

A winning position

Alan Day in his recent CPO Agenda article discusses how supplier relationship management is becoming a strategic battleground within organisations. And procurement isn't the only function jostling for supremacy

Picture this: you've been called in as the CPO to negotiate with a key technology supplier and, although its representatives are cordial and nod in agreement, you sense that they are taking little notice of what you are saying. To make matters worse, you know that your IT function has already told the supplier to ignore procurement, suggesting it is simply an administrative step that has to be satisfied.

Or how about this: your team of engineers is working on a new project. Independently it meets with suppliers, selects one that is bespoke for the project, then knocks on your door saying: "We've spoken to the supplier and arranged delivery. Can you sort out the price and put a contract in place? Don't worry, we will manage it going forward."

Sound familiar? These scenarios are commonly played out in many organisations. So how can procurement be optimally positioned for supplier relationship management within the organisation? Equally, how can procurement change supplier prejudices, typified by the global technology firm executive who was recently overheard telling his team: "If you're talking to procurement, you're talking to the wrong people"? Supplier relationship management is convoluted across organizations and within business functions, and claims of rightful ownership are dispersed among them.

This article puts forward an argument as to why procurement is best placed to take charge, and offers a practical business case framework with which CPOs can approach this often controversial issue. An organisation would fail without customers; equally, suppliers are integral to its success. Most organisations have recognized the importance of managing customer relationships effectively, and consequently there is a strong focus on strategies and processes to facilitate this. This is aided by mature technology in the form of customer relationship management (CRM) software. Until recently, however, supplier relationship management (SRM) has been the forgotten frontier.

Why does this matter? Well, our experiences of SRM programmes indicate their estimated savings are 3-5 per cent. Conversely, a lack of focus on SRM presents opportunities for suppliers to exploit this state of affairs via the traditional tactic of "divide and conquer" among the various business functions of an organisation. Steven Pink, head of provider relations and procurement at UK private healthcare firm Bupa Insurance, believes that "effective supplier management focuses on new product development, a better customer experience, improved organisational capability and reduced total cost of ownership. All of these are key strategic outputs for an organisation."

To capture the benefits and avoid the pitfalls, suppliers that are deemed strategic to the organisation's operation should be managed and nurtured using an SRM process. Examples include suppliers with whom the organisation spends significant amounts of money, those that provide critical products or services, or those with a record of innovation.

The ownership conundrum

Defining what "ownership" means in practice and where it lies can be problematic. A plethora of ownership models exist both within the organisational structure and between the organisation and its suppliers. They include the following nine types:

- 1. Budgetary ownership.** “Owning” of a budget often causes confusion, as business functions believe they have the right to decide who to spend the money with and how to manage the relationship. A good example of this is the in-house counsel or legal team not letting procurement play a part in supplier selection or on-going supplier reviews.
- 2. Technical ownership.** The engineering department that has designed a new product, for example, will often dictate which suppliers procurement should use (either overtly or through the alignment of its technical specification to that supplier’s product or service).
- 3. Strategic ownership.** The corporate or executive team believes the supplier relationship is critical to the ongoing success of the organisation and they are best placed to manage it.
- 4. Financial ownership.** Since it is responsible for processing invoices and guarding cash flow, finance might lay claim to owning relationships with particular suppliers.
- 5. Operational ownership.** The people who deal daily with the suppliers feel that they are best placed to manage them.
- 6. Legal ownership.** Through being guardians of the contracts, the legal department believes it is best positioned to manage suppliers whose signatures appear on them.
- 7. Sales ownership.** Some suppliers play an integral part in direct customer relationships via a finished product or service. As this is critical to sales success, the sales team often will take ownership of this supplier relationship.
- 8. Quality ownership.** If quality is critical to the finished good or service, the quality department may seek to take ownership.
- 9. Governance ownership.** The nature of suppliers’ operations or goods and services lend them to being managed by a governance area of the business. For example, a supplier of toxic chemicals may be managed by the health and safety team.

So where does this leave procurement? “Commercial ownership”, perhaps? It could be argued that this is covered by the budgetary, financial or legal owner. But for those other departments, it is even less clear what ownership role, if any, procurement should have, especially as it is often viewed as a quasi-administrative department whose role is to police processes, generate RFPs, negotiate terms and write contracts – none of which positions it particularly well for SRM ownership.

Procurement has hardly helped its cause in this regard by emphasising its negotiating prowess at the expense of managing the supplier relationship over the full lifespan of the contract. Ramzi Al-Maloud, head of procurement at the Abu Dhabi Company for Onshore Oil Operations (Adco) notes that “the majority of the roles that procurement has focused on could ultimately be performed by a software system, rather than fostering supplier relationships to deliver mutual value”.

Although buyer-supplier relationships have been the subject of numerous business and academic research studies, and there are an abundance of matrices and charts that group suppliers from strategic to commodity-based relationships, few conclusions have been reached about who, within the organisation, is best placed to own these relationships.

One could argue that the reality of “what gets measured gets done” means that other functions are seldom as well placed as procurement to lead the management of supplier relationships, because their measurement drivers actively work against this. For example, an IT department is typically measured on system availability or “up time”, which means its focus with the supplier is around achieving this goal. Operational departments often don’t see the bigger business picture, and hence may fail to appreciate the wider contribution a supplier could make. For such functions, the thought that you are only as good as your worst supplier has yet to occur.

Procurement, on the other hand, ought to be well positioned to add this kind of value, because of its ability to look “sideways” at the organisation, all the way from the end customer’s needs through to the suppliers that support the process of satisfying them. Ninian Wilson, director of group procurement at Royal Mail in the UK, says: “Procurement professionals need to take

responsibility for assuring supplier performance throughout the lifecycle. How can they do this if they don't own the relationship?"

