Benchmarking Business Relationship Management “The Four Faces of Building Value with Major Suppliers”
Benchmarking ‘best practice’ ... central to emerging ‘next practice’

Leaders of the International Procurement Leadership Forum  

Support Partners of the  
Global Benchmarking Survey 2007

Examples of IPLF Participants, 2006 and 2007

Face 1: Business Requirements & the Value Drivers

Face 2: Different Types of Supplier Relationship Management

Face 3: Operationalising Strategic Supplier Relationship Management

Face 4: Leadership, People & Behavioural Implications
One theme is the ‘hard drivers’ of relationship management

10,000 individuals were contacted, with c. 1,000 survey responses and interviews

Sectoral Case Files

Different types of value map exist - some are explicit, most are not

- Financial Performance
  - Cost management
  - Margin management
  - Capital productivity
  - Derisking supply

- Business Growth
  - Revenue and innovation
  - Operational excellence
  - Customer response
  - Reputation and CSR

- Ways of Working
  - Control and governance
  - Strategic alignment
  - Consistent ways of working
  - Clear responsibilities

- Relationship Quality
  - Business-to-business commitment
  - Relationship trust and openness
  - Day-to-day support
  - Transparency and growth potential

- Service Efficiency
  - Cost management
  - Treasury funding
  - Capital productivity
  - De-risking the supply chain

- Service Effectiveness
  - Customer responsiveness
  - Operational excellence
  - Delivery and innovation
  - Reputation enhancement
Cost down and value up potential with strategic suppliers is 20% +

Survey respondents identified 23% incremental value across multiple factors

- Average spend €28.5m
- Average benefits available €6.6m

- Average spend €260m
- Average benefits available €60m

- Average spend €7,600m
- Average benefits available €1,750m

Total €413,000m opportunity identified by 816 survey respondents

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

- €151m - €1.5bn organisations
  - N = 221
  - Average spend €260m
  - Average benefits available €60m

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

- < €150m organisations
  - N = 227
  - Average spend €28.5m
  - Average benefits available €6.6m

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. Supplier control
10. Relationship quality
The survey indicated that a broad range of additional value is available from strategic suppliers.
Face 1: Business Requirements & the Value Drivers

Face 2: Different Types of Relationship Management

Face 3: Operationalising Strategic Supplier Relationship Management

Face 4: Leadership, People & Behavioural Implications
A limited number of suppliers will drive the largest sources of value.
Strategic suppliers are strongly connected to the value map

77% of survey respondents have 50 or fewer strategic suppliers

Criteria for a Strategic Supplier

1st: Impact of the supplier on current and future sales revenue.
2nd: Importance of the supplier to product / service innovation.
3rd: Access to business critical supplier capabilities and competences.
4th: Ability to reduce current or future cost base substantially.
5th: High level of expenditure with the supplier.
6th: Expected length and continuity of the supplier relationship.
7th: High dependency and high switching costs with the supplier.
8th: Access to proprietary technologies and intellectual property.
9th: Quality of personal relationships between us and the supplier.
10th: Importance of the supplier for entry into new markets / geographies.
Face 1: Business Requirements & the Value Drivers

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The IPLF benchmarking survey examined capability across five key steps

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<tr>
<th>Step 1</th>
<th>Programme Planning &amp; Project Governance</th>
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<tr>
<td>Governance</td>
<td>Form SSMTs</td>
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<tr>
<td>Segmentation</td>
<td>Kick-off meetings</td>
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<tr>
<td>Mobilisation</td>
<td>Communications</td>
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1. Executive Briefing
2. Supplier Segmentation
3. Supplier Conditioning
4. Supplier Charter
5. Supplier Conference & Forum

