What is Supplier Relationship Management?

Supplier relationship management, also known as SRM, is a systematic approach to assess suppliers’ contributions to your business. It helps you determine which suppliers are providing the best influence on your success and ensures they are performing well. Supply chain management uses SRM in procurement, operations, and project management.

SRM helps to foster positive relationships with your suppliers and helps guide the activities you should engage in with each supplier. It works much the same way as customer relationship management, or CRM, does on the front-end, dealing directly with customers.

The main goal of SRM is to improve business processes between you and your suppliers. By creating a streamlined approach, you improve efficiency for both your business and your suppliers. Though the approach to SRM can vary from one organization to the next, the main focus is on developing a mutually beneficial relationship with all of your suppliers, especially those that are considered strategic partnerships for your brand.

SRM refers to both business practices and software. We’ll take a look at both.

**SRM Business Practices**

The supply chain relationship management process can be broken down into three steps. Using this dynamic approach, you can simplify supplier management across your entire supply base.

**Step One: Segment Suppliers**

In this stage, you’re taking a look at all the suppliers you work with and categorize them based on how important they are to your business. Supplier segmentation focuses on finding your key suppliers - those who provide the goods and services that are essential to keep operations running,
so you know who to focus most of your attention on. That said, don’t neglect certain suppliers, because they’re all important.

You’ll work with various types of suppliers – wholesalers, distributors, manufacturers, and import sources. Each of these plays a vital role in your business – and segmentation ensures they all receive the proper attention.

Different suppliers have a different influence on your business. Take for instance a hypothetical furniture manufacturer. Their stationery supplier doesn’t have much effect on their overall profitability, but their lumber yards have a tremendous effect, because, without the lumber to produce their furniture, they can’t make any to sell. Any risk to the lumber yard’s operations becomes a major risk to the furniture manufacturer, and that’s what makes them a key supplier.

While strategic sourcing allows the furniture manufacturer to have additional lumber suppliers on hand in case of an issue, it may mean paying more money for what they usually get. It may mean an increased time to market because that second supplier cannot fulfill their needs right away due to a shortened lead time. In any case, while the furniture company likely wouldn’t have to completely cease operations for an extended period of time, it would certainly cause trouble throughout the rest of the supply chain.

**Step Two: Develop Supplier Strategy**

In this stage, you look at each of the suppliers, working from the ones that are most important to your business down to the least important. You develop a plan for how you’ll work with each of them. Remember, all suppliers are partners. You need them as much as they need you – and your strategy should include mutually beneficial methods of keeping everyone happy. The best SRM strategies aim to facilitate collaborative supplier relationships.

**Demonstrate You’re a Good Customer**

This includes demonstrating to your suppliers that you are a good customer – pay your bills on time, give vendors as much lead time as possible, and keeping communication open and clear. If for some reason you cannot pay your bills on time, communicating with the supplier about when they can expect payment is crucial to maintaining a positive relationship. They are a business just like you and rely on timely payments from their customers to keep their operations running, too.

**Come Up with a Risk Management Plan**

There is always risk involved in working with a vendor. You can mitigate some of the risk during the supplier selection process when you look at references, examples of their previous work, their financial stability, and their ability to handle your order capacity.

But business will go wrong at some point or another – it’s an inevitable fact. Having a plan in place for possible risks, such as having another vendor ready in case of an issue with the primary vendor, can help prevent an issue with one part of your supply chain rippling through the rest of it.

**Devise a Plan for Issue Resolution**

Things will happen over the course of any relationship, no matter how hard everyone works to keep the relationship in good standing. When an issue arises, there needs to be a clear plan in place for how to address the problem and get it resolved.

- Who should the problem go to if it cannot be resolved at the most basic level?
What other paths of escalation are an option?
Who are the stakeholders at each company who will be involved? How will they be involved?

Outlining this plan ahead of time aims to provide timely resolution with minimum disruption to the relationship or operations.

**Centralize Point of Contact**

Traditionally, suppliers have multiple contacts in your company. Procurement handles contracts and negotiations, while logistics and quality assurance address issues with shipping and quality, and other business units deal with ordering and delivery as needed. Rather than interacting with suppliers through multiple silos throughout your organization, centralizing everything creates a more efficient (read: less costly) system and builds trust and credibility with suppliers.

Suppliers are often frustrated by having to deal with multiple contacts, because there is often a lack of coordination with all the communication. This leads to unpredictable customer behavior, especially if there is inconsistency in policies or practices across the organization. For them, this means more costs as they sort everything out – and those costs will more often than not come back to you.

“Share strategic information with your suppliers to help them help you. Effective SRM requires two-way communication.”

Encourage executives representing various departments in your business to come together annually with supplier executives to exchange information. This joint business planning approach ensures the collaboration provides value for everyone.

**Use Two-Way Balanced Scorecards**

Reach out to suppliers to develop metrics to measure and manage performance based on the value delivered to both parties. Build a scorecard process that not only gives you scorecards to measure each other on, but also allows for data-driven conversation about problems as they arise, to build better solutions.

Ask your suppliers to provide feedback. Make sure there is a balance of outcome-based metrics – incremental revenue contribution, cost savings, etc. with indicators for proactive relationship management.

**Step Three: Execute Supplier Strategy**

In this step, you’re following through on each of the plans you developed for your suppliers, as guided by your business goals. It’s a good idea to dedicated relationship managers for your different suppliers, to ensure that no one person has too much on their plate to properly address all the SRM activities for each vendor.

Assign a manager to each of the key suppliers. Their job should be focused on maintaining a strong relationship with them, by keeping lines of communication open with everyone at the supplier and with the appropriate internal staff at your company. They should also be matching your evolving business needs and plans with what they know about the suppliers, so it’s easier to see if and when you need to change suppliers for a better fit.
SRM Software

You’ll want to invest in SRM software to help you keep track of all your supplier data. This is critical if you have an extensive list of vendors, because the more you work with, the harder it becomes to keep track of everything.

SRM systems make it easier to keep all the information about your suppliers in a central location. With a solution like PurchaseControl, you can integrate your purchase order management with your supplier relationship management system. This way, your supplier information, as well as all your purchase orders are stored together – making it easier to handle contract management and evaluate supplier performance.

The supplier relationship management process is one way you can give yourself a competitive advantage. Strategic supplier relationships will positively affect your bottom line in a number of ways. You’ll be able to negotiate better deals with your vendors when they’re happy with you, which may include cost savings, cost avoidance, and increased value-add. You’ll see a faster time to market, better risk management, and financial gains. Most importantly, to keep reaping the benefits of optimal supplier relationship management, treat it as a living, breathing, organism. Consistently segment and evaluate suppliers to ensure continued mutual benefit.

PurchaseControl makes SRM easy with our integrated supplier management features.

Find Out How
About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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