



The Benefits of an Optimized Strategic Supplier Relationship:

A framework for developing a “people-oriented” value chain

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Strategic Supplier Relationships Depend on Quality Personal Interactions

For most enterprise businesses, having strong, long-term relationships with their most strategic suppliers is a critical step in improving performance and generating greater cost efficiencies that can help the business grow. This has become even more important given the prospects of a looming economic recession—this reality has forced many enterprises to take a closer look at their operating costs.

When it comes to analyzing strategic suppliers, looking at the people who are involved in those working relationships provides an excellent way to measure overall performance (as well as using more traditional metrics such as component pricing or on-time availability). Since any strategic business relationship ultimately depends on how well both client and supplier personnel work together, analyzing and managing the “*people component*” in these relationships is one way that businesses can generate supplier and cost efficiencies and, can ultimately, gain a greater and more profitable competitive advantage.

Therefore, by incorporating tools to better measure, analyze, and maximize the people component in supplier assessments, an organization can dramatically improve its supplier scorecards, which in turn can lead to superior supplier performance, enhanced business-to-business productivity, and better achievement of established business goals.

Unfortunately, most enterprise supplier management solutions aren’t oriented toward analyzing and managing this essential “*people component*.” Without the ability to incorporate relationship analysis in an overall performance evaluation, enterprises miss out on a valuable opportunity to build strong and long-lasting relationships with their strategic suppliers.

This Decideware white paper will illustrate to enterprises how a *people-oriented* supplier relationship development solution can improve the performance of strategic supplier partnerships which, in turn, can translate into a competitive advantage for both buyer and supplier alike.

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Understanding Tactical versus Strategic Relationships in Supplier Management

Historically, most businesses have based the quality of their supplier relationships on transactional metrics such as price, availability, level of service, or the perceived value of the supplier to the business. Using this approach at a simplistic level, enterprises typically place their suppliers into one of two categories:

- 1. Tactical Relationships** are commodity-oriented associations that are based on the supplier's ability to provide the lowest price or best availability of commonly used goods and/or services. These relationships are typically short term in nature, and depending on market dynamics, any "tactical" supplier can be replaced when market conditions (such as new customer requirements) warrant such a change.
- 2. Strategic Relationships**, on the other hand, are defined as high-value, long-term relationships that require an investment of time, training, and resources, and as a result, increase the overall worth of that relationship to the business. Unlike with tactical relationships, the *value of personal interactions* is an important metric in a strategic supplier relationship.

By evaluating suppliers in terms of specific departmental business needs and goals, enterprises can determine where tactical and strategic suppliers fit within the overall organizational framework. But once a supplier has been elevated to a strategic level, it is incumbent on the enterprise to ensure that both sets of personnel maintain a positive working relationship to ensure that the strategic relationship remains a viable part of the long-term business needs of the enterprise.

There are four primary reasons why enterprises aren't placing a greater emphasis on measuring, evaluating, and nurturing quality "people-oriented" relationships:

- **Inappropriate Tools** – Many enterprises use outdated tools, such as spreadsheets combined with manual processes that make assessing strategic supplier relationships and their associated performance levels more difficult.
- **Limited Accuracy** – Many enterprises fail to obtain an accurate mix of both qualitative and quantitative measurements that would accurately assess the relationship between enterprise and supplier personnel.



Strategic Relationships are high-value, long-term relationships that require an investment of time, training, and resources, and increase their overall worth to the business.

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- **Lack of Customization** – Many existing value chain solutions lack the level of customization necessary to benchmark and evaluate each strategic supplier relationship in terms of achieving enterprise business goals.
- **Incorrect Orientation** – Most enterprises apply a “*bottom up*” tactical data analysis (such as quarterly reporting using monthly source data) to evaluate their supplier relationships instead of a “*top down*” approach that is based on the attainment of strategic business goals.

The Benefits of a Strategically Centered Supplier Development Solution

Rather than applying processes that are centered on tactical metrics, strategic supplier management solutions must be evaluated based on how supplier *expertise*, *capabilities*, and *resources* are able to meet strategic enterprise business goals. To maximize the effectiveness of strategic supplier relationships, an enterprise must ensure that supplier development solutions evaluate the quality of personal relationships and uncover specific areas that require improvement.

The term “*supplier development*” is vastly different from the more traditional term, “*supplier management*.” Supplier management is typically handled by junior-level managers and refers to a process of measuring the specific tactical metrics or values associated with the performance of a supplier, such as contract compliance, component costs, and on-time delivery standards.

In comparison, the term “*supplier development*” pertains to implementing techniques that continuously **optimize and improve strategic** supplier relationships.

The components of a strategically centered supplier relationship development solution should include the following:

- **A Question and Evaluation Framework** – By measuring the relationship between buyer/supplier stakeholders through questionnaires that measure the overall quality of the working relationship, enterprises can obtain an accurate assessment of each specific area within those relationships. The results from this process can then be used to develop a subsequent strategic action plan.
- **High Levels of Engagement** – The ability to evaluate a strategic supplier relationship is only as good as the quantity and quality of the data received.

If the response rate from a questionnaire is low, an accurate assessment of the relationship cannot be achieved. To increase participant response rates, the software used to deploy the questionnaire must employ friendly user interfaces that increase user participation while ensuring that all of the questions will be answered correctly and completely. E-mail capabilities must also be integrated in this process so that enterprise managers can achieve full participation from the greatest number of participants efficiently, allowing an accurate assessment of the relationship to be obtained.

- Value Measurement – A strategic supplier development solution must be able to translate answers received from the questionnaire into an accurate scoring methodology that will allow decision makers to evaluate the relationship and the value it contributes to both the enterprise and the strategic supplier.
- Information Integration – A strategic supplier development solution must be able to integrate relationship information from questionnaires along with business information available in enterprise resource planning (ERP) applications, databases, financial spreadsheets, human resource evaluations, and other business resources. This information will need to be hosted in a central data warehouse that provides decision makers with the ability to perform additional in-depth analysis and problem identification.
- Reporting Capability – A strategic supplier development solution must also be able to generate accurate and detailed reports on many facets of the working relationship. Once an analysis of the strategic supplier relationship has been completed, reports must be generated so that the final results can be distributed to the relationship stakeholders. This information is **time sensitive**. Quick placement of relationship analysis information into the hands of the business stakeholders allows for process improvements to begin as rapidly as possible.
- Rapid Actionability – Once areas for improvement become known, corrective action must be swiftly taken. If the reports show that there are problems in the client/supplier relationship, any delay in making the necessary changes will only create further degradation of the working relationship. Under these circumstances, decision makers must be able to quickly take corrective action and communicate necessary changes to the stakeholders in order to maintain high performance levels of the strategic relationship for the enterprise.



A strategic supplier development solution must be able to generate accurate and detailed reports on many facets of the working relationship.

Strategic supplier development allows enterprises to reach into supply chain operations, and gain a better understanding of the specific areas where output performance and can be improved.



By applying strategic supplier development solutions that will monitor and measure the effectiveness of these relationships, enterprises can achieve four beneficial results:

1. Increased Performance – With strategic supplier development solutions, enterprises can use detailed information that allows them to reach into supply chain operations and gain a better understanding of the specific areas where output performance can be improved. Through this analysis, relationship experiences can be leveraged into an increased level of enterprise/supplier trust that can translate into process improvements and increased performance.

2. Reduced Risk and Turnover – Reducing the amount of turnover associated with strategic suppliers is essential to maintaining enterprise growth and long-term profitability. Negative or deteriorating supplier relationships can lead to greater friction, distrust, and poor resource performance. An effective strategic supplier relationship management solution allows an enterprise to detect specific problem areas, thus making it easier to implement changes, improve the working relationship, and reduce the factors that contribute to greater employee/supplier turnover.

3. Improved Operational Efficiencies – Strategic supplier relationship solutions allow the enterprise to build bridges between internal and supplier organizations that maximize operational efficiencies. These solutions realign processes and resources based on trust. By allowing client and supplier participants to provide commentary, feedback, and scorecard rankings that realign supply chain resources, enterprises can extract greater cost-effectiveness from their strategic supplier relationships, thereby directly contributing to improved corporate profitability.

4. Better Access to Exceptional Suppliers – By using strategic supplier management solutions that enable in-depth evaluations and scoring of strategic supplier relationships, enterprises can find, improve, retain, or if need be, eliminate specific resources, ensuring that the best-qualified strategic suppliers will continue to meet their business needs today, and well into the future.



Concluding Summary

In order to remain competitive, enterprise businesses must incorporate new tools that shift the focus of evaluating tactical, operational data to value-based, people-oriented information that will improve assessment processes and build greater trust and affinity between buyers and suppliers. Once new processes are established that help businesses evaluate their strategic people-oriented relationships, these improved assessments can play a greater role in improving business performance and meeting strategic business objectives; this “new reality” can lead to a greater competitive advantage in the marketplace.

About Decideware and the Supplier Relationship Development White Paper Series

Decideware offers a suite of on-demand business applications designed to improve strategic supplier relationships including a specialization in Advertising Agency & Strategic Supplier Relationship Development. In many cases Decideware takes existing processes and makes them faster, more efficient and easier to use for larger enterprise-level organizations via a web-based delivery.

The Decideware Relationship Optimizer is a purpose-built, on-demand SaaS-based (Software as a Service) software application which helps CMOs & CPOs better evaluate and manage their strategic supplier relationships. Relationship Optimizer offers enterprise clients the unique capacity to incorporate the people component in supplier performance assessments in addition to more traditional quantitative-oriented metrics. For vendor management executives who desire exceptional data to support their supplier development programs, Relationship Optimizer provides timely, useful and valuable information.

In March 2008, Decideware was named as one of the Gartner "Cool Vendors in Procurement and Finance", recognizing Decidewares' innovation in providing enterprises with a superior tool to better manage their high value, strategic supplier segment.

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This white paper is part two of a three-part series that focuses on the issue of strategic Supplier Relationship Optimization. Please feel free to review the two additional white papers that are part of this series at www.decideware.com:

How to Build More Successful Supplier Relationships:

A framework for the people-oriented value chain

A Road Map to Successful Supplier Relationships:

How optimized strategic supplier development creates a sustainable competitive advantage

