Strategic Supplier Relationship Management – Do's and Don'ts

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> *Supplier Relationships – Don't go over to the Dark Side!*

Shortly after I joined the Commodity/Category Management Procurement organization I was invited to attend the annual Strategic Supplier Awards event. It was all about Strategic Supplier Relationship management.

There were Executives from dozens of Suppliers in attendance. The event concluded with award recognition given to Suppliers based on their scoring and standing as being of Strategic value to the company.

Prior to joining the Procurement team I had neither understood nor appreciated the importance of Supplier Relationship management. But having seen how motivated and inspired these Suppliers were I started to understand.

But in the weeks, months and years to come I also became much more informed about the good and bad aspects of Supplier Relationship Management.

From company to company I came to develop a list of Strategic Supplier Relationship Management “Do’s” and “Don’ts”.

Supplier Relationship Management Approaches

From one company to the next, from one industry to the next, and certainly from one individual to the next, Suppliers are viewed and managed differently.

At its most basic level Suppliers are considered transactional. Companies find suppliers, negotiate prices and terms, place purchase orders and Suppliers fill those orders. That’s it.

There is no effort put into developing relationships or partnerships of any kind when Suppliers are considered transactional. There is a fundamental lack of respect and value.

The next level of Supplier relationship is more considered. Suppliers may be called Preferred or Tactical.

At this level Suppliers are more highly valued. The basic capabilities and operating conditions have been established. There is more effort put into the relationship by Customers.

Amongst a number of providers of a particular set of goods

or services Preferred suppliers are typically given preferential awards of business. They still have to be competitive and demonstrate that they can deliver, but they have earned a right to be considered preferentially based on past performance and capabilities.

The top end of the Supplier Relationship management spectrum is reserved for Strategic Suppliers.



Strategic Suppliers are the best of the best. Relationships are established and strong at all levels of both organizations.

The Strategic Supplier contributes in a meaningful and visible way to the value of the Customer. And the Customer contributes in a similarly meaningful way to the success of the Strategic Supplier.

There is a level of collaboration, synchronization, and mutual strategic development and execution that positively advances the interests of both parties.

In any Supplier Relationship Management schema suppliers can move up or down the scale. New suppliers want to become Preferred/Tactical. Preferred/Tactical suppliers

want to become Strategic. And Strategic suppliers want to stay on top of the mountain.

But in any genuine process Suppliers can go the other way too. Suppliers can fall back down the scale and ultimately cease doing business with each other altogether.

The core objective of any Strategic Supplier Relationship Management program should be to promote the success of Customers and Suppliers.

But to make this effective there are a series of "Do's" and "Don'ts" that must be considered.

DO's

The elements that must be present in an effective Supplier Relationship Management program are:

- Have a formal, visible process to progress suppliers through your relationship management continuum … Transactional, Preferred/Tactical, Strategic
- Every Supplier should have a Relationship owner (eg. a Commodity/Category/Sourcing Manager) designated along with an Executive sponsor
- There should be a Communications strategy and relationship development roadmap for every single Preferred and Strategic supplier
- Your team should have a thorough understanding of

the supplier organization
- There must be a clear set of standardized metrics and a scorecarding system which will measure and track supplier and relationship performance
- A governance process needs to be in place to ensure the relationship and performance are managed proactively
- Relationships must be genuine and not contrived
- You should expect suppliers to contribute to and advance your company strategy and your company performance
- You should expect to contribute to and advance your suppliers performance
- Suppliers must be electronically connected (eg. end to end connectivity) with your systems
- You should recognize suppliers visibly

DON'Ts

For a Supplier Relationship Management program to be effective there are also lessons to be learned and things to avoid. At its extreme a poor program can result in catastrophic results.

- Don't go over to the Dark Side! You must maintain your integrity, distance, objectivity. There is a lot of business up for grabs and some may be tempted by bribes and undo preferential treatment.

- Don’t make a supplier strategic for false reasons. Any lack of integrity in supplier selection will undermine the view of your Supplier Relationship program both within and outside your company.
- Don’t allow strategic suppliers to remain there forever. Longevity isn’t a birthright. Strategic suppliers must constantly demonstrate that they are always earning their place at this level
- Don’t be afraid to hold strategic suppliers to account and to remove them if necessary. Virtually no supplier is irreplaceable.
- Don’t expect this to be a one sided relationship where you only get the benefits. If you want them to contribute to your success you must contribute to their success.
- Don’t abuse the relationship. Having a solid relationship will always help you get through difficult situations. But if you over-use, or ignore the relationship you will compromise its future.
- Don’t ignore the relationship. You must regularly communicate and pay it attention.
- Don’t let your strategic suppliers to take advantage of you. They still have to pay their bills and deliver quality products/services.
- Don’t ignore new prospects because of existing strategic suppliers. There is always some new up and coming supplier on the horizon.

Conclusion

If your Strategic Supplier Relationship management program is well managed then people inside your company will see its value. Additionally, and more importantly suppliers will aggressively and actively work to advance in your program to achieve Strategic status.

But if your program is not well managed people will see through it and it will fail. And this will ultimately compromise the success of your company.

The “Do’s” and “Don’ts” we’ve outlined here are designed to help you refine and shape your program.

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