



Supplier relationship management

The business criticality dimension



KPMG International



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Much has been written about developing “win-win” relationships with strategic suppliers that sit high in the top right quadrant for value of spend and business criticality. While certainly an important area of focus, the continued impacts of COVID-19, restrictions to global supply chains and economic losses to business have elevated the need to devote more management attention to “critical” suppliers in the top left quadrant.

Many organizations are experiencing disruptions in the reliable supply of key products and services due to these impacts and should act to also strengthen relationships with a new cohort of suppliers to help protect business continuity. This group of critical suppliers is also likely to contain a number of strategic partners of the future, assuming that spend grows sufficiently for them to move to that top right quadrant. But how to lock in such supply when current spend levels with these critical suppliers may only be moderate, significantly constraining the market power and attractiveness of the buyer? We will explore how to use technology and other approaches to help influence the sentiment of these suppliers and raise your standing as a buyer of choice.

Most mature procurement teams segment their organization’s supply base, often based on spend value and business criticality of the products and services being procured. Underpinning this analysis is the need to adequately consider supply risk. KPMG has identified 10 domains for third party risk that should form part of this calculation, as shown on page 3.



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Third party risk domains:

Regulatory/ compliance risk		<ul style="list-style-type: none"> — Regulatory requirements — Theft/crime/dispute risk — Fraud, anti-bribery and corruptions/sanctions 	<ul style="list-style-type: none"> — Compliance with internal procedures and standards
Strategic risk		<ul style="list-style-type: none"> — Service delivery risk — Expansion/roll-out risk — Mergers and acquisitions 	<ul style="list-style-type: none"> — Alignment to outsourcing strategy — Intellectual property risk
Subcontractor risk		<ul style="list-style-type: none"> — Applicable across all risk areas 	
Concentration risk		<ul style="list-style-type: none"> — Supplier concentration across critical services — Industry concentration (including subcontractor) 	<ul style="list-style-type: none"> — Concentration of critical skills (i.e. tech support) — Geographic concentration — Reverse concentration
Technology/ cyber risk		<ul style="list-style-type: none"> — Information security — Cyber security — Data privacy/data protection 	
Country risk		<ul style="list-style-type: none"> — Geopolitical risk — Climate sustainability 	
Financial viability		<ul style="list-style-type: none"> — Financial risk from lending to a third party — Liquidity risk 	
Operational/supply chain risk		<ul style="list-style-type: none"> — Business continuity — Disaster recovery — Physical security — Operational resilience 	<ul style="list-style-type: none"> — Performance management (including SLAs) — Model risk — Human resources risks (conduct risk, etc.)
Reputational risk		<ul style="list-style-type: none"> — Negative news — Lawsuits (past and pending) — Brand of the third party 	<ul style="list-style-type: none"> — Key principals/owners of the third party — Workplace safety
Legal risk		<ul style="list-style-type: none"> — Jurisdiction of law — Terms and conditions of the contract 	

Source: Third Party Risk Management Outlook 2020, KPMG International

In many cases, where a comprehensive supply risk assessment is in place, it will not have been updated to reflect the new realities of the post-COVID-19 world. The pandemic has not only amplified the impact of third party and supply chain disruption but has also challenged the ability of global organizations to plan and execute key third party risk management components, such as onsite assessments. Some specific examples of domains facing a heightened supply risk level from a COVID-19 perspective include:



Business continuity and resiliency risk



IT and cyber risk



Key person risk



Inadequate service provider monitoring, and



Fourth-party risks

The first task should therefore be to overlay the changed supply risk considerations across the supplier segmentation matrix. Which business critical suppliers are under threat? From which risks? What is proactively being done to address this situation?

Where the supply of critical products or services is at risk, the obvious answer is that buyers should work closely with these suppliers in order to secure prioritized deliveries or seek other sources of supply. Firstly, the inherent challenge in this critical supplier quadrant is that alternative suppliers may either not exist or be unsuitable. Secondly, with spend levels being relatively low, the balance of power lies away from the buyer. In other words, the buying organization is likely to need the supplier much more than the supplier needs the buyer. This calls for specific relationship strategies and actions aimed at improving supplier sentiment and making the buyer more attractive to the supplier.

These initiatives should include some or all of the following:

1

Standardizing requirements: Endeavour to standardize requirements to fit in with other buyers and align with the supplier's preferred specifications to reduce the inconvenience and cost of the buyer's business.

