Executive Business Briefing
Maximising The Value of Supplier Relationships

Thought Leadership Series 2009

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Success in today’s globally competitive and volatile marketplace requires new strategies, and new capabilities. Companies are under increasing pressure to reduce supply costs even as they need to leverage suppliers to drive innovation. Meanwhile, recent headlines highlight the risks to consumer safety and corporate reputation of poorly managed supply chains. Addressing this daunting array of challenges requires that organisations build and manage more collaborative relationships with suppliers, especially their most important ones.

CIO Leadership talks to Jonathan Hughes, of Vantage Partners, about how companies and suppliers can best foster the kinds of relationships with suppliers that deliver sustainable value and competitive advantage.

DEFINING SRM

CIO Leadership (CIO): Many executives have come across the term ‘Supplier Relationship Management’ (SRM), but there are still, perhaps surprisingly, a high number of organisations that do not fully understand the concept of SRM. How would you best define it?

Jonathan Hughes (JH): Unfortunately, there are far more people and organisations talking about SRM than there are people or organisations who are thoughtfully and effectively implementing the principles and tools of SRM. Properly understood SRM is the systematic, enterprise-wide (1) assessment of suppliers’ assets and capabilities with respect to overall business strategy, (2) determination of what activities to engage in with different suppliers, and (3) planning and execution of all interactions with suppliers, in a coordinated fashion across the relationship lifecycle, in order to maximise the value realised through those interactions.
CIO Leadership

SUPPLIER RELATIONSHIP MANAGEMENT

DEFINING SRM

Success in today’s globally competitive and volatile marketplace requires that organisations build and manage more collaborative relationships with suppliers, rather than treating them simply as suppliers — negotiating contracts, purchasing, managing logistics and delivery, working on product design and specifications, etc. The starting point for defining SRM is a recognition that these various interactions with suppliers are not discrete and independent — instead they are accurately and usefully thought of as comprising an overall relationship. If you do this, you spot opportunities to collaborate with suppliers which you would have otherwise missed; you can uncover waste and improve efficiency; you can better identify and manage risk, and diagnose and solve systemic problems.

A major opportunity for most organisations, which require a change in culture and mindset more than anything else if it is to be taken full advantage of, is to be less prescriptive when dealing with suppliers. Instead of saying to the supplier, ‘This is what we need to do, and this is how we want you to do it’, you instead need to be able to explain to them the outcome you are trying to achieve or the business problem you are trying to solve — and then work to take advantage of their ideas and expertise to find the best solution. This requires a more sophisticated understanding of business drivers than is, unfortunately, commonly found in procurement groups that handle a lot of the enterprise’s interactions with suppliers. It requires much stronger communication skills, as well as more creative problem-solving skills. And of course, it requires other groups like R&D and IT to be open to supplier ideas, to get beyond the “not invented here” and “we know our business best” thinking that is common in many organisations.

CIO: What is the connection, if any, between Customer Relationship Management (CRM) and SRM?

JH: I think there are some important similarities, and some crucial differences. A large enterprise has, of course, a myriad of interactions with its customers, from sales through delivery. If you track all those interactions, and mine the data, you get a much clearer view of customer needs, and thus should be better able to develop solutions that customers want, and target your marketing and sales efforts to drive increases in revenue and profit margin. You can also create a more customised and seamless, and thus competitively differentiated, customer experience. These insights were the genesis of CRM.

SRM, CRM, AND SAM

In practice, SRM almost always entails expanding the scope of interaction with key suppliers beyond simple purchasing and fulfilment transactions to encompass activities such as joint research and development, sharing of strategic information about marketplace trends, joint demand forecasting, and the like. SRM should likewise entail joint efforts using, for example, tools and techniques like Lean Six Sigma to help eliminate supply chain activities that consume significant resources but which add little value. SRM thus requires more effective cross-functional collaboration within the enterprise, in order to manage supplier interactions strategically, as part of an overall relationship, rather than tactically through the various organisational and functional silos that separate R&D from Purchasing, Finance from Manufacturing, and the other functions which affect or involve suppliers. SRM is an inherently cross-functional discipline; it cannot remain the sole province of sourcing and procurement groups.

