Supplier Relationship Management

Gauteng Branch Meeting

K. Mampane

22 November 2012
Take home SRM menu

- SA Economic Background
- Procurement Environment
- SRM Business Case
- SRM Defined
- Process
- Lessons Learned
- Conclusion
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Business and CPO concerns

Complete control
- Identifying quality suppliers: 42%
- Achieving savings targets: 40%
- Attracting and retaining the right talent: 33%
- Supply risks: 25%
- Company and job stability: 21%
- Offshore sources: 19%
- Addressing organizational barriers: 14%
- Sustainability pressures: 13%
- Global and complex supply chains: 13%

Moderate control
- Identifying quality suppliers: 49%
- Achieving savings targets: 55%
- Attracting and retaining the right talent: 46%
- Supply risks: 46%
- Company and job stability: 50%
- Offshore sources: 49%
- Addressing organizational barriers: 68%
- Sustainability pressures: 61%
- Global and complex supply chains: 58%

Some control
- Identifying quality suppliers: 17%
- Achieving savings targets: 17%
- Attracting and retaining the right talent: 28%
- Supply risks: 23%
- Company and job stability: 23%
- Offshore sources: 23%
- Addressing organizational barriers: 18%
- Sustainability pressures: 26%
- Global and complex supply chains: 25%

Little or no control
- Identifying quality suppliers: 9%
- Achieving savings targets: 5%
- Attracting and retaining the right talent: 4%
- Supply risks: 1%
- Company and job stability: 6%
- Offshore sources: 9%
- Addressing organizational barriers: 18%
- Sustainability pressures: 26%
- Global and complex supply chains: 4%
## Spend Stats

<table>
<thead>
<tr>
<th>SOE</th>
<th>No. of Employees</th>
<th>Procurement Spend (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2012</td>
<td>2948</td>
<td>R 345.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Supplier</th>
<th>Value (appr.)</th>
<th>Number of Suppliers</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Suppliers</td>
<td>R 30 billion</td>
<td>96</td>
<td>46%</td>
</tr>
<tr>
<td>BEE Suppliers</td>
<td>R 15,8 billion</td>
<td>497</td>
<td>24%</td>
</tr>
<tr>
<td>Unknown</td>
<td>R 12,7 billion</td>
<td>429</td>
<td>20%</td>
</tr>
<tr>
<td>White/Non BEE</td>
<td>R 6,2 billion</td>
<td>262</td>
<td>10%</td>
</tr>
</tbody>
</table>
### High Performance Mastery Dimensions

Six dimensions of procurement mastery:

<table>
<thead>
<tr>
<th></th>
<th>Procurement strategy</th>
<th>Sourcing and category management</th>
<th>Requisition to pay</th>
<th>Supplier relationship management</th>
<th>Workforce and organization</th>
<th>Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vision, mission, core values</td>
<td>Strategic sourcing</td>
<td>Transaction processing</td>
<td>Supplier performance mgmt</td>
<td>Technology that delivers the right information</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operating model</td>
<td>Category policy setting</td>
<td>Assisted buying</td>
<td>Contract management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Performance management</td>
<td>Category management framework</td>
<td></td>
<td>Supplier development and integration</td>
<td>Systems cover all functions: strategy to operations</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Category strategic planning</td>
<td>Compliance monitoring</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Master data management</td>
<td>Fulfillment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Working in an organization that facilitates working together</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Compliance monitoring</td>
<td>Systems cover all functions: strategy to operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
High Performance Mastery Dimensions

Six dimensions of procurement mastery:

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Additional Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement strategy</td>
<td>Vision, mission, core values, Operating model</td>
</tr>
<tr>
<td>Sourcing and category mgmt</td>
<td>Strategic sourcing, Category policy setting</td>
</tr>
<tr>
<td>Requisition to pay</td>
<td>Transaction processing, Assisted buying</td>
</tr>
<tr>
<td>Supplier relationship mgmt</td>
<td>Supplier performance mgmt, Contract management</td>
</tr>
<tr>
<td>Workforce and org</td>
<td>Having the right network of competent people</td>
</tr>
<tr>
<td>Technology</td>
<td>Technology that delivers the right information</td>
</tr>
</tbody>
</table>

- Performance management, Category strategic planning
- Category management framework, Compliance monitoring
- Master data management, Fulfillment
- Supplier development and integration
- Working in an organization that facilitates working together
- Systems cover all functions: strategy to operations
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Functional – ROI

WHAT INVESTMENTS IN THE FUNCTION MATTER MOST?

Potential Trajectories of Procurement’s ROI over the Next 10 Years

- If we are to land here in 2020, what functional investments do we need to make today?
- What functional investments will we have had to make today if we land here in 2020?

Source: PSC Procurement Organization Performance (POI) Survey.
Understand the Total Cost of Ownership

The build-up of the Total Cost is based on the assessed suppliers’ average. Supplier Input cost is almost 50% of the Total Cost of Ownership.

- The raw material is equal to 56.5% of the landed spend.
- The raw material is equal to 56.5% of the landed spend.
Building the business case

- Strategic Sourcing Optimization: €500m (7-15% of Addressable Spend)
- Improved Operational Efficiencies: €7.5m (20-30% of Current Cost Base)
- Purchasing Compliance Savings: €500m (3-5% of Addressable Spend)
- Strategic Sourcing Optimization: €500m (7-15% of Addressable Spend)
- Improved Operational Efficiencies: €7.5m (20-30% of Current Cost Base)
- Purchasing Compliance Savings: €500m (3-5% of Addressable Spend)
Getting What We Paid For

Supplier Value Scenarios
Illustrative

- **Different Types of Supplier Value Management**
  - **Supplier Collaboration**
    - to create new supplier value beyond what is in the contract
  - **Supplier Performance Management**
    - to maintain and gradually improve value
  - **Not-So-Benign Neglect**
    - Without rigorous contract management, 75 percent of sourcing savings can disappear within 18 months

Source: Geller & Company, World-Class Procurement: Increasing Profitability and Quality; Procurement Strategy Council survey and research.
Adding Value versus Cost to Change
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Defining SRM

- Achieving full value from the total supply base
  - “SRM is a holistic approach to realising Full Value from pro-active and differentiated management of the total supply base”

- From concept to delivery, from strategy to execution
  - “SRM encompasses all of the activities involved in selecting and engaging suppliers, transacting supply orders, measuring and reporting performance, to working together to improve joint performance—from concept to delivery”

- Technology Enablement
  - “SRM technology enables smarter sourcing and contracting, more efficient requisition to pay, easier measurement and reporting and overall more efficient supply and design collaboration between companies and their suppliers, throughout the entire materials life cycle”

“A coordinated programme of actions developed jointly to improve overall performance and reduce supply chain costs.”
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# Supplier Relationship Management Process

- **Eg. of 4 main elements to SRM**

<table>
<thead>
<tr>
<th>1. Develop Supplier Management Strategy</th>
<th>2. Integrate Supplier</th>
<th>3. Evaluate &amp; Manage Supplier Performance</th>
<th>4. Manage Supplier Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRM1.1 Develop Supplier Segmentation Strategy</td>
<td>SRM2.1 Develop Supplier Integration Plan</td>
<td>SRM3.1 Evaluate Supplier Performance</td>
<td>SRM4.1 Develop Relationships</td>
</tr>
<tr>
<td>SRM1.2 Develop Performance Measurement Process</td>
<td>SRM2.2 Integrate Supplier</td>
<td>SRM3.2 Manage Supplier Performance</td>
<td>SRM4.2 Recognise Supplier Performance</td>
</tr>
<tr>
<td>SRM1.3 Develop BEE Supplier Program</td>
<td></td>
<td></td>
<td>SRM4.3 Transition Suppliers</td>
</tr>
</tbody>
</table>

- *Eg. of 4 main elements to SRM*
  - Supplier Segmentation Criteria
  - Supplier Scorecard Template
  - BEE/SPD Supplier Programme
  - Supplier Integration Plan
  - Integrated Supplier
  - Updated Supplier Scorecard
  - Supplier Performance Improvement Plan
  - Shared Process Improvements
  - Supplier Recognition & Distributed Awards
  - Transitioned Supplier

*Accenture*
Supplier Management Process Steps

Activity Description

Prework
Making the Case for Strategic Supplier Segmentation

Estimate the value of supplier management initiatives and present the potential ROI to executives and business stakeholders to secure buy-in.

