

Revisiting Supplier Relationship Management to Boost Real Value in the Supply Chain

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Ultimately, a manufacturer's suppliers are its most valuable asset, and the ways in which supplier relationships are managed have evolved over the years—the old ways included charge-backs (mainly a retailer mechanism against suppliers for a lack of performance) which levied fines or deductions as a means of corrective action against suppliers.

According to Supply Chain Digest editor Dan Gilmore, in the 1990s, Kmart used to take 2 percent off the invoice just on the assumption that every supplier would incur violations and by including the automatic deduction, they were taking the most efficient approach.

But in today's competitive environment, collaborative and strong working relationships with suppliers are perceived as a means to actually deliver substantial benefits for both manufacturers and suppliers alike.

Supplier relationship management (SRM) initiatives are on the rise and those companies that have successfully implemented the programs have realized real dollar value return on investment (ROI).

Why SRM now?

The notion that retailers and manufacturers can realize ROI by partnering with their suppliers, rather than adding more aggressive requirements, slapping them across the knuckles for every slip-up, and squeezing a dollar here or there for minor issues, isn't all that new.

In fact, only in the past decade have leading companies sought out strategies to build enterprise-wide programs that form friendly working relationships with suppliers. Today, the majority of firms across all industry sectors are still in the early

stages of this journey.

Pressure to develop more collaborative relationships with suppliers stem from several sources. One is the continued focus on downsizing the number of suppliers in a supplier network which has expanded to include raw material or Tier 2 and 3 suppliers because of the need to ensure compliance at every level.

While this action is mostly driven by a desire to increase volume leverage and reduce transactional costs, when combined with consolidation on the sales side, the net effect is to reduce the base to a core group of suppliers that provide the best overall performance. Another is the imperative to speed up new product development and commercialization, and deliver a steady flow of innovation for customers at a time when internal R&D resources are overstretched.

Regardless of size, companies sourcing from low-cost countries need to implement technology tools to help manage the supplier base. These solutions make dramatic improvements by boosting collaboration among the distinctive internal and external groups, standardizing processes and documents, and acting as a central knowledge base to store and share all related data, which in turn, provides holistic visibility.

Building blocks for better supplier relationships

Day-to-day management of suppliers requires a strong communication system to relay important information to each link in the enterprise. Technology is the first step in the solution that is necessary, but the components must include:

Discussion tools inherent to a web-based, centralized repository platform that maintains a history of conversations and attaches them to a specific issue or business document within the system making them easier to search and find.

Advanced technology in the Document Management Portal which allows the ability to upload and share documents to suppliers based on access rules. This provides a single reference platform with version control and systems to measure activity through electronic receipts and other acknowledgements, ensuring that suppliers have accessed the document.

An exception-based workflow/time & action calendaring system allows users to monitor and update their current responsibilities based on user permissions.

Organizations can replicate their business processes into timeline driven interactive workflows that manage each work stream.

All of these features greatly reduce manual costs and timelines of supplier management by automating the supplier documentation, certificate collection and collaborative tracking processes.

The value is real

Supply chain professionals are convinced that collaboration with strategic suppliers is a good thing. Data collected by SCM World among more than 1,000 practitioners in 2014 shows that:

Three quarters of participants believe stronger relationships deliver high or very high value for their companies;

84 percent report that strategic supplier engagement is important or very important in driving competitive advantage;

Support for cost reduction efforts and getting priority when materials or production capacity are constrained are the two most prized sources of value;

Speed to market, collaboration on quality improvements and getting supplier innovations before industry rivals are also highly rated business benefits.

Other research studies show a direct link between the quality of supplier relations and customer profitability, and average annual benefits worth \$300 million among the best-performing companies.

Effective communication and collaboration can be challenging, but it is a key aspect in the improvement of supply chain relationships. By investing in technologies that yield greater value from these relationships, companies will minimize risk and improve their supply chain efficiencies. Supplier portal solutions can help companies increase their supply chain visibility and control, increase supply chain accountability, and accelerate time-to-market through proactive supply chain project management.

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