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<tr>
<th>Step 2</th>
<th>Form Strategic Supplier Management Teams</th>
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<tbody>
<tr>
<td>Review strategies</td>
<td>Spend &amp; performance</td>
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<tr>
<td>Relationship perceptions</td>
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</tbody>
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6. SSMT Roles & Responsibilities
7. SSMT Kick-Off Meetings
8. Change Management
9. Quick Wins
10. Key Account Management
11. Project Planning Tools
12. Stakeholder Engagement

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<tr>
<th>Step 3</th>
<th>Facts &amp; Data Baselining on Strategic Suppliers</th>
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<tbody>
<tr>
<td>Relationship analysis</td>
<td>Available options</td>
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<tr>
<td>Relationship strategy</td>
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</tbody>
</table>

13. Historic Spend Profile
14. Internal Relationship Perception
15. Supplier Relationship Perception
16. Supplier Strategy Analysis
17. Technology Road Map
18. Power & Dependency Profiling
19. Supplier Key Account Management
20. Options Meetings
21. Risk Analysis
22. Relationship Strategy

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<th>Step 4</th>
<th>Create &amp; Approve Relationship Strategies</th>
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<td>Performance management</td>
<td>Supplier development</td>
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<td>Breakthrough value creation</td>
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23. Contract & Supplier Review Meetings
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. Facilitation Toolkit
35. Breakthrough Value Creation
36. Breakthrough Value Project Implementation

Step 1: Programme Planning & Project Governance
- Governance
- Segmentation
- Mobilisation

Step 2: Form Strategic Supplier Management Teams
- Review strategies
- Spend & performance
- Relationship perceptions

Step 3: Facts & Data Baselining on Strategic Suppliers
- Relationship analysis
- Available options
- Relationship strategy

Step 4: Create & Approve Relationship Strategies
- Performance management
- Supplier development
- Breakthrough value creation

Step 5: Supplier Engagement, Mobilisation & Work Streams
Strategic supplier management is in its infancy...

Early days - lots of gaps - driven by problems - lack of business backed process

1. No training in strategic supplier relationship leadership
2. No documented relationship strategies for our strategic suppliers
3. No quantification of the benefits and ROI of working with strategic suppliers
4. No specific budget or resources allocated to strategic supplier initiatives
5. No regular, board to board review process between us & strategic suppliers
6. No guidelines or frameworks to share benefits with strategic suppliers
7. No focus with strategic suppliers on radically restructuring ways of working
8. Focus is on purchase price and reducing costs through negotiation
9. Contracting focuses on conventional contracts and performance to contract
10. Performance improvement is driven by problems

N = 788 survey respondents
... but there are certainly pockets of excellence and good practice

*Top executives are interested - lots of opportunity - some leaders in place*

1. Regular, open dialogue takes place with strategic suppliers about performance
2. A top executive sponsor owns strategic supplier initiatives
3. Business case and benefits of strategic supplier initiatives are identified
4. Forums and reviews take place to examine internal data about strategic suppliers
5. Strategic suppliers are frequently worked with to find new ways of reducing costs
6. Full-time, dedicated relationship leaders are in place for strategic suppliers
7. Cross-functional teams exist with clear responsibilities for strategic suppliers
8. Defined and structured processes exist for managing strategic suppliers
9. Future impact of strategic suppliers’ plans on the buying organisation are understood
10. Stakeholders are fully prepared to commit staff time to strategic supplier relationships

*N = 788 survey respondents*
Linking SRM to subcategory sourcing and category planning

Do we need separate or connected procurement processes?

**Process 1: Category Management**
- Annual Category Planning Activities
- Steps 1-X
  - Competed Requirements

**Process 2: Strategic Sourcing**
- Opportunity Analysis & Project Set-Up
- Establish Baseline
- Strategy Development
- Supplier Selection
- Transition

**Process 3: SRM**
- Create & Approve Relationship Strategies
- Facts & Data Baselining on Strategic Suppliers
- Form Supplier Management Teams
- Programme Planning & Project Governance

**Non-Competed Requirements**

**Do we need separate or connected procurement processes?**

- Process 1: Category Management
- Process 2: Strategic Sourcing
- Process 3: SRM
Clarifying desired benefits from SRM is critical in shaping approach

1. The specific benefits of SRM can be readily identified and quantified.
2. Benefits need to be targeted for each relationship from both a hard and a soft perspective.
3. Benefit measurement processes should recognise and reinforce benefit delivery

Supplier relationship management delivers the benefits only if there is a systematic, structured and disciplined approach that is programme-managed as part of an agreed business initiative.

