THE 4-STEP SRM PROCESS

A practical guide on

getting the basics right in Supplier Relationship Management

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- Useful examples and practical tools
- Group exercises

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What is “SRM” and what is “SRM partnership”?  
Important definitions going forward

“Supplier Relationship Management (SRM) is the entire analysis- and work process on segmentation and management of suppliers as an integral part of the sourcing strategy, optimizing way of interaction and collaboration with each supplier in accordance with specific business needs and desired value.”

“SRM partnership is the most advanced type of supplier relationship, with developing two-way, mutually beneficial relationships with those suppliers that are most vital to the buying company to maximize value and deliver greater levels of trust, innovation, and competitive advantage.”
# Benefits of SRM partnerships

What are desired outcomes from enhanced collaborative supplier relationships?

1. **Deliver a lasting legacy of value creation and capture unique advantages**

2. **Streamline communication, build trust, and secure mutual profitable growth**

3. **Improved utilization of complementary resources (the Company/Suppliers), focus on fewer and better strategic relationships**

4. **Build trust and implement a common operating framework for all development work and interactions with core suppliers**

5. **Become Costumer of Choice – and first to be served - for suppliers and vice versa**

### Added value offerings to jointly work out in collaborative relationships:
- **Volume growth and price decreases** (mutual commitments)
- **Identifying and solving problems TOGETHER**
- **Incentivized performance, shared risks and rewards**
- **Product innovations, joint R&D efforts**
- **Ongoing ideations and shared cost savings**
- **Distribution development (QR, VMI) and reduced inventory levels**
- **Product yield increases and production waste reduction**
- **Higher quality levels**
Supplier Relationship Management introduction
The way we do business with suppliers is evolving over time

In the beginning...

If me hit hard me get good price. Grmfl.

...then we got smarter

“It takes two to tango!”
Working differently with key suppliers
Traditional buyer-seller relationship versus mature collaborative inter-company team work

Develop traditional relationship and price-oriented model

to

Collaborative relationship and value creation model

Work done in functional “silos” and one point of contact

Value creation (beyond price only) as one collaborating cross-functional team
The SRM watch outs
Considerations when starting out on an SRM journey

Do

- **BE PERSISTENT**
  SRM is still not widely understood outside the world of procurement

- **KEEP IT SIMPLE**
  The basic concept is just that

- **FOCUS ON BEHAVIOUR CHANGE**
  Relationships are between people

- **DEVELOP TRUST**
  Consistency and reliability are key

Don’t

- **RELY ON DOCUMENTATION**
  Work with the minimum necessary

- **WORK IN SILOS**
  Share information freely

- **BE FIXATED ON WORKING ONLY WITH BIG SUPPLIERS**
  Smaller companies can be a great source of innovation
The 4 basic steps of SRM

The SRM process is an iterative process consisting of four major blocks:

1. **Segmentation**
   - Supplier Classification

2. **Objectives**
   - Expectations & Governance

3. **Activities**
   - Meetings & Projects

4. **Evaluation**
   - Measurement & Feedback

**The 4-Step SRM Process**
SEGMENTATION – first step of the SRM process
Understand your category positioning and determine appropriate supplier relationship types

Segmentation
Supplier Classification
Segmentation of categories
Identification of your category’s positioning is first step in the segmentation

<table>
<thead>
<tr>
<th>Category Positioning Matrix</th>
<th>Strategic Category</th>
<th>Non-Critical Category</th>
<th>Bottleneck Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Leverage Category</td>
<td>Non-Critical Category</td>
<td>Bottleneck Category</td>
</tr>
<tr>
<td>Low</td>
<td>Strategic Category</td>
<td>Supply Market Complexity</td>
<td>High</td>
</tr>
</tbody>
</table>

**Leverage**
*Use competition to get best value*

**Non-Critical**
*Reduce time and effort but get best price*

**Strategic**
*Reduce risk, create mutual value*

**Bottleneck**
*Reduce risk, simplify, grow volume or exit*

*Suggested or typical supplier relationship types (or classification) for each category positioning is stated in blue text*
**Category segmentation - example**

Typical positioning of different spend categories for a truck manufacturer

*Example – how the category segmentation may look like for a large international truck manufacturer:*

![Category Positioning Matrix](diagram)

**Leverage**
Use competition to get best value

**Non-Critical**
Reduce time and effort but get best price

**Business Impact**
- **High**
- **Low**

**Supply Market Complexity**
- **High**
- **Low**

**Strategic**
Reduce risk, create mutual value

**Risky Bottleneck**
Secure supply, simplify, grow volume or exit

“By knowing the Category Positioning, you will know what is the preferred or optimal supplier relationship type and how the suppliers within that category should typically be managed. For each quadrant, there are different objectives, purchasing levers and actions to play with.”

*So what? Conclusion: Enhance relationship through “SRM program” with key suppliers of Diesel Engines and Technical Design*
Category positioning drives SRM approaches
For each quadrant, different sets of objectives, actions and sourcing levers come into play

Examples on actions toward suppliers and negotiation approach for each category positioning

<table>
<thead>
<tr>
<th>Business Impact</th>
<th>Supply Market Complexity</th>
<th>Leverage Category</th>
<th>Strategic Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
<td>• Collaborative</td>
<td>• Partner</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Regarded</td>
<td>• Collaborative</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Leverage Category**
  - Collaborative
  - Regarded

- **Strategic Category**
  - Partner
  - Collaborative

- **Non-Critical Category**
  - Transactional

- **Bottleneck Category**
  - Collaborative
  - Regarded

- **High Business Impact**
  - Create substitution opportunities
  - Build technical relationship with suppliers
  - Open dialogue, cooperative behavior
  - Re-specify or standardize your needs/design
  - Set targets and clear rules for price control
  - Secure supply chain, build alternatives
  - Intensive info exchange, forecasting
  - Risk management, create contingency plans
  - Optimize/increase number of suppliers
  - Cost structure analysis and TCO approach

- **Low Business Impact**
  - Minimum efforts and attention
  - Reduce complexity and number of suppliers
  - Leverage market, supply and demand
  - Improve efficiency and supply operations
  - Delegate or outsource work to others
  - Simplify processes, use e-solutions
  - Group items into attractive volume baskets
  - Compare price actively among suppliers
  - Short-term business allocations
  - Standardize specifications

- **High Supply Market Complexity**
  - Partnerships or alliances with suppliers
  - Long-term business allocations
  - Joint efforts on reformulation and innovation
  - Profit sharing of generated savings
  - Win-win solutions, or “creative agreements”
  - Cost modelling with open books
  - Geographical expansion with same supplier
  - Targets are set mutually: “in-it-together”
  - Simplify specifications or change technology
  - Build alternative sources, break monopolies
Segmentation as part of Spend Analysis

Segmentation is an integral part of the Sourcing Strategy process’ first step

1) SPEND ANALYSIS
   - Cost analysis
   - Needs analysis
   - Market analysis
   - **Supplier analysis**

2) DEVELOP SOURCING STRATEGY
   - Strategic pillars
   - Buying levers
   - Prioritized actions

3) EXECUTION OF STRATEGY
   - Monitor changes/risks
   - Project management
   - Manage suppliers

"If you are executing a strategy (step 3) and have not done appropriate segmentation, you will need to go back to step 1 and do the complete supplier segmentation and adjust your strategy and set of actions!"

Category- and Supplier segmentation is an integral part of your Spend Analysis in the Sourcing Strategy process (Sourcing Strategy - step 1)
Supplier classification terminology

Three ways of defining relationship types with suppliers (real-case examples from different companies)

Example 1:

- Supplier classification from A to E
- A-, B-, and C-suppliers are ongoing suppliers with A being most valuable/strategic
- D-suppliers are Development suppliers, that are normally new to the business
- E-suppliers are non-prioritized suppliers that are managed transactionally or in exit plan

Example 2:

- Selected few suppliers called “Partner” suppliers, around 5-10% of total suppliers – with these suppliers the company do focused collaborative programs (“SRM programs”)
- The majority of the supplier base are “Collaborative” – each supplier brings a certain value to the company, but not necessarily motivating programs to create value or enhance the relationship

Example 3:

- The most strategic suppliers are called “Integrated”, many categories will not have any Integrated suppliers since being integrated means really "in-it-together" (co-located, etc)
- Preferred and Integrated suppliers are relevant for SRM programs, enhanced collaboration
- Challengers and Commercial suppliers compose the majority of the supplier base, with the latter managed by minimum efforts
Pay for service or goods. We need something and buy it from a supplier
Not much depth or room for expansion, yet what they supply is needed for the business
Transactional suppliers are not prioritized suppliers, normally managed with an arm's length distance or could be in exit plan
We spend minimum time and resources on managing this type of suppliers
Competition is used to secure best buy options
Some common work on bottom-line or top-line projects, but limited and with clear agreement on development cost fees, etc
Regarded suppliers are not seldom growing development suppliers, if competitive they may become Collaborative suppliers
Low level of time invested and resources from buyer company

\textbf{REGARDED}

- Joint efforts from both supplier and the buying company on cost reductions and product/service improvement
- Leveraged capabilities, bringing together complementary knowledge, expertise, and skills to contribute to the mutually beneficial development
- Some careful exchange of plans and strategies
- Medium to high level of time and resources invested into relationship

\textbf{PARTNER}

- Partnership with a supplier who agrees to cooperate to achieve a common goal and establish a close relationship, based on similar objectives or characteristics
- Partner suppliers provide Products or Services that are very critical for our business and consumer needs
- We are "in-it-together", meet often, and share strategies and risks
- We innovate exclusively together in a climate of high trust level

\textbf{OUR DEFINITION OF RELATIONSHIP TYPES:}

\textbf{TRANSACTIONAL}

- Pay for service or goods. We need something and buy it from a supplier
- Not much depth or room for expansion, yet what they supply is needed for the business
- Transactional suppliers are not prioritized suppliers, normally managed with an arm's length distance or could be in exit plan
- We spend minimum time and resources on managing this type of suppliers

\textbf{C O L L A B O R A T I V E}

- Joint efforts from both supplier and the buying company on cost reductions and product/service improvement
- Leveraged capabilities, bringing together complementary knowledge, expertise, and skills to contribute to the mutually beneficial development
- Some careful exchange of plans and strategies
- Medium to high level of time and resources invested into relationship

\textbf{P A R T N E R}

- Partnership with a supplier who agrees to cooperate to achieve a common goal and establish a close relationship, based on similar objectives or characteristics
- Partner suppliers provide Products or Services that are very critical for our business and consumer needs
- We are "in-it-together", meet often, and share strategies and risks
- We innovate exclusively together in a climate of high trust level

\textbf{\textit{We may call the set of actions and intensive work efforts to enhance relationship and create value with a core supplier for “SRM program”. We do such programs with suppliers in the upper part of the pyramid, as they are most critical for our future business success.}}
Segmentation of suppliers

How do you place right suppliers in right classification type of the pyramid?

Which relationship type with suppliers is optimal for your category/material/service?
### Characteristics of supplier relationship types

**Checklist supporting your determination of right classification of your suppliers**

<table>
<thead>
<tr>
<th>Relationship Type</th>
<th>Category Matrix</th>
<th>Relationship Characteristics</th>
<th>Business Needs</th>
<th>Market Dynamics</th>
<th>Technology</th>
<th>Supplier Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARTNER</td>
<td>• Strategic</td>
<td>• Long term</td>
<td>• Mutual sharing of plans and strategies</td>
<td>• One or very few suppliers</td>
<td>• Supplier’s technology is essential for us</td>
<td>• High experience level with our company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Very high Trust</td>
<td>• Close relationship on all levels and functions</td>
<td>• High profit margins</td>
<td></td>
<td>• Expansion of capacity when needed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Open and Transparent</td>
<td>• Product/Service has major impact on business and customers</td>
<td></td>
<td></td>
<td>• Co-location or exchange of personnel may be required</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hard to switch</td>
<td>• Sharing of risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Built from B-supplier</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Very frequent info</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>exchanges</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COLLABORATIVE</td>
<td>• Leverage, Strategic</td>
<td>• Medium/Long term</td>
<td>• Mutual sharing of plans and intents</td>
<td>• Few / Multiple suppliers available</td>
<td>• Supplier’s technology is important</td>
<td>• Experienced with our company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• High trust and open</td>
<td>• Relationship across many levels</td>
<td>• High profit margins</td>
<td>• Above industry standard, market leader</td>
<td>• Expansion of capacity when needed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>dialogue</td>
<td>• Product/Service is key to business and consumers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Hard to switch</td>
<td>• Sharing of risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Less integrated as</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>A-suppliers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REGARDED</td>
<td>• Leverage,</td>
<td>• Short/Medium term</td>
<td>• Some plans and intents are shared</td>
<td>• Many suppliers competing</td>
<td>• Supplier’s technology is not essential</td>
<td>• Some experience with our company</td>
</tr>
<tr>
<td></td>
<td>Bottleneck, Non-</td>
<td>• Fairly easy to switch</td>
<td>• Some info exchange on many levels</td>
<td>• Average profit margins</td>
<td>• Industry standard</td>
<td>• Capacity expansion not critical</td>
</tr>
<tr>
<td></td>
<td>critical</td>
<td>supplier</td>
<td>• Minimal risk sharing</td>
<td>• Medium/High price volatility</td>
<td>• Low complexity</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Multiple exchanges</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRANSACTIONAL</td>
<td>• Non-critical</td>
<td>• Short term / Spot</td>
<td>• Business plans or strategies are not shared</td>
<td>• Intensive competition, many players to choose from</td>
<td>• Supplier’s technology is not important</td>
<td>• No or limited experience with our company</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Easy to switch</td>
<td>• Minimal interactions</td>
<td>• Market decides margins or Low</td>
<td>• Industry standard</td>
<td>• Capacity expansion not critical</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Info exchange kept at</td>
<td>• No risks shared</td>
<td>• High price volatility</td>
<td>• Low complexity</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>minimum</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Criteria for category- and supplier segmentation – supporting your analysis and decisions*
Understanding business needs
SRM is about fulfilling business needs by effectively tapping your suppliers’ capabilities

Find out your business needs (part of Sourcing Strategy process, step 1). Talk to your organization! Interview the top business leaders in Marketing and Sales. It’s fundamental that your Sourcing Strategy and SRM programs (actions with suppliers) focus on what matters and fulfil the buying company’s business needs!
Is any relationship type better than the other?
Sourcing strategy and business needs drive the supplier segmentation

**Factors influencing choice of right relationship type:**

**GROWTH:**
- Strategic fit
- Innovation requirements
- Product life-cycle stage
- Need for capacity

**PRODUCT/SERVICE MIX:**
- Criticality for our business
- Consumer needs
- Supplier change barriers
- Resource & time investment
- Risk environment

Supplier segmentation supports decision on resource allocation and right sourcing strategy
Resources and time invested in supplier relationships

The more advanced relationship the more efforts and investments from both parties

“The size of the bubbles symbolizes the amount of suppliers in your category. Typically, you spend more time and resources with selected few suppliers, while the majority of suppliers are managed through less/standard time and work efforts.”
Assessment of suppliers using “M.O.I.S.T.E.R.” (1/2)

MOISTER is an easy and powerful tool for evaluating if suppliers fit and meet business needs.

- **Market Position**
  - Commercial position; Industry leadership; Customer portfolio; Commercial approval; External relations; Customer reach

- **Operational Excellence**
  - Manufacturing and Service capabilities; Quality systems; Logistical capability; Human resources; Supply base

- **Innovation Capability**
  - Research and innovation capability; Intellectual properties; Project execution; Core competencies; Product development

- **Strategic Match**
  - Business structure; Management approach; Strategic direction; View toward buying company; Corporate governance

- **Trust**
  - Strategies and sensitive information sharing; Team building; Common objectives setting; Efforts based on mutual benefit

- **Economical Strength**
  - Cost structure; Financial performance; Ownership structure; Risk exposure; Profit centers; Credit rating

- **Relationship Chemistry**
  - Shared values and expectations; Relationship effectiveness on all levels/functions; Communication and collaboration climate

MOISTER diagram:

- Market Position
- Operational Excellence
- Innovation Capability
- Strategic Match
- Trust
- Economical Strength
- Relationship Chemistry

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### M.O.I.S.T.E.R. is a practical tool for assessing if your suppliers fit your company and fulfill your business needs. The tool is easy to use and makes a powerful visualization of your plan with each supplier and the analysis that justifies your proposal/decision.

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Market Position</th>
<th>Operational Excellence</th>
<th>Innovation Capability</th>
<th>Strategic Match</th>
<th>Trust</th>
<th>Economical Strength</th>
<th>Relationship Chemistry</th>
<th>Supplier Relationship Plan</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Keep as COLLABORATIVE; improve operations, limit innovation</td>
<td><img src="image" alt="High or Very High Level" /></td>
</tr>
<tr>
<td>Supplier 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Run SRM program; create value; enhance to PARTNER</td>
<td><img src="image" alt="Medium Level" /></td>
</tr>
<tr>
<td>Supplier 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>EXIT supplier; shift volume to New supplier and the Partner</td>
<td><img src="image" alt="Low or Very Low Level" /></td>
</tr>
<tr>
<td>Supplier 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>REGARDED; maintain and work on Relationship Building</td>
<td><img src="image" alt="Low or Very Low Level" /></td>
</tr>
<tr>
<td>New supplier</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Develop; start out as REGARDED</td>
<td><img src="image" alt="Low or Very Low Level" /></td>
</tr>
</tbody>
</table>
Where is your supplier relationship today?

