

Q&A: The Workings of Supplier Relationship Management

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What is supplier relationship management? Which suppliers should you focus on? Who should manage the supplier relationship? Bill Michels, CPSM, CPM, MCIPS, president of ISM Services sat down with [TraceGains](#) [2] to answer some of these questions.

Q: What is supplier relationship management?

A: Supplier relationship management is a process for working with suppliers across the supply chain in order to maximize value.

Supplier relationship management is crucial and more important now than ever before, especially as industries consolidate. For years the procurement organization was focused on price and cost. As you master price and cost, you gain transparency into the suppliers' cost structure. When all is said and done, you want a supplier to have a healthy operating margin, so they're able to innovate, develop new products, and keep investing in the business. Even after you've optimized the margin, you still need to drive cost and value and the only way to do that is by using supplier relationship management to identify new specifications, materials, and processes, eliminate waste, and really drive value.

Q: How is vendor management different from supplier relationship management?

A: Vendor management is identifying the short-term objectives and simple metrics like delivery cost, quality, and performance. Supplier relationship management works across the business process, spots waste, and finds new ways to add value. You're no longer just focused on price, but on removing true cost from the system and sharing those cost-benefits across the supplier relationship. Supplier relationship management is a much more transparent and trusting relationship that results in higher value for both parties.

Q: So Supplier Relationship Management is more of a bigger picture view?

A: Yes. With supplier consolidation, there will be competing groups within the supply chain. So the team that drives the leanest and most efficient supply chain will have a competitive advantage. Most purchases will need to align with suppliers who all have common business goals and all making money across the chain. So as we continue to consolidate and merge, we're going to see different supply chains.

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Q: In supplier relationship management, what are some things that when you mention them appear obvious, but companies don't regularly practice?

A: Companies should identify current and potential strategic suppliers and cultivate those relationships for maximum value. Companies should also consider what metrics they have in place, what else are they going to measure, and how to drive out costs together. Understanding what the supplier gets from the relationship is really important, too.

Q: When you say "classifying the supplier" what do you mean by that?

A: When I look at a supplier, I look at four different types:

1. Competitive and Leverage - this supplier is one of many competing in the marketplace. The availability of suppliers can dictate the type of relationship you'll have. Competitive and leverage supplier relationships tend to be short-term and at arms-length.
2. Preferred Suppliers - these suppliers have earned a certain amount of your trust. Their performance tends to be better than others, so they have a more secure place in your relationship through proven performance.
3. Performance Partnership - these suppliers consistently deliver performance and value, which drive competitive advantage for your company. We specify the desired performance and work together on every side of the supplier relationship.
4. Strategic Alliance - involves interdependency, synergy, and sharing of resources and revenue between both partners across the business .

Q: Noted manufacturing journalist Thomas Cutler talks about a revolution taking place ([video \[3\]](#)) in the relationship between suppliers and their customers (i.e., manufacturers). How do you take issue or agree with his views?

A: I agree with him because as you master procurement, cost reduction, and transparency, you start working very closely together and sharing data so that you can keep extracting value. Senior management seeks innovation, value, transparency, and short windows of supply rather than long, extensive supply chains. So the revolution moves us beyond price and cost, toward a focus on value.

A supplier then invests and innovates, transforming your business and giving it a great competitive advantage. That's the type of value we want from suppliers in the long term and sharing business intelligence, along with forward thinking trend analyses can help get us there.

Q: Specific to food manufacturing, who is responsible for supplier relationship management, and who should be?

A: There are key stakeholders throughout the process. For example, the strategic

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procurement group is in charge of the commercial relationship, the quality stakeholders are involved in the quality relationship, and the technical folks are concerned with the technical and R&D relationship. So there are multiple points of supplier relationship management, which need to be very well defined, assuring that everyone understands who has the responsibility, authority, and accountability for which specific parts.

Q: So when you have different stakeholders managing their own portion of the relationship, should they all come back together regularly to share information or do you find that these individual teams work well autonomously, knowing their own roles and responsibilities?

A: Here's what you'll need to have:

- A category team
- A category strategy, developed as a group (e.g., how are you going to manage this category and how are you going to manage these suppliers?)
- Common objectives
 - A detailed, 3-year sourcing strategy Execution of the strategy by the team as a whole Execution of the strategy by the team as a whole Short, medium, and long-term objectives/strategy
 - Must be a business strategy that is agreed upon by the business
- Execution of the strategy by the whole team

Q: Are ERP systems up to the challenge of supplier relationship management? What about risk management? Compliance management?

A: I don't think ERP systems are up to the challenge of determining value or helping with cost analysis. They're great transactionally, but we want people who build and execute strategies. A data system will help you with things like lot control, making sure you understand which supplier's products are good, and where the products are going, but it's not going to help you build a relationship or drive value.

As for risk management, a biopharmaceutical company I work with created a predictive model showing which suppliers put their business at risk. Who is responsible for risk management in the food industry? Right now we're seeing numerous risks in the supply chain, but we don't have a chain of custody or good processes for lot control, or for tracking which suppliers go with which lot. An ERP system might help if we implement lot control, but for solid supplier relationship management, we need:

- Trust with the supplier
- Excellent people skills and relationship skills
- Good strategy and processes so we know how to extract value from that supplier

At the end of the day, there's only so much profit to give away and then you still

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have to sustain the business. So we want suppliers to make money, to reinvest, and to bring us more value.

Q: What advice or recommendations would you give for touching on that strategy and trying to really manage that supplier relationship?

A: It takes a lot of effort and resources to develop supplier relationships, so you're not going to have high-level relationships with every supplier. That's why it's important to identify your key suppliers, determine where the most value lies, and work together to drive value across the supply chain.

Bill Michels is President of ISM Services, a specialty training & consulting company that focuses on procurement and supply chain management. Mr. Michels is also President of ADR-ISM Supply Chain Management Consulting (Shanghai) Co., Inc., and a Senior Vice President of the Institute for Supply Management™. His ability to transform procurement and supply chain and deliver a change process has led clients to increased long-term profitability, enhanced staff competence, and sustainable cost and value improvements.

TraceGains (www.tracegains.com [4]) provides food and ingredient manufacturers and brokers with a web-based supplier, compliance, and regulatory document management solution that automates the management of supplier risk, data, and documentation, making companies 365 Audit Ready™.

TraceGains' cloud-based SaaS solution works with in-house solutions such as quality management systems (QMS), enterprise resource planning (ERP), and product life-cycle management (PLM), to close the loop on upstream risk. This solution provides collaborative supplier management, and eases compliance with the Food Safety Modernization Act (FSMA), the Global Food Safety Initiative (GFSI), and internal business compliance requirements including hazard analysis and critical control points (HACCP). TraceGains' customers boast a four to six month return on their investment. TraceGains is Food Logistics Top 100 software and technology providers.

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[1] <http://www.tracegains.com/>

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