In some fundamental ways, SRM is analogous to CRM. Just as companies have multiple interactions over time with their customers, so too do they with their suppliers — negotiating contracts, purchasing, managing logistics and delivery, working on product design and specifications, etc. The starting point for defining SRM is a recognition that these various interactions with suppliers are not discrete and independent — instead they are accurately and usefully thought of as comprising an overall relationship. If you do this, you spot opportunities to collaborate with suppliers which you would have otherwise missed; you can uncover waste and improve efficiency; you can better identify and manage risk, and diagnose and solve systemic problems.

At a minimum, SRM should entail defining meaningful metrics by which to evaluate supplier performance and total value delivered which, in many cases, can be a very non-trivial task. The data gathered can then be analysed in order to actively manage supplier performance. As an aside, this should be done with a focus on jointly diagnosing and solving performance problems with suppliers. This means soliciting feedback from suppliers to understand where customer issues, such as; unclear requirements; inaccurate forecasts; and late orders; changes in specifications that were not communicated to the supplier, are part of the cause of supplier performance problems.

Data on supplier performance should also be fed back into the strategic sourcing process. Currently, far too many organisations, even those with mature strategic sourcing programmes, still rely very heavily on supplier RFP responses and proposals when they select suppliers. They don’t have good data on what the enterprise’s experiences have been working with any given supplier in terms of quality, delivery, and overall performance. Similarly, most companies place too much focus on negotiation of upfront pricing with suppliers, and not enough on managing supplier performance and conformance to contracted scope and terms. As a result, and in the absence of effective SRM, many strategic sourcing efforts fail to deliver expected value. According to a study we are currently conducting, involving over 500 companies globally, strategic sourcing efforts on average achieve only 55% of expected value. Similarly, customers report realising only about 54% of supplier contract value during implementation.
That said, as I noted earlier, SRM also entails broadening your view of suppliers so that you see them as not simply vendors that you buy things from, but as actual or potential partners who can help you drive competitive advantage. This means beginning to view relationships with suppliers as assets, and to manage them accordingly. This dimension of SRM, one might call it strategic SRM, is much more analogous to key account or strategic account management – which is focused on creating close partnerships with an enterprise’s most important customers. The focus here is on your most important suppliers, and how you can build and maintain partnerships with them that provide a high degree of competitive differentiation for your organisation in the marketplace. Similar to strategic account management, this involves things like developing three to five year business plans with key suppliers and updating them annually, and having dedicated supplier relationship managers who spot improvement and innovation opportunities and marshal required resources to pursue them.

**CIO:** What is the importance of SRM in the current economic environment?

**JH:** Let me answer that in a couple of ways. On the one hand, the growth of developing economies has meant that demand, in many markets, has been outstripping supply for some time. This is true for many raw materials, and it is true when it comes to experienced people. Organisations are consequently competing to get access to limited supplier capacity and capabilities. Current economic conditions have slowed or reversed this trend in many markets, but only temporarily. I sometimes encounter a view that SRM is mostly relevant in the context of direct materials. But if you are a pharmaceutical company outsourcing a significant portion of clinical development, or an energy company contracting for engineering services, or any organisation relying on IT suppliers for application development and other complex services, you need to be asking yourself ‘How do we get the most experienced, and best qualified, people from the best suppliers working for us rather than our competitors?’

Moreover, as companies in mature markets continue to face price competition from ever more capable companies in developing markets, the ability to innovate is one of the few sources of sustainable competitive advantage. And SRM is essential to tapping into the wealth of assets that exist in your supply chain partners – ideas, patents, staff, market knowledge – that can be used to drive innovation.

Of course, the developing world is now in recession, and the global economy has slowed and appears likely to contract this year. Increased pressure to reduce costs is inevitable. Some organisations will inevitably squeeze their suppliers whenever and wherever they can, and pay no attention to what the long term consequences could be. Ironically, they will succumb to the very sort of short-term focus on financial results, without regard for longer-term consequences, that was at the root of the crisis we currently face. Other organisations will, however, take a longer-term view, and a more strategic approach. For them, SRM will be a critical means by which to work with suppliers to find innovative and collaborative ways to reduce costs in a sustainable fashion. Of course, wherever an organisation has single and sole source suppliers, there will be an especially strong need to find ways to reduce costs collaboratively – simply squeezing such suppliers by demanding price cuts is not an option.

