



Session Code: IA

# **Supplier Relationship Management**

for

## **Complex Outsourced Services: A Strategic Framework**

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# Agenda

- What do we mean by “supplier relationship management (SRM)?”
- Why is SRM important?
- An SRM framework
- What is unique about SRM for complex outsourced services?
- Key take-aways



# What is supplier relationship management?

- While it is based on what happens during sourcing, it is about all the activities that occur *post-sourcing*
- It is about managing how a customer works together with their suppliers to enhance the value of the relationships



# The reality about supplier relationships

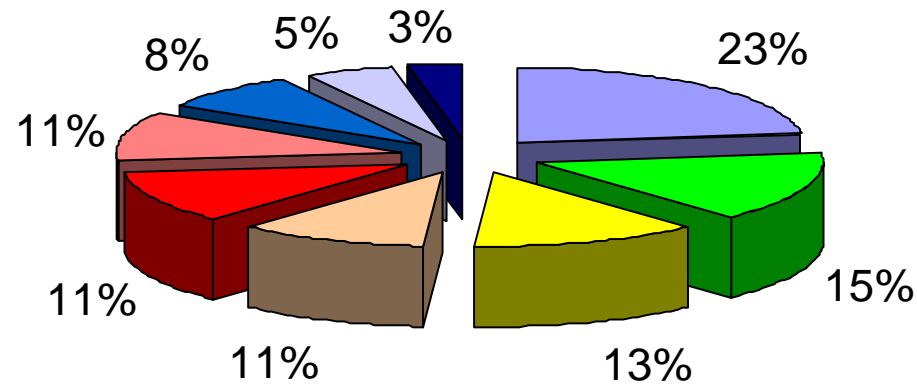
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**“It’s the next level of real-time vendor relations. But we’re still beta testing.”**



