



Changing supplier relationships in the digital age

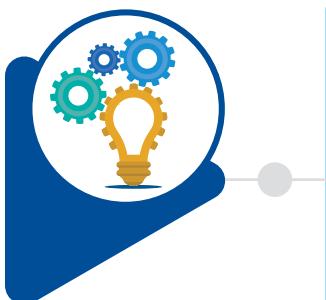
**Delivering innovation through a
supplier partnership model**



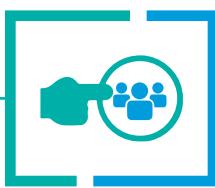
What is supplier relationship management?

Supplier relationship management (SRM) is often described as the company-wide assessment of supplier capabilities, how it fits into your overall business strategy, and the management of supplier interactions throughout the entire cycle. The benefit of SRM is to develop mutually beneficial relationships with strategic supply partners in order to deliver greater levels of innovation than could be achieved through traditional transaction methods.

Although many suppliers may represent less spend, effective management of this group is still key to a profitable outcome. And just as companies have multiple engagements with customers over time, they also interact with their suppliers—negotiating contracts, organising deliveries, and more. Instead of behaving discretely and independently, value is gained from a mind-set of transparency and collaboration.



Only a small number of organisations claim to have 80 percent of their spend concentrated within 20 percent of their supplier base, indicating that many procurement functions continue to be spread thinly across multiple categories and vendors, and missing opportunities for improved SRM while driving up the cost of the procurement as a whole.*



How do you feel about your suppliers?

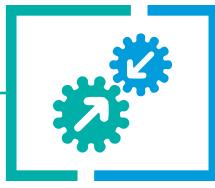
The pace of business has increased, and individuals are being asked to focus on more strategic elements of relationship management. However, operational management such as risk assessment and supplier management still require attention as crucial enablers for execution.

What if there was a way to see critical data in real time? Choose prequalified suppliers that you can trust? And work more efficiently in a digital world? Soon you'd have the opportunity to create stronger relationships and strategies that could move your procurement goals forward.

By building a relationship between you and your supply partners, day-to-day business gets easier—and the time needed for innovation can be found. Let's get to work.



*Source: The Power of Procurement, A Global Survey of Procurement Functions, KPMG



Integrating performance and partnership

Delivering a true partnership model is often seen as the crucial turning point to unlocking a highly innovative and mutually beneficial relationship model. In order to accomplish this, procurement leaders must focus on achieving performance objectives and managing the resulting relationship throughout the process.

Here are some of the latest ways procurement teams are increasing productivity, giving them more time to be more strategic:

- Real-time supplier data such as system performance category alerts and geopolitical events helps manage performance and issue resolution.

- Predictive analytics will look for early warning risk indicators such as financial ratings or payment behaviors to proactively identify risk triggers.
- Prequalifying suppliers through third parties mitigates current and emerging risks.
- Technology and automation will assist decision making around sourcing events and category insights with items like “should cost models”.



So how do you build strong supplier relationships?

Relationship dynamics between procurement departments and suppliers can be tricky, but some missteps are easily avoided with a more methodical approach. Start out by organising your suppliers into segments, such as those who have strategic or transactional impact. Then determine who will manage the relationships while monitoring supplier ratings and metrics. Finally, expect suppliers to deliver more product innovations and market advantages for your organisation.

To get the most benefits out of a partnership with suppliers, businesses should present a unified voice—with clear, consistent messages, expectations, and requirements.

These factors can help increase your chances for a productive and long-lasting relationship:

- Standardising to a single SRM model
- Incorporating key internal activities into your SRM model
- Selection of key participants with strong leadership and coordination skills
- Adopting collaborative, cross-enterprise interaction sessions
- Formally defining your governance plan of various stakeholders
- Investing in appropriate company time and resources



Major global companies spend between 50 percent and 70 percent of their SRM efforts on internal coordination and management activities.*

*Source: SpendMatters.com



From risky business to worry free

Pursuing innovative solutions comes with an increased amount of uncertainty, so managing that risk is part of the process. But how does a focus on SRM fit into your overall risk strategy?

A key element of SRM is the identification and management of supplier risk. The first step in this process is to review suppliers against a checklist of potential risk areas.



Business reputation

Is there a significant risk of the supplier negatively impacting your company's reputation? Examine for signs of disputes that may escalate the supplier seeking to break a contract or engage in litigation.