**SRM RISKS**

**CIO:** If SRM involves closer collaboration with key suppliers, doesn’t that create a risk of dependency?

**JH:** Of course. You can’t eliminate risk – in your supply chain, or any other aspect of business. Entering a new market is risky, but staying in a market that is being commoditised and failing to evolve your business is also risky. You need to weigh the downside risks of any decision or strategy against the potential upside. I would argue that, in general, the benefits of closer collaboration with key suppliers outweigh the risks. So I think the key is not to minimise dependence on suppliers, it is to ensure that you maintain a balance of dependency. Relying heavily on a supplier for whom your business is unimportant is an invitation to supplier complacency or even opportunism.
That said, SRM is also the best mitigation strategy for the risks of supplier dependency, and every organisation has suppliers on which it is necessarily dependent, and not as a matter of choice – suppliers with unique capabilities or patented technology for example. SRM is about implementing effective governance structures that ensure regular communication at the executive level between customer and supplier – ensuring that the decisions each side makes about the relationship are based on a strategic, long-term view. It is about understanding your supplier’s strategy and business – and actively searching out ways that you can assist them and work together in mutually beneficial ways. You need to make your supplier’s relationship with you valuable enough that they are not tempted to put it at risk through short-sighted behaviour or decisions.

Part of SRM is recognising and leveraging the full range of supplier motivations – from the organisational, to the interpersonal. Of course suppliers are motivated by revenue and profitability goals. But our work with clients and our research clearly show that customer assistance in helping suppliers improve their capabilities, providing positive references to suppliers, and on a day-to-day, person-to-person basis, treating supplier personnel with respect, and acknowledging and expressing appreciation when suppliers go above and beyond their obligations – these are the things which lead a supplier to deliver considerably better performance and more innovation to one customer versus another. More often than not, the organisations who get the most out of their suppliers are not those suppliers’ biggest customers. Financial considerations cannot be ignored, but as long as business is conducted by people, assuming that absolutely everything comes down simply to money is deeply misguided.

**SRM IMPLEMENTATION PITFALLS**

**CIO**: What major pitfalls have you seen organisations fall into when trying to implement an SRM strategy and program?

**JH**: Let me give you two common ones:

First, a failure to define and communicate the business drivers and goals for SRM. Is it product or technology innovation with specific suppliers? Or better understanding and joint management of quality and safety risks with supply chain partners? Perhaps it’s further cost reduction through joint design or demand management efforts with suppliers? It may be all of those things and more – and opportunities are likely to vary greatly from one category, and one supplier, to the next. The key is to define SRM objectives clearly and specifically, while acknowledging that many of the benefits of SRM may be hard to track and measure with perfect precision. You still need to define a rigorous business case, and manage SRM efforts to clear goals. Otherwise, and I have seen this happen many times, SRM becomes an administrative, check-the-box set of activities.

The second common pitfall is defining and implementing an SRM program without getting early supplier input. If you want to improve collaboration with key suppliers, don’t go off for three months and define an SRM program without soliciting supplier input. Too many organisations do exactly that. They wind up with SRM programs that suppliers don’t fully understand, and that they do not fully trust (since they were not involved in design and development of the program), and thus the effort is compromised from the outset. Moreover, many organisations devote significant resources to their SRM programs without requiring suppliers to make reciprocal investments! SRM needs to be a joint effort – not managing suppliers so much as jointly managing relationships with them.

It’s worth noting that in my experience, successful SRM programmes usually begin with a “voice of the supplier” type assessment of how suppliers view the organisation, where they see opportunities to create more value for both sides, and what they think needs to be put in place to enable more effective collaboration.

A final point – most suppliers have their own strategic account management programs. I think it’s a big lost opportunity if customers and suppliers don’t talk to each other about their respective programs and align their efforts. Collaborate with suppliers from the start, that way you’ll both benefit from each others’ knowledge and experience and end up with a far more effective relationship management system.

**SRM GOVERNANCE**

**CIO**: What is the connection, if any, between CRM and SRM?

**JH**: I think there are some important similarities, and it is true for many raw materials, and it is true that attempting to pursue them.

**CIO**: What strategies are there to move from a Procurement or Business Unit operations?

**JH**: Generally sourcing and procurement groups “own” such programs, ideally in the sense of facilitating them, rather than doing all the work. SRM should bring suppliers closer to the needs of the business, and enable business units to better capitalise on supplier capabilities and expertise. Procurement needs to engage its internal business partners, understand their challenges and priorities, and then help them see where and how suppliers can support them in new ways. Otherwise, SRM becomes administrative overhead - filling out scorecards for the sake of filling out scorecards; holding supplier summits because a box exists that needs to be checked and so on – in which case it is very difficult to engage business units to actively participate, much less lead. SRM. Effective SRM is dependent to a significant degree on the ability of Procurement to effectively build and manage strong relationships with internal business partners as well as external suppliers.
CIO: We’ve discussed many of the fundamental requirements for a successful SRM strategy. IT systems have, without doubt, impacted this area in a significant way. What role does the IT have to play in SRM, and how effective have SRM software tools to be?

JH: Going back to what I said earlier; for SRM to work, you need to really understand your supply base, which can span across hundreds or even thousands of suppliers. You also need to be able to identify where there are risks, manage those risks, and track and measure supplier performance. In order to do this, you need IT tools. There’s a very significant data management aspect to SRM, just like with CRM. IT Leaders play a crucial part in this of course, but they need to ensure that when they select and implement these tools, they are connected to the right business processes within the enterprise and, most importantly, that there is an appropriate change in the culture and behaviours of the people within the enterprise. Failure to recognize that CRM was about a change in thinking, culture, and business operations, not just data and software tools, led to a lot of waste and missed opportunity for many companies. Unfortunately, some organisations are making the same mistake with SRM.

That said, data management and software tools are a critical enabler of SRM, and there are some very good tools out there - unfortunately, there are even more that aren’t so good. Tools exist for everything from supplier registration portals, to tools for soliciting ideas from suppliers and managing innovation activities with them, to automating the process of educating multiple tiers of suppliers in the supply chain on codes of conduct. And slowly but surely, tools for supplier scorecards and performance measurement are getting more robust and more flexible.

KEYS TO SRM SUCCESS

CIO: What are the keys to implementing a successful SRM program? Where should a company start?

JH: I would begin by noting that SRM is an investment strategy – it is important to recognise this. Think of it as the difference between pursuing cost reduction, performance improvements, and innovation by working collaboratively with suppliers – as opposed to chasing the lowest price through constant competitive bidding, and seeking to manage supplier performance and encourage primarily through the threat of shifting business to another supplier which, more often than not, fails to deliver the lowest cost.

I do believe strongly in targeting quick wins when implementing an SRM program, but the real value comes over time, and requires significant time and effort. You cannot do SRM on the cheap. I find it’s often better to focus limited resources at the outset, rather than diffusing resources and energy across so many suppliers that you can’t really effect change. Often this means beginning with somewhere between your top ten and your top 100 suppliers, depending of course on the size of your organisation. As these efforts begin to deliver benefits, it becomes easier to invest additional resources to expand SRM.

Ultimately, SRM is about change management. Success requires a focused effort to communicate why SRM is important and what the specific goals of the SRM program are, and making explicit links between SRM and the enterprise’s overall strategy. SRM also requires embedding and reinforcing across the enterprise, along with new ways of thinking about, and working with, suppliers. And so active leadership and support from senior management is absolutely critical.

Jonathan Hughes
Partner; Sourcing and Supplier Management Practice Leader

Jonathan Hughes is a partner at Vantage Partners, a consulting firm spin-off of the Harvard Negotiation Project. As an expert in supply chain management, negotiation, and change management, he has worked with leading companies across a range of industries in North and South America, Europe, Asia Pacific, and Africa to develop and implement new supply chain strategies that leverage internal and external collaboration, restructure and transform procurement and supply chain organisations, implement formal supplier management programs, and develop and implement negotiation strategies for complex, high-stakes deals – particularly with single and sole source suppliers. Prior to joining Vantage Partners, Jon was a Senior Analyst at Putnam, Hayes, & Bartlett where he provided litigation strategy and management consulting advice to clients.
The SRM (R)evolution

An effective, efficient Supply Chain can play a crucial role in maintaining the competitiveness of an organisation. In order to drive optimal performance and reduce inefficiencies, as well as increase value, close collaboration with suppliers and customers is now more important than ever before. Paul Alexander, Director of Procurement at British Petroleum (BP), provides us with his insight on the key motivators behind adopting a Supplier Relationship Management (SRM) strategy, and how to ensure it meets the expectations of buyers as well as suppliers.

We understand you only recently moved to BP?

Paul Alexander (PA): That’s right. Prior to that, I was working in the airline industry for around 20 years or so, mostly in supplier management activities. I worked in a number of British Airways (BA) subsidiary companies during this time, and for the last 18 months held the title of CPO before deciding to move on to BP.

How have you seen BA’s outlook on SRM change over the years?

PA: It’s always been a part of their strategy, but naturally it’s had to evolve in line with changes and shifts in the industry. Immediately after 9/11 BA, like most other airlines, went into a tailspin and had to look closely at all aspects of their supply chain strategy. BA had invested a lot of money with Accenture in strategic sourcing, but unfortunately this wasn’t really getting the right kind of traction that was needed. As a result, there was a major re-organisation of the procurement division, particularly amongst the more senior people in that part of the business.

Another key driver in terms of re-evaluating the overall SRM strategy of BA was, of course, the industrial action which followed the dismissal of Gate Gourmet staff in 2005. Organisations such as BA are more vulnerable to factors not entirely in their control, such as terrorism, extreme weather, and strike action, and this means that they do not hold as much power over their suppliers as some companies in other verticals may do. This isn’t necessarily a bad thing though - I don’t think dictating to your suppliers how you want things done is necessarily the most effective way of doing business, even if you do have a certain element of power over them. Therefore, BA started to look increasingly at ways of having the supplier view us as the ‘customer of choice’ – the way we communicated with them, the mediums we used to liaise with them, and even the language we adopted were looked at very closely as they can all have a large impact on the kind of relationships that can be built with suppliers.

So a collaborative approach is an important element of an SRM strategy?

PA: Absolutely. However, I have found, in my experience, that this type of approach can be exceptionally difficult to pull off. I think it’s important to first of all understand exactly what collaboration means; if collaboration means you do what you say you are going to do, then there is no question about its importance as this approach allows you to move towards becoming a customer of choice. Where enterprises often go wrong is they will look at their entire supply base and say, ‘we need to adopt a collaborative posture with our suppliers’, but all they do is just put a few processes in place and not follow through on them. What they should be doing is determining what kind of relationship they need with the different categories and segments within their supply base, and adopting processes for each of these along with systems which allow both sides to follow through properly. There are too many cases where people come up with vague ideas and don’t really know what the success criteria actually are to make these processes work. I also believe that, in some cases, the suppliers should not be in the collaborative box and should instead be managed as transitional providers, opportunist providers or just simply managed for profit. The idea of everyone being a “strategic partner” is, unfortunately, a very difficult goal to reach.

Have you seen many companies struggle with the concept of SRM?

PA: I have always thought that it’s a very confused space, so it’s not surprising that the big consultancies struggle with it too. I believe SRM’s intellectual base comes from manufacturing, particularly within the automotive trade, and what characterises these kinds of businesses is that they are turning management into ‘widget counting’, so supplier management quickly becomes supplier and performance management – however, all this really means is that you take a contract and a prearranged set of metrics, agree those metrics with your supplier, and the supplier then tries to achieve against those metrics. These are typically things like quality conformance; price; invoice clearance; and delivery cycle lead times. In other instances, you’ll find people talking about supplier relationship management, but never really getting beyond that and doing something about it.

On the other hand, you do have companies, such as Ford and Cisco, which are able to take more a holistic approach to their SRM strategy and are also in a position to dominate their supply base, meaning they can tell their suppliers how they want things to be. This dominant attitude, as mentioned earlier, isn’t always beneficial. However, it can help in some instances, although we have to remember of course that most organisations don’t have this privilege of being in this kind of position of power.

There’s one other crucial element people have to remember when looking to implement any kind of SRM initiative, and that is the need to come up with an acceptable business case to justify the additional spend, which can be quite difficult.
The SRM (R)evolution

Is this because you think the top management still aren’t convinced of the value SRM can bring?

