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*Vantage Partners has partnered with IACCM to sponsor an SRM Community of Interest. During the first community teleconference, Jonathan Hughes, Partner and Sourcing and Supplier Management practice leader at Vantage, addressed many of the challenges individuals face in building a business case for SRM within their organizations. Together with IACCM's Katherine Kawamoto, Jonathan discussed the difficulties involved in quantifying the benefits delivered from SRM, and shared advice for addressing these challenges. Community members posed a number of questions during the discussion, which have been laid out with corresponding answers, in the following white paper.*

**Question:** How do you measure the financial impact of SRM? (i.e., better quality or assuring brand reputation)?

**Answer:** Part of the challenge in measuring the financial impact of SRM is that there are so many ways that SRM can contribute to financial performance. These include cost savings (through many means: most favoured customer pricing; more effective management of scope post initial contract award; joint efforts to improve design, manufacturing, and service delivery for greater efficiency); incremental revenue opportunities (again through many means: gaining early or exclusive access to innovative supplier technology; joint efforts to develop innovative products, features, packaging, etc; avoiding stock-outs through joint demand forecasting; avoiding being put on allocation during periods of peak market demand; etc.); and improved management of risk. On the risk front, recent events have highlighted the enormous revenue and share price impact of supply chain problems (lead paint in toys, salmonella in peanut products, etc.). Measuring the value of SRM with respect to risk is particularly tricky. If, through improved transparency and collaboration with suppliers you can avoid safety, supply, and reputational risks, by definition, fewer adverse events will occur. So, how do you measure something that doesn't happen? Ideally, you build a historical baseline of such problems, and then measure the trend down. You can certainly put a financial value on that improvement, although it will be a somewhat subjective measurement. Alternatively, you can do a qualitative assessment of current risk levels, then measure the improvement (the reduction) in the perceived level of risk, and, if desired, assign an estimated financial value to that reduction of risk exposure. All of this, needless to say, is more complicated than measuring

a reduction in unit price from one year to the next. At the same time, the kinds of contributions from SRM noted above arguably have much greater impact on corporate financial performance than traditionally measured "savings."

**Question:** Is it really possible to quantify a business case for SRM? Or are the benefits too intangible?

**Answer:** See above. Also, my experience is that the business case for SRM is almost always a balance of quantitative and qualitative elements. Measuring (or predicting and estimating) financial benefits is useful and important (more at some organizations than others), though expecting an exact quantification of benefits is unrealistic. That said, making the logical case for SRM and documenting case studies of SRM benefits and the costs of failing to systematically manage supplier interactions and maintain positive working relations is, in my experience, often even more important.

**Question:** The main thing I have struggled with is putting the metrics (aka savings) around the ROI of developing a program and what techniques within a program truly deliver those types of savings. Can you elaborate on how to address this?

**Answer:** Again, see above. Also, I would challenge your key suppliers to help you develop ways to measure ROI and demonstrate savings (opportunities and accomplishments) through SRM. Where do they see waste and opportunities to improve efficiencies? How have they measured savings through SRM with other customers? Also, you might reach out to a colleague from Finance — you want someone who is not just a number-cruncher, but someone who understands the business, and who can think strategically and creatively. Describe the kinds of opportunities you see to reduce costs, manage risks, and drive innovation with suppliers through a formal SRM program, and ask for help developing financial metrics and a business case for engaging in SRM activities and building a formal program.

**Question:** Is the business case stronger for direct materials — or are there significant opportunities with suppliers of indirect goods and services?

**Answer:** While there has been more historical focus on, and experience with, SRM in the arena of direct materials (as there has been with respect to sourcing and

procurement as well), I believe there are indeed very significant SRM opportunities in the indirect goods and services arena. Our research and experience suggest enormous value leakage (unplanned cost increases, delays, quality issues) in the implementation of many indirect services projects, and SRM can greatly improve execution discipline and the quality of collaboration during project delivery. As another example, with suppliers of IT products and services, there are often great opportunities to drive innovation, and to improve internal business processes and operations — efforts which can deliver significant cost savings as well as support market and revenue growth. With the current economic downturn, I am seeing efforts at many organizations to place much greater focus on management of indirect spend (including what have often been “sacred” and untouchable categories like advertising and marketing services). SRM must be a central element of these efforts — simply relying on traditional techniques like spend consolidation and competitive bidding to drive down costs in such complex, sensitive, and essential categories of spend is unlikely to lead to positive results.