Is it the optimal relationship for the Product/Service?

- You need to determine if the choice of supplier relationship type matches the segmentation factors
- If yes, develop or maintain the relationship so it fits your Sourcing Strategy and business needs
- If not, include actions to your road map that enhance the relationship to higher levels in order to bring desired value/benefits (see example to the right)

“In this example, a supplier has been identified being currently managed as a Collaborative supplier, while the optimal relationship type should rather be managed as Partner. This could be the case when a supplier’s technology is more critical to our business than we first thought, and this technology might have to be renovated to meet new consumer needs.”

In our Sourcing Strategy, we will include actions on how to enhance the relationship with this supplier.”
Documenting your supplier classification (1/2)

Integrate the determined supplier relationship types into your sourcing strategy material.

It’s powerful to use the suppliers’ company logos instead of the stars. In your Sourcing Strategy, you may plot suppliers on a geographical map:

Suppliers in Category:

A – Supplier 1 (Flexibles)
B – Supplier 2 (Flexibles)
C – Supplier 3 (Printed Carton)
D – Supplier 4 (Corrugated)
E – Supplier 5 (Tertiary)

Visualization of segmentation of both Suppliers and Categories (or the sub-categories of your spend scope)
Documenting your supplier classification (2/2)
Include relationship types in the spend data on your supplier portfolio

- By now you should be done with your Category- and Supplier Segmentation
- Document your concluded Relationship Types in suitable “supplier list” or “spend analysis data file”. This could like like below:

<table>
<thead>
<tr>
<th>Supplier</th>
<th>Spend ($ million)</th>
<th>Share of category spend</th>
<th>Relationship Type</th>
<th>Lead Country</th>
<th>Contract Expiry Date</th>
<th>Agreed Annual Price Reductions (%)</th>
<th>Value Creation Agreed</th>
<th>Payment Terms</th>
<th>Lead Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier 1</td>
<td>25</td>
<td>30%</td>
<td>Partner*</td>
<td>DE</td>
<td>12.2017</td>
<td>3</td>
<td>Yes</td>
<td>90</td>
<td>Buyer name</td>
</tr>
<tr>
<td>Supplier 2</td>
<td>18</td>
<td>20%</td>
<td>Collaborative</td>
<td>IT</td>
<td>12.2017</td>
<td>2</td>
<td>No</td>
<td>45</td>
<td>Buyer name</td>
</tr>
<tr>
<td>Supplier 3</td>
<td>13</td>
<td>15%</td>
<td>Collaborative*</td>
<td>PL</td>
<td>6.2016</td>
<td>2</td>
<td>No</td>
<td>60</td>
<td>Buyer name</td>
</tr>
<tr>
<td>Supplier 4</td>
<td>5</td>
<td>6%</td>
<td>Regarded</td>
<td>TR</td>
<td>12.2015</td>
<td>0</td>
<td>No</td>
<td>60</td>
<td>Buyer name</td>
</tr>
<tr>
<td>Supplier 5</td>
<td>3</td>
<td>4%</td>
<td>Transactional</td>
<td>DE</td>
<td>No contract</td>
<td>0</td>
<td>No</td>
<td>45</td>
<td>Buyer name</td>
</tr>
<tr>
<td>Etc...</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

*) Given the assessment done (previous slides), the supplier will be selected for “SRM program” and a common Development Plan will be established together
Suppliers concluded subject for SRM programs

Planner example on what suppliers will be subject for relationship enhancement or SRM programs

<table>
<thead>
<tr>
<th>Category</th>
<th>Sub-category, or Product/Service</th>
<th>Supplier</th>
<th>Current Relationship Level</th>
<th>Desired Relationship Level</th>
<th>Value Proposition</th>
<th>Stakeholders</th>
<th>SRM Leader</th>
<th>Timing to complete Development Plan</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible Packaging</td>
<td>Category, Sub-category name, or Product/Service</td>
<td>Supplier 1</td>
<td>Partner</td>
<td>Partner</td>
<td>• Dedicated line</td>
<td>• Marketing/Sales</td>
<td>Buying Manager Name</td>
<td>July 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Open books</td>
<td>• Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Renovation of Product Delta</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexibles Packaging</td>
<td>Category, Sub-category name, or Product/Service</td>
<td>Supplier 1</td>
<td>Collaborative</td>
<td>Partner</td>
<td>• JIT deliveries</td>
<td>• Marketing/Sales</td>
<td>Buying Manager Name</td>
<td>Dec 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Joint development</td>
<td>• Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printed Carton</td>
<td>Category, Sub-category name, or Product/Service</td>
<td>Supplier 3</td>
<td>Collaborative</td>
<td>Partner</td>
<td>• Cost reduction</td>
<td>• Marketing/Sales</td>
<td>Buying Manager Name</td>
<td>Dec 2015</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• L6S program</td>
<td>• Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plastic Bottles &amp; Caps</td>
<td>Category, Sub-category name, or Product/Service</td>
<td>Supplier 4</td>
<td>Regarded</td>
<td>Collaborative</td>
<td>• Increased Consumer Perceived Quality</td>
<td>• Marketing/Sales</td>
<td>Buying Manager Name</td>
<td>Dec 2016</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Quality Dept.</td>
<td>• Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corrugated Shippers</td>
<td>Category, Sub-category name, or Product/Service</td>
<td>Supplier 5</td>
<td>Regarded</td>
<td>Collaborative</td>
<td>• Secure capacity for new Product Range</td>
<td>• Manufacturing</td>
<td>Buying Manager Name</td>
<td>Dec 2016</td>
<td></td>
</tr>
</tbody>
</table>

Coming out from the segmentation process, above is a guidance on how you may make a plan and tracker file for your category’s SRM programs (or relationship enhancements)
Let’s summarize the Segmentation activities:

- Do your spend/market/supplier analysis
- Identify the business needs
- Determine optimal supplier relationship types
- Develop your Sourcing Strategy
- Build actions/tactics to achieve the optimal supplier relationships
- Manage all suppliers and run “SRM programs” to capture desired value with selected few

- Understand your spend and category positioning
- Analyze Business Needs and Supply Market
- Assess Suppliers

=> Supplier Segmentation
OBJECTIVES

The second step in the SRM process is about setting “why” and “what”
Objectives of SRM
With your selected few SRM partners you will collaboratively create the value your business needs

Traditional procurement — price nego (item-by-item focus, lack of holistic view)

Unlocking full value from the procurement levers (like innovation, reformulation, supply-chain efficiencies, etc), which requires a broader focus than price

EXAMPLES OF SPECIFIC OBJECTIVES OF “SRM PROGRAMS”:

- Dedicated resources from both companies to manage global collaboration
- World-class commercial- and technical performance from supplier in return for long-term growth, trust and stability
- Supplier ready to invest in the markets we need them (co-locate, break monopolies)
- Active support in our spec simplification and technology agenda
- Focused direction for supplier’s investments in research programs

The common supply-chain shall always beat competing supply-chains!
Why do we need to establish an SRM Partnership and what are our SMART* goals?

QUANTITATIVE GOALS:
• Productivity minimum X% of spend value
• Quality claims maximum Y% of delivered value?
• Payment terms (DPO) and inventory (DIOH) improvements?
• Etc...

QUALITATIVE GOALS:
• Improved relation and efficiency in daily communication
• Strengthened position at the supplier (secured capacity)
• Capture supplier’s unique R&D capabilities (innovation)
• Etc...

SOFT (RELATIONSHIP) GOALS:
• How to we want our suppliers to perceive us?
• Goodwill goals?
• Etc...

The goals should be shared with the supplier after being determined internally.

*) SMART goals are
S = Specific
M = Measurable
A = Attainable
R = Realistic
T = Timely
Objectives of SRM program with a specific supplier (2/2)

Make an overview of your justification for enhancing the supplier relationship and get internal "buy-in"

**EXAMPLE:**

**Supplier background**
- Historical spend development with [Supplier Name]:
  - [Supplier name] turnover, $mLn
  
  
<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>10</td>
</tr>
<tr>
<td>2013</td>
<td>15</td>
</tr>
<tr>
<td>2014</td>
<td>20</td>
</tr>
<tr>
<td>est</td>
<td>25</td>
</tr>
</tbody>
</table>

- 3rd largest supplier within Category in region...
- Strongest R&D capabilities in the supplier industry

**SRM relationship type**
- [Supplier Name] is currently managed as **Collaborative**. Due to our need for Innovation (especially product range Delta) and capacity increase we must enhance the relationship to **Partner**

**What do they want from us?**
- **3-year contract**
- Sales turnover growth by >10% annually
- Payments on time
- Forecast – both short-term and long-term
- Visibility on our plans in markets X, Y, Z
- Etc...

**What value can they offer to us?**
- **Commercial advantage** – renovation of product range Delta through innovation
- **Productivity** – 4% annually, based on stable growth and long-term contract
- **Capacity** – supplier will invest in new dedicated line, if...
- **R&D resources** – dedicated resource supporting our new product development

*You may share this Objectives overview with the supplier – but be careful what is stated*
Supplier preference matrix
Apply the model to understand the supplier’s view on your common business

Use the preference matrix to analyze if your desired relationship type fits to the supplier’s driving forces.

The supplier might make different choices, depending on the value and attractiveness of the business with you.

Are you and the supplier important to each other? Is there an equal power balance in the relationship? Check carefully and take appropriate actions.
Meet the supplier and agree on way forward
With senior management participating meet and agree on mutually enhancing your relationship

“WE WANT! DO YOU ALSO WANT?”

You will need to understand if the supplier wants to work with you in the different way that an SRM program requires.

Find it out by an open exploring meeting with the supplier’s management. Questions to explore:

- Extensive information exchange – plans and sensitive strategies
- What specific incremental value do we want from each other?
- Do we have similar view on growth- and profit levels?
- Where are we together 5 or 10 years from now?
- Do both parties have the resources required?
- Strong Commitment on the part of MANAGEMENT
- Rules of the game established and shared
- Regular business reviews and Steering meetings
- Analysis of both partners’ Value Propositions
- Resources and investments – are we willing to invest?
- Measurement of results and open feedback
- A climate of trust and working in the common interest
- Incentives to improve and to obtain results

Agree upon intensive collaboration
The SRM program is “kicked off”
Establish appropriate resources and interactions

Agree on who shall be involved in the relationship and proactively set all meetings/events in the calendars

<table>
<thead>
<tr>
<th>REGULAR BUSINESS REVIEWS</th>
<th>ANNUAL STEERING MEETING</th>
<th>INNOVATION WORKSHOPS</th>
<th>OTHER EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frequency</strong></td>
<td><strong>Frequency</strong></td>
<td><strong>Frequency</strong></td>
<td></td>
</tr>
<tr>
<td>• Monthly / Quarterly</td>
<td>• 1/year</td>
<td>• 1-2/year</td>
<td></td>
</tr>
<tr>
<td><strong>Who</strong></td>
<td><strong>Who</strong></td>
<td><strong>Who</strong></td>
<td></td>
</tr>
<tr>
<td>• Mutual Key Account Teams</td>
<td>• KAM teams, Senior Management reps</td>
<td>• KAM teams, R&amp;D technicians, Marketing, Manufacturing</td>
<td></td>
</tr>
<tr>
<td><strong>What</strong></td>
<td><strong>What</strong></td>
<td><strong>What</strong></td>
<td></td>
</tr>
<tr>
<td>• Performance Scorecard Evaluation</td>
<td>• Business Strategy update</td>
<td>• Exchange of trends and news</td>
<td>• Supplier Day (with several suppliers?)</td>
</tr>
<tr>
<td>• Projects, value creation reviewing</td>
<td>• Review Scorecard</td>
<td>• Ideation on new value creation (cost saving projects, new products, etc)</td>
<td>• Exchange of personnel</td>
</tr>
<tr>
<td>• Commercial discussions</td>
<td>• Action plan &amp; Next steps</td>
<td>• Supplier Day (with several suppliers?)</td>
<td>• Mutual training sessions</td>
</tr>
<tr>
<td>• Mutual feedback (service, trust, etc)</td>
<td></td>
<td>• Exchange of personnel</td>
<td>• Team building event</td>
</tr>
</tbody>
</table>

**2015**

Now, you are ready for getting the work started or continued. It’s time for action!

