“Measuring SRM Value”

Mark Webb: + 44 7974 018022 mwebb@futurepurchasing.com
Introduction and presentation objective

Section 2: Background to the SRM value study

Section 3: Seven key findings of the SRM value study
Future Purchasing operates as a specialist consultancy and educational provider in sourcing and supplier management

1️⃣ Twenty year track record of designing and implementing procurement change through 150+ projects, in 19 sectors and 25 countries

2️⃣ Experts in business-wide implementation of strategic sourcing, supplier management, category planning and outsourcing processes.

3️⃣ Our delivery approach reflects:
   - **Best-in-class capability:** programme design and management, processes, tools, coaching, education,
   - **Extensive change management experience:** within complex environments and sourcing projects
   - **Transfer of our expertise to client staff:** building sustainable competence and capability
   - **A hands-on and approachable style:** working closely and supportively alongside client staff
   - **Specialisms in supplier management and leadership**

4️⃣ 40+ specialists based in the UK, US, Scandinavia, The Netherlands, France and Germany
Introduction and presentation objective

Section 2: Background to the SRM value study

Section 3: Seven key findings of the SRM value study
SRM: 2007, FP Global SRM survey identified 23% incremental value available from strategic relationships.

Value Factors Assessed

1. Total cost reduction
2. Revenue generation
3. Product innovation
4. Process improvement
5. Quality levels
6. Service levels
7. Supply assurance
8. Speed to market
9. Complexity reduction
10. Relationship quality

- €15bn + revenue organisations
  N = 152  Average spend = €7,600m
  Average benefits = €1,750m

- €1.5bn - €15bn revenue organisations
  N = 216  Average spend = €2,600m
  Average benefits = €610m

900+ global participants
Study objectives:

1. Understanding the specific approaches and practices used to deliver significant SRM value
2. Understanding the specific approaches and practices used to measure and report SRM value
3. Identify and quantify types of value delivered from SRM by leading organizations
4. Identifying the resource requirements to deliver significant SRM value
5. Supporting the development of a robust SRM business case.

2010 study focused in depth on the value of strategic supplier relationship management (study will be refreshed in Q3 2012).

SECTORS COVERED:

- Retail & Consumer Brands
- Oil & Gas
- Aerospace
- Pharmaceuticals
- Financial Services
- Technology

20+ in-depth interviews

Sectors covered:

- Oil & Gas
- Aerospace
- Pharmaceuticals
- Financial Services
- Technology
1. 2008 global research by Vantage Partners that identified the value realised from strategic sourcing as 54%.

2. Typical sourcing activity is leaving **46%** of the value identified on the table.
Introduction and presentation objective

Section 2: Background to the SRM value study

Section 3: Seven key findings of the SRM value study
Key finding 1: Programme objectives

- Becoming a customer of choice, improving collaboration, reducing costs and overall risk in the supply chain.
- Few organisations had specific, measurable and aggregated programme objectives.
Key finding 2: Key tools used

- Supplier segmentation, relationship governance, performance scorecards, structured review meetings, supply chain and process redesign and relationship strategies.

- Technology tools seen by SRM leaders as less important than cultural and mindset changes.
Key tools and process steps identified by study participants

Programme Planning & Project Governance
- Governance
- Segmentation
- Mobilisation
  1. Executive Briefing
  2. Supplier Segmentation
  3. Supplier Conditioning
  4. Supplier Charter
  5. Supplier Conference & Forum

Form Strategic Supplier Management Teams
- Form SSMTs
- Kick-off meetings
- Communications
  6. Roles & Responsibilities
  7. SSMT Kick-Off Meetings
  8. Change Management
  9. Quick Wins
  10. Marketing the Company
  11. Project Planning Tools
  12. Stakeholder Engagement

Facts & Data Baselining on Strategic Suppliers
- Review strategies
- Spend & performance
- Relationship perceptions
  13. Historic Spend Profile
  14. Internal Relationship Perception
  15. Supplier Relationship Perception
  16. Supplier Strategy Analysis
  17. Technology Road Map