PA: Something is clear time and again, which is that trying to make the numbers work doesn’t always fly. If, lets say, a supplier is delivering a service at 98% capacity, and through better supplier management you make that 99% - can you justify the extra costs that were spent to achieve this? Yes, it may look good from a management perspective, but it’s going to pretty difficult to validate how that extra efficiency was achieved, and some may argue that the additional 1% increase would have been realised anyway, regardless of any changes in their SRM approach – was it because of your endeavours, or some kind of supply process change? In these situations, perseverance, along with a constant emphasis on the longer term benefits of SRM, is most certainly key.

So what would you say are the key attributes for ensuring a successful SRM program?

PA: We mentioned earlier that supplier performance can be seen as a main driver behind managing relationships, and that’s one of the many benefits an organisation can realise when they possess a sound SRM strategy. SRM allows a coming together of organisation, supplier, and knowledge, to form ideas that benefit all parties. However, you must tread carefully. Coming from an industry where buyers do not dominate their suppliers, I know there are very few organisations that can truly work in a collaborative fashion which allows this knowledge-sharing situation. They may do for a period, such as when like-minded people work together towards common interests and goals. And when this happens, it can pay dividends. However, from my experience, buyers with not much power in the supplier relationship can find it extremely difficult to collaborate fully, so this area certainly needs to be addressed.

You also need to ensure that the approach to the supplier base is aligned to your company’s overall strategy and goals, and there needs to be regular consultation between all parties throughout. Management needs to be more realistic about how they are managing their supply base. I also think there would be a lot more value if people focused on the basics; things like paying the bills on time, making sure you have clear metrics in place, and how your strategy will coincide with that of the supplier. Ask the question, do they (the supplier) have the capacity to do what you’re asking them to?

What, in your experience, have been the main pitfalls when it comes to organisations implementing an SRM Strategy?

PA: Some of the obvious pitfalls are things like environmental complexity and how it can affect supplier management programmes – for example, if they’re initiating them when trading conditions are difficult is not something I would recommend. If you take a typical procurement organisation which is under pressure now to reduce prices they are going to take resource off the supply management agenda. Internal communication is also another area which requires a lot of attention. Often, what you’ll see is that the supplier interfaces with different people and functions within the same organisation, and in most cases this is all at the same time. If the supplier then gets mixed messages from different people, i.e. the Marketing Manager saying strategic relationships is the main objective whereas a buyer stresses that it’s all about price, you’ll have cross functional differences which need to be addressed. So this should be looked at as early as possible.

How much of an impact do you feel evolving technologies have played in the development of SRM?

PA: There are naturally a few providers, such as Ariba, who have had a massive influence on the market with their technology. However, I would say that you must be careful not to see certain IT tools as the ‘Holy Grail’ and rush in without analysing their true benefits in-depth. Yes, these systems can be important, but you really need to look at the way you build things, i.e. management capabilities, more than the tools in the first instance. One of the most important aspects, of course, is ensuring you build the right strategy. If you are able to work with a partner who can help you match up the needs of your organisation to those of the suppliers, you will realise that that some of the more simple tools will help you ensure your SRM program is a success.
The Culture of Collaboration

At Microsoft, achieving a high level of satisfaction among customers, as well as partners, is a critical element of their business. CIO Leadership talks to Gama Aguilar-Gamez, Primary Research Vendor Manager, and Paul Beelmann, Senior Procurement Manager for the Market Research commodity, about their Microsoft Vendor Management Program, and its role in helping maximise their relationships with their suppliers.

**CIO Leadership (CIO):** How large a role has Supplier Relationship Management played in your overall Supply Chain Management strategy?

**Paul Beelmann (PB):** Microsoft has, traditionally, had somewhat of a de-centralised procurement process. About 10 years ago we looked to address this by putting in place what is called the Microsoft Vendor Programme (MSVP). MSVP was, in effect, designed to be our ‘big shot’ at SRM. The objective was to provide effective leadership in the way that we manage our relationships with vendors, and this program has increased in scope and influence each year.

**CIO:** Did you have any initial issues selling the benefits of this type of complex program to your senior management?

**PB:** It was an issue, no question about that. At the core, I think most people understood the benefits of having an SRM strategy in place, and the specific advantages that MSVP could bring to the table. However, as we were very de-centralised in how we made procurement decisions, our challenge was to communicate this message effectively enough so that the benefits of having this type of programme reached as many of the top managers within Microsoft as possible. The problem was that with the various divisions within Microsoft having their own procurement authority, and being in a very de-centralised environment, it was difficult getting the word out to all the business groups.