"Do your extensive homework in identifying the right people both internally and at the supplier. The Key Account Team cannot be only from Procurement/Sales, but representatives from all relevant functions in the companies, depending on the agenda of the relationship enhancement and value creation activities."
ACTIVITIES – it’s all about implementation

The third step of the SRM process is about doing the work and achieving set targets

Meetings & projects
SRM major activities

Tapping of supplier’s capabilities and mutual value creation are levers to execute your sourcing strategy

- Reducing the Total Cost of Ownership (TCO) of materials and goods/services without compromising on quality; cost reduction or cost avoidance; continuous improvement; prepare for future cost requirements
- Managing risks in the supply chain together with the supplier – securing both quality- and commercial risks; upstream sourcing (secure input materials or services); risk mitigation and contingency plans
- Collaborate with suppliers through innovation and reformulation of materials and specifications; develop products or services that meet current and future consumer and customer needs
- Managing and measuring supply performance to achieve the service level standards agreed between the supplier and the company; supply-chain optimization
- Focus on team building and trust; build an efficient inter-company team to achieve world-class results; Open feedback sessions

Value creation with suppliers fulfilling business needs
### Activities scheme per relationship type

What activities do you typically carry out with the differently segmented suppliers?

<table>
<thead>
<tr>
<th></th>
<th>TRANSACTIONAL</th>
<th>REGARDED</th>
<th>COLLABORATIVE</th>
<th>PARTNER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COST OPTIMIZATION</strong></td>
<td>• Hard negotiations • Change volume among suppliers • Minimal projects on cost reduction</td>
<td>• Competitive biddings • Process improvements • Some cost optimization projects</td>
<td>• Collaborative efforts on cost reduction projects • Value creation and continuous improvements • Supply-chain efficiency programs</td>
<td>• Significant cost improvement projects with open books • Joint process improvements • Lean six sigma programs • Efforts on current and future needs</td>
</tr>
<tr>
<td><strong>RISK MANAGEMENT</strong></td>
<td>• Service agreement</td>
<td>• Standard contracts / PO’s • Development agreements</td>
<td>• Long-term contracts • Capacity expansions</td>
<td>• Long-term detailed contracts • Expansions through common business plans • Joint ventures / alliance agreements • Shared risks and rewards</td>
</tr>
<tr>
<td><strong>SERVICE MANAGEMENT</strong></td>
<td>• Pay for product/service • Market price, spot buys</td>
<td>• Scorecard performance measurements (SPM)</td>
<td>• Detailed performance tracking with mutual feedback • In-depth analysis and joint agreement on improvements</td>
<td>• Frequent and detailed performance tracking with mutual feedback • In-depth relationship evaluation with common decision on actions • Mutual strategy development</td>
</tr>
<tr>
<td><strong>DEVELOPMENT &amp; INNOVATION</strong></td>
<td>• Product/service development • Standard confidentiality agreements</td>
<td>• New technologies and IP’s • Product enhancements with resources from both companies</td>
<td>• Product enhancements with resources from both companies • Development agreements for novel technologies/solutions • IP collaborative joint creation</td>
<td></td>
</tr>
<tr>
<td><strong>RELATIONSHIP BUILDING</strong></td>
<td>• Limited information sharing on strategies and plans • Clear requirements</td>
<td>• Sharing strategies and plans • Team building events • Open communication</td>
<td>• Sharing strategies and plans at all levels/functions • Regular team building events • Open communication • Trust building through ARTT model</td>
<td></td>
</tr>
</tbody>
</table>
Activities summary
The agenda and supplier interactions intensify as we move upward in the segmentation pyramid

<table>
<thead>
<tr>
<th>Relationship Type</th>
<th>Cost Management</th>
<th>Risk Management</th>
<th>Service Management</th>
<th>Innovation</th>
<th>Relationship Building</th>
<th>Time &amp; Efforts Invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARTNER</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>VERY HIGH</td>
</tr>
<tr>
<td>COLLABORATIVE</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>HIGH-MEDIUM</td>
</tr>
<tr>
<td>REGARDED</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>MEDIUM-LOW</td>
</tr>
<tr>
<td>TRANSACTIONAL</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>🙁</td>
<td>LOW</td>
</tr>
</tbody>
</table>

With **Transactional** suppliers you manage cost and risk, and not much more

Relationship building is part of the agenda with **Collaborative** and **Partner** supplier

Some development work with **Regarded** suppliers, with minimal efforts on the relationship
Supplier Development Plan
SRM partnerships should be effectively documented by both parties

• You will need to establish a Development Plan or Business Plan with your selected SRM Partner, defining clear objectives and priorities in line with your Sourcing Strategy and Business Needs, that could be:
  • Innovation Projects for top line growth
  • Sustainability and upstream programs
  • Cost reduction activities
  • Cash-flow improvement
  • Service level management
  • Quality enhancements
  • Quantitative targets across KPI's

• A draft could be prepared by the buying company before going to the “kick-off” meeting with the supplier, or you start together from a blank page

• The key is to create it and keep it updated together as one team with representatives from both companies. By doing it together, the supplier stays committed to really deliver and implement what you set out in the plan

CONTENT OF DEVELOPMENT PLAN:

