



Asked & Answered

What does Supplier Relationship Management (SRM) mean for indirect spend?

Q&A WITH CHRIS SAWCHUK, PRINCIPAL AND GLOBAL PROCUREMENT ADVISORY PRACTICE LEADER, THE HACKETT GROUP

According to the Hackett Group's annual Key Issues report, 74 percent of procurement professionals polled ranked SRM as a critical or major area of investment this year. But just how should procurement teams apply SRM to its indirect spend area?

We spoke to Chris Sawchuk, principal and global procurement advisory practice leader, The Hackett Group, about SRM and its importance for indirect spend.

How do you define SRM?

Chris Sawchuk: The mistake some organizations make is having too narrow of a view of SRM and thus limiting the potential value that can be created for their organizations. In reality, SRM includes all of those activities that should occur with your suppliers after you have architected your supply base through sourcing.

What are the focal points of SRM?

There are three dimensions that need to be managed in relationships with suppliers. The first dimension is compliance. Suppliers need to comply with the expectations you have set for them during the negotiations and contracting process. This would include supplier performance management and improvement.

The second dimension is risk. All suppliers pose a risk to your organization, but hopefully very small. You need to identify those suppliers that pose a higher degree of risk to your organization and determine how to manage and mitigate that risk. At the same time, you need to build a capability to be able to react very quickly and effectively to a supplier risk event that does occur to ensure that it does not materially impact your business.

The third dimension is capabilities. Suppliers potentially have capabilities above and beyond what you have contracted with them to provide to you. This might include capabilities to enable your innovation and new product development processes or your sustainability and cost reduction activities.

QUESTION:

How often should companies be reviewing their relationships with their indirect suppliers?

ANSWER:

It needs to be a holistic, ongoing exercise. There are certainly triggers such as supplier performance issues that might bring about more frequent reviews, but managing supplier relationships should be an ongoing activity.

WHAT DOES SUPPLIER RELATIONSHIP MANAGEMENT (SRM) MEAN FOR INDIRECT SUPPLIERS?

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Who within the organization is responsible for driving SRM within a company?

That's a great question and one that companies need to consider. Traditionally, SRM has been thought to be a procurement responsibility, but in some organizations it is also a functional and business responsibility. SRM is an enterprise capability and for success, it needs to be managed this way with clear roles and responsibilities for all of those involved.

What are the biggest challenges to implementing or optimizing an enterprise-wide SRM strategy?

The biggest challenge is breadth — you have to prioritize. No organization has the capacity to manage all suppliers in this holistic SRM way. The key to success is knowing which suppliers should be managed for performance and risk, and which suppliers to engage with around innovation.

Another common challenge is consistency of execution of the SRM program. Over time, even the most successfully launched SRM capabilities can become variable across categories and suppliers. It is important to establish a vehicle that crosses categories to ensure consistency and — even more importantly — the sharing of insights and practices.

How do companies typically approach supplier segmentation for SRM?

The most typical supplier segmentation models are either tiered (strategic, preferred, important, tactical) or two-dimensional quadrants considering a category's supply market complexity and impact on the business. Once suppliers or categories are segmented in one of these models, their position determines the most effective way to engage. I have been encouraging companies to consider a multi-dimensional supplier segmentation model that first considers the three dimensions of SRM (compliance, risk, capabilities) and then tiers suppliers within each of these dimensions. Your ability to segment your supply base effectively reflects how well you know your supply base.

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Chris Sawchuk has over 17 years of experience in supply management, working with Fortune 500 and midsize firms to improve all aspects of procurement, including process redesign, technology enablement, operations strategy planning, organizational change and strategic sourcing. He was recognized by Supply & Demand Chain Executive magazine as one of its "Pros to Know" and is a co-author of ePurchasingPlus.