Effective Supplier Relationship Management

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Presentation Outline

- Importance of Supplier Relationship Management
- The Required Foundation
- Supplier Segmentation
- Managing Supplier Relationships
Importance of Supplier Relationship Management

What is the goal of Supplier Relationship Management?

Achievement of desired results
(e.g. best product and/or best service, delivered cost effectively)

Ultimately - client satisfaction
Importance of Supplier Relationship Management

Why do supplier relationships fail?
How Relationships Work

Doom Loop

Under-invest in Relationship

Restrict Information Flow

Confirm Suspicions / Perceptions

Create Low Value Deal

Virtuous Cycle

Improve Trust and Communication

Create Valuable Options

Share Information About Interests

Improve Mutual Understanding

Create Low Value Deal

Confirm Suspicions / Perceptions

Under-invest in Relationship

Restrict Information Flow
## Two Views of Relationship Management

<table>
<thead>
<tr>
<th>Common assumptions</th>
<th>Better assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A good relationship can/must be bought</td>
<td>• A good relationship needs to be built, it cannot be bought</td>
</tr>
<tr>
<td>• Deal with them the way they deal with us</td>
<td>• Do what is good for the relationship, and us, regardless of whether or not they</td>
</tr>
<tr>
<td>• The bottom line sometimes requires</td>
<td>reciprocate</td>
</tr>
<tr>
<td>sacrificing the quality of the relationship</td>
<td>• A strong relationship is essential to sustainable bottom line results</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Common measures</th>
<th>More robust measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>• You do what I want</td>
<td>• Communication is robust and efficient</td>
</tr>
<tr>
<td>• I keep you happy</td>
<td>• Tensions are surfaced early and easily</td>
</tr>
<tr>
<td>• We have little or no conflict</td>
<td>• We trust each other</td>
</tr>
<tr>
<td></td>
<td>• We understand and respect each other, even when we don’t agree</td>
</tr>
<tr>
<td></td>
<td>• We rely on persuasion rather than coercion</td>
</tr>
</tbody>
</table>
The Required Foundation

What do you need for a strong supplier relationship?
The Required Foundation

- Fully executed, comprehensive supplier agreement
  - Aligned objectives
  - Clearly defined statement of work
  - Measurable service expectations
The Required Foundation

- Effective Supplier Management Program
  - Clearly defined measures
  - Documented method of measurement
  - Weighted individual measures
  - Minimum/threshold gates
  - Link to compensation
The Required Foundation

- **Skilled Relationship Managers**
  - Managers of relationships (supplier/client), not functions
  - Subject matter experts, credible
  - Masters of communication
  - Enablers (solution driven, not fault driven)
  - Integral, honest and appropriately biased
Supplier Segmentation

Does one approach to Supplier Relationship Management work for all?
Segmentation Benefits

- Ensures optimal allocation of limited management time and resources
- Helps determine what kind of relationship to develop for different types of suppliers
- Ensures internal alignment re: supplier management roles, responsibilities, actions
Segmentation Benefits

- Guides sourcing and negotiation strategy, relationship management structure and supplier activity
- Helps clarify and manage supplier expectations
Segmentation Criteria

- Degree of interdependence (customer/supplier)
- Level of spend
- Strategic importance of supplier
- Number of BUs served by a supplier

- Complexity and frequency of changes in supplier requirements
- Type and number of products or services a supplier provides
- Cost/difficulty of switching suppliers
Segmentation Model

Value at stake/strategic importance

Cost/difficulty of switching suppliers

LOW

HIGH

Collaborative Relationship

Strategic Supplier Alliance

Commodity Arrangement

Custom Relationship
## Segmentation Implementation

<table>
<thead>
<tr>
<th>Relationship Category</th>
<th>Commodity</th>
<th>Custom</th>
<th>Collaborative</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implication</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Driver</strong></td>
<td>Price</td>
<td>Competitive advantage</td>
<td>Maximize value; lowest total cost</td>
<td>Critical need</td>
</tr>
<tr>
<td><strong>Negotiation Strategy</strong></td>
<td>Maximize price leverage</td>
<td>Sole source</td>
<td>Leverage number of suppliers and business volume awarded</td>
<td>“Win/Win” maximize joint gain and good precedent</td>
</tr>
<tr>
<td><strong>Presumed Duration</strong></td>
<td>Short to medium term</td>
<td>Dependent on market environment</td>
<td>Medium to long term</td>
<td>Long term</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td>Commodity group portfolio manager</td>
<td>Dedicated relationship manager</td>
<td>Dedicated relationship manager; internal customer coordination committee</td>
<td>Joint customer-supplier oversight board; dedicated relationship manager</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Limited to transactional exchange of info</td>
<td>Regular, though limited in scope</td>
<td>Robust and frequent, with some executive contact</td>
<td>Robust and multi-level, with senior executive contact</td>
</tr>
<tr>
<td><strong>Quality Management</strong></td>
<td>Managed on exception basis; leverage penalties</td>
<td>Managed on exception basis; leverage incentives</td>
<td>Joint effort; customer investment driven by switching costs</td>
<td>Joint effort, equal investment</td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td>Annual; narrow in scope</td>
<td>Regular, but limited in scope</td>
<td>Joint and frequent; time horizon varies by context</td>
<td>Integrated, frequent, and long term focused</td>
</tr>
<tr>
<td><strong>Supplier’s Viability</strong></td>
<td>N/A</td>
<td>Safeguard when benefits outweigh costs</td>
<td>Understand and monitor</td>
<td>safeguards</td>
</tr>
<tr>
<td><strong>Investment in Relationship</strong></td>
<td>Low</td>
<td>Medium to low</td>
<td>Medium</td>
<td>High</td>
</tr>
</tbody>
</table>
Managing Supplier Relationships

“We outsourced it. It’s the supplier’s problem, not mine!”
**Supplier Relationship Management = Paradigm Shift**

<table>
<thead>
<tr>
<th>Attributes of a typical customer-vendor relationship</th>
<th>Attributes of a strategic supplier partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>“This is about getting them to meet our needs”</td>
<td>“This is about meeting both our needs in a sustainable way”</td>
</tr>
<tr>
<td>When things go wrong, assign blame and apply contractual penalties</td>
<td>When things go wrong, diagnose joint contributions and work to avoid repetition</td>
</tr>
<tr>
<td>Customer decides, vendor executes</td>
<td>Wise decisions need joint input</td>
</tr>
<tr>
<td>Customer defines metrics; supplier is evaluated</td>
<td>At least some metrics are jointly developed and shared, or symmetrical</td>
</tr>
<tr>
<td>Negotiations are often adversarial; produce arbitrary outcomes</td>
<td>Negotiations focus on problem-solving; produce good precedents</td>
</tr>
<tr>
<td>Each party is often surprised and learns of decisions after they’re made</td>
<td>Surprises are rare; planning is highly integrated; communication is frequent and robust</td>
</tr>
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</table>
Stronger Relationships Generate More Value *

- Almost 80% of respondents said that strong working relationships with suppliers deliver at least 25% greater value than poor relationships with suppliers.

- Procurement professionals report that they would increase their company’s bottom line by $43 million annually if they were to implement strategic relationship management practices with key suppliers.

### Good Relationship Characteristics = Value

<table>
<thead>
<tr>
<th>Characteristics of a good relationship</th>
<th>Dimensions of relationship value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High degree of trust</td>
<td>Reduced compliance monitoring costs</td>
</tr>
<tr>
<td>Robust and efficient communication</td>
<td>Reduced transaction costs of working together</td>
</tr>
<tr>
<td>Collaborative and creative problem solving</td>
<td>Greater value through improved leveraging of assets and capabilities</td>
</tr>
<tr>
<td>High degree of mutual understanding</td>
<td>Fewer damaging or costly surprises</td>
</tr>
<tr>
<td>Conflicts and tensions are surfaced early</td>
<td>Greater value through low-cost, high value trade-offs</td>
</tr>
<tr>
<td>Differences in goals, culture, and competencies are respected</td>
<td>Reduced switching costs</td>
</tr>
<tr>
<td>Disagreements are resolved through mutual persuasion, not coercion</td>
<td>Problems spotted early (before significant costs are incurred) and resolved effectively</td>
</tr>
<tr>
<td>Emphasis on diagnosing joint contribution – not assigning blame</td>
<td></td>
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</tbody>
</table>

**Good Relationship Characteristics**

- High degree of trust
- Robust and efficient communication
- Collaborative and creative problem solving
- High degree of mutual understanding
- Conflicts and tensions are surfaced early
- Differences in goals, culture, and competencies are respected
- Disagreements are resolved through mutual persuasion, not coercion
- Emphasis on diagnosing joint contribution – not assigning blame
Ongoing Management Sustains Value

- Demand management
- Market management (benchmarking)
- Supplier management
Benefits of Supplier Relationship Management

- Minimize supplier-related risks
- Maximize opportunities to reduce/avoid costs
- Capitalize on potential synergies revealed through greater integration between supplier and client
- Maximize client satisfaction
- Maximize client investment in supplier relationship
Benefits of Supplier Relationship Management

Achievement of desired results
(e.g. best product and/or best service, delivered cost effectively)

Ultimately- client satisfaction
Effective Supplier Relationship Management

THANK YOU!

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