Should You Invest in Supplier Relationship Management?



For Chief Procurement Officers (CPOs) and other modern procurement professionals, maximizing the value generated by the procurement function means looking beyond basic cost savings.

Their attention is focused on developing business practices that support their organization's long-term goals while enhancing both competitive advantage and the bottom line.

And one of the most important—and most frequently overlooked—opportunities to do so is through supplier relationship management, or SRM.

Supply chain management is of course an essential part of any successful procurement department, but SRM is a more nuanced and strategic approach.

And for companies who understand its value, investing in SRM can generate a return that far exceeds the cost to do so.

What is Supplier Relationship

Management?

Broadly speaking, SRM is how your company creates, enhances, and optimizes vendor relationships.

These relationships—whether they're formed with import sources, product manufacturers, or wholesale distributors—have a major influence on your company's success.

Strong relationships with vendors you can count on help you grow, maintain competitive advantage, and protect your reputation in the marketplace by ensuring you can meet your obligations to creditors and customers.

Effective SRM combines technology with strategic interpersonal relationships, blending the "soft skills" of humans with next-gen supplier management software to support:

- Supplier segmentation
- Performance management
- Risk assessment
- Supplier evaluation and development
- Contract management

This centralized, real-time method allows you to develop and enforce business practices and policies that support both:

Continuous improvement via tracking of key performance indicators (KPIs) for all areas of procurement, including pricing, inventory management, strategic sourcing and category management, and supplier performance.

The larger goals of the company across all business units, including improved risk management, product development and innovation, and optimal time-to-market cycles.

A common example of this type of value is the massive growth and success of Apple, who leveraged its collaborative supplier relationships to create unique products driven by innovation and the ability to supply the goods and services that turned technological concepts into new products that were consumer-friendly and readily available.

> *Dedicated SRM support, whether it's a single Supplier Relationship Manager, a specialized team, or a shared support function, is key to building the relationships that solve, rather than create, problems.*

The True Value of SRM Lies in Removing Obstacles

Direct savings are always welcome in procurement, but the benefits of SRM lie not in slashing prices, but in streamlining processes and optimizing supplier relationships to build value.

Investing in SRM means looking for ways not just to save money, but to transform suppliers from mere vendors into trusted partners who share and support your goals.

Dedicated SRM support, whether it's a single Supplier Relationship Manager, a specialized team, or a shared support function, is key to building the relationships that solve, rather than create, problems.

By addressing common frustrations, SRM supports your procurement goals in a number of ways, including:

1. ## Procurement Efficiency Challenges

   Maybe your staff is wasting too much time chasing vendor data. Maybe their correcting PO exceptions, or tracking down a duplicate or late payment.

   Whatever the reason, your procurement team is spending time that could be devoted to building strategic supplier relationships on easily automated, low-level tasks instead.

   The SRM process streamlines basic procurement practices in order to maximize efficiency while reducing or even eliminating errors.

   When your entire supply chain is made up of pre-vetted suppliers properly sorted in a centralized category manager, and whose performance and

transaction information is readily available to procurement, finance, and other staff, everyone has a lot more free time to focus on working with suppliers in support of big-picture goals that build lasting value, e.g. product development and innovation.

In addition, the relationships developed and supported through SRM may allow you to outsource some activities, such as inventory management and consumer-facing customer support, directly to some suppliers.

You can maintain quality and trim expenses while freeing up internal resources to focus on larger, more value-building tasks.

2. ## Lack of Innovation

Technology is often touted as the key that unlocks the future of mankind.

But no matter how many apps or gadgets or systems we develop, one of humanity's oldest tricks of the trade—human relationships—will still be at the center of any future involving human beings.

It's ironic, then, that any truly successful leap in technology relies so heavily on our oldest connections.

Without SRM, your supply chain management might be relatively cost effective, but can't quite support the deep and mutually beneficial relationships that lead to new ways of solving old problems, or addressing technological advances with improved support, shipping, or products.

A two-way focus on collaboration is a key component of effective SRM, and an essential part of reaching the kinds of success enjoyed by companies like Apple.

3. ## Supplier Performance Issues

Supply chain management has its risks as well as its rewards.

And if your supply chain is bloated with extra vendors, or your staff can't quite seem to get a handle on the terms and pricing offered by your suppliers, or if you've got maverick spend diverting dollars to unvetted

vendors across multiple locations, you're likely losing value through missed discounts, incorrect pricing, delivery/quality/customer service issues, or even outright fraud.

But with an SRM system in place, you can access on-demand visibility of ongoing performance trends for every vendor in your supply chain.

You've got instant and searchable access to terms and pricing information, as well as alerts for any special discounts available through quantity, early payment, or specific products.

You can focus on supplier development, forging specific and strategic plans while you build collaborative relationships with all of your key suppliers (and rehabilitating or replacing those who don't fit your needs).

Supplier performance becomes a negotiation tool—rather than a point of contention—and you can trim your supply chain down to a lean, mean value-generating machine.

4. Communication Bottlenecks

Much like your staff, upper management and other stakeholders need visibility into the procurement function in order to be at their best and accomplish their goals.

If you don't have a supplier relationship management system in place, you might find yourself dealing with even more lost hours and value lost as you struggle to keep stakeholders up to date on supplier performance, contract negotiation and management, and other concerns.

SRM gives all your stakeholders instant access to supplier information from all their devices. In turn, they can use this information to make confident decisions on strategic initiatives that rely on supplier support and investment in order to succeed.

5. Supplier Risk Exposure

It's a sad truth that what you don't know really can hurt you. Without insight into your supply chain's quality, environmental/workplace safety,

compliance, and security issues, you might be opening your own company up to serious risk for legal and financial ruin.

The technological and interpersonal connections formed by SRM give you total access to all supplier information.

You can easily evaluate new vendors, track the performance and compliance of existing ones, and create policies and processes that reduce or eliminate your risk in response to supplier actions.

A Question Not of Cost, But Value

The benefits SRM brings to the table are substantial: better relationships, greater efficiency and productivity, less waste, lower costs.

And when you consider how much value, beyond those dollar-for-dollar savings, you can generate through a strategic approach to managing your supplier base, you begin to see that the question isn't, "Should you invest in supplier relationship management?", but "Can you afford not to invest in SRM?

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our guide “Preparing Your AP Department For The Future”

Download a free copy of our guide to future proofing your accounts payable department. You’ll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts