Supplier Relationship Management is important for competitiveness but it is difficult to measure its hard benefits

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SUPPLIER RELATIONSHIP MANAGEMENT IS IMPORTANT FOR COMPETITIVENESS BUT IT IS DIFFICULT TO MEASURE ITS HARD BENEFITS

DILF and researchers from the Department of Entrepreneurship and Relationship Management at SDU in Kolding conduct for the sixth year a number of mini surveys focusing on different supply chain management issues. Respondents to these mini-surveys are voluntary senior managers from various Danish companies represented as the Danish Supply Chain Panel. This article presents the results of a mini survey which focuses on supplier relationship management.
Alternatively, given that not all suppliers are capable of being a strategic partner, the sourcing function should redirect their focus from being a simple traditional routine towards being more strategic in identifying and bringing in appropriate suppliers so as to enable strategic collaboration.

**SRM – a value-added function**
Supplier relationship management (SRM) is of course not a new paradigm; however, it has at all times remained embedded within the sourcing function. SRM is a systematic management of relationships among the buying firms and their supplier network. In general, it is more about coordination of activities, collaboration and knowledge sharing between the focal firm and their suppliers. SRM deals with (1) the assessment of supplier’s capabilities in view of the firm’s overall business strategy, (2) decision on the activities to engage in with various suppliers as well as organization, and (3) execution of all interactions with supplier network to increase the value realized through the collaboration. Accordingly, SRM will indeed have a major impact on overall performance as well as in achieving sustainable competitive advantage. On the whole, SRM is a value-added function that helps in developing collaborative benefits along with the supplier network through a more strategically focused sourcing function.

This article attempts to shed some light on the understanding, importance and practice of supplier relationship management.
among firms based on the results of the mini-survey of The Danish Supply Chain Panel. In addition, this article also examines a) the perceived relevance and current status of SRM; b) whether there is a special model/methodology for SRM; c) the degree of ability in measuring hard benefits of SRM efforts; d) the major barriers for working with SRM.

**Perceived relevance vs. actual practice**

To envision the practice of SRM, the respondents were asked to which degree their companies understand the relevance of SRM and formally work with SRM. They were asked to provide their answers on a Likert scale of 1 (to a very low degree) to 5 (to a very high degree). It is evident from Figure 1 that even though the firms recognize the relevance of SRM (a share of 3.72); they are not formally/actively practicing supplier relationship management (a share of 2.80). Therefore, there is certainly a gap between the perceived relevance and the actual practice of SRM.

An effective practice of SRM will lead to long-term supplier relationship, and it is important for the sourcing department to be responsible for SRM within each organization to not only understand the importance and benefits of SRM, but also to actively practice SRM.

**Few firms use a special model for SRM work**

The respondents were asked whether their firms have any special model/methodology for working with SRM (e.g. a segmentation model as Kraljic, 1983); the results (see Figure 2) clearly indicate that they do not practice any distinctive model or methodology for working with SRM (80 % of the respondents). On the contrary, there are very few firms (20 % of the respondents) following a special model or methodology for working with SRM. This could be an indication that in the future more firms might be using a formalized model or methodology for working with SRM. The benefit of using a specific model and/or methodology is that it can help structuring the work. Respondents who have answered ‘yes’ were provided with an option to mention the models or methodologies used by their firms. Some of the models or methodologies mentioned by the respondents were:
Global sourcing model within our corporation

Home made

Microsoft XRM

A combination of more models giving a company specific approach

Kraljic's segmentation model as a basis for a differentiated approach to SRM

Structured supplier evaluation

Furthermore, among the ten respondents who have mentioned that their firms follow the Kraljic's segmentation model, six respondents indicated that they use this segmentation model at the supplier level, one respondent indicated that they use it at the item level and three respondents indicated that they use it at both the supplier and the item level.

Challenges measuring the hard benefits

The respondents were asked to what extent their firms have the ability to measure the benefits of SRM efforts; from Figure 3, it is evident that they do not have adequate ability to measure the benefits of their SRM efforts (a share of 2.28). While it could be assumed that firms do understand the importance of evaluating the benefits of their hard efforts taken towards SRM, they might not have the appropriