

Supplier Relationship Management - An Expert's Guide



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Supplier relationship management is no more a new concept. As per a recent CPO survey, nearly 31% of CPOs are committed to restructuring their supplier relationships.

Without proper [supplier management](#), suppliers would start seeing their buyers as negotiators not interested in mutual growth opportunities. They may not invest the best efforts in fulfilling the expectations.

Corporate buyers suffer great harm as a result. It leads to delayed product launch, damaged brand image, disrupted supply chain, penalties by regulatory authorities, etc.

Here are the things you need to level up supplier relationship management. You must tackle them before the organization sinks into a lousy supplier relationship.

What is Supplier Relationship Management?

Supplier relationship management (SRM) forms the part of vendor management. The organizations segment the suppliers and determine essential supply categories to manage all the suppliers and supplies efficiently.

Supplier relationship management consists of three essential steps:

1. **Supplier segmentation:** It differentiates the suppliers to identify opportunities and risks.
2. **Supplier strategy development:** It devises an optimal way to interact with suppliers as per business needs.
3. **Supplier strategy execution:** It executes the designed strategy in the best way possible and gets desired results.

Read more: [Top 7 Benefits of Having Accurate Inventory](#)

Benefits of Supplier Relationship Management

The benefits of supplier relationship management are as follows:

Price Reduction

Working collaboratively and sharing forward forecasts opens up the discussion to remove cost from the production process or other areas of the supply chain.

Cost Information Exchange

Buyer/ Supplier discussions about the total cost of delivering the goods or services, inventory reduction, consideration for alternative components/ specification variance, and other cost-saving areas while achieving performance specifications.

Improved or Priority Service Levels

Highly regarded customers are usually offered priority production availability or based on the scope of security and work of the relationship. Suppliers even consider investing in developing their production capacity and meeting the increasing customer demands.

Technology or Innovation Exchanges

The supplier may also choose to share innovative developments or new market offerings.

SRM Practices



[Supply chain management](#) practices vary across all industries. In simple words, large industries like automotive manufacturing maintain a rigid set of tools and principles. These principles dictate their approach to suppliers.

Supplier relationship management is key to the automotive industry's success and has a critical role.

Other industries like retail and food service are equally dependent on a solid supply chain. Usually, companies have many suppliers available offering similar products, pricing, and services. But they have many other options for choosing suppliers too.

You may think of dismissing SRM as a practice that is just applicable to big industries. But SRM is just as important to the success of small and medium-sized enterprises.

Read more: [How Small eCommerce Stores can Declutter Their Operations?](#)

SRM Strategies

Most businesses have a process to manage supplier relationships, but there is always room for improvement. Below are few steps to develop and establish a solid relationship management strategy:

Value Mapping

Most organizations mainly focus on cost-cutting initiatives when it comes to SRM. Value mapping lets businesses think beyond cost-cutting initiatives. It focuses on value drivers like revenue growth, risk reduction, and asset utilization.

Value mapping helps organizations to identify where the intervention is essential or beneficial.

Establishing minimal understanding, mutual trust, and respect with suppliers through open communication is vital to derive tangible business values. A solid and structured supplier relationship management strategy extracts the best value for everyone.

Top-down Approach

Usually, the responsibility of supplier relationship management falls on the [procurement](#) teams alone. SRM strategy is all about craftsmanship. You can never achieve it without internal onboarding stakeholders. One rogue individual would collapse the whole process.

Implementation begins at the top and moves down through the ranks of staff and managers. The top-down approach ensures that every stakeholder has a good understanding of potential benefits that you can derive.

An effective SRM strategy aligns seamlessly with people, process, paperwork, and the overall business strategy.

Spend Optimization

Strategy sourcing has reached a saturation point, and the returns are diminishing steadily for some categories. Nearly all 'low-hanging fruits' are picked. Hence extracting value through consolidation and bidding has become more challenging.

SRM practices like collaborative supply chain analysis, joint demand management, process re-engineering, reduced inventory, and total cost modeling delivers cost savings and optimizes your organizational spend.

Risk Mitigation

Organizations of all sizes go through supply chain disruption of some magnitude. That's due to service or product quality issues, dependency, price volatility, and much more. But, businesses having adequate SRM programs in place can predict and manage those disruptions better.

The types of supply risks that an organization goes through depends on the corporate and procurement frameworks used.

Supplier risk segmentation helps organizations identify risk and mitigate it effectively. Strategic tools like Deloitte Priority Model and Kraljic Matrix may segment suppliers based on risks they pose and profitability they provide.

Positive ROI

Most procurement teams have difficulties in securing the commitment and funding for the SRM strategy. They have trouble building a business case that would establish the financial benefits of SRM.

Procurement teams start calculating benefits by estimating the impact of value leakage. It may happen due to non-compliant contracts, risk mitigation, and narrating compelling customer stories via case studies.

Procurement teams can capture the impact SRM makes on the organization's balance sheet by involving the finance team right from day one.

Read about: [Retail Warehouse: Everything to Know](#)

Conclusion

An excellent supplier relationship management system is essential. It's whether you are just starting with supplier relationship management or improving the existing one.

[Orderhive](#) is a comprehensive procurement solution. It takes care of the procure-to-pay cycle, including core functions like supplier relationship management. Given the end-to-end design, Orderhive integrates SRM with other aspects of procurement effortlessly.

Organizations use the built-in dedicated supplier management workflow to address pressing issues like high supply risk, less transparency, low engagement, and a low overall ROI.