# Reasons Outsourcing Fails

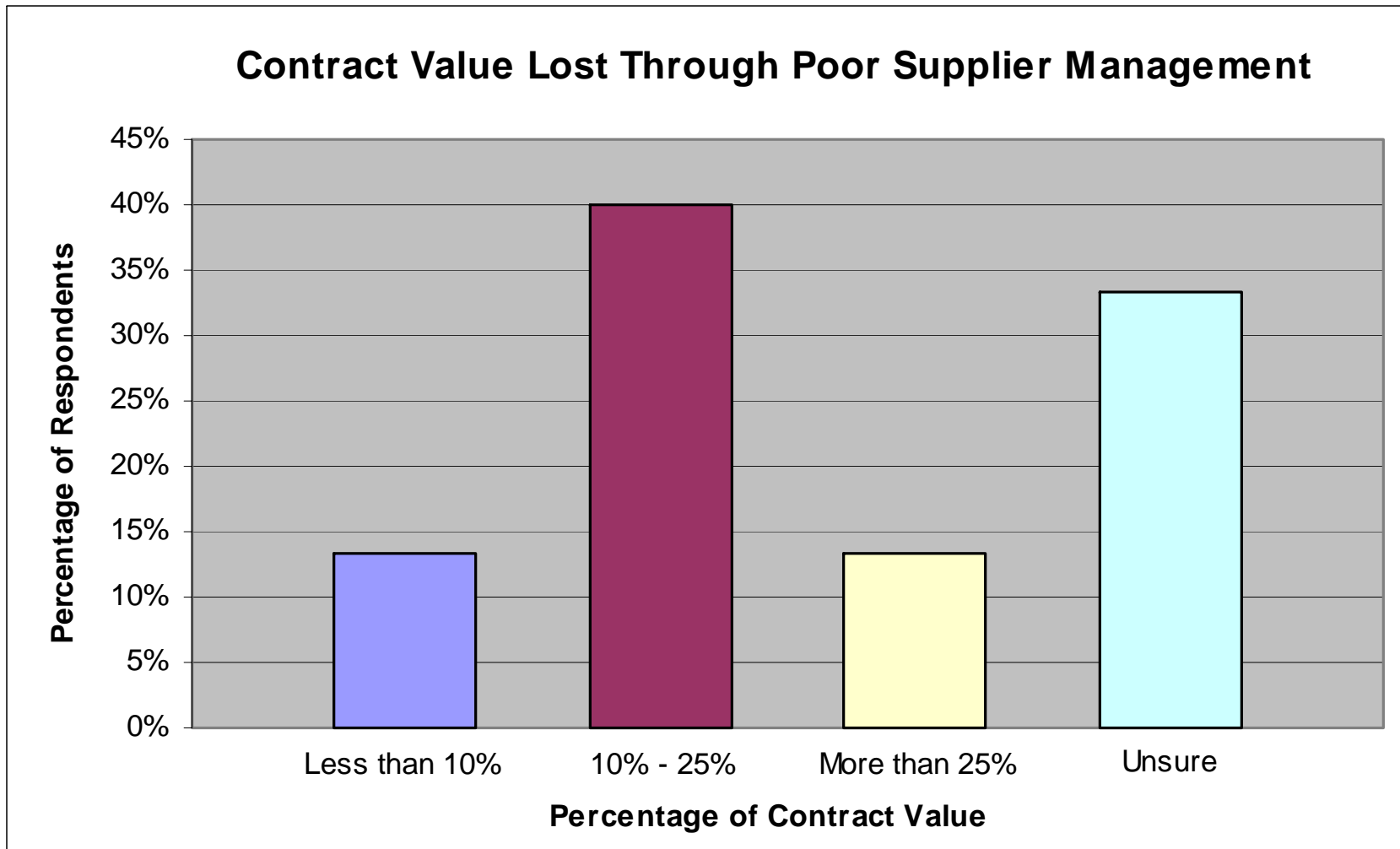


- Unclear expectations
- Poor governance
- Not mutually beneficial
- Poor performance
- Buyers multi-supplier environment