Phase I: Segmenting the Supply Base to Improve Resource Allocation

Activity Description

Step #1
Develop a Supplier Segmentation Approach

Work with business partners to select the most appropriate supplier segmentation model and classify suppliers based on their ability to support business objectives.

Step #2
Rationalize the Supply Base

Target suppliers at lower segments in the supplier segmentation model for rationalization to improve spend consolidation.

Step #3
Define Roles and Responsibilities Based on Segmentation Output

Determine the most appropriate approach for each segment of suppliers, allocating scarce supplier management resources to the most important suppliers.
Phase II: Assessing Supplier Performance

**Activity Description**

**Step #4**  
Develop Scorecards and the Supplier Measurement Process

- Determine critical metrics and clearly outline processes to track supplier performance.

**Step #5**  
Collect Supplier Performance Data

- Collect and compare supplier performance across the enterprise.

**Step #6**  
Solicit Suppliers’ Feedback on Your Performance

- Collect suppliers’ assessments of your performance as a customer to identify mutual improvement opportunities.
Phase III: Driving Continuous Supplier Improvement

**Activity Description**

**Step #7**
Communicate Performance Expectations and Progress

Clearly communicate performance expectations and current progress to suppliers.

**Step #8**
Identify and Execute on Improvement Opportunities

Pinpoint where critical improvement opportunities exist and drive suppliers to implement needed process changes.

**Step #9**
Coordinate Supplier Management Activities

Coordinate supplier management activities across the business to ensure that the business speaks to suppliers with one “voice.”
Phase IV: Collaborating with Suppliers to Create New Value

**Activity Description**

**Step #10**
Secure Suppliers’ Best Partnership Ideas

Articulate innovation needs to suppliers and establish a process to attract their best ideas for collaboration.

**Step #11**
Assess and Prioritize Collaborative Opportunities

Assess potential collaboration based on supplier readiness and business impact to appropriately prioritize opportunities.

**Step #12**
Manage Cross-Functional Collaboration Initiatives

Tightly scope collaboration initiatives and ensure proper business participation and workflow planning.
SRM My Framework

**SEGMENT**
- Make the case for supplier segmentation
- Develop a segmentation approach
- Rationalise the supply base
- Define roles and responsibilities of stakeholders
- Develop scorecards to measure supplier performance

**ENGAGE**
- Report supplier performance to internal partners
- Communicate and align supplier management activities
- Develop scorecards to measure supplier performance
- Communicate and align supplier management activities

**MEASURE & MONITOR**
- Address other drivers of supplier performance
- Identify and prioritize opportunities
- Solicit supplier feedback
- Enable multi-party collaboration to create deeper value
- Capture innovation from the supply base
The MECE principle: all segments must be

- Mutually Exclusive
- Completely Exhaustive
Each commodity is positioned according to its level of priority.
Summary of Priority by Category

Priority by Category

1. Category 1: 4, 2, 12
2. Category 2: 8, 15, 12
3. Category 3: 17
4. Category 4: 3, 1, 2
Summary of Top Suppliers by Spend and Tier
Top Supplier by Ties
Supplier Identification

- High Flyers
  - “Best of the Best” suppliers
  - Included on Preferred Supplier List and recommended for the president’s supplier award

- Preferred
  - Demonstrated successful suppliers
  - Recommended for all new programs in area’s of expertise

- Limited
  - Preferred Supplier List potential—suppliers in development
  - Recommended for very limited new programs and requires justification for use

- Routine
  - Not recommended for use in any new programs
  - Global Commodity Supplier Management and Engineering VP approval required for use

✅ Includes quality, delivery, technology, cost, viability, alignment, and support categories
✅ Provides specific standards to determine supplier placement in segmentation model
✅ Specifies entry and exit criteria for each supplier segment
Tier Model

Tier 1
- Strategic Suppliers
- Strategic Alliances

Tier 2
- Key Suppliers
- Business Relationships

Tier 3
- Show-Stoppers
- Operational Agreements

Tier 4
- Repetitive Purchases
- Basic Contracts/PO
Sourcing Levers

The Prism of Procurement Solutions

Product and Brand Impact Projects
- Supplier-Enabled Innovation
- Supplier Relationship Management
- Brokering Strategic Alliances
- Influencing Product Design
- Corporate Social Responsibility
- Developing New Suppliers
- Open Source Innovation
- Value Analysis (e.g., challenge specifications)
- Substituting Different Inputs/Services
- Supplier Diversity