2

Maximizing possible spend: Aggregate requirements and channel additional spend, if possible, to the critical supplier to enhance the size of the buyer's account and raise attractiveness. This is particularly important for suppliers identified as being potential strategic partners of the future where spend is forecast to grow materially.

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3

Committing to forward demand: Invest in quantifying the forward demand profile for the supplier's product/service and share this information to help give more.

4

Mapping and eliminating relationship pain points: Make life easy for the supplier by reducing the friction of doing business. For example, streamline unwieldy supply processes, avoid repeated requests for similar information, pay on time and invest in technology, such as supplier self-service portals and electronic invoicing capabilities.

5

Considering direct control of freight and logistics: Enter into such direct arrangements, particularly where products are being transported by air and the buyer is far away from the critical supplier, or the supplier is not also shipping products to other organizations near to the buyer. This can help provide some surety in a restricted freight environment that the products can be delivered.

6

Broadening the agenda: Put active research and interest into the supplier's business to identify further collaboration activities that are potentially unconnected to the specific supply agreements, e.g. shared experience of technology implementations, insights on staff development programs, participating in research and development projects, and alignment on corporate social responsibility initiatives.

7

Aiding with marketing: Offer to be featured in marketing materials produced by the supplier by lending your logo or providing a positive testimonial.

8

Conducting regular engagement: Invest in the relationship through a regular cycle of direct engagement at the management level. This may involve a commitment to conduct joint future planning, supply resilience and performance meetings every 6 to 9 months.

9

Building personal connections: Make a targeted effort to build personal connections with the supplier's management team, as people prefer to do business with people they like. The likely lack of face-to-face contact for at least 12 months or more means that greater focus should be applied to engage suppliers through online meetings, etc., to help facilitate visual contact and share personal stories.

To help you succeed, these specific actions to boost the attractiveness of the buyer to business-critical suppliers should be laid on top of the six bedrock foundations of good supplier relationship management, as follows:

- 1 Executive sponsorship:** Senior leadership in the buying organization actively supports supplier relationship management and appreciates the value and security of supply benefits this process can deliver.
- 2 Proactive strategy:** A thoughtful, proactive and resourced supplier relationship management strategy is in place to help ensure that the solutioning and approach are aligned to organizational needs.
- 3 Organizational structure:** A well-defined and resourced organizational structure that describes roles, responsibilities and interactions explicitly among the sourcing, SRM and business partners, with minimal overlap.
- 4 Structured framework:** A suite of procedures, guidelines, tools and templates are available to help structure engagement with strategic and critical suppliers. This framework is aimed at increasing levels of mutual collaboration, performance and benefits realization for buyers and target suppliers.
- 5 Technology enablement and data visibility:** Deployment and full use of contemporary contract management and supplier management technology solutions to help smooth the interactions between buyer and suppliers, manage mutual obligations, provide accurate and visible data on the business being transacted and report on performance outcomes.
- 6 Culture of trust:** A culture of trust can be key to unlocking the potential of internal resources and external suppliers alike. Organizations with leading supplier relationship management programs effectively extend a culture of trust from their internal organization to their supply base to the point where it's difficult to differentiate between organizational and supplier resources. All should work in a unified manner towards one common goal.

In our view, the changed world environment demands new supplier relationship strategies, particularly for perhaps previously overlooked lower spend, and treating business critical suppliers as strategic. Failure to do so can increase the risks of lack of supply and the consequential interruption to business continuity. We have recommended some specific mechanisms by which this situation may be avoided to complement more traditional approaches to supplier relationship management. These activities should be planned and implemented in a genuine and consistent manner to enhance the value from these critical relationships in a way that does not erode trust. The first step is to reassess the new supply risk situation and analyze the likely additional relationship strategies needed to help ensure continued supply from critical suppliers.

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Unlock the potential in procurement

The majority of organizations and functions are aware that the future can require different and flexible operating models to keep pace with the changing landscape. Technology disruptors should naturally drive the automation of low-value tasks, moving the workforce to higher value activities such as category innovation. However, even these higher-value activities will likely require a high degree of cross-skilling to allow the workforce to flex based on current priorities. In other words, having category managers managing one category in an endless loop is expected to become rare.



Read more about what the future of procurement looks like at home.kpmg/futureofprocurement.

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