• Supplier Profile or Summary
• Development Plan – prioritized actions
• KPI Scorecard (objectives & measurement)
• Project List & Tracker (reviewed regularly)
• Team - members from each company
• Meeting Calendar
• Contract Information
• Special “gentleman agreements”
• Production Capabilities
• Growth Plan (next year, in 3-5 years)
• Etc…
Supplier Passport
An example on the Development Plan’s first page with and SRM Partner (using PowerPoint)

SUPPLIER NAME & DESCRIPTION

- Alfa formed in 1991, subsidiary of MWG GROUP
- Second world manufacturer of BOPP, CAST, BoPLA / films for food packaging, label applications, adhesive tapes and over wrapping

BUSINESS WITH [COMPANY NAME]

Countries supplied: DE/PL/UK/RU/IT/ES/TR
Other regions supplied: NA, AP
Supplier since year: 2002
Spend in 2014 ($mln): 9.3
Our share of supplier sales: 7%
Contract valid to: 31 Dec 2016
Payment terms: 60 days

COMPANY FACTS & FIGURES

Production Sites: Italy, USA, UAE, China
Distribution Centers: Germany, USA, UAE, China, Malaysia
Capacity Installed: 540,000 tons
Turnover: $ 850 mln
Number of Employees: 2300
Certifications: ISO 9001, 14001, 18001, AIB, HACCP, BRC/IOIP, SEDEX

PRODUCTION & SERVICE CAPABILITIES

Conversion lines: 5 (brand/type names of production lines)
Laminators: 3
In-house artwork/repro: Yes
Cylinder engraving: No (supplied by company X)
Supply method: VMI (consignment stock)
Other:

KEY CUSTOMERS

AAA Company, Beta Company, Delta Company, Gamma Company

CONTACT & SUPPLIER LOCATIONS

Key account for [Company Name]:
John Smith
jsmith@supplier.com
Tel: 971-123456789

Updated: MM.YYYY

Global HQ
Production site

“You may do this kind of “Supplier Profile” or “Supplier Passport” for more than only your SRM Partner suppliers. Why not doing it for all suppliers in your category, keeping the “Passports” updated annually and available in a database for the organization whenever needed?”
**Supplier Development Plan – prioritized actions**
An example on documentation of projects and activities agreed with the supplier (SRM Partner)

*List agreed supplier value deliveries, review regularly and keep updated as living tracking tool over time*

**EXAMPLES:**

- **Commercial** – run L6S programs at supplier, increase number of shifts driven by volume, reformulation of products/materials, etc
- **Risk Management** – Commodity hedging, Forex and price fluctuation agreements, approval of alternative input materials, etc
- **Service Level Management** – change Incoterms, establish VMI setup, improve forecast info exchange, Payment term changes, Lead time shortening, etc
- **Innovation** – joint development of new product/service solutions, change of design
- **Supplier Training sessions** – Buying company training of supplier’s personnel

<table>
<thead>
<tr>
<th>Activity/Project</th>
<th>Proposal Value (mln)</th>
<th>Value reported how?</th>
<th>When ready?</th>
<th>Owner(s)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduce waste in production of…</td>
<td>0.25</td>
<td>x</td>
<td>June’15</td>
<td>LB/MA</td>
</tr>
<tr>
<td></td>
<td>Go from 2-shift to 3-shift by volume…</td>
<td>1.20</td>
<td>x</td>
<td>Dec’15</td>
<td>LB/MA</td>
</tr>
<tr>
<td></td>
<td>Decrease size of shipment boxes for…</td>
<td>0.45</td>
<td>x</td>
<td>Sept’15</td>
<td>LB/AS</td>
</tr>
<tr>
<td>Risk Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quality 2nd PP grade for molded box Y</td>
<td>0.20</td>
<td>x</td>
<td>Sept’15</td>
<td>AS/OP</td>
</tr>
<tr>
<td>Service Level Management</td>
<td>Consignment stock in UK…</td>
<td>x</td>
<td>x</td>
<td>July’15</td>
<td>LF/MA</td>
</tr>
<tr>
<td></td>
<td>Change Incoterms from EXW to DDP…</td>
<td>x</td>
<td>x</td>
<td>Feb’15</td>
<td>LF/MA</td>
</tr>
<tr>
<td>Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Add laser-scoring to brand Afa pack</td>
<td>x</td>
<td>x</td>
<td>Feb’16</td>
<td>OP/LB</td>
</tr>
<tr>
<td>Relationship Building / Trust</td>
<td>Annual top-to-top team building event</td>
<td>x</td>
<td></td>
<td>Dec’15</td>
<td>LB/MA/ET</td>
</tr>
<tr>
<td></td>
<td>Production Basics training for Buyers…</td>
<td>x</td>
<td></td>
<td>May’15</td>
<td>LB/T</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
</tbody>
</table>
EXAMPLES:

- Commercial – run L6S programs at supplier, increase number of shifts driven by volume, reformulation of products/materials, growth-driven annual price reductions, etc
- Risk Management – Commodity hedging, Forex and price fluctuation agreements, approval of alternative input materials, etc
- Service Level Management – change Incoterm, establish VMI setup, improve forecast info exchange, Payment term changes, Lead time shortening, etc
- Innovation – joint development of new product/service solutions, change of design
- Supplier Training sessions, Buying company training of supplier’s personnel

### KPI - COMMON TARGETS & PERFORMANCE MEASUREMENT

<table>
<thead>
<tr>
<th>Performance area</th>
<th>2014 actuals</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Target:</td>
<td>Performance:</td>
<td>Explanations:</td>
<td>Mid-year review:</td>
<td>Target:</td>
<td>Target:</td>
</tr>
<tr>
<td>Turnover (USD ml)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Key Volume growth initiatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct price reduction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Reductions, CI (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buying Company % of capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment terms (days)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims - % vs delivered goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery Performance, % non on-timely delivered goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total SPM score</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trainings for Buying Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common meetings with different departments</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

List agreed supplier value deliveries, review regularly and keep updated as living tracking tool over time
How you document and keep track on your SRM program is basically up to you as buying manager and your company’s policies/processes. This practical guide provides examples only – take what you like and need from it!