Cost-Structure Transformation Projects
- Standardize Specifications/Components/Inputs
- Encourage Cost Discipline
- Institute Policies and Ensure Compliance
- Tighten Controls
- Reduce Transactions
- Control Waste
- Consignment Stock
- Supplier Performance Management

Demand-Management Projects
- Eliminate Excess Quality
- Reduce Demand (frequency and quantities)
- Optimum Batch Size (e.g., use of order quantity modeling)
- Transport Cost Optimization
- Financing (Lease Versus Buy)

Strategic Sourcing Projects
- Supplier Rationalization
- Competitive Bidding
- Leveraging Spend
- Supplier Spend Analytics and Segmentation
- Introducing Competition

- Driving Deflation
- Price Benchmarking
- Reverse Auctions
- Best Price Negotiations
- Increase/Decrease Buffer Stock
- Multiyear contracts

- Life Cycle Contracts (e.g., contract for prices/services over product’s whole lifecycle)
- Supply and Payment Terms
- Fixed Price Contracts
- Multiple Supplier Sourcing

Source: PSC Procurement Organization Performance (POP) Survey.
Opportunities are getting less as low hanging fruit opportunities become less
Where are we? How effective and efficient are our current capabilities?

- Process Improvement
- System Enhancements
- Increased Margins
- Contract Compliance
- Increased Market Share
- Eliminate Need
- Standardise
- TAC Reduction

Start with End
How effective and efficient are our current Skills?

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 such as:

- Regular communications
- Openness and the sharing of information
- Commitment and equality
- Interpersonal 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
How effective and efficient are our current Skills?

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- Arbitration skills
- Emotional intelligence/intuition skills
- Project management skills
- Facilitation skills
- Performance measurement skills
Tier Model – Relationship Level

- **Company Director / Executive**
- **General / Manager**
- **Senior Manager**
- **Sales Company Rep**

**Tier 1**
- Executives / Chief Officers
- Project / Category Manager – BU
- Senior Manager
- Commodity Leader – BU

**Tier 2**
- Senior Manager
- Commodity Leader – BU
- Manager

**Tier 3**
- Manager
- Buyer BU Rep

**Tier 4**
- Buyer BU Rep
SRM Information Flow Principle

Meetings / Reports (Category 1)

Meetings / Reports (Category 2)

Meetings / Reports (Category 3)

Monthly

Quarterly procurement SRM meeting

Quarterly procurement SRM meeting

Annual General Meeting

Information refers to Supplier KPI ‘s Reports available on electronically
Developing SA supplier Base