**Question:** I have gained an “in-principle” acceptance that SRM is required in order for us to meet our goals and implement our strategy for growth. However, I am unable to convince the board that some expenditure will be required. How can I convince the board that funds are required to enable the set-up of the overall SRM process?

**Answer:** First, I might look at the structure and format used in your organization for other requests for investment funding (e.g., in R&D, Marketing, IT, etc.), and talk to colleagues in different parts of your company who have been successful in getting funding for other (perhaps very different) kinds of initiatives. Find out how they made the case for investment, and what advice they have. Second, it sounds like you have been successful in explaining why SRM is necessary. Now you need to explain what implementing SRM entails in a concrete fashion. By describing specifically the kinds of activities and tools that comprise SRM, you can educate the board on what SRM actually involves, and the reality that it takes time, effort and resources. In my experience, benchmarking other companies with successful SRM programs is often a very helpful way to educate senior executives on what SRM means in practice, how leading companies are implementing SRM programs, and the nature and amount of resources

they are investing. Finally, I also recommend laying out a staged approach to investment to your board. Consider an initial pilot phase, with clear milestones to be met before proceeding with the next tranche of investment.

**Question:** What kinds of strategies have you used, or seen others use, to build executive and business unit buy-in of the benefits of SRM?

**Answer:** I share some advice below with respect to building business unit buy-in. In terms of executive buy-in, one critical piece of advice is to show how SRM is essential to, or at least supports, your company’s overall business strategy, and link SRM to other critical initiatives. Right now, at many companies, that means showing how SRM creates significant opportunities for

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cost savings (while also reducing supply chain risks). And, while perhaps somewhat less of a focus than before the downturn, the need for companies in mature markets (who simply cannot compete with companies in developing markets based on cost structure) to innovate is a strategic imperative. Procter & Gamble has been quite public about their Connect and Develop initiative to drive innovation through external sources, including suppliers. The logic is simple but compelling: Look at your own organization’s R&D staff and budget, patent portfolio, market research resources — or any other innovation-related assets you want to count. Now measure the quantity of those same assets across your supply base — it’s orders of magnitude greater.

**Question:** Is it really important to have good internal alignment? If so, do you know the best way to achieve it?

**Answer:** I believe it is absolutely critical. In terms of achieving it, perhaps the most important advice is to engage internal business partners from the outset in designing and implementing your SRM program. Ask them what they see as key business risks and opportunities that should be addressed through SRM. Recognize that supplier relationships are, one way or another, being managed already — albeit perhaps not systematically.

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Ask internal business partners what they are already doing to manage relationships with suppliers, what works, and what they find difficult. Position your efforts as a means to identify and leverage pockets of excellence across the enterprise, and to build on the foundation of what various groups may already be doing.

**Question:** How do you decide which suppliers to focus attention on? What are the best ways to choose 10-15 from the base of hundreds?

**Answer:** My experience suggests there is no perfect answer, and that rather than spend months and months trying to decide where to start (which some organizations do), it is generally better to get started, log some learning and successes, and then expand your efforts over time. (We will also spend more time talking about supplier segmentation in one of our subsequent COI calls.) That said, common criteria are of course, level of spend (more important to focus on future projected versus past spend); the degree to which a supplier can contribute unique technology or solutions to help your company differentiate itself in the marketplace; the degree to which you are critically dependent on a supplier in order to serve your customers and/or maintain business operations; and the degree to which it would be difficult to switch or replace the supplier (the more difficult, the more important it is to invest in maintaining open communication and a strong working relationship). Finally, my own advice is to place greatest emphasis initially on rolling out SRM where you believe there is potential to deliver relatively quick and significant benefits (“quick wins” to help make the case to continue to expand SRM efforts); and where there is the highest level of support for change and investment in SRM from internal business partners and suppliers.

