

POINT OF VIEW

# Supplier relationship management: A framework for collaboration and innovation

*Procurement organizations understand that successful supplier relationship management can build real value for an organization's top line and cut bottom-line costs, but short-term sourcing goals frequently trump focus over long-term supplier strategies.*

*APQC's 2018 [Current State Quick Poll](#) on reinventing supplier relationship management (SRM) found that about 80% of organizations had implemented or were moderately likely to implement SRM over the next two years. Unfortunately, the poll also found that many companies were too focused on micromanaging suppliers. This can lead to issues that may plague the buyer/supplier relationship, such as payment delays, poor product or service quality, non-adherence to service-level agreements (SLAs), increasing costs, reliability problems, and a lack of collaboration. In addition, buyers often take suppliers for granted, expecting more without building the trust and relationships to support it.*

*But this picture is starting to change as buying organizations realize the strategic benefits of SRM.*

## The forces for change

Market trends such as volatility, cost pressures, innovation, and supply market risk are playing an important role in the increasing interest in SRM. [APOC's latest research](#) shows that supplier failure ranks among the top five supply chain disruptions and is expected to increase from 47% to 52% over the next 12 months.

COVID-19 is the source of much of this disruption. Some businesses have new opportunities but need supplier support to capitalize on them, while others are facing a slowdown and need support to sustain or diversify. Either way, they are all reliant on strong relationships with suppliers, distributors, retailers, and so on. For example, one of our clients, a multinational conglomerate, saw a significant drop in demand for its products and services, so it took these initiatives with its suppliers:

- Engaged in constant communication to find win-win situations and ensure business continuity
- Reduced its supplier base by consolidating shrinking volume
- Negotiated price reductions
- Reviewed contracts for allowable variations
- Adhered to standard payment terms to improve cash flow
- Obtained financial assistance through funding institutions
- Searched for local suppliers to replace global suppliers

With the rapid changes in business dynamics, contracts are becoming harder to enforce. Companies must now rely on the strength of long-term relationships with their suppliers and have quickly established supplier relationship and risk management strategies. Managing supplier relationships today is no longer an option but a necessity.

## Supplier relationship management as a competitive advantage

Leading organizations like Toyota have used excellent supplier management as a competitive edge, turning a small regional manufacturer into the largest automotive

company in the world. Despite such success stories, many companies still don't include strategic goals such as innovation in their SRM agenda, limiting their focus to total cost, supplier capabilities, quality, price, and delivery. Companies that focus on metrics beyond price reductions will achieve higher savings in the long term.

A comprehensive supplier management program provides a greater understanding of performance, risks, supplier capabilities, and the need for alternates and substitutes, and encourages innovation. Greater value is derived from robust supplier management that includes price improvement, enhanced inventory management, improved order-delivery cycle time, risk reduction, and the promoting of innovation and supplier diversity.

Many organizations are also taking proactive risk management measures such as technology-driven risk notification and visualization solutions, creating a visual map of suppliers down to the third tier. This provides visibility of the flow of goods across the entire supply chain, flags potential supply disruptions, and enables preventative actions.

The benefits of a robust and effective SRM program extend across the procurement organization:

- Better risk management: more reliable suppliers, fewer production interruptions, stable suppliers
- Reduced costs through supplier consolidation, rationalization, and price negotiations
- Improved supplier performance through KPIs and performance management framework
- Fewer price fluctuations

## Best fit vs. best practice SRM

Traditional SRM approaches tend to assume that one size fits all when it comes to best practices. But every business relationship is unique, so it's imperative to adopt a differentiated approach, ranging from purely transactional relationships at one end to investment-worthy equity partnerships at the other. Understanding where a business relationship lies along this continuum helps to determine the right scope of work, performance management, pricing, and governance structure.

There is no one best practice. One approach is to align SRM processes with business goals to determine the supplier management and development strategy, sourcing business mode, and suitable measures and governance mechanisms.

## The Genpact approach: start early and segment

We encourage our clients to proactively consider supplier management before signing any contracts. This integrated approach to managing suppliers creates value and minimizes risk (figure 1).

These principles integrate into a sourcing and supplier management framework with overarching supply market and supplier analytics. This integrated framework embeds supplier management across performance, relationship, and risk management. Key components include:

- Supplier information management
- Supplier performance management
- Supplier communication and interaction management
- Supplier risk management
- Supplier development

We combine analytics and digital solutions to produce actionable insights for effective supplier management. These insights can be delivered through heat maps, executive dashboards, supplier business reviews, scorecards, and proactive alerts.

Supplier segmentation is pivotal to taking supplier relationship and collaboration to the next level by identifying the suppliers that are critical to the success of the business and need more attention. The Kraljic Matrix is one of the most effective ways to achieve this - mapping suppliers against risk and profitability in a two-by-two matrix. The purchasing portfolio can then be classified into four categories: non-critical items, leverage items, bottleneck items, and strategic items. The model recommends different purchasing and supplier relationship strategies for each category, with most procurement efforts spent on the strategic and bottleneck areas.

