

SoftCo

Smart Automation.



eBook

7 Strategies to Enhance
Supplier Management

www.softco.com

Table of Contents:

- Supplier Management Overview 2
- Supplier Management Challenges 3
- Benefits of Improving Your Supplier Management 5
- Seven Supplier Management Strategies 7
 - 1. Embrace Technology 7
 - 2. Select the Right Partners 9
 - 3. Use of Data and Analytics 10
 - 4. Alignment of Stakeholders 11
 - 5. Supplier Segmentation 12
 - 6. Education and Training 13
 - 7. Risk Management 14
- The Bottom Line with Supplier Management 15

Supplier Management Overview

As an organization, it is easy to become preoccupied with output. After all, what you produce is a huge part of your success. However, all production must be paired with procurement. This is why supplier management plays a critical role in your organizational success.

Supplier management is an organization's ability to oversee all contact with third-party vendors. With a successful relationship, suppliers can help your organization meet customer demand and streamline supply chain execution for improved production and profit. However, in order to see real gain from this strategy, such contracts must be managed appropriately. This is where supplier management comes into play.

Supplier management operates on two tiers. First, organizations need to select their preferred suppliers. After choosing their preferred suppliers, a strong relationship must be maintained moving forward. Supplier management provides this ongoing assessment to promote ease within the working relationship and to guarantee that value continues to build in the relationship.



Clearly, the role of supplier management has become increasingly complex in the modern world. As technology advances, many organizations are relying on more third-party vendors than ever before. Additionally, the global scale of the economy has made it possible to look at vendors from all over the world. These complications are not insurmountable, however. In fact, with new strategies, it is possible to make your supplier management more effective than ever.

Supplier Management Challenges

Given the wide scope of supplier management, it is no surprise that there are a number of critical challenges that organizations must address. Being aware of these challenges allows you to take a proactive approach. This ensures results at all stages of the process

Resistance to Change

A recent survey conducted by APQC and Supply Chain Management Review (SCMR) revealed that almost half (48%) of Supply Chain professionals believe that 'resistance to change' is their primary hurdle to achieving widespread deployment of Supply Relationship Management.

Organizations are notoriously slow to change, and this reluctance often starts at the executive level. Your organization may say that it wants meaningful relationships with suppliers, but unless it is willing to make the changes necessary to support those relationships, the venture will be limited. To overcome such resistance, education about supplier relationships is paramount. It is imperative to include management at all phases of the procurement process.

Lack of Understanding

Many problems stem from the fact that supplier management is not often well understood. Simply put, supplier management is not something that most organizations focus on. This leads to a lack of training for employees, resulting in an overall lack of competency in this area. Deloitte's Global Chief Procurement Officer Survey 2018 found that 51% of procurement leaders do not believe that they have the capability in their teams to deliver their strategy.

Therefore, in order to see success through supplier management, your organization must invest in education. Only with proper training and resources will your organization ever be prepared to successfully manage relationships with vendors.

Too Much Focus on Costs

The first primary challenge is one of perspective. As mentioned, third-party vendors are often used for savings. However, it would be a mistake to focus on cost when assessing your relationship with vendors. Just because vendors offer the lowest prices does not mean that they are the best value.

Research by PWC, found that the majority of Procurement professionals (22%) stated that 'Too much focus on costs instead of value' as their primary challenge when implementing Supplier relationship management. Instead of looking solely at the price of a good or service, look at the value you are getting. Value is a more comprehensive approach, considering both the cost and the quality of the results from the relationship.



Benefits of Improving Your Supplier Management

With this overview of what strong supplier management can do for your company, you now have a choice to improve your own management style. There is no doubt that such improvements can be daunting, which is why some organizations resist the process.

According to Level Research, the top three goals that organizations strive for in their management of suppliers are *increased supply chain efficiency, improved supplier relations and reduced risk/improved compliance*. When you fully commit to your supplier management, such goals become far more achievable.

Top Goal for Managing Suppliers



Increasing Supply Chain Efficiency

First, you should improve your supplier management to maximize your supply chain efficiency. By getting the most out of every part of the supply chain, you can ensure that there are no gaps.

This is an improvement in both time and money, and it helps you better understand the way your company functions on a minute level. This efficiency lends itself to sustainability. Only when you understand the nuances of your supply chain can you make sure that it is able to endure.