**Question:** In order to effectively manage relationships with our suppliers, how much information should we share?

**Answer:** in my experience, 99% of the time, organizations do not share enough information with their suppliers, and certainly our benchmarking and research show this is one of the very top frustrations suppliers report about their relationships with customers. (Often, simultaneously, organizations may also share too much information as well — the classic case being end-users who tell a supplier that they are the only supplier that can meet their requirements, or that it is essential that

they conclude a contract within a few weeks — and then expect the procurement organization to negotiate a contract with a supplier after having eroded any leverage.) A fundamental goal of any SRM program should be to both increase, and make more disciplined and consistent, communication and information-sharing with suppliers. This means sharing more information about strategic direction and long-term plans; more information about business needs and objectives (versus just communicating narrow specifications and requirements without background or context); helping suppliers better understand your organization’s culture, policies, and standard operating procedures. Needless to say, SRM should equally aim to increase the transparency and flow of information from suppliers to your company.

**Question:** Shall we discuss our ideas for future developments with our suppliers? How often should we meet with them?

**Answer:** I certainly think so. By doing so you create opportunities for them to make investments and align resources to support your efforts. Companies who do this well achieve significant competitive advantage relative to their peers who keep their suppliers (intentionally or unintentionally) “in the dark.” A hallmark of SRM

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leaders is that they have moved beyond a quarterly or annual planning horizon with suppliers, and engage in joint planning with suppliers with a multi-year time horizon. As a general rule, sharing and discussing ideas for future developments and engaging in joint planning with suppliers at a strategic level is a once a year (at most twice per year) activity. My experience is that doing this well requires senior executive level engagement at both customer and supplier, and is ideally accomplished in a face-to-face setting — so engaging in this kind of activity more than once a year is often impractical as well as unnecessary.

**Question:** What value are companies realizing from sourcing activities in comparison to post-contract activities?

**Answer:** Research we just completed (involving over 500 companies globally) indicated that companies realize, on average, only about 55% of the value (savings and otherwise) that they target through their strategic sourcing efforts. Follow-up interviews and analysis suggest that while some of this gap is a function of unrealistic targets, more often than not it occurs as a result of “value leakage” after supplier contracts are signed. The numbers are striking, but in some ways not surprising. Ultimately, strategic sourcing does not deliver value in and of itself — it creates potential value that is realized only when agreements with suppliers are effectively implemented, that is, during post-contract interactions. A strong business case for SRM can be made by recognizing how critical it is to systematically manage post-award interactions with suppliers, something that most companies have systematically and significantly under-invested in doing.

**Question:** Do companies see the benefits from post-contract activities with suppliers increasing in the future?

**Answer:** Yes. I have been consistently hearing for the past several years that many organizations feel they have reached a point of diminishing returns from their strategic sourcing efforts. “The low-hanging fruit has been picked” — the supply base has been somewhat consolidated, a significant portion of spend has been aggregated, competitive bidding has been widely implemented, and a significant amount of spend shifted

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to low cost regions. More work remains to be done in all these arenas at most organizations, but the return on that effort is often quite low compared to what it was even a few years ago. Meanwhile, the risks of a consolidated and more global supply base are significant, and often poorly managed. Most companies I have worked with

and benchmarked, therefore, believe the greatest area of opportunity for the foreseeable future is to focus on improving management of post-contract activities with suppliers — more disciplined performance measurement and management; collaborative use of Six Sigma and Lean methodologies and tools to drive continuous improvement; joint innovation efforts; collaborative efforts to streamline the supply chain and make it more resilient, and so on.