**Gama Aguilar-Gamez (GA):** What we ended up having was almost a hybrid model to SRM, where it was at different levels of maturity across the various divisions within the organisation. However, what we are seeing more of now is an individual within a particular business unit, such as myself, who goes really deep into something like the market research side of things for SRM, and who is then able to partner with an individual in the Procurement part of the unit, such as Paul, who can help with a lot of the negotiation aspects of it – this allows us to focus more on the relationship itself, and to better measure and monitor how the program and relationship runs.

**CIO:** There have been many cases of large organisations which, due to their size, have taken advantage of their influence and power over their suppliers in a negative way by neglecting their relationships with them. Has this ever been the case with Microsoft?

**GA:** The level of power or influence that we have with suppliers varies depending on the commodity. However, as a company we are very much like most other organisations, in that we don’t actually have that much leverage with our suppliers. We strive to ensure that we do not make any irrational demands from our suppliers, or anything else that will hurt us in the long run. Naturally, we are very demanding; however we never want to be seen as a company that abuses their power. We need our suppliers to be happy to do business with us, in order to ensure we are able to get the best deals with them. We also try and do as much as we can from our end to help enable our suppliers to do a great job for us, and this can only be of benefit to us in the long run. You need to have that kind of collaborative approach if you want to maximise the relationship with your suppliers.

**PB:** In my opinion, the larger organisations of this world need to be able to leverage some kind of influence over their suppliers, which is why I think SRM is more important in these larger companies as opposed to smaller ones. To pick up from where Gama just left off, I certainly have always seen SRM as an enabler – it enables Microsoft to do better business with their suppliers and that, for us, is what SRM is all about.
GA: In the past, when we may not have had this type of mindset, the relationships we had with our suppliers were a lot shorter. What we’ve tried to do is use different means to identify who our best-in-class suppliers are in the industry, establish good relationships with them, invest in them, and have them invest in us. We have regular reviews, in order to keep not only our suppliers on their toes, but also us. This allows us to develop pretty stable relationships with our top suppliers. Like any company though, we have had to prioritise our relationships – we can’t have strategic relationships with every one of our suppliers, but at the same time we can’t be hands off with them either. Therefore we try and focus our efforts on our tier 1 and tier 2 relationships, followed by tier 3 and below. Even though we appreciate we won’t be able to treat them the same as our top suppliers, we do take steps to ensure that these relationships are as stable as possible.

CIO: Did you work closely with any external suppliers or consultants when implementing your SRM strategy?

GA: I think Microsoft saw bringing in someone like me from the outside, to develop and design the launch of this program, as the equivalent of hiring an external consultant. What was needed at the time I started was a fresh perspective – and what I was able to bring, having run an established vendor management program at a company like Intel, was that fresh perspective. We’ve also done quite a bit of benchmarking which has been very useful, for example at the SRM conference that Vantage Partners ran not too long ago.

PB: In terms of developing the Microsoft Vendor Program, this was done in-house. I think it’s very fair to say that as we started to build up our program, there was certainly a need to add people, such as Gama, who were seasoned veterans that understood procurement and commodities.

CIO: How, over the years, has your SRM programme had to ‘evolve’ to meet the changing demands of the economy?

GA: If anything, I think the shifts in the economy have acted as a way to accelerate a lot of the plans that we had in place. The main motivation behind, for example, the company bringing me in was that we had a number of issues with our research in this area, and we needed to find out how we could get our research to a higher level of quality. The top priority for us, with the way the economy was, centred around figuring out first of all how to improve the quality of the research that we were obtaining, as this allows us to better inform business units on their product decisions; how to position ourselves; how and when to launch particular products; and what our customers think of us – all this research has a significant impact on real business decisions which drive revenue and profit & loss, so we need to make sure that the quality of this research is priority number 1. The way that the economy has been recently, it’s really accelerated a lot of our plans, such as establishing world-class rates with all of our suppliers.

