Beyond pricing and procurement

Maturing technology, globalization, and a seller's market shift focus in supplier management to analytics, risk, and collaboration

By Nancy Bartels, *senior editor*

Mastering supplier relationship management (SRM) can save 3 percent a year on procurement costs. That's an average of $67 million a year for the companies surveyed by New York-based consultancy **Accenture**.

SRM is an umbrella term for the supplier-facing aspects of the procurement process. In Accenture's survey of senior procurement executives from 13 industries—including pharmaceuticals, industrial manufacturing, automotive, consumer packaged goods, and electronics—a significant number believed they could increase the potential benefits of SRM by up to an additional 20 percent if they were better at it.

In spite of these numbers, SRM implementations lag behind other enterprise software initiatives. "Many companies have not fully deployed SRM solutions, and those that do often cut core capabilities to meet short-term budget and implementation targets," says Chris Brousseau, senior manager in Accenture's supply chain practice.

SRM also loses out to other priorities, and often is viewed as a cost center rather than a strategic tool.

But a confluence of changing market conditions and maturing technology is focusing greater attention on the benefits of SRM, which has drawn the attention of senior management.

"SRM has advanced more in the past five years than in the past twenty," says Tim Minahan, VP of marketing at SRM software vendor **Procuri**. "This has been aided by technology advances and market dynamics. Now it's a seller's market. Suppliers are more in control, and SRM is on executive agendas. It's getting budget money like ERP or CRM."

Companies also have been on a learning curve about SRM, says Minahan. "They leverage the technology to get savings, and aim for market transparency so they can negotiate down on price. But there's a law of diminishing returns. You can only take so much out of a supplier's profit margin. So now companies are into compliance—how to make sure contracts are met in terms of service level, on-time delivery, etc. They're also looking at spending patterns. The best-in-class have strategically segmented their supply chains, and the best suppliers are collaborating for continuous improvement."

Mickey North Rizza, director of sourcing and procurement at AMR Research, sees cutting-edge companies using supplier management applications to drive demand-driven replenishment.

Start with spend

Mickey North Rizza, director of sourcing and procurement at Boston-based **AMR Research**, says moving from tactical or transactional SRM to a more strategic view often starts with spend management—clarifying what is being spent with whom and then showing where combining buys across divisions and consolidating suppliers can enable better negotiating leverage.

Globalization is driving this interest in strategic SRM and analytics because it has vastly multiplied the complexity of supplier relationships. Brand owners that outsource entire processes to contract manufacturers are "dancing with a lot of partners," says Dr. John Vande Vate, executive director of the Executive Masters in International Logistics program at Georgia Tech University. These partners include the contract manufacturers themselves, their suppliers, and third-party logistics providers.

Longer supply chains also mean greater chance for disruption by everything from currency fluctuations to local politics to bad weather.

Meanwhile, lean and just-in-time manufacturing necessitate managing supply lines and inventory with renewed diligence.

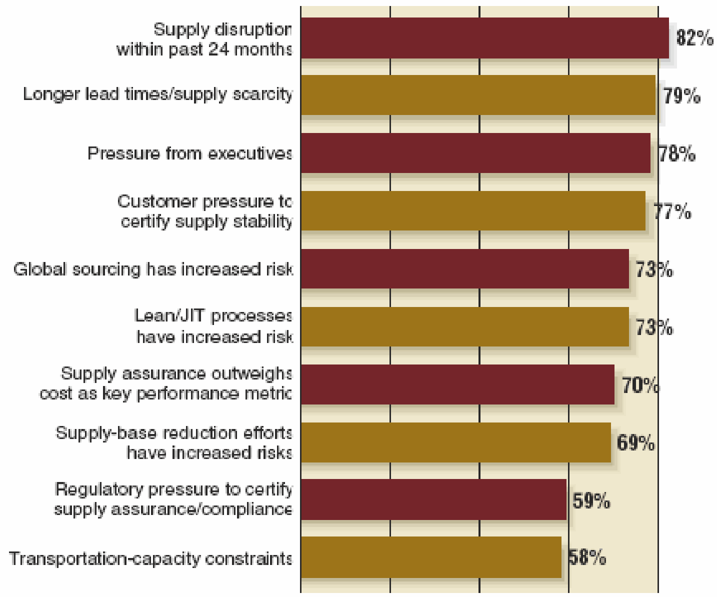
This complexity has supply managers looking beyond lowering costs to assuring supply, says Minahan. "That requires buying organizations to shift methodology. They need to use technology not to beat suppliers up on price, but to get more flexibility," he says.