**Question:** How do companies manage and organize their interactions with suppliers?

**Answer:** This is a broad question, and one that we will deal with in more depth on future calls. For now, I will simply note a few recommendations. One, arguably the most common model and certainly in my experience the most successful, might be described as a “center-led” approach. In this approach there is a dedicated organization or team (usually relatively small) within the overall procurement organization that is specifically tasked with developing and then overseeing and supporting, a formal SRM program. The objective of such a group is not to “own” all decisions and conduct all activities with respect to suppliers — that would require an enormous organization and would essentially divorce supplier management from the business areas suppliers ultimately serve. Thus, individual relationship managers for important suppliers typically sit within the business units (though strategic suppliers that serve multiple business units and/or geographic regions often have a dedicated relationship manager who is part of the enterprise procurement organization). Alternatively, such critical and complex supplier relationships are sometimes managed by a cross business unit “council.” Regardless of the formal structure, the key is to strike an appropriate balance between enterprise-wide consistency, and flexibility at the local level. This means a division of labor where a centralized group is helping to create SRM strategies and policies, and providing advice, training and support, but much of the responsibility for day to day interactions with suppliers is handled by the business units.

**Question:** What role is being played by the technologies used to support supplier relationship management?

**Answer:** Another big and important question that we will focus on in more depth on a future call. Currently, I believe tools for SRM are still in a relatively nascent

state. The big software companies (e.g., SAP, Oracle) all claim to have “SRM” solutions, and there are myriad smaller, niche companies that do as well. These run a broad gamut from tools for spend tracking and management, eRFx tools, contract management tools, supplier portal and registration tools, supplier scorecards, and so on. Unfortunately, many so-called SRM solutions are simply a repackaging of sourcing and procurement tools, and many have been developed without sufficient input from practitioners and subject matter experts — and thus do not address the enormous challenges and opportunities that exist in interacting with suppliers post contract award. That said, I do see significant evolution and improvement in what’s available. Supplier scorecard tools are slowly improving, and smaller providers in particular are integrating survey technology and developing solutions that combine qualitative and quantitative components. Some of the more powerful tools to support SRM (particularly in the direct materials context), are collaboration tools that enable customer and supplier teams to jointly work on product design, and effectively manage development of, and changes to, specifications. Finally, I believe software tools for product lifecycle management (from companies like Siemens PLM Software) hold great promise for enabling enhanced collaboration between customers and suppliers.

**Question:** If we consider the cost related to the SRM software in the total business case, two options are possible: either SAAS or the so called “on premise” solution. Looking at maximizing cost and risk reduction long term, what experience do you have in terms of the best solution? (Knowing that not only strategic “short term” cost reduction is looked at but also long term more “operational” cost reduction.)

**Answer:** My own perspective, based on the state of SRM tools today and the rate of evolution in this field, is to limit upfront expenditures and preserve flexibility. So, between SAAS, and buying and owning software and deploying it behind the firewall, I lean toward the former in most circumstances. I also believe there are a lot of advantages to using basic tools like MS Excel and SurveyMonkey for scorecards, and building some tools in-house. Ultimately, these are not scalable solutions. But most organizations, in my opinion, need to spend more time in a stage of pilot deployment learning what features and functionality they really need through some amount of trial and error, before making major

investments in more robust and scalable solutions.

**Question:** What are the core skills required for companies to be successful at supplier relationship management?

**Answer:** This question deserves a longer answer than I can give now, but we will return to it on future calls. In terms of knowledge, I would say SRM requires both procurement staff and end-users to have a deep understanding of suppliers — of their expertise and capabilities, their business models, and their strategies. Similarly, procurement staff in particular need a deep understanding of the needs and plans of the business units they support — the quality of internal collaboration and partnership between procurement and business areas is a major determinant of SRM success. In terms of skills, I believe SRM requires foundational skills in the following areas:

- Communication — specifically the ability to understand and learn from different ideas and perspectives
- Joint problem-solving — including the ability to jointly conduct root cause diagnosis of problems without a dysfunctional emphasis on finger-pointing and attempting to assign (or defend against) blame; and the ability to find creative solutions when needs or priorities conflict
- Scope management — including the ability to plan and manage work within scope; to manage creatively and fairly resolve scope change requests
- Commitment management — including the ability to make clear requests for commitments; clarify and effectively respond to requests for commitment; hold supplier and internal colleagues accountable for commitments; and effectively deal with and learn from broken commitments
- Managing differences and conflict — specifically, the ability to creatively and collaboratively resolve disagreements, without damage to working relations

