Background

CASME RoundTable meetings on supplier management were held in London, Sao Paulo, Melbourne, Tokyo and New York during a period from February to December 2018. The following main topics were discussed:

- Definition and strategy
- Scope and implementation
- Technology
- Measuring supplier performance
- Review processes
- Evaluating success.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available on the subscriber-only Resource Centre.

Definition and strategy

- Supplier management is regarded as the overall strategic management of the supply base, conducted by Procurement throughout the lifecycle of each supplier, of which supplier relationship management (SRM) is a subset.
- Supplier management may be conducted by establishing:
  - A formal SRM programme, applied only to a limited number of suppliers, with the objective of investing in strategic relationships and focusing on collaboration, as well as aligning the needs of the stakeholders with the capabilities of the suppliers
  - A total supplier management programme, which includes a strategic SRM process and supplier performance management (SPM), as well as the management of risk and supplier information, that is executed by Procurement within a project management role
  - A cross-functional, collaborative and cohesive strategy for managing the supply base, incorporating supplier management and SRM, focused on managing and developing the existing stakeholder/supplier relationships
  - The informal application of SRM practices across the supply base, to obtain the best value from suppliers, using well-defined key performance indicators (KPIs) to measure performance.
- Supplier management and SRM processes are usually established and directed at the global level, and executed on a regional and local basis, to accommodate various regulatory and legislative requirements, and to monitor the compliance of suppliers with the organisation’s policies regarding corporate social responsibility (CSR), ethics, sustainability, human capital practices, risk and supplier diversity.

Scope and implementation

- The development and implementation of a robust supplier management or SRM programme may take up to three years; this includes establishing the participation and alignment of the relevant stakeholders and suppliers.
- Implementation should emphasise the alignment of the programme’s objectives across the business, as well as the standardisation of practices and processes within different categories.
- The scope of the programme is determined by segmenting the supply base and categorising suppliers as being strategic, critical, preferred or standard, and/or classified as being within tier one, two or three.
- Risk is prioritised in the supplier segmentation process. The amount of spend a supplier represents may be taken into consideration, but it is not regarded as being the most important factor in determining a supplier's criticality to the business.
- A significant number of tail-spend suppliers may remain uncategorised, but will still require attention and direction. Procurement also needs to consider potential future inclusion of suppliers that are developing their business.
- The process of identifying suppliers for inclusion in the SRM programme should involve category managers, business unit managers and other key stakeholders, to obtain their evaluation of suppliers. Local stakeholders can assist in categorising their own suppliers, provided that the criteria defined at the global level is consistently applied.
Supplier Management

- When qualifying suppliers for potential contracting, it is useful to combine the information provided by external sources with the supplier data stored in the supplier management system. However, the accuracy of the information provided by external sources must be validated.

- For SRM to be effective, it is necessary to understand the supplier's perspective of the relationship, the actions required by the client company to improve it, and to identify the supplier’s reasons for participating in the programme. The expectations of both parties regarding the relationship needs to be determined. The ongoing alignment of the client and supplier companies in terms of culture, values and objectives is essential to the success of supplier management and SRM.

Technology

- Supplier information and data is obtained from various sources. The automation and efficiency of procurement processes is restricted by the lack of a single integrated system that enables data input by suppliers, stakeholders and Procurement for all sourcing and supplier management processes. The activities may not be standardised for all indirect categories, which further complicates the system support requirements.

- Procurement is currently using various modules and technological platforms to perform the tasks associated with supplier sourcing, contracting, performance and relationship management. Systems and software being used include: Ariba, Excel, Fieldglass (VMS), Jaggaer, Tableau and Zycus.

- E-Auctions can be incorporated into the supplier selection and negotiation processes for appropriate items. E-Auctions should be carefully managed to ensure fair and ethical application, and their use should not replace the development of, or cause damage to, supplier relationships.

Measuring supplier performance

- Collaboration is essential between category managers, stakeholders, senior management and suppliers, in order to establish the relevant supplier performance metrics, as well as to ensure consistency in the information being collected and the associated reporting. One approach is to conduct an internal 'voice of the customer' survey, in order to gather information from the business.

- KPIs should be specific, measurable, attainable, relevant and timely (SMART), aligned with service level agreements (SLAs) and adjusted to accommodate industry-specific regulations and country-specific legislation, as well as the time and temperature requirements of specific products.

- Risk management is often prioritised when developing KPIs; for example, on-time delivery (OTD) may be essential for business continuity. Other factors for consideration include KPIs regarding IT security and data privacy, as well as supply chain risk, which incorporates CSR, sustainability, ethical sourcing and labour practices.

- Effective SRM assists with preventing serious issues developing and avoiding the need for a formal escalation process to be applied. When suppliers are underperforming, the relevant procurement team will often try to resolve the issue before it needs to be escalated, initially to the global category manager, who should deal with the situation appropriately.

- Procurement processes and capabilities will be enhanced by the advancement of digitalisation and the application of artificial intelligence (AI), robotics and predictive analysis. The ability to obtain real-time data through digital applications for analysis and reporting purposes, will increase the need for consistent, timely and accurate data for use during the SPM process.

Review processes

- For strategic and critical suppliers, the review meetings are conducted on a quarterly basis, led by Procurement and involving the stakeholders; with operational suppliers, review meetings are held monthly, and Procurement may not be involved.

- Quarterly business reviews (QBRs) tend to involve in-depth analysis of supplier performance in the short term, and the objectives for the immediate future; whereas annual strategic business reviews (SBRs) concern the general relationship over the next two to three years.

- Performance, risk management, relationship development and innovation are all taken into consideration during the review meetings.

- The replacement of suppliers may occur due to unsatisfactory performance. It is critical to prepare exit plans with suppliers during the contracting stage, to ensure that the transition processes, costs and responsibilities are reviewed and agreed to by both parties.
Evaluating success

- The effectiveness of supplier management should be evaluated using quantifiable measurements relating to the suppliers’ performance, as well as the added value and benefits delivered to the client company, such as business continuity and increased market share. The return on investment (ROI) of effective supplier management is calculated based on the cost savings achieved above the standard amount or agreed target.

- The evaluation may be conducted through 360° surveys, in which the suppliers, stakeholders and Procurement each complete a survey to quantify and measure the value of the relationship and the benefits of the programme, with the results discussed during review meetings.

- Internal newsletters can be used to communicate and educate the stakeholders regarding the results, benefits and value of supplier management.

- Suppliers can be incentivised to participate in supplier management and SRM activities by the potential to obtain increased and/or ongoing business, and the prospect of becoming a valued partner of the client company.

- Supplier management and the associated SRM principles are dynamic processes that require frequent adjustments to ensure continual applicability to changes in the supply base and stakeholders’ expectations.

Resource Centre Links

The following are links to the full meeting notes for each region:

Asia, Tokyo
Australasia, Melbourne
Europe, London
Latin America, Sao Paulo
North America, New York.
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