Improving Supplier Relationships

Another reason to prioritize supplier management is the relationship itself. A good relationship with your supplier is more important than you might realize. In the same way that a buyer will prioritize certain suppliers, suppliers can prioritize or de-prioritize a buyer—which will inevitably lead to varying quality of service.

When you have strong connections to a supplier, then you can be more confident that needs will be met. More than that, needs can be anticipated. When something goes wrong, you can have confidence that a solution will be addressed promptly. A good relationship should always be mutually beneficial, and with supplier management strategies in place, you can make sure that your relationship is worth more than the terms of your contract.

Improving Response Times to Supplier Queries

As these gains mount, other inherent changes can occur. As you improve your supplier management with better efficiency, streamlined relationships, and superior products, you will also see reduced risk in your business model. These improvements will yield superior response time and overall cost reductions. These results are practical reasons that substantiate any investment you make in supplier management. Best of all, these reasons continue to have a domino effect on all other parts of your business, which means that an improvement in your supplier management is an improvement in your organization at large..

Seven Supplier Management Strategies

If you are ready to take your supplier management to the next level, then you need some practical applications. Supplier management has to move from conceptualization to reality. To make this happen, consider these innovative supplier management strategies for your organization.

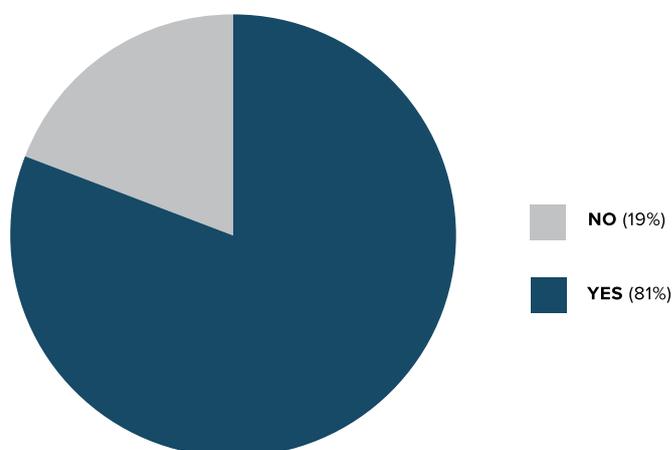
1. Embrace Technology

Technology has changed the way business operates from the top to the bottom. Therefore, it should be no surprise that it can have a significant impact on your supplier management. Technology in this sector can exist on two levels. The first is automation. There are technologies available that can track your inventory, which means these technologies can also automate orders for resupply. You can also rely on automation to determine how much product is needed in a given order. These functions streamline the process and eliminate wasted time and money.

The second main way to employ technology is transparency. As technology tracks your supplies and your expenditures, you will be able to see exactly where your time and resources are being allotted. Consider technologies for supplier onboarding, data management, PO tracking, and supplier communication. These innovative technologies give you the full scope of information needed to make the best decisions possible for your organization and improve supplier relations.

According to survey results, 81% of organizations reporting improvements in supplier relations following the implementation of supporting technology.

Improvement of Supplier Relationship Post Implementation



As you look into new technologies, consider the options in terms of their comprehensive features. You want a technology that integrates as many features as possible in order to streamline the process. New technologies can be difficult to learn, which is why you want to avoid having too many to master. A dynamic system for supplier management should be able to provide the versatility you need.

2. Select the Right Partners

Picking the right technology is important. Picking the right partners, however, can define success for your organization. Start by accurately assessing the capabilities of your potential supplier. You need to know precisely what the supplier can provide and how its goods or services will be supplied. Do not merely take the supplier's word for it. Instead, look at its previous interactions and the capacity of its workforce. You need to make sure that the supplier has the ability to meet your needs otherwise the partnership will be doomed from the start.

After determining that the supplier has the capacity to meet your needs, make sure you put the details of your relationship into writing. You should always have a strong contract that explicitly states what the supplier will provide. Details like delivery times, order specifications and cost should all be included in the contract. The contract can ensure that there is clarity on both sides of the relationship. A good contract is the best way to promote a good working partnership with your suppliers.

Finally, make sure to monitor the partnership. Trust is important, but this is a business arrangement. You have to show that you are actively involved with the partnership. Do not be afraid to conduct spot checks in order to make sure that supplies are arriving on time and as specified. Your supplier needs to see that you are aware of the details in order to be held accountable to those details. From time to time, you should even conduct audits to assess the nature of the relationship.