Create & Approve Relationship Strategies
- Relationship analysis
- Available options
- Relationship strategy
  18. Power & Dependency Profiling
  19. Supplier Key Account Management
  20. Options Meetings
  21. Risk Analysis
  22. Relationship Strategy
  23. Contract & Supplier Review Meetings

Supplier Engagement, Mobilisation & Work Streams
- Performance management
- Supplier development
- Breakthrough value creation
  24. Contract Administration
  25. Contract Management
  26. Supplier Performance Scorecard
  27. Business Requirements
  28. Statement of Requirements
  29. Procurement Benefits Tracking
  30. Promoting Trust
  31. Project Charter
  32. Project Organisation
  33. Managing Conflict
  34. Supply & Value Chain Analysis
  35. Breakthrough Value Creation
  36. Breakthrough Value Project Implementation
Resource requirement is the major obstacle preventing more extensive use.

Part 1 Executive Summary
A short, persuasive summary of future strategy

Part 2 Key Information
Sub-category strategy, supplier strategic contribution and all critical data

Part 3 Strategic Analysis
Impact on current & future revenue, centrality to competitive advantage, dependency, supplier strategy, relationship complexity.

Part 4 Relationship Strategy
Relationship segment, likely relationship length, key opportunities, SRM value levers to be applied and business value to be created

Part 5 Business Impact
Cross-business, cross-functional and supplier impact of the strategy

Part 6 Risk Management
Major internal and external issues and potential sources of risk and vulnerability

Part 7 Cost : Benefit Analysis
Financial detail of business case, return on investment, value delivery and cost reductions

Part 8 Implementation Plan
Details of the plan, timings and change management requirements

Part 9 Governance
Roles and responsibilities for supplier engagement and the ongoing relationship

Part 10 Supporting Information
Appendices of supporting data, project management tools and project charters

1-3-5 year relationship strategies are increasingly developed.
Best in class organisations are defining category management to include SRM, sourcing and category planning.

**CATEGORY MANAGEMENT**
- Research & analysis
- Develop strategy
- Select supplier
- Implement strategy
- Initiate project
- Evaluate benefits

**SUPPLIER MANAGEMENT**
- Form SRM team
- Analyse relationship
- Manage performance
- Restructure relationship
- Develop supplier
- Engage business

**CATEGORY PLANNING**
- Prioritise projects
- Develop supplier

© Copyright 2012, Future Purchasing Consulting Limited, All Rights Reserved.
Key finding 3: Common SRM measurement practices

- Tracking improvements through scorecards was most common approach.
- Others included: using existing procurement benefit tracking system, working with finance to build new SRM focused framework and using narrative case studies.
# Approaches used to measure SRM value – some used in combination

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Individual supplier scorecards</td>
</tr>
<tr>
<td>2.</td>
<td>Existing benefit measurement</td>
</tr>
<tr>
<td>3.</td>
<td>SRM specific measurement</td>
</tr>
<tr>
<td>4.</td>
<td>Case studies</td>
</tr>
<tr>
<td>5.</td>
<td>Risk reduction</td>
</tr>
</tbody>
</table>

**Individual supplier scorecards**
- Allows cross-supplier comparison
- Relative indicator, rather than financial

**Existing benefit measurement**
- Few orgs categorise savings as SRM
- Difficult to aggregate SRM benefits

**SRM specific measurement**
- Specific measures agreed with Finance
- Led to aggregated SRM goals

**Case studies**
- Narrative format used
- Felt to be highly persuasive by some orgs

**Risk reduction**
- Historic baseline of adverse events built
- Downwards trend over time measured
Key finding 4: Reasons for lack of formal value measurements

- Measurement of SRM benefits was relatively unsystematic.
- Reasons given included: executives did not require it, measurement difficulty, and the risk that measurement would encourage cost reduction activities only.
An overall framework for value assessment

- Unlock Value
- Estimate & Track Value
- Confirm & Capture Value
- Translate Value

- Business Metrics
- Procurement Benefit Tracking System
- SRM Project Tracking
- Supplier Improvement Projects