Individual behaviour, team skills and high quality influencing of key stakeholders are also central to maximising value from major procurement processes. There is passion as well as process.
Successfully launching strategic supplier initiatives needs an approved approach

- Executive support and sponsorship
- Business resource commitment
- Stakeholder education and awareness building
- Joint supplier segmentation and prioritisation

- Stretch benefit targets for each supplier team
- Measure hard and soft benefits delivered
- Strategic supplier targets in team objectives
- Cascade relevant objectives to stakeholders

- Process education and key skills building
- Key meeting coaching and skills transfer
- Capability profiling and behavioural skills
- Evaluate learnings and behaviours

- Deliver a number of demonstration projects
- Rigorous progress reviews of each project
- Resource prioritisation and capacity planning
- Planned migration to new way of working

A change management approach is required to fully anchor SRM
What to include in a relationship strategy and approval document

**Producing a persuasive, compelling strategy with clear return on investment (ROI)**

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<tr>
<td>A short, persuasive summary of future strategy</td>
<td>Sub-category strategy, supplier strategic contribution and all critical data</td>
<td>Analysis of available options, using strategy development tools</td>
<td>Summary of breakthrough, performance management and supplier development options</td>
<td>Cross-business, cross-functional and supplier impact of the strategy</td>
<td>Major internal and external issues and potential sources of risk and vulnerability</td>
<td>Financial detail of business case, return on investment, value delivery and cost reductions</td>
<td>Details of the plan, timings and change management requirements</td>
<td>Roles and responsibilities for supplier engagement and the ongoing relationship</td>
<td>Appendices of supporting data, project management tools and project charters</td>
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Assessing quality of relationship externally as well as internally

Differences in quality of external working relationships between companies in the same sector appear to vary by at least 2-3 times’ order of magnitude

Full acknowledgement to CPO Agenda and Planning Perspectives, Inc., 2007.
Assessing the challenges of the ‘Influencing Zones’

Quantifying the internal and external requirements for leaders and change agents

How many top executives and key business managers need to be involved in sponsoring relationship management initiatives in your organisation?

How many suppliers or customers should be the key targets for significant relationship management activity over the next two years for your organisation?
A common theme throughout the IPLF, 2006 and 2007, has been the need for much more sophisticated demonstration of influencing strategies. A different profile on influencing and relationship management:

1. Strategic negotiation & relationship development
2. Personal values, ethics, integrity & trustworthiness
3. Relationship strategy creation & business case development
4. Persuasion & influencing skills
5. Deep knowledge of suppliers and markets
6. Change management & project management
7. Relationship management & performance measurement tools & techniques

What is strategic negotiation?
What are the core influencing skills and strategies that need to be developed?
How far are they driven by personality, thinking style and intellectual ability?
Four critical elements of SRM for procurement leaders to focus on

Capture value from strategic suppliers is all about change management

Agree Process, Tools & Approach
Create and approve the process and toolkit for managing strategic suppliers as a business initiative

Focus 1: Internal SRM Capability Building

Complete Relationship Diagnostics
Identify scope for additional value and areas of relationship under-performance to impact

Focus 2: Process & Planning

Manage the SRM Programme
Organise deployment of an SRM process as a business-wide programme and initiative

Focus 3: Supplier Value Acceleration

Restructure & Relaunch Relationships
Launch and drive forward a plan of campaign to restructure the relationships and address under-performance

Focus 4: Implementation