- Misaligned interest over time
- Poor communication
- Other
- Poor cultural fit

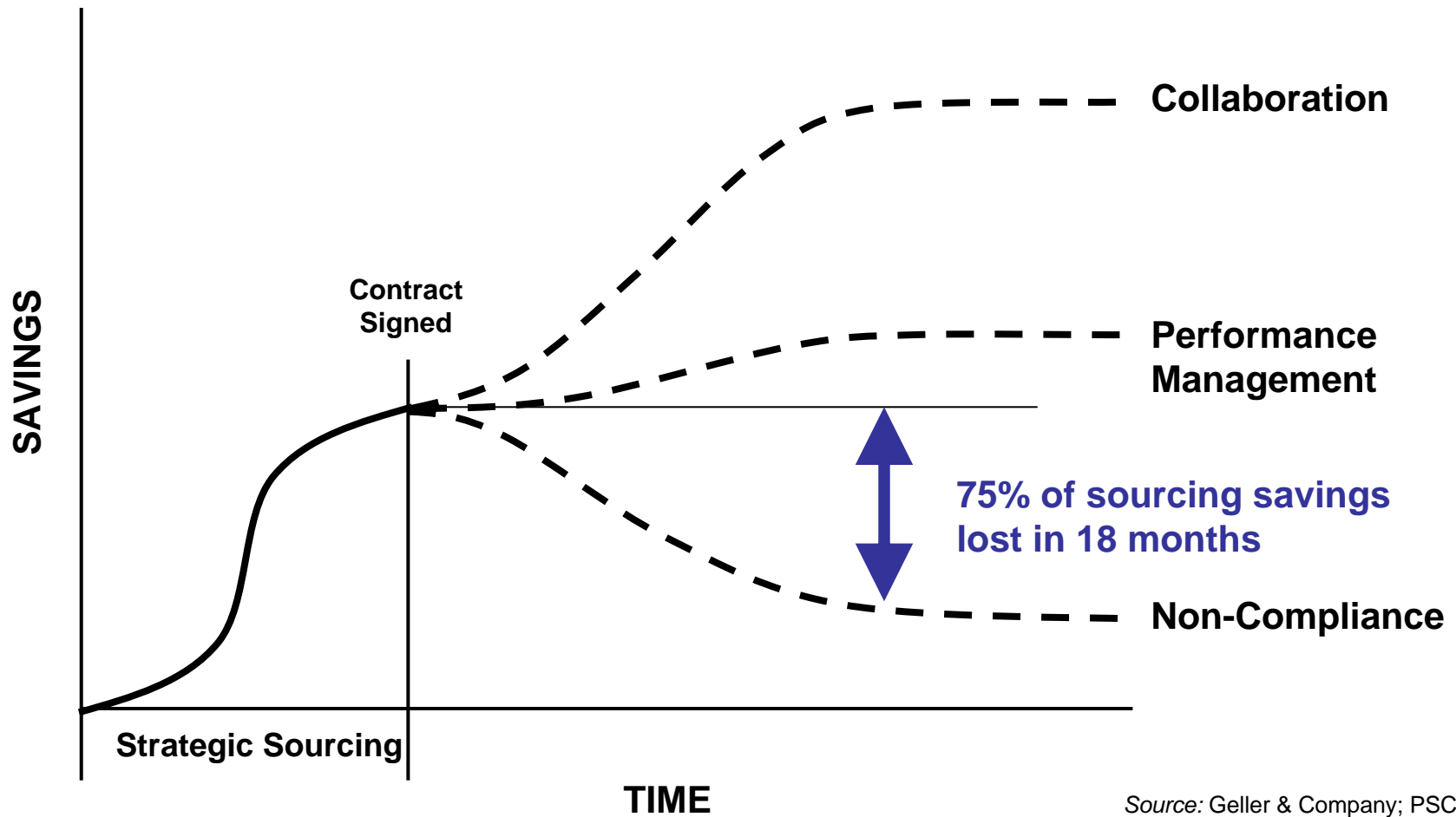
\* Source: *Outsourcing Center 2004 Survey*. Outsourcing Center, 2004.