PB: We actually had plans to put things like world-class rate cards in place with our suppliers before the economic downturn. As Gama said, these current conditions have acted as a way of accelerating our focus on getting certain things implemented from a process perspective. That said, we do have concerns about the financial health and welfare of our suppliers too - we want to ensure that they are able to retain the key resources and the key people that they’ve got, and so we take supplier health extremely seriously.

CIO: Where do you see your SRM strategy heading over the next few years?

GA: We have had quite a bit of success on an engagement to-engagement basis. If, for example, we are looking to engage in a particular research project, we tend to send a request out to our best vendors. This has worked quite well for us over the years, and we’ve received some really good insight into certain products. Where we’re a little frustrated though is that with Microsoft being one of the bigger players in the market, there have been significant industry, and Microsoft –specific, issues which have been difficult to resolve for particular engagements. Therefore we’re trying to work closer with our suppliers to help figure out what the top macro-level issues are that need to be fixed in order to benefit both Microsoft as well as the suppliers themselves. This allows us to get a better feel for how these aspects are impacting both our businesses, so it’s really a win-win situation. Another advantage for them is that their name is tied with a significant Microsoft initiative, which can also have a few indirect benefits for them.
This can all, on paper, sound pretty simple – however it is in effect a fundamental mind-shift. What we’re saying to these suppliers is that we want to engage with you guys, on bigger things that will have significant effects on our business outside of the project itself. It’s a pretty major shift in the way that we do business with our suppliers, which is why it has taken a bit of time for certain internal stakeholders to get back to us. However in the longer term, this is something which is clearly going to be very advantageous for us.

PB: From an SRM perspective, what we’re doing in corporate procurement is more of a process-related investment; we are going through the process of re-centralising the procurement aspects within Microsoft. We’ve established a buy-centre in the US and a couple more internationally, and we are now driving purchase order activity through these buy-centres. By centralising this we’re bringing more consistency in how we’re communicating with our suppliers, and this consistency can be a great help in getting things done from a process perspective.

Gama and I do share a pretty unique business relationship. There are, of course, other commodities which have a relationship with their business group, and we need to see more of this as these are without doubt the most effective relationships to have in terms of supplier management. As time goes on, our strategy is to continue to expand and enhance the internal partnering between Procurement and the business groups for all commodities.

GA: It’s not that fundamentally challenging to come up with the concept of SRM, but the actual implementation is what many organisations struggle with. What’s tough about it is the fact that there needs to be a strong behavioural change, which is difficult in an organisation which has an established culture and way of doing things. You need to be incredibly proactive, and there needs to be genuine effort and interest from both parties in order to make it work. In terms of the ROI from these types of programs – some of it can be calculated and be number-driven in terms of cost savings, but it’s difficult to measure this for many of the higher level collaborative relationships we have. What’s required is an element of patience, and a long term outlook, when it comes to this type of strategy. So far though, Microsoft has certainly seen the fruits of the time and investment placed in these programs, and is looking to continue to invest in this in order to realise the full potential of SRM.

BIO: Gamaliel (Gama) Aguilar-Gamez has spent most of his career managing supplier relationships for high tech companies such as Hewlett Packard, Intel and Microsoft. The last 5 years have been focused on Marketing Agency Management ranging from Marketing Asset Print and Fulfillment to Search Engine Marketing. Today he serves as the Primary Research Vendor Manager for Microsoft within the Central Marketing Group. Gama has Bachelor of Scéience in Business Administration and Economics from the University of Oregon.

BIO: Paul Beelmann has been at Microsoft for over 14 years in a variety of supplier management and procurement roles. He is currently Senior Procurement Manager for the Market Research commodity. Prior experience includes procurement management roles at Rohr Industries and Allied-Signal. Paul has a BS from Arizona State University and an MBA from University of San Diego.
Improving negotiated results, enhancing supply chain performance, and maximizing the value of key supplier relationships

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- Supplier Relationship Management program design and implementation
- Development and implementation of innovation sourcing strategies
- Development of negotiation strategies for single and sole source suppliers and hands-on coaching to teams involved in high-stakes, complex supplier negotiations
- Benchmarking: of SRM programs, negotiation effectiveness, procurement organization performance and capabilities, and supply chain effectiveness
- Facilitation of joint value discovery workshops with key suppliers
- Design and delivery of customized training solutions on topics including: negotiation, supplier management, influence, and internal client management

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