The mutual living document that the buying company and the supplier will use could be created in Word/Excel/Powerpoint – choose what will best fit to your business and what you are most comfortable using.

It’s efficient and powerful to use same or very similar format for all SRM programs throughout a company – readers and stakeholders will get used to a common language and layout.
This example on 3-page Business Plan, to be created in collaboration with the supplier, you can find as downloadable pdf-file in a dedicated Post in the Supplier Management module on MySourcingLeader.com
Integrating SRM programs with your Sourcing Strategy

Key activities with your SRM Partners fit in your Sourcing Strategy road map (category action plan)

Key activities agreed with SRM Partner(s) – an integral part of your Sourcing Strategy and its tactics/actions

"Communicate your decisions! The agreed SRM programs and action plans with selected Partner or Collaborative suppliers must be made clear to all stakeholders in your company. You must have "one voice" toward the supplier and secure that agreed actions are supported across the organization and not jeopardized through contra-productive or colliding initiatives/agendas."
Supplier Days
Bringing your (key) suppliers together for relationship building and information exchange

- It can be very powerful to do Annual Supplier Days, to which either All your suppliers or only selected few SRM Partners (or your Partner- and Collaborative supplier are invited)

- Multiple suppliers may be participating on the event, either only non-competing suppliers (cross-category event) or competing suppliers (if event is with category only), depending on agenda and sensitivity of the information that will be shared

- The buying company may share future growth plans, new evolving business needs, sales market and consumer trends, quality challenges, organizational changes, etc

- Suppliers may share trends in their industry, news on innovation, and provide ideas on different kind of new value and improvements

- If you do Supplier Performance Management (see specific articles for SPM on MySourcingLeader.com) this is the right forum for conducting award ceremony and hand over “Supplier of the Year” diplomas
EVALUATION – reviewing delivered results

The final step of the SRM process is about measuring performance (done regularly over time)
You get only what you measure!
Setting targets and measuring performance over time together with the supplier

- Review regularly supplier's performance (monthly, quarterly)
- Use your Development Plan – check progress vs set targets, agree on improvement actions or setup new actions meeting evolving needs
- You may develop specific scorecard for the supplier or use standard reports from your company’s E2E system (SAP, Oracle, etc)
Evaluation of the SRM programs
Did you bet on the right horses and captured the value from the supplier that you desired?

• The very last step in the “4-Step SRM Process” is evaluation of the started/ongoing SRM programs
• You may do this evaluation of the SRM programs on annual basis as part of the ways of working in your Strategic Sourcing processes

• Questions:
  • Did we harvest the benefits and value that we set out in the planning of the SRM program(s)?
  • Is/Are the relationship enhancement with the supplier(s) going in right direction?
  • Did we really bet on the right horse(s)?

If YES – continue and develop the SRM program(s)
If NO – agree with the SRM Partner(s) on what to change and improve going forward through rigorous feedback exchange, adjust your common priorities/goals/actions; or consider stop the SRM program, re-visit your Supplier Segmentation (Step 1) and build on enhancing relationships with other Partner or Collaborative supplier(s) that may bring right value or satisfy your needs better
Summary
10 final thoughts and end words

• SRM is applied in ALL supplier relationships, but you invest time and resources differently with different suppliers
• “SRM programs” (or “SRM Partnerships”) are the special and intensive collaboration that you do only with a selected few of your most critical suppliers. These suppliers are called “SRM partners”
• You must know what supplier relationship types your category and company’s business needs really require
• SRM programs you do with suppliers only if your business needs such advanced type of supplier relationship
• Each supplier relationship is unique and is formed and managed by people in both organizations
• While you need a documentation tool for planning and reviewing, keep it simple and easy to manage over time
• You get what you measure! Review supplier performance and deliverables regularly
• Do not forget to frequently exchange feedback
• Evaluate your SRM programs – have you bet on the right horses?
• An SRM Partnership makes your common supply-chain more competitive, beating competing supply-chains

“SRM is the collaboration between the buying company and its suppliers to create and bring value for both organizations.”
Group Exercise #1
Let’s take four business cases and determine the most matching relationship type for each situation

What activity – what relationship type?

**FOUR TYPICAL CASES:**

1. A global beverage company is discussing the 3rd co-location project (wall-to-wall) with their only global supplier of blow-moulded bottles

2. Prague University in CZ places an order of copy machine papers from local supplier of office material supplies

3. A leading car manufacturer sends their internal LE6 team (CI) to a regional supplier of car seats, to jointly identify new cost/waste opportunities together with the supplier’s experts

4. On a regular quarterly business review meeting, a large packaging printer meets with a major supplier of “inks”, providing their regular feedback on service performance and dictates their requirements on corrective actions

Right answers:
1 = PARTNER
2 = TRANSACTIONAL
3 = COLLABORATIVE/PARTNER
4 = REGARDED

Time required: 10-15 mins
Group Exercise #2
Category- and Supplier Segmentation

- 1) Determine your Category Positioning (using the Category Positioning Matrix and supporting checklist)
- 2) Use the MOISTER supplier assessment tool and select one supplier subject for “SRM program” *

* This supplier will be subject for further work in the last and major Group Exercise (#3)

Time required: 30 mins
Group Exercise #3
Create a proposal on Business Plan with your selected supplier (for SRM program)

1) Set Internal Objectives
   - Prepare the objectives, with “why” and “what”. State the value and benefits the SRM program should bring to the buying company
   - Time: 30 mins

2) Create the Supplier Profile
   - Fill the supplier passport to the extent possible (use easy-available data, the rest you will gather later)
   - Time: 30 mins

3) Draft the List of Prioritized Actions
   - Make a draft list of actions (or tactics) that your buying company and supplier will do together (or driven by supplier only), that will deliver desired value/benefits
   - Time: 60 mins

Discussion in Groups during the exercise, presentation to larger group afterwards