# Lost Value



# Savings Leakage



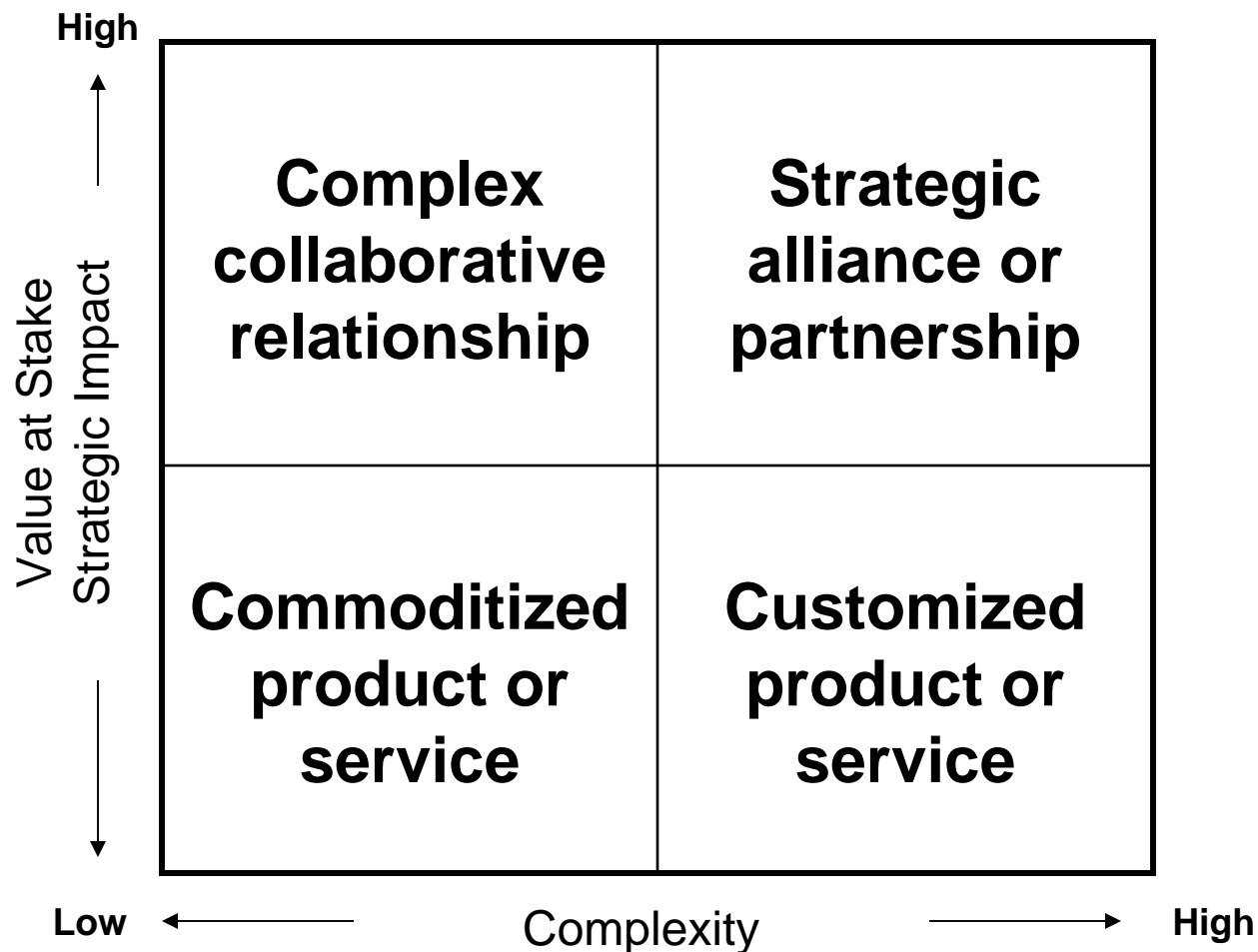
Source: Geller & Company; PSC



# An SRM Framework



# Supplier Segmentation



# Supplier Segmentation

- ...for complex, outsourced services
  - More factors to consider when assessing complexity
  - Integration of a variety of services with a single supplier complicates segmentation
  - Volume is more about level of transactions than total purchase volume



# Demand Management

- Managing internal demand
  - Utilize your preferred suppliers
  - Aggregate your demand across business units
  - Leverage contracts where timing of orders affects price
  - Use proper ordering processes
  - Make sure customers request appropriate levels of services



# Demand Management

- ...for complex, outsourced services
  - Greater number of demand signals and usage points: more demand points = less control
  - Aggregated demand is more difficult to forecast, and more volatile
  - Forecast & communicate demand to supplier
  - Requires internal training, coordination, and outreach



# Market Management

- You must analyze and manage
  - The marketplace
  - The products and services you procure
  - The relationship between your buyers and suppliers
  - The technology developments in the market
  - The economic factors in the market



# Market Management

- ...for complex, outsourced services
  - Commodity managers have traditionally tracked markets closely...
  - Industry expansion/contraction
  - New legislation, regulations, requirements
  - Mergers and acquisitions



# Performance Management

- Formal transfer process
- Identification of supplier and management team points of contact
- Performance review schedule
- Performance metrics and targets
- Scorecards, customer satisfaction surveys
- Communications plan
- Escalation process



# Performance Management

- ...for complex, outsourced services
  - More complex planning and operational coordination
  - Performance assessment is more difficult, requires more inputs, and a more formal process
  - Multiple layers of performance assessment and roll-up
  - Communications are critical



# Key Take-aways

- Establish a solid foundation during the sourcing process
  - Well defined scope
  - Clear, measurable SLAs with explicit targets
  - Pricing model with at-risk fees
  - Execute a formal transfer process with a detailed transfer document
  - Clearly define roles and responsibilities



# Key Take-aways

- Segment the supplier base for all relationships
  - align segmentation with sourcing strategies
- Manage the internal demand
  - communicate forecasted demand to suppliers
  - Analyze discrepancies between actual and forecast
  - Take advantage of standard offerings and order timing
  - Guard against off-contract spend



# Key Take-aways

- Understand the market – manage your relationships
  - Periodic market analysis process
  - Key statistics (total market, your share, your suppliers' share)
  - Market segmentation
  - Technology drivers
  - Economic drivers



# Key Take-aways

- Manage supplier performance
  - Customer satisfaction surveys
  - Formal scorecarding process
  - Performance assessment is open and collaborative
  - Relationship status is tracked and made visible across organization
  - Performance is fed back to compensation process



# Effective Supplier Relationship Management

- Getting the supplier to meet our needs

**BECOMES** 

- Finding a way to meet both our needs

- “It’s in the contract, now it’s the supplier’s problem.”

**BECOMES** 

- Work together to achieve the performance and compensation goals

- Blame and punish the supplier

**BECOMES** 

- Communicate the issues, jointly find solutions

- Unpleasant surprises

**BECOMES** 

- Integrated planning and communications