Supplier continuity

Is a business continuity plan or disaster recovery plan needed for your supplier? Monitor conditions with real-time alerts and plan sufficient time to contract with an alternative supplier who can provide continuity of coverage.



Supplier capacity

Does the supplier have adequate capacity for your requirements? Use the latest analytics to ensure any operational failures won't have a significant impact on your relationship.



Financial risk

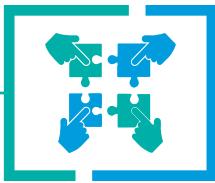
Are there credible rumors that the supplier is in trouble? Check the supplier's financial risk ratings using data aggregators and be prepared with an exit plan.



Cybersecurity

Are you prepared for a data breach? Monitor current conditions among your suppliers and be prepared to stay protected.

Getting real-time alerts will let you pivot if needed and shift business away from one supplier to another.



Building a culture of trust

It is not enough for companies to incorporate various SRM processes and tools. To be effective, they must change the behavior of both the supplier and their own organisation.



Companies that prioritised growth, innovation, and risk management in their supplier relationships, instead of just price reductions, achieved savings that were 26 percent higher.*

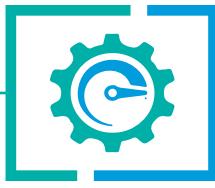
Often, misguided efforts such as supplier surveys promote a sense of artificiality. Underlying behavior goes unchanged, and the end result can do more damage than good. Companies still don't manage the relationships, and suppliers are encouraged to "game" the system.

One way to check on how your suppliers feel about your business is through sentiment analysis—the mining and extraction of text for emotions, such as tweets.

By distilling useful information, a successful business is not only one that implements processes but also uses its resources to make good business decisions.

SRM necessitates a consistent approach and a defined set of behaviors that foster trust over time. Today's procurement partnerships require true integration where transparency is valued, providing increasing opportunities to work together.

*Source: SDCExec.com



Aligning your own organisation

Developing internal consensus is a critical part of building any effective SRM system and the part many companies miss. Organisations may believe SRM is mostly about managing an external third party and overlook the importance of collaborating within their own business units. Without internal agreement regarding how you will manage suppliers and what everyone's roles are, teams cannot move the organisation forward.

The most complicated part of managing strategic supplier relationships is often coordinating the diverging points of view within an organisation into a single agenda that you can communicate to the supplier. When it comes to negotiations, two-thirds of the work is internal, and one-third is external—and the external piece is the easiest.



Up to 70 percent of SRM activities will be devoted to internal organisational management and alignment.
— Senior procurement executive*

Establishing senior executive support for strategic and critical suppliers is essential and requires a deliberate plan. One way to do this is to schedule “category councils” at which different business units meet, along with senior executives, to discuss at a high level the organisation’s key suppliers. Executive teams can learn about the nature of supplier relationships and why certain critical suppliers have been selected to work with the organisation.

*Source: KPMG worked with the Poole College of Management at North Carolina State University to conduct interviews with 25 senior procurement executives across five key industries.



Case study

A major utility provider recognised supplier relationship management as a strategic gap in its procurement transformation journey and set out to address this gap by establishing an enterprise-wide supplier relationship management program. The client had a relatively concentrated and loyal supply base; therefore, with sourcing returns diminishing, there was a clear opportunity to work closely with the supply base to deliver additional value based on a true partnership model.

The client recognised that not all suppliers are equal when it comes to SRM and quickly established a strategic pilot group of suppliers to work with to develop the initial program. This program was successful and well received. The capabilities and infrastructure that SRM would integrate with were in place, including sourcing and category teams, contract managers, and business unit supplier management functions.

However, when it came to rolling the program out across the enterprise, one of the major roadblocks was highly manual work that was not transparent or well coordinated. By implementing and selecting a new technology capability focused on enterprise governance, the client was able to significantly improve the operational components of the program including automated workflow and higher levels of supplier collaboration.



Conclusion

In the end, SRM involves all the interactions between you and your suppliers—it drives behavior, supports relationships, and enables companies to coordinate across functions.

Trust is an absolute necessity, with experience and sentiment from both customers and suppliers playing a key role. Today's digital world and on-demand applications will also drive real-time feedback as intelligent automation takes over manual tasks.





How KPMG can help

KPMG's Operations Advisory team can help your organisation discover the benefits of a closer supplier relationship. Embracing new technology that disrupts business as usual is not always easy. Our tailored approach incorporates strategy, security, cost, privacy, performance, risk management, and more.



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