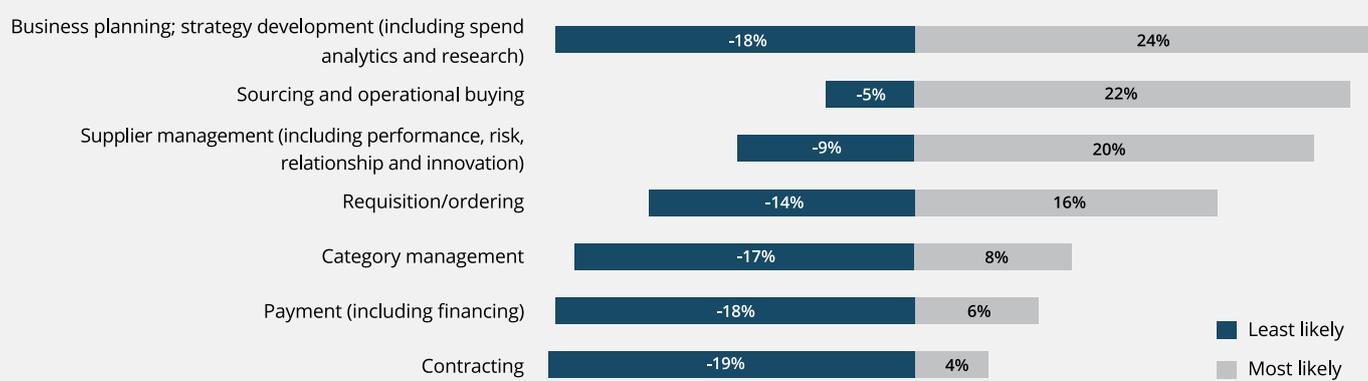
These steps can help you choose the right suppliers while ensuring an ongoing relationship that is productive and valuable. If the steps show that a supplier is failing at any of these points, do not be afraid to consider new relationships. There are many suppliers available to you, which means you should not feel limited.

3. Use of Data and Analytics

The use of analytics is nothing new in business. However, with new technologies, it is easier than ever to have access to the data you need to make the best decisions. These decisions should directly impact your supplier management.

As reported by Deloitte, there are several technologies expected to impact procurement over the next few years, however, the biggest of those could well be spend analysis.

Aspects of the procurement process expected to be most significantly impacted by technology in the next 5 years



With spend analysis, companies look carefully at the places where money is being spent in order to make the best decisions for saving. You should build up a procurement system with your suppliers that automatically documents the expenditures in order to streamline this process.

When trying to implement analytics for supplier management, look for a system that provides consolidated and standardized results. You want all of your spend data in one place, and you want it all to be translated into comparable figures. If possible, try to find a program that allows you to group and sort your expenditures in order to look at overall areas of spending within your organization.

The result of quality spend analytics is immediate. With clarity from the numbers, you can look for direct methods of saving. Moreover, you can use this data to assess your overall dependency on suppliers and the risk those suppliers may represent. Use your data to see how your suppliers are doing financially, and be sure to compensate for any downturn the company takes. The centralized data can also help with any issues of government or industry compliance.

4. Alignment of Stakeholders

In order to see the most gain from your supplier management, you need to make sure that your relationships with suppliers are collaborative. Your working relationship with a supplier should be a two-way street. If it is not mutually beneficial, then it is going to be subject to strife going forward. Equal collaboration between supplier and the organization will ensure that everyone feels appropriately invested in producing the best outcome possible.

This alignment should occur by being transparent about the overall goals of the relationship. This becomes even more important as your supply chain grows. If you are trying to organize multiple suppliers, then you need to make sure that all parties are aware of the part they play. As the central party, it is your job to manage the flow from one supplier to the next in order to make sure that all the working parts come together.

This requires ongoing communication and constant analysis. You will want to make sure that this oversight is given to the most relevant groups within your company. For example, your Planning department may oversee certain elements of procurement. However, input from Quality Control should also be consistent. It is best to be explicit about these levels of input in order to make sure that alignment is achieved.