The ERP connection

SRM vendors are responding with more robust solutions that combine sourcing analytics, contract management, and integration with ERP and planning & forecasting systems, says AMR's Rizza.

Rizza points to the recent merger of SRM vendor **Emptoris** and contract management vendor **diCarta** following their joint work on a new sourcing, contract management, and compliance platform, called Emptoris 6. A significant feature of the new platform is its

Risk-management project drivers



Source: AberdeenGroup

Supply chain disruption is the top motivator for supplier risk management initiatives.

SAP NetWeaver-compatible contract-management module. The company also announced plans to extend this compatibility to the rest of Emptoris 6 in the next six months.

But users don't have to start with a fully functional SRM solution to begin strategic collaboration and integration with ERP. Paper distributor **Central Lewmar**, Newark, N.J., started with the exchange of a single piece of information: product availability.

Before it began exchanging data electronically with its largest supplier—Stamford, Conn.-based **International Paper**—Central Lewmar customer service representatives (CSR) were engaged in a constant cycle of phoning and faxing to ensure stock was available for next-day delivery to customers. At the busiest times of the day, call cycle time could escalate to up to 20 minutes, and errors increased customer dissatisfaction and last-minute expediting charges.

To eliminate the call-fax-call-again cycle, Central Lewmar now shares inventory information from its ERP system with International Paper via a real-time product information exchange platform from **Liaison Technologies**.

Results Group VP Kevin Steele says deeper collaboration between manufacturers and suppliers is in the future because it's a win for both sides.

Now, thanks to integration of Central Lewmar's order-entry program with its ERP system and Liaison, CSRs just type in a purchase-order number to send inventory-availability information to Liaison, and on to International Paper. They enter ordered items in their own inventory look-up system, check inventory on hand as well as the mill's inventory, and see the results displayed on a screen within a matter of seconds. Again, within seconds, International Paper can acknowledge it has received the order and can fill it.

Central Lewmar is talking with several other key suppliers about the same connectivity. "To do this with us, all the supplier has to do is synchronize its system with Liaison. Because we've already spent the money and done the programming, whatever is sent to Liaison can be sent along to our suppliers," says Kevin Whitfield, Central Lewmar's VP of management, information systems.

Using Liaison as a conduit for connecting to all of its suppliers also saves Central Lewmar the money and manpower required to integrate individually with each supplier, adds Whitfield.

Demand driven

While companies such as Central Lewmar are testing the integrated-systems waters, Rizza sees bigger benefits through forecast sharing, and allowing demand to drive sourcing.

"What most companies are doing is integrating best-of-breed supply management applications on top of their ERP systems. Once this happens, using the information from spend analysis, companies can begin taking strategic action," she says.

That information can be used by commodity specialists and buying teams to support negotiations and develop procurement strategies. Then, with contracts in place, supplier scheduling can be based on the demand received, says Rizza. "You're driving demand back into the supply chain, and into the supply managing group, which is sourcing and procurement," she explains.

But not everyone sees this grand vision as practical.

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"Demand-driven sourcing surfaced last year," says SAS' Norman. "What it means is taking a sales forecast and looking at the bill of material to get all the details of the things you need to buy to make the product. But companies good at forecasting are around 60 percent to 70 percent on target. Most are at about 50 percent. When you negotiate with suppliers, they have to know how good that number is. If the supplier has spread his cost over 2,000 items, and you only buy 1,500, what happens to the extra cost? It all spills out into operation of the production line, and into inventory."