© Copyright 2012, Future Purchasing Consulting Limited, All Rights Reserved.
Seven key findings from the SRM value study

**Key finding 5: SRM value model elements**

- Many types of value were described by respondents.
- These included the outcome values of reduced costs, increased revenues and reduced risk exposure, as well as more internally focused business benefits such as process efficiency.
Releasing business value: benefits, levers and enablers

**Business Value**
- Reduced costs
  - Process efficiency
  - Supply chain effectiveness
  - Reduced inventory
  - Specification simplification
  - Demand reduction
  - Post-contract price reductions
  - Favoured customer pricing
  - Total cost reductions
  - Reduced capital budget need
- Increased revenue
  - Service level improvement
  - Quality level improvement
- Reduced risk exposure
  - Product innovation
  - Speed to market
  - New market access
  - Strategic alignment/influence
  - Supplier resource investment
  - Reduced supply disruption
  - Fewer quality or service issues
  - Dependency reduction
  - Reputation protection

**Business Benefits from SRM**
- Joint process redesign
- Joint supply chain redesign
- Joint specification analysis
- Joint demand management
- Remuneration model redesign
- Volume consolidation
- Total cost modelling
- Shared investments
- Capital spend reduction
- Performance scorecards
- Joint review meetings
- Roles & responsibilities
- Contract management
- Top talent access
- Joint product design
- New technology access
- Shared marketplace insights
- Joint strategic planning
- Joint benefit sharing
- Preferred capacity access
- Joint forecasting
- Supply chain visibility
- Joint risk management
- Power & dependency

**Value Enablers**
- Account Attractiveness
  - Mutual Trust
  - Mutual Respect
  - Open Communication
  - Mutual Understanding

**Value Levers**
- Improved end user satisfaction
- Reduced costs
- Increased revenue
- Reduced risk exposure

**Business Benefits from SRM**
- Speed to market
- New market access
- Strategic alignment/influence
- Supplier resource investment
- Reduced supply disruption
- Fewer quality or service issues
- Dependency reduction
- Reputation protection

**Value Levers**
- Performance scorecards
- Joint review meetings
- Roles & responsibilities
- Contract management
- Top talent access
- Joint product design
- New technology access
- Shared marketplace insights
- Joint strategic planning
- Joint benefit sharing
- Preferred capacity access
- Joint forecasting
- Supply chain visibility
- Joint risk management
- Power & dependency
Managing value release using the scorecard as a key enabler

1. Realization of Business Value
   - Cost reduction
     - Cost of goods sold
     - Overhead expenses
     - Profit margin
   - Revenue increase
     - Incremental revenue
     - Incremental profit
     - Free cashflow
   - Risk exposure reduction
     - Supply disruption risks
     - Quality and service risks
     - Reputation risks

2. Realization of Business Benefits
   - Demand reduction
   - Specification simplification
   - Access to new markets
   - Innovative new products designed

3. Operational Performance
   - Service levels
   - Quality levels
   - Admin processing e.g. invoice accuracy
   - Flexibility e.g. ability to respond to changes

4. Use of Value Levers
   - Frequency of value improvement sessions
   - Number of people involved in value improvement sessions
   - Number and category of improvement initiatives underway
   - Implementation of joint processes / procedures

5. Relationship Health & Quality Enablers
   - Level of trust
   - Frequency and quality of communication
   - Degree of mutual understanding
   - Quality of joint problem-solving and conflict management

Leading measures (means)
Key finding 6: Value delivered by respondents

- Many specific improvement examples quoted by respondents, however few companies aggregated benefits or could track all SRM related benefits.
- Annualised cost savings of $350m and revenue benefits of $1 billion at one company.
Seven key findings from the SRM value study

Key finding 7: Building an SRM business case

- define an SRM specific benefit system with finance
- calculate impact of historic adverse events
- run small pilot programme to demonstrate value
- analyse reported savings to see quantity from SRM
- set post contract targets for each relationship e.g. 1% cost down
- track and record all benefits targeted and delivered
- use qualitative stories to capture executive attention.