5. Supplier Segmentation

If you are working with a number of suppliers, then segmentation is necessary. With supplier segmentation, you are dividing your suppliers into logical groups. This grouping facilitates procurement and streamlines communication. Segmentation should look at what the supplier provides and how the supplier's services fit into your overall business model.

For example, some suppliers are strategic while others are essential to your business. These two segments must be handled differently, and your endgame for each segment will be distinct. You expect something different from a strategic partner compared to a business-essential partner. As you assess your relationships with suppliers, you need to do so with the framework provided by segmentation. This is the only way to truly assess the value provided by the supplier.

One of the most accurate frameworks for segmenting suppliers is the *Kraljic Matrix*, devised by Peter Kraljic in 1983. In this, he argued that supply items should be mapped against two key dimensions: risk and profitability.

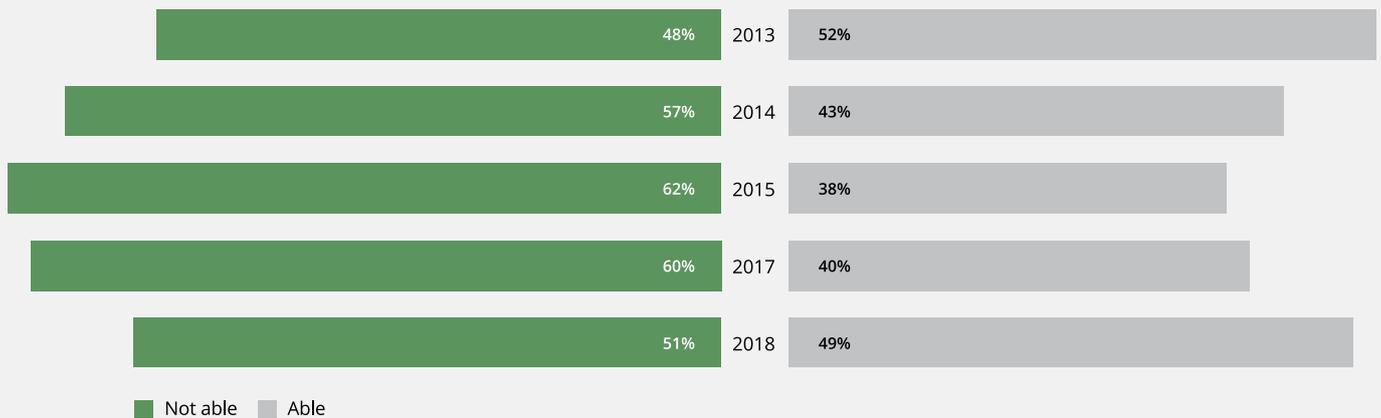
Risk refers to the likelihood of an unexpected event occurring within the supply chain that will lead to disrupted operations. Profitability describes the impact of a supply item on the bottom line.



6. Education and Training

Quality supplier management is about more than theory. There must be application within the daily operations of your organization. Unfortunately, by most estimates, the workforce is woefully unprepared for this task. According to Deloitte's Global Chief Procurement Survey 2018, up to 51 percent of procurement leaders lack faith in their teams to implement their goals.

Aspects of the procurement process expected to be most significantly impacted by technology in the next 5 years



This may seem discouraging, but it is merely an opportunity for education and training. Supplier management can be taught, and employees can be trained with the right skills for the job. To do this, first identify the competencies you value most. Teach your employees to think about strategic relationships, and provide the necessary training on the technologies used to monitor those relationships. All employees should understand the expectations in supplier management in order to make it a part of your overall organizational culture.