A counter-argument would be that specialised purchases such as consultancy, legal services and IT applications are better dealt with by the relevant business functions, because that is where the highest level of expertise (or technical ownership) resides. But even if that's true, does it follow that they should also own management of the supplier relationship?

To answer that question, you need to break out a number of different levels of ownership associated with a single supplier relationship. At the top level there may be an overall owner of the relationship who has a continuing and constant involvement over the lifespan of the relationship; while at the functional level individuals will assume varying degrees of prominence as the relationship develops.

Laurence Moran, CPO of telecoms firm Cable & Wireless International, says: "No one individual or specific function owns the supplier relationship. It has to be a co-ordinated and controlled activity facilitated, guided and governed by procurement." He believes that "strong governance and active participation from the stakeholders, with procurement leading the development and deployment of a robust SRM model tailored to each strategic vendor, is the way forward".

For procurement to play such a role effectively, it needs to be positioned as an executive decision-maker responsible for the governance and co-ordination processes by which supplier relationships are managed and information is disseminated.

Strategic positioning of this kind is especially valuable in those cases when the supplier relationship needs an "honest broker" detached from daily operational pressures. In this scenario, the relevant functional area still owns the operational relationship, in accordance with their specialism. For example, day-to-day technical risks and issues would be handled by the technical department, and only when these start to affect the supplier relationship would they be escalated to procurement as the overall owner.

John Wardrop, vice-president of human resources and cost management at New Zealand-based domestic appliance manufacturer Fisher & Paykel, uses a biological analogy to describe this division of responsibilities: "If the arteries and veins are the supply line, then the heart must be procurement, with the other organs being the functional heads and the board the brain. They all contribute to making the body work, but it's procurement that controls the lifeblood."

Picking an argument

Nevertheless, the intra-organisational politics surrounding SRM ownership pose interesting challenges. As a fledgling strategic function, can procurement afford to argue over the ownership of a particular supplier relationship with a department that has traditionally had a stronger strategic position within the organisation?

How many CPOs are willing to take on the CIO for ownership for a large technology supplier, for example? Or pick a fight with the head of risk for the ownership of insurance arrangements? These "battles" are made even more difficult when procurement refers to other business functions as "internal customers" and has been pandering to their needs for many years.

So which SRM ownership battles *should* procurement be fighting? Let's start with supplier management frameworks, processes and governance. By controlling these areas, procurement can influence how the wider organization interacts with suppliers and ensure this is applied consistently. Moreover, procurement will position itself as a central point for the information flow, which will allow visibility of how the supplier is being managed at an operational level by all the other departments. This positioning does not come without a warning label, though, as being the dissemination point of information has the potential to be seen either as a purely administrative task or, worse still, a bottleneck.

Another instance when procurement might look to own the supplier relationship is when it is best positioned according to the nine different types of ownership discussed earlier to take the lead. The most common of these is when procurement has budgetary ownership, but other ownerships also apply, especially those with a legal and financial dimension. A third area of focus would be where there are multiple departments with differing types of ownership within a single supplier relationship, and its management needs to be co-ordinated.

Whichever way you look at it, one certainty is that the responsibility for managing key supplier relationships is not simply going to be dropped into procurement's lap. It is going to be down to you, as the CPO, to create both a compelling case for SRM ownership within procurement, and a method for achieving and delivering the benefits. This should include robust methodologies to, among other things, segment the supply base along the spectrum from transactional to strategic; align appropriate management models; gather, analyse and share key information; and create an environment in which supplier innovation can be captured and exploited ahead of the competition.

At present, in many organisations, there is a lack of clarity about the ownership "rights" when it comes to supplier relationships. But this territory will not remain unclaimed for long. For procurement, speed is now of the essence, because as organisations become increasingly dependent on external partners to deliver value for them, so other business functions will come to view the management of supplier relationships as a way of preserving or enhancing their influence. Some will no doubt consider it their divine right.

Are you ready to take the lead?

Creating the business case for SRM ownership

When setting out the reasons why procurement should take the lead in managing supplier relationships, first consider the benefits case for supplier management within your organization generally, before moving on to answer the "why procurement?" question. A number of areas can be improved through diligent supplier relationship management.

They include:

- The ability to model costs more accurately.
- Utilisation of cross-organisational teams.
- Reduction in the impact of price fluctuations on cost structures.
- Early supplier involvement in product and service development.
- Transfer of knowledge through the supply chain.
- Planning and design synergy.
- Use of metrics to drive change for both organisations.
- Improved risk management and continuity of supply.
- Access to, and speed of, innovation.

From a financial perspective, SRM enables the deal that has been completed by the procurement department to be implemented and managed in such a way that it avoids the erosion of cost savings over time. This can be as high as 50 per cent of the initial cost benefit achieved. In addition, good supplier management can typically increase the level of savings by 3-5 per cent, in our experience.

To answer "why procurement?", consider the following points:

- Procurement is best placed to access supplier information, given its existing relationships with suppliers across the organisation.
- Procurement's orientation towards frameworks, process and governance internally makes it well suited to managing external suppliers.
- Given the multiple levels of SRM ownership, procurement fulfils a useful role as an "honest broker" between the supplier and the wider organisation.
- Such a role potentially enables procurement to foster an environment in which suppliers will share improvement ideas and innovations.
- Having visibility of the organisation's operations and the entire supply chain for a particular supplier allows procurement to make more informed buying decisions.

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