**Question:** How do you successfully launch a new SRM program?

**Answer:** Key pieces of advice include: engage a cross-functional team (procurement, supply chain, business unit representation, and possibly other functions like finance and marketing); develop a business case; as part of the business case, conduct some form of

benchmarking of current practices and capabilities and opportunities for improvement — with input from key suppliers (e.g., through a “voice of the supplier” survey); engage at least one, if not a few, senior executives as sponsors and active champions of the effort; involve key suppliers early in the design of the program (ask for their input and advice; engineer alignment with their strategic account management programs); and be careful not to be too diffuse in initial efforts (e.g., focus early deployment on a small number of high-potential pilots with key suppliers).

**Question:** How do you leverage early successes to gain resources and commitment to scale up SRM programs?

**Answer:** As implied by your question, a critical element of change management efforts must be to drive early successes. Of course, it is also essential to communicate those successes (both quantifiable results, and also compelling stories and case studies). Unfortunately, the influence and change management skills required to effectively communicate SRM successes and benefits, and persuasively make the case for increased investment, are often lacking in procurement organizations. So it is important to identify, or if necessary recruit, individuals who have these skills. Finally, it is important, especially in interactions with senior executives, to be very clear and explicit about the specific resources being requested to scale up an SRM program; why those resources are needed and how they will be used; and what benefits can be expected as a result of making those investments.

**Question:** How do you accelerate adoption of an SRM program?

**Answer:** Regularly communicate SRM successes. Engage one or more senior executives who “get it” to actively communicate the importance of SRM and publicly recognize SRM accomplishments and key individuals who were involved. Ensure close collaboration with internal business partners — engage them by asking for their ideas and help, and ensure they feel a high degree of ownership for SRM efforts.

**Question:** How do you sustain and reinvigorate SRM efforts that are already underway?

**Answer:** See above. Also, in terms of reinvigoration, consider some major challenges that your company, or specific business units, may be focused on — and

then engage suppliers in collaborative efforts to address those challenges. A number of recent examples I have been involved with: environmental sustainability and reducing carbon footprints; reducing travel (for both cost and environmental reasons); developing a next-generation technology or product platform.

**Question:** How do you connect strategic SRM efforts to reciprocal strategic account management initiatives at suppliers?

**Answer:** The fundamental thing is, I believe, to recognize (as you have) the opportunity and importance of making this connection. (Far too few companies do.) Then, as basic as it sounds, the way to make the connections is to have explicit conversations with your suppliers. Describe your SRM program, and ask them to describe their strategic account management program. Talk about how to best align them. Also, as you invest in SRM (and thus in your suppliers), make sure that you are requiring them to make commensurate investments as well. SRM needs to be a two way street — with respect to both benefits and investments.

**Question:** Tell us some of the specific insights about the different approaches to, and benefits of, SRM in different sectors and categories of supply. How does the business case for SRM vary by industry, or category?

**Answer:** I believe the foundational principles and strategies of SRM are very consistent across sectors and categories. These include segmenting suppliers based on the level of risk and opportunity in the relationship, and aligning SRM resources accordingly; improving the scope of communication and transparency with key suppliers; building trust and encouraging and rewarding investments in your company by key suppliers; employing greater discipline in performance measurement and management across the supply base, and placing greater emphasis on joint measures of success and benefit; and two-way feedback, with key suppliers; treating all suppliers with a high degree of professionalism and respect in every interaction; and striking an appropriate balance between competition and collaboration (the balance varies by supplier segment), across the supply base. The benefits of implementing such principles and strategies do indeed vary significantly by sector, supply category, individual company (depending on market position and strategy), and even individual supplier. A few examples are listed. For smaller companies, the

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benefits of SRM are often getting better pricing and more commitment of supplier resources by being easier to do business with and a more collaborative partner (since they cannot rely on the carrot of huge spend to motivate or influence suppliers.) In any kind of services context, a major benefit of SRM is influencing suppliers to put their “A teams” on projects for your company, while your competitors are relegated to less expert delivery resources. In many direct materials contexts, there are significant cost savings and incremental revenue opportunities to be gained by SRM-enabled joint innovation efforts with suppliers. In consumer products and energy, to name just two sectors, many companies are actively pursuing “customer of choice” strategies to drive innovation through privileged access to supplier ideas and technology, and to ensure preferred access to limited supply base talent.

