

*outsourcing*

*electronic  
commerce*

**FOCUS  
STUDY**

*total cost*

*ethics*

*supply chain  
management*

*strategic alliance*

*global sourcing*

*purchasing  
consortiums*

*operational  
resource management*

*minority enterprises*

## **Supplier Relationship Management: An Implementation Framework**

**A Major Research Initiative of  
CAPS Research**

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2011

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*2011*

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# Acknowledgements

CAPS Research would like to acknowledge and thank the companies that participated in this research. Although these companies asked to remain anonymous in this report, they generously and openly took part in the data collection process, including interviews. Their experiences and insights greatly added to the depth and breadth of the research.

We would also like to publicly acknowledge and thank the following members of the extended research team for their contributions:

- Steve Gozdecki, an independent writer, who provided ongoing editorial guidance and communications support for the study
- Debbie Maciejewski of CAPS Research, who provided scheduling and coordination support with participating companies
- Kathleen A. Chester of ISM, who prepared numerous draft reports and handled administration with participating companies

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# Executive Summary

Establishing positive, productive working relationships with suppliers is critical when trying to maximize supplier contributions to a firm's performance. As such supplier relationship management (SRM) has been the topic of continuing discussion over the past two decades. Some firms have developed an ongoing culture of effective relationships with suppliers, while others have tried occasional initiative-based efforts to improve their working relationships with suppliers. Still others have undertaken no efforts to improve these working relationships. In addition, a few firms that were on the forefront of building effective and collaborative supplier working relationships have subsequently seen these relationships deteriorate to adversarial levels.

Currently, firms across multiple industries are working to enhance supplier working relationships and establish the value-add of these improved relationships. Effective working relationships with suppliers have increased in strategic importance due to the many potential contributions these suppliers can make to help control total manufacturing and operations costs and to build market requirements into their products and services. Therefore, the buying company must be able to:

- Become a customer of choice to obtain preferential treatment regarding availability, cost, technology access, innovation and risk reduction.
- Grow emphasis on value (versus price only), requiring enhanced collaboration with suppliers that leads to increased market competitiveness.
- Leverage and capture supplier and supplier network capabilities at all points in the value chain, especially early in the innovation and new product/service development process.
- Equitably share growth and profit opportunities, leading to joint efforts and resource commitments for greater innovation.

Many executives have been asking the following question about supply and supplier strategies:

*“What supply strategies should we employ that go beyond demanding price give-backs that would provide for innovation and fundamental cost improvement without significant capital investment?”*

To help answer this question, field research with eight leading global companies across four industries was undertaken to attain insights into the following overarching research questions:

1. What are the principles, strategies and behaviors that firms have used to rationalize their supply bases?
2. How have rationalized supply bases affected supplier performance?
3. How have firms forged deep supplier relationships in rationalized supply bases?
4. Do benefits accrue from enhanced supplier working relationships?

## **Effective Working Relationships with Suppliers Requires an Integrated Approach**

Five important work streams have been found to significantly affect working relationships with suppliers:

- Supply base rationalization with purchase family/supplier segmentation
- Supplier management
- Relationship management
- Buyer/supplier development
- Supplier performance measurement and management

Supply base rationalization (SBR) was a foundational step across all cases that typically reduced the number of suppliers overall and within segmented purchase categories. Rationalization appeared to be the first step toward truly implementing effective supplier relationship management because it identified smaller groups of suppliers that could be expected to have increased impact on value creation and contribution to firm performance.

Supplier management (SM) entailed short- and longer-term sourcing strategies developed around specific purchase categories and specific suppliers. Sourcing decisions by supplier were made that included longer-term working relationships, business volume commitments over time, joint product development efforts, opportunities for additional business, and a number of other economic incentives to reward supplier performance.

Relationship management (RM) was a key element in driving supplier working relationship improvement. Actions typically included improvement in:

- Information sharing and transparency between buyer and supplier, regarding future business and technology plans, investments, costs, schedules, and so forth.
- Trust building, based on making realistic commitments, honesty, and executive engagement and support in response to unforeseen events.
- Joint efforts with equitable input of resources and equitable sharing of resulting rewards.

Buyer/supplier development (B/SD) efforts typically followed, after the initial benefits of SM and RM were achieved. B/SD became a focus when the buying firms (and suppliers) realized that they needed additional and continuing improvement. Approaches included buyers providing funds to suppliers for improvements, sharing technology, making joint process improvements, and committing company resources to assist suppliers to develop “lean” practices.

Supplier performance (SP) measurement was the result of effective SBR, RM, SM, and B/SD efforts. SP was measured in terms of cost reduction, quality improvement, first access to new technology, speed to market, cycle-time reduction, on-time delivery, and lead-time reductions, as well as soft measures such as cultural alignment.

## Effective SRM Provides Results

The firms studied achieved positive results from their SRM efforts. Measurable improvement was found in short-term operational and financial performance as well as long-term working relationships. Case-based improvement examples include:

- Smaller but higher performing supply bases with total cost reductions
- Overhead cost reductions
- Process improvements
- Increased visibility into actual cost versus price resulting in joint improvement efforts
- Year-over-year cost reductions to achieve performance targets
- Millions of dollars in savings related to joint product improvement projects
- Increased supplier loyalty and achievement of product launches on-time and to cost
- New product development in shorter than normal time intervals
- Complexity reduction with suppliers
- Productivity improvements reducing total cost by more than 12 percent
- Quality improvement
- Close supplier working relationships at the product design stage

All of these improvements contributed to the respective firm's financial and customer market performance.

## Twelve Conclusions Affecting Supplier Working Relationship Effectiveness

The summary conclusions from the research are shown here. They provide insights into those most important factors impacting the success of supplier relationship management (SRM).

1. To be successfully and fully implemented, SRM requires an integrated approach consisting of the different work streams discussed above. No one-time “silver bullet” or simplistic “go do it” approach will work.
2. SRM can be established as a company initiative that comes with a beginning and an end. However, achieving continuous results requires that SRM becomes a way of doing business within the overall business environment and value chain strategies. Modification of established work streams, if deemed to be limiting SRM, will have to be considered to maximize supplier working relationships.

3. Executive leaders must be committed to SRM as a priority and communicate the business logic supporting SRM efforts both internally and to the supplier community. In addition, they need to “walk the talk” by providing necessary resources.
4. SRM should be linked strategically to key strategic business goals and its contribution measured objectively through both quantitative and qualitative means. The linkage between goals and results is important to changing company and supply culture, especially when established company and supply approaches neglect or work against effective SRM.
5. SRM requires a total cost/value perspective. A singular focus on year-over-year purchase price reduction will limit SRM effectiveness due to the narrow focus.
6. Company cultures may need to be changed to implement and enhance SRM. Embedded cultural attitudes that limit collaboration, communications, trust, and effective cross-enterprise relationships can destroy SRM efforts.
7. The organization will have to ensure equitable treatment and respect of suppliers (and vice versa), including a sharing of risks and rewards combined with trust to achieve effective supplier working relationships.
8. SRM will require talented human resources who spend time working closely with important suppliers to fully execute the critical work streams (SBR, SM, RM, B/SD and SP). Deep supplier working relationships are necessary to enhance overall enterprise-to-enterprise relationships.
9. Infrastructure investments in information technology, teams, and organizational structures will be necessary to obtain supplier ideas and to return timely feedback.
10. Internal stakeholder and supplier education about the acceptable practices and behaviors to further SRM is required for its successful implementation.
11. High performance expectations by all parties, combined with joint efforts and transparency of critical information are necessary to achieve both incremental and breakthrough results beyond what each firm can achieve alone.
12. SRM will become a more important area of company and supply focus at those firms at which price-focused improvements through supply have leveled off. Effective SRM will take time. Commitment of human and capital resources will develop deep supplier relationships and lead to resulting benefits.

“readiness” of an organization to implement effective supplier relationships are also included. Eight detailed case analyses provide examples of effective SRM efforts and results.

A series of implementation recommendations for each of the five critical work streams is provided in this report. Assessment questions to determine the