Craig Cuffie, general manager of Intuit's Financial Supplies Group, compares developing close, mutually beneficial relationships with suppliers to that of marriage. Both require hard work and constant communication.

Accenture's Brousseau isn't convinced either. "SRM leaders are not typically looking at ways to link their own requirements with supplier forecasting—and CPFR [collaboration, planning, forecasting and replenishment] has failed to meet expectations. We are a long way from seeing this become a common practice," he says.

Granted, says Kevin Steele, VP of **The Results Group**, (TRG) a consultancy based in Mountain View, Calif., but closer collaboration with strategic suppliers—whether it's based on forecasting or something else—is in the future.

"What's interesting is the 360-degree partnership review," says Steele. "It's not just the customer telling the supplier anymore. There's also an interest in soft metrics. What's the trust level? How well are we cooperating? Companies are using [this dialogue] as a springboard for improvement. There's a win/win in the best partnerships."

Marriage counseling

The Financial Supplies Group of accounting software vendor **Intuit** has developed such a partnership with Decatur, Ga.-based **Harland Printed Products**, its supplier of printed checks and other paper products

"When I came onboard, we were in the 16th year of a relationship with Harland," says Craig Cuffie, general manager of Intuit's Financial Supplies Group. "We had a deep relationship, but it was time to see what else was out there. When we vetted all the potential suppliers, what I saw was a greater opportunity for us to [work more closely with Harland]. The question was, how do we unleash our respective powers and create a better relationship for the two companies?"

The answer: "You work at it, just like a marriage," says Cuffie—by taking time, having serious conversations, and asking hard questions.

Intuit and Harland brought in TRG to facilitate this relationship building. Using a scorecard-and-questionnaire methodology, TRG discovered issues between the two companies that "were preventing us from delivering greatness," says Cuffie. "Now we have a way within our current quarterly business review to look at issues, and how to address them."

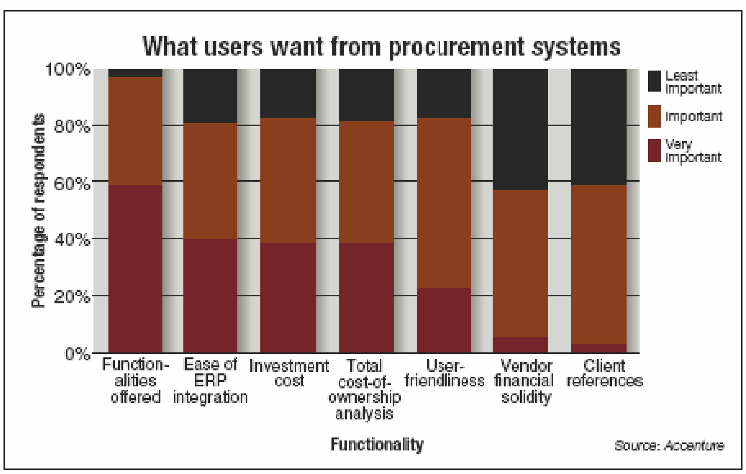
Intuit and Harland also use Intuit's collaboration tool, QuickBase, which allows sharing work, documents, surveys, and results.

As a result, "Our relationship is miles better now," says Cuffie. "There's greater visibility into both companies. We're thinking of each other as strategic partners that can make each other better."

In hard metric terms, after working with Intuit on process improvement for the last year and a half, Harland reduced labor resources by 20 percent, improved turnaround times 50 percent, and cut costs by 10 percent.

The methodology has been so successful with Harland that Inuit is rolling it out to other key suppliers. Yet no SRM software was required to bring about this improved relationship.

"The philosophy of using tools is great," says Cuffie, "but we're trying to share with suppliers our value set, and you can't do that in a tool. Sharing those things allows us to deliver mutual value. A lot of great relationships fall apart when you don't know what the other is thinking." ■



After appropriate functionality, users are looking for ease of integration with ERP systems when they evaluate procurement software.

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