Supplier Development Category

Supplier Base
Sphere of Control

Tier 1
Systems – Subsystems

Tier 2
Assemblies

Tier 3
Components

Sphere of influence
Other

Suppliers’ Focus

Suppliers’ CSDP Focus

CSDP Development

BBBEE Focus
ED Development

**ED – Enterprise Development / PP – Preferential Procurement
<table>
<thead>
<tr>
<th>Category</th>
<th>Value (Functional)</th>
<th>Value Add</th>
<th>Preferred</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier</td>
<td>• Provides exactly what is stated in the contract or purchase agreement</td>
<td>• Offer improvement suggestions</td>
<td>• Commits to cost takeout programs</td>
<td>• Provides significant value derived from industry expertise, industry contacts, and marketplace influence</td>
</tr>
<tr>
<td></td>
<td>• Contracts and/or purchase agreements are generally single or short-term transactions</td>
<td>• Provide no-cost expertise and resources to further business initiatives</td>
<td>• Agrees to provide products/services to prototype potential business opportunities</td>
<td>• Metrics-based agreements (e.g., fees tied to customer incremental revenue increase based on the product/service implementation)</td>
</tr>
<tr>
<td></td>
<td>• Commits to electronic purchase order and invoicing</td>
<td>• Commits to electronic purchase order invoicing</td>
<td>• Offers nontraditional pricing</td>
<td>• Bonuses incentives considered for contract performance where extra value is provided</td>
</tr>
<tr>
<td></td>
<td>• Offers improvement suggestions</td>
<td>• Offers nontraditional pricing</td>
<td>• Commits to electronic purchase order invoicing</td>
<td>• Allows the supplier to enter their invoice directly into customer’s system</td>
</tr>
<tr>
<td>Company</td>
<td>• Pays supplier according to agreed-to terms and conditions</td>
<td>• Pay the supplier according to contract terms/conditions</td>
<td>• Potentially allow more relaxed yet controlled payment options, i.e., evaluated receipt settlement</td>
<td>• Contracts are open-ended</td>
</tr>
<tr>
<td></td>
<td>• Purchase agreements/contracts are generally single or short-term transactions</td>
<td>• Willing to negotiate early payment options</td>
<td>• Allows the supplier to enter invoices directly into customer system</td>
<td>• Allows the supplier to enter invoices directly into customer system</td>
</tr>
<tr>
<td></td>
<td>• Contracts usually one to three years</td>
<td>• Implement e-fund payments</td>
<td>• Allows supplier to enter invoices directly into customer system</td>
<td>• Contracts usually two to five years</td>
</tr>
<tr>
<td></td>
<td>• Allows supplier to enter invoices directly into customer system</td>
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<td>• Contracts are open-ended</td>
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<td>------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Supplier</td>
<td>• Prices competitively</td>
<td>• Commits to competitive pricing</td>
<td>• Commits to competitive pricing</td>
<td>• Commits to “Most Favored Customer” pricing</td>
</tr>
<tr>
<td></td>
<td>• Supplier not guaranteed exclusivity</td>
<td>• Contract has a specific term with an option to extend</td>
<td>• Multiyear options with price guarantees</td>
<td>• Contract has an unspecified end point to ensure room for both parties to profit</td>
</tr>
<tr>
<td></td>
<td>• Gives customer audit rights</td>
<td>• Gives customer audit rights</td>
<td>• Gives customer audit rights</td>
<td>• Supplier shares pricing model to establish a fair pricing/profit margin and to disaggregate costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Gives customer audit rights</td>
</tr>
<tr>
<td>Company</td>
<td>• Commits to volume spend according to the contract</td>
<td>• Commits to volume spend according to the contract</td>
<td>• RFP not necessarily required</td>
<td>• RFP not necessarily required</td>
</tr>
<tr>
<td></td>
<td>• Uses the competitive bid process to award business</td>
<td>• Awards business to supplier as a backup group when preferred group cannot fulfill needs</td>
<td>• Always included in the bidding process</td>
<td>• Negotiates with a concern to supplier profitability</td>
</tr>
<tr>
<td></td>
<td>• Customer may exercise audit rights</td>
<td>• “Tests the waters” to identify alternative sources</td>
<td>• Supplier assists with benchmarking/market analysis</td>
<td>• Collaborates with supplier on requirements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Customer may exercise audit rights</td>
<td>• Longer-term, “evergreen” contract is used and price negotiation is factored into the contract</td>
<td>• May offer rights of first refusal</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Customer may exercise audit rights</td>
<td>• Supplier assisted benchmarking/market analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Longer-term, “evergreen” contract used (price negotiation factored in)</td>
</tr>
<tr>
<td>Pricing/Business</td>
<td></td>
<td></td>
<td></td>
<td>• Exhausts escalation processes prior to invoking audit rights</td>
</tr>
<tr>
<td>Volume</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Brand Name Usage</strong></td>
<td>• Customer brand use prohibited</td>
<td>• Written request required for use of customer brand name</td>
<td>• Written request required for use of customer brand name</td>
<td>• Customer and supplier seek opportunities where linking brand names provide mutual benefit</td>
</tr>
<tr>
<td>Supplier</td>
<td>• Prohibits use of brand</td>
<td>• Brand usage requests considered on a case-by-case basis; granted if value can be derived for customer</td>
<td>• Brand usage requests considered on a case-by-case basis; granted if value can be derived for customer • Predisposed to grant requests</td>
<td>• Customer and supplier seek opportunities where linking brands provide mutual benefit</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Supplier Recognition</strong></td>
<td>• Determines whether to participate in customer’s Supplier Recognition Program</td>
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</tr>
<tr>
<td>Supplier</td>
<td>• No formal recognition</td>
<td>• Program incentives encourage suppliers to demonstrate value beyond contract commitments. • Formal acknowledgement provided to supplier • Provide telephone reference for supplier</td>
<td>• Encourage suppliers to demonstrate added value and best practices • Formal acknowledgement provided to supplier • Customer acknowledges added value and commitments • Provide supplier telephone references • Other reference requests considered on a case-by-case basis</td>
<td>• Program incentives encourage suppliers to demonstrate added value and best practices • Formal acknowledgement provided to supplier • Allow supplier press releases • Hosts potential clients of the supplier on-site</td>