**Question:** What are today’s industry leading SRM benchmarking and diagnostic tools?

**Answer:** I don’t believe there are any terribly useful industry or marketplace benchmarks or tools related to SRM, any more than I believe that there are for most complex business functions (which is different than, say, broadly applicable pricing benchmarks). The common (and commonly fatal) flaw in benchmarking is a failure to recognize that successful practices from one organization can rarely be easily transplanted into a new organization. For example, you might find that a given company has a well-defined and very efficient escalation procedure with suppliers. But if you simply try to replicate that process in your own company, chances are, you will be disappointed by the results. The way that process works almost certainly depends on a set of individual skills and attitudes that are part of the organizational culture in which that process functions. Moreover, there are undoubtedly a set of formal and informal incentives that reward people for using the escalation process and acting in good faith as they do, and that penalize people for working around the process or violating its underlying principles. Understanding that web of formal and informal incentives will be critical if you want to replicate something similar in your own organization, but it is not a simple task. With that said, we (at Vantage Partners) have done a few cross-industry studies over the last several years to look at SRM practices, as well as barriers to and enablers of, effective collaboration between customers and suppliers. I will work with IACCM to make those studies available

to members of the community. Hopefully they will provide some insights, and certainly they can be used to guide individual company benchmarking efforts. Finally, a gentleman by the name of John Henke (a marketing professor at Oakland University in Rochester, Michigan, and a friend) has developed a sophisticated tool for measuring the quality of working relations with suppliers (the WRI — Working Relations Index) that is quite interesting. He has a significant amount of data behind it (particularly in the automotive industry). I am happy to put you in touch with him, recognizing that his tool is quite specific in its focus — it is not a tool for benchmarking SRM practices or maturity level.

**Question:** Has the business case for SRM been undermined by the current economic crisis? Or strengthened?

**Answer:** You may not be surprised to hear that I believe it has been strengthened. I’ll explain why in a second. First let me share what I see in the marketplace in general, which is a very distinct bimodal pattern of response. Many companies, probably a slight majority, continue to espouse a view that SRM is important, but aver that they can’t afford to focus on it in the current environment. They have paused or scaled back on SRM efforts, and are focused on more traditional means of driving costs down. Often, unfortunately, such efforts involve demanding that suppliers reduce pricing without any attempt to work jointly with those suppliers to reduce their costs. Or, as we have seen in the press recently, customers are in some cases refusing to take delivery of supplier shipments and are unilaterally breaching contractual agreements. If the current crisis has anything to teach us, it is the tremendous long term-costs of short-term thinking and decision-making. With that said, I do see many companies who share my belief that the case for SRM is more relevant than ever. They may be reprioritizing certain goals for their SRM program, for example, placing greater emphasis on working with suppliers on joint cost reduction efforts and understanding and safeguarding supplier viability and supply chain resiliency, and less focus on supplier innovation efforts focused on top line growth, or investments with long time-horizon pay-offs. In any case, these companies believe that SRM is the only way to simultaneously reduce costs without drastically increasing supply chain risks in an environment where suppliers are under as much financial pressure as their customers (if not more). Also, many companies see a silver-lining of SRM opportunity

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under current conditions. Recognizing that many of their competitors are squeezing suppliers and doing long-term damage to working relations, these companies are actively investing in building closer, more collaborative, and more committed relationships with key suppliers. As the economy improves, they will have privileged access to supplier capacity and investment; their competitors will be put on allocation or worse. Make no mistake, many suppliers will not survive the downturn, and many that do will ultimately emerge stronger. Institutions have long memories, and the consequences, for good or ill, of the way customers are dealing with their supplier right now, will echo for many years to come.