7. Risk Management

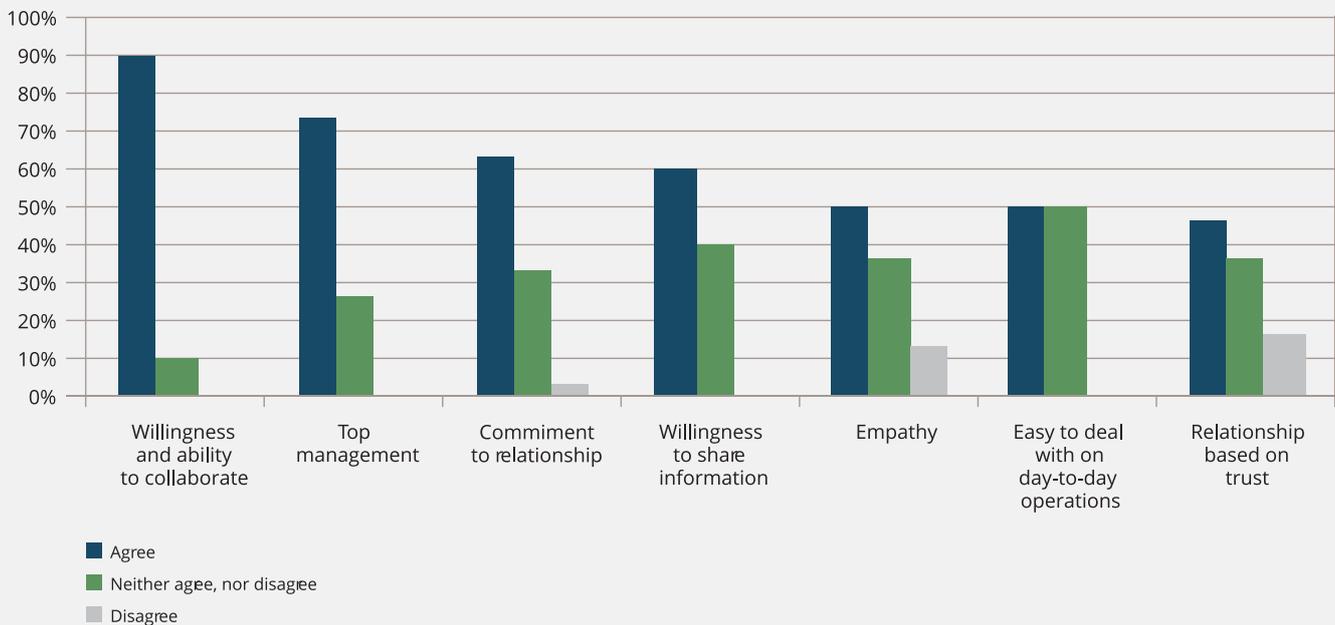
The final strategy for supplier management is all about risk. There is risk inherent in every decision you make, but you need to be aware of the risk in order to manage it properly. In supplier management, you want to mitigate the risk of supply failure. In supply failure, the supplier is unable to provide for your needs. This may be due to a lack of resources. It may also be an error on your part in terms of placing improper orders.

To keep these risks in check, consider the other strategies that have been discussed. Proper data analysis can make sure that your procurement requests are accurate, and maintaining a good relationship with your supplier can ensure that your needs are never left unfulfilled. However, you should make sure that risk is a part of your mindset. Always be aware of potential weaknesses within the supply chain in order to prepare the necessary countermeasures

The Bottom Line with Supplier Management

Supplier management looks at what is coming into your company in order to maximize what comes out. Too many organizations are not equipped to maintain this process properly, and this is a detriment to their efficiency and profits.

Studies conducted by PWC show that some key competencies are required in order to get the most out of your supplier management initiatives. These include a *willingness and ability to collaborate (90%)*, *top management of suppliers (73%)*, *commitment to the relationship (64%)*, *a willingness to share information (60%)*, *empathy (50%)*, *easy to deal with on day-to-day operation (50%)* and *a relationship based on trust (47%)*



You should fully understand what supplier management is and how it can help your organization succeed. Embrace the reasons for supplier management in order to choose the strategies that best match your organizational goals and work on ensuring your procurement team are equipped with the key competencies to initiate them. With this comprehensive approach, you can successfully use supplier management to boost your overall production.

References

[Level Research – Guide to Procure-to-Pay & Digital Transformation](#)

[Level Research – Supplier Management Report](#)

[Deloitte – Supplier Relationship Management: Identifying and maximising the value of strategic supplier partnering](#)

[Deloitte - The Deloitte Global Chief Procurement Officer Survey 2018](#)

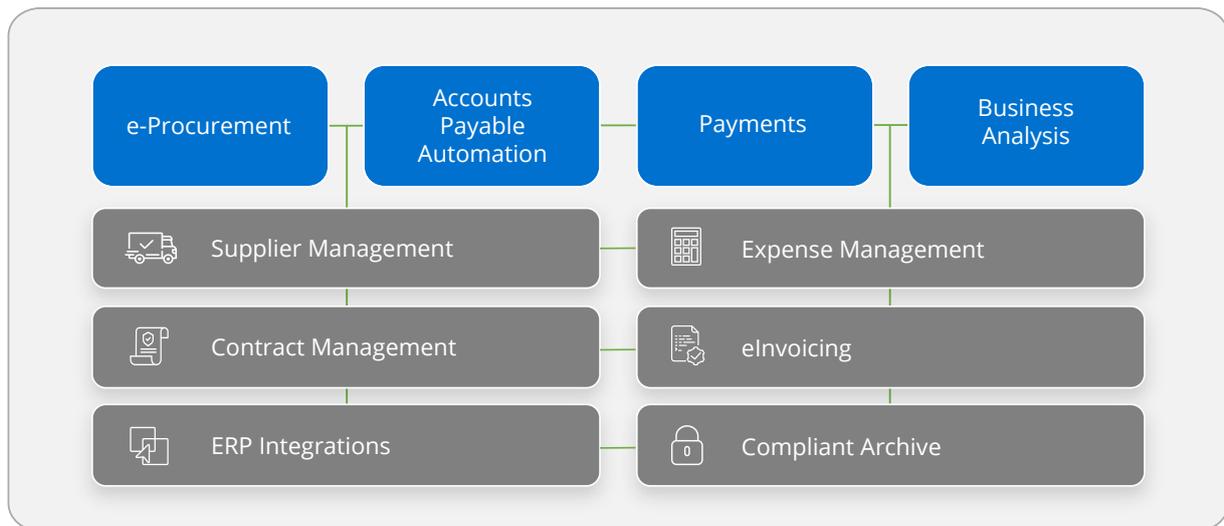
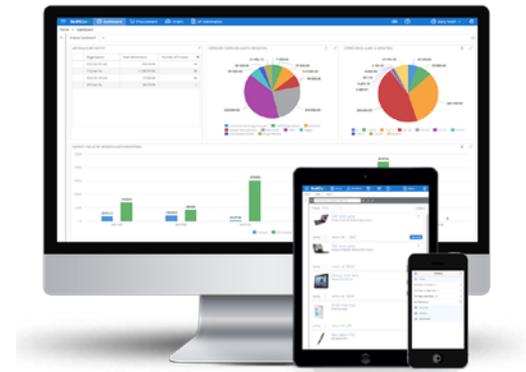
[PWC – Supplier Relationship Management: How key suppliers drive your company's competitive advantage](#)

[Supply Chain Management Review – Enhance the Value of your Supplier Relationships](#)

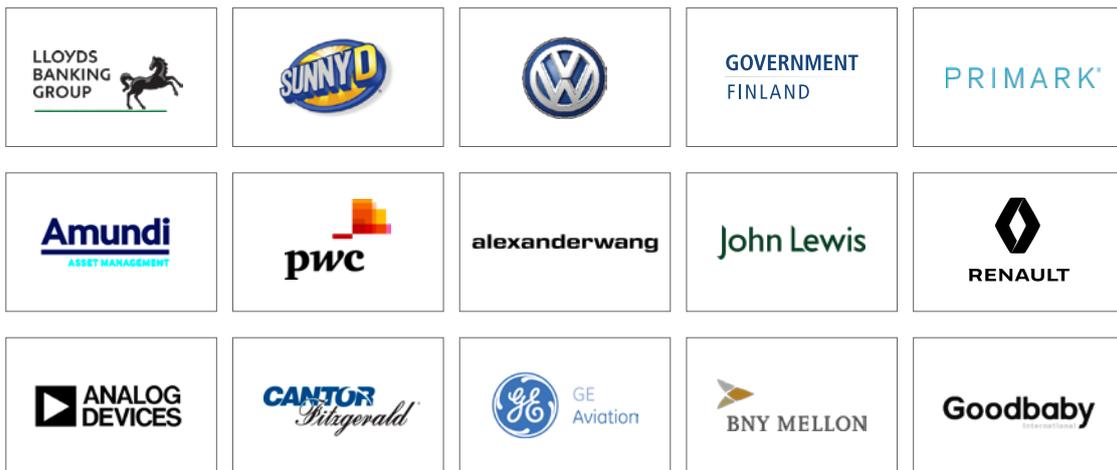
[Forbes – What Is The Kraljic Matrix?](#)

SoftCo

Procure-to-Pay
Automation



Trusted by over one million business users at large and enterprise organizations.



[Request Demo](#)