</tr>
<tr>
<td>Company</td>
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<td><strong>Customization/Product Influence</strong></td>
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<tr>
<td>Supplier</td>
<td>• Little or no customization offered</td>
<td>• Considers customer’s unique business needs in product R&amp;D</td>
<td>• Actively solicits customer input regarding product design/direction</td>
<td>• Supplier and customer mutually commit to investing in new products and ideas</td>
</tr>
<tr>
<td>Company</td>
<td>• Accepts product “as is”</td>
<td>• Provide supplier feedback</td>
<td>• Act as a beta site</td>
<td>• Supplier and customer mutually commit to investing in new products and ideas</td>
</tr>
<tr>
<td><strong>Risk Sharing</strong></td>
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<td></td>
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<tr>
<td>Supplier</td>
<td>• Accepts minimal risk based upon contract terms</td>
<td>• Accepts modest risk, allowing incentives and penalties in the contract</td>
<td>• Accepts moderate risk, allowing significant incentives and penalties in the contract</td>
<td>• Compensation tied to customer success</td>
</tr>
<tr>
<td>Company</td>
<td>• Accepts minimal risk based upon contract terms</td>
<td>• Accepts modest risk, allowing incentives and penalties in the contract</td>
<td>• Accepts moderate risk, allowing significant incentives and penalties in the contract</td>
<td>• Routinely makes R&amp;D investment with no guarantee</td>
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<td></td>
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<td></td>
<td></td>
<td>• Provides financial rewards</td>
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<td></td>
<td></td>
<td>• Publishes success stories</td>
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<td></td>
<td>• Speaks on behalf of the supplier</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td>• Makes financial investment in joint ventures</td>
</tr>
<tr>
<td>Category</td>
<td>Value (Functional)</td>
<td>Value Add</td>
<td>Preferred</td>
<td>Strategic</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
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<td>--------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Information</td>
<td>• Shares information and provides education as defined in the contract</td>
<td>• Supplier shares limited operational/tactical info in order to complete the business contract tasks/activities</td>
<td>• Proactively shares product strategy and best practices on business processes</td>
<td>• Proactively shares product strategy and direction and asks for customer feedback</td>
</tr>
<tr>
<td>Sharing</td>
<td></td>
<td></td>
<td>• Frequently provides industry, products, services, and market space consultation</td>
<td>• Best practices are shared</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
<td>• Wide-ranging, boundary-less sharing of ideas</td>
</tr>
<tr>
<td>Company</td>
<td>• Customer shares information as defined in the contract, and educates supplier on contractual obligations</td>
<td>• Operational/tactical info shared to aid in fulfilling commitments</td>
<td>• Significant tactical and some strategic info shared to aid supplier lead initiatives</td>
<td>• Allows supplier participation in strategic plans, marketing data, technologies, and business initiatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Helps supplier understand the procurement process and requirements</td>
<td>• Helps supplier understand BU objectives to meet commitments and provide value added services</td>
<td>• Shared strategy and initiatives enable supplier to meet obligations and provide added services</td>
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<td>Category</td>
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</tr>
</tbody>
</table>
| Problem Escalation and Resolution | - Customer service meets contractual obligations  
- Resolves problems through escalation provisions of contract | - Customer service provided in accordance with contract  
- Resolves problems according to the escalation provisions of the contract | - Monitors customer’s use of goods and services  
- Anticipates problems and promptly notifies customer of resolution options | - Proactively monitors process  
- Communicates and resolves problems without waiting for customer approval  
- Problem resolution viewed as a shared responsibility |
| Company  | - Customer service in accordance with the contract  
- Resolves problems according to contractual escalation provisions | - Customer service in accordance with the contract  
- Resolves problems according to contractual escalation provisions | - Views problems as a shared responsibility  
- Problems and resolutions reviewed quarterly  
- Grants supplier monitoring activity freedom | - Provides progressive escalation of concerns  
- Problems and resolutions reviewed quarterly  
- Problem resolution viewed as a shared responsibility |
| Supplier | - Accesses customer service in accordance with the contract  
- Resolves problems according to contractual escalation provisions | - Accesses customer service in accordance with the contract  
- Resolves problems according to contractual escalation provisions | - Views problems as a shared responsibility  
- Problems and resolutions reviewed quarterly  
- Grants supplier monitoring activity freedom | - Provides progressive escalation of concerns  
- Problems and resolutions reviewed quarterly  
- Problem resolution viewed as a shared responsibility |
| Commitment to Periodic Reviews | - Agrees to performance measurements and reviews as defined in the contract and Service Level Agreements | - Agrees to performance measurements and reviews as defined in the contract and Service Level Agreements | - Quarterly reviews address relationship metrics  
- Provides feedback on customer performance in the relationship  
- Supplier handles own performance gaps | - Parties are in continuous dialogue and aware of performance outside of quarterly reviews  
- Both parties measure performance jointly and develop action plans to address gaps |
| Company  | - Measures supplier performance as defined in the contract  
- Self-assesses performance and solicits feedback from supplier | - Performs review per contract  
- Self-assesses performance and solicits feedback from supplier | - Conducts quarterly performance reviews  
- Receives formal performance feedback from supplier; customer acts to address gaps in its own performance | - Continuous dialogue communicates performance outside of the formal reviews  
- Both parties jointly measure performance develop action plans to address gaps |
Supplier Performance Measurement must reflect the importance of the category.

- Cost measured against supply market
- Quality measured against supply market standards and buying organisation requirements
- Order fulfilment, quantity reliability, shipping instructions – adherence to agreed contract
- Price trend, price level
- Incoming quality, supplier caused operational issues, supplier caused customer issues
- Total Cost of Ownership reduction targets
- Supplier capability and responsiveness in terms of Lead Time / Cycle Time, quick reaction capabilities, inbound supply chain innovation
- Management leadership
- Sub-tier supplier management
- Design to target, joint improvement targets, value chain effectiveness
- Management leadership in jointly developed collaborative planning and collaborative product design / development capabilities

T1: Arms Length
T2: Preferred
T3: Performance Partnerships
T4: Strategic Alliances

Performance Measurement & Benefit Expectation Builds from the base
# Supplier Appraisal

- View performance of the supplier on each criteria in relation to relative importance as perceived by the Category Teams...for example......

<table>
<thead>
<tr>
<th>Supplier's competitors are superior</th>
<th>Equal performance</th>
<th>Supplier is superior, versus competitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality consistency</td>
<td>Honesty/integrity</td>
<td>Timed delivery</td>
</tr>
<tr>
<td>Innovation</td>
<td>Pricing policy</td>
<td>Speed of response/tech. support</td>
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<tr>
<td>Solution orientated</td>
<td>Technical knowledge</td>
<td>Delivery reliability</td>
</tr>
<tr>
<td>Proactive tech. support</td>
<td>Flexibility in delivery</td>
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<tr>
<td>Openness/ info. sharing</td>
<td>Technical knowledge of sales staff</td>
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<tr>
<td>Ability to listen</td>
<td>Product range</td>
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<tr>
<td>Understanding client</td>
<td>Urgency delivery</td>
<td></td>
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<tr>
<td>Relationship building</td>
<td>Knowledge of customers process</td>
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<tr>
<td>Complaints handling</td>
<td>ISO certification</td>
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<tr>
<td>Easy to get hold of sales rep.</td>
<td>Availability of tech. staff</td>
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<td></td>
<td>Frequency of visits</td>
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<td></td>
<td>Environmental concern</td>
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<td></td>
<td>Continuity of sales rep.</td>
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<tr>
<td></td>
<td>Undamaged delivery</td>
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</tbody>
</table>

*The supplier appraisal process is most powerful when completed by BOTH SARS and the Supplier. The output should then be cross referenced with the prioritised initiatives to ensure alignment*
1. Segment your supplier base
2. Must be driven by enterprise’s ambitions.
3. Take a holistic, enterprise-wide approach.
4. Ensure that all activities can be measured
5. View service providers as segmented partners
6. Measure re-evaluate and improve continuously

Lessons Learned
- recognize mistakes
- observe what works
- document them
- share them