## Building strategic relationships - collaborate, don't control

Companies will be successful in building strategic relationships with their key suppliers by adopting a partnership approach built on these foundations.

## Establish objective, outcome-based relationships

Avoid transactional performance measures and acts of micromanagement that waste time and effort and stifle innovation. Spell out what you expect from strategic suppliers, share their vision statement, and jointly agree on a governance structure.

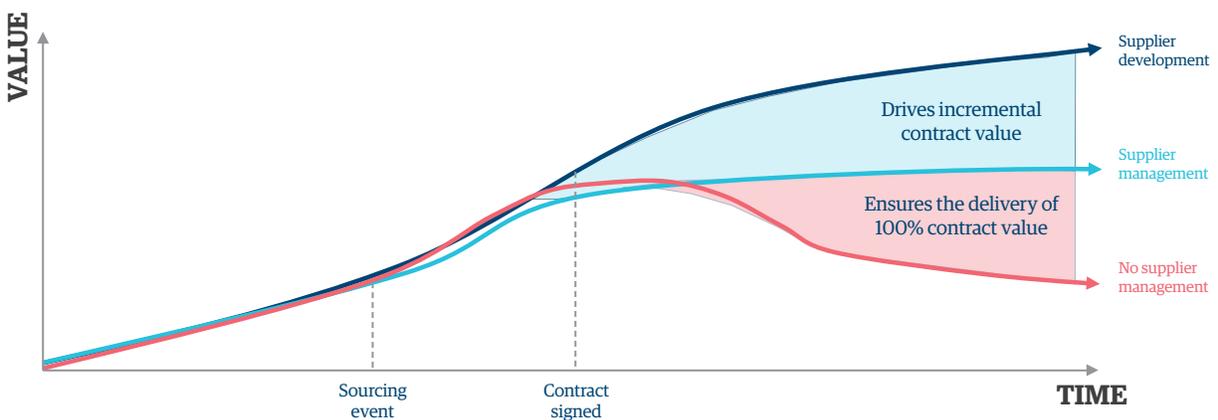


Figure 1: The value of different supplier management efforts over time

## Inspire and reward innovation

Don't overanalyze the metrics of what has and hasn't worked just to penalize suppliers. Attaching penalties for key metrics can sometimes be counterproductive because suppliers focus on meeting these SLAs and KPIs and can miss opportunities to innovate and improve. Incentive-based pricing models that are transparent, collaborative, and flexible will empower both parties to invest in innovation-led improvements.

## Supplier development

This is the process of working with key suppliers on a one-to-one basis to understand their needs, enhance their capabilities, and improve their performance. It recognizes and embraces suppliers' expertise and aligns it to the buying organization's business needs. A supplier development project might involve developing a supplier's business to benefit the buying organization. A successful supplier management program requires building a lasting and trusted relationship with key suppliers by implementing measures such as:

- Treating your strategic suppliers as partners rather than vendors by establishing mutual trust and loyalty
- Communicating your goals and plans to suppliers. Give them regular updates and make them an integral part of your strategy and development plans
- Invest in an integrated end-to-end digital solution to track data from multiple sources for a 360-degree view of the supplier. You'll be able to make more informed decisions and reduce risk

- Emphasize service quality over price. Sometimes it's worth paying more for a better quality of service, rather than spending time and money on risk management
- Stick to payment terms. Just as you expect your suppliers to comply with the terms of your agreement, it's important for you to comply with payment terms so that suppliers trust you and value you as a reliable customer

One example of supplier collaboration in action is Unilever's partnership with Novozymes - a major supplier of enzymes - to jointly develop new enzyme solutions. This collaboration leveraged each party's strengths, merging Unilever's understanding of stains and materials with Novozymes' reagent-optimization capabilities. The partnership resulted in two enzyme innovations that improved product performance, increased market penetration, and allowed the company to target premium-branded competitors.

## SRM for navigating the new normal

COVID-19 has caused massive disruption to global supply chains, and procurement organizations have relied on the strength of their supplier relationships to expedite shipments, meet increased orders, or offer flexible payment terms. These relationships will be vital for navigating the tough trading conditions ahead, and organizations are putting more structured SRM frameworks in place to nurture them. Fostering reliable and innovative partnerships will be a critical capability for successful procurement organizations, but building strategic supplier relationships requires a shift in mindset to a win-win philosophy to secure long-term partners.

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### About Genpact

Genpact (NYSE: G) is a global professional services firm that makes business transformation real. We drive digital-led innovation and digitally-enabled intelligent operations for our clients, guided by our experience running thousands of processes primarily for Global Fortune 500 companies. From New York to New Delhi and more than 30 countries in between, we connect every dot, reimagine every process, and reinvent companies' ways of working. [Transformation happens here.](#)

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