **Cost reduction is a benefit for 63% of IT / high tech companies.**

- **6 in 10 manufacturing companies are benefiting from cost reduction.**

- **7 in 10 public sector organisations are avoiding cost.**

State of Flux 2014 Research
Figure 1.11. Customer of choice benefits received in the last 12 months – all respondents

- Improved Account Management
- Senior Supplier Management Commitment / Support
- Proactive Ideas for Continuous Improvement
- Collaborative Problem Solving
- Preferential Pricing
- General Increased Commitment ('Going the Extra Mile')
- Increased Willingness to Accept and Manage Risk
- Increased Willingness to Invest
- Priority Access to the Best People and Resources
- Improved Access to Market Intelligence
- Priority Access to Scarce Materials and/or Manufacturing Capacity
- First Refusal on Innovations
- None

© 2014 State of Flux

State of Flux 2014 Research
SRM Values Outcome

Figure 1.0. Very important and important business drivers for SRM – all respondents

- **Very Important**
  - Cost Reduction
  - Risk Management / Reduction
  - Cost Avoidance
  - Service Level Improvements
  - Quality Improvements
  - Improving Your Competitive Advantage
  - Improving End Customer Experience
  - Supplier Innovation
  - Supporting Improved Profit Margins
  - Supply Chain Efficiency
  - Better Contract Compliance
  - Improved Access to Best Supplier Resource
  - Supporting Sales / Revenue Growth
  - Improving Speed to Market
  - Joint Product / Service Development
  - Supporting Your Sustainability and CSR Goals
  - Getting Preferred Access to Scarce Materials and Capacity

- **Important**

State of Flux 2014 Research
SRM into the Future

THE FUTURE

• The role of suppliers will only become more important
• Companies will become more reliant on third parties
• This represents both increased risk and opportunity

Building stronger and more productive relationships with suppliers has never been more important and a step change is needed.

What is the key to a step change?

A strong value proposition and business case to attract C level attention and support

Obtain C level and business support. Unlock budget to develop people, process and technology and deliver value.
FOR A COPY OF THE STATE OF FLUX 2015 SRM RESEARCH EMAIL:

enquiries@stateofflux.co.uk cc: jvickers@iaccm.com
SECTION 5
THE IACCM SRM PROGRAM
28 Competencies

INTRODUCTION
- Introduction to SRM
- Defining SRM and its Value

PRINCIPLES OF SRM
- Sourcing Options
- Who Are Your Suppliers
- Segmentation models
- Creating the Agreement
- Understanding the Base Principles for Delivery of Your SRM Program

BUILDING AND DEPLOYING SRM
- Benchmarking
- The Business Case for SRM
- Stakeholder Management
- Implementing Your SRM Program
- Communications Management

MANAGING SRM
- Measuring Success
- Balanced Scorecard
- Governance
- Personal Attributes of a Supplier Relationship Manager
- Culture and Ethics

SRM AND CONTRACT MANAGEMENT
- The supplier view of SRM
- Claims and Disputes
- Contract Change Management
- Exit Strategy
- Summary module; Bringing it all together
Three SRM Levels

**SRM Expert** – over 8 years’ experience: role includes directing policies and procedures within strategic supply chain; excellent commercial skills and likely to have a role including negotiating major contracts

**SRM Practitioner** – 2-7 years’ experience: has a formal SRM role and develops strategic relationships

**SRM Associate** – less than 2 years’ experience: for those who act as the routine contact point between organisation and supplier
A range of benefits from SRM

- Consistent competency development
- Common language for organisation
- Body of Knowledge
- Common professional standards
- Individual talent development
- Personal career progression
- Connected teams
- Networked CM/SRM profession
SRM IN DEFENCE
A W.I.P CASE STUDY

An example of the winds of change sweeping through
First Principles Review

• “The review was commissioned in August 2014 to ensure that Defence is fit for purpose and is able to deliver against its strategy with the minimum resources necessary.”
First Principles Review

Key Recommendations include:

- Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability
- Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency
- Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce
CASG IN ONE DEFENCE

CASG has the following characteristics:

- employs over 7,100 people in more than 70 locations across Australia and overseas;
- Annual budget of $9.7 billion in 2013–14, the CASG is managing:
  - over 180 major capital equipment projects,
  - over 70 minor projects,
  - sustains and upgrades over 100 existing fleets.

- Signs approximately 2,500 contracts of $100,000 or more a year;
- Relationships with industry suppliers are critical to performance; managing contracts is one of the key challenges for the CASG.

Data from CASG PBC Presentation August 2015
The transformation Program at MSD has been underway for the last 18 months, predating the First Principles Review.

Analysis carried out to address the Rizzo report Recommendation number 5-Strengthening Industry Partnerships showed that achieving longer-in-term broader-in-scope contracts was only part of the solution.

Without adequate skills and competencies to drive effective performance from the suppliers these new improved contractual arrangements would not achieve the desired outcomes.
A competency Framework was developed to support a high performance MSD:

- Relationship Management
- Commercial Mindset
- Strategic Awareness
- Contract Management
Developing from Role to Capability

**Organizational Capability**
- Baseline common knowledge and methods
- Learn collaborative values – learning community
- Ongoing collaborative learning
- Benchmark skills vs. the market
- Learn and apply best practices
- Network internally and externally to raise effectiveness
- Organisational learning; continuous improvement

**Individual Capability**
- Learn collaborative values – individual
2016 Skills Focus: In preparation for 2020

Top 10 skills

<table>
<thead>
<tr>
<th>in 2020</th>
<th>in 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Complex Problem Solving</td>
<td>1. Complex Problem Solving</td>
</tr>
<tr>
<td>2. Critical Thinking</td>
<td>2. Coordinating with Others</td>
</tr>
<tr>
<td>3. Creativity</td>
<td>3. People Management</td>
</tr>
<tr>
<td>4. People Management</td>
<td>4. Critical Thinking</td>
</tr>
<tr>
<td>5. Coordinating with Others</td>
<td>5. Negotiation</td>
</tr>
<tr>
<td>6. Emotional Intelligence</td>
<td>6. Quality Control</td>
</tr>
<tr>
<td>7. Judgment and Decision Making</td>
<td>7. Service Orientation</td>
</tr>
</tbody>
</table>

Source: Future of Jobs Report, World Economic Forum
State of Flux 2015 SRM Research

Copies available: email enquiries@stateofflux.co.uk and cc: jvickers@iaccm.com
Email: jvickers@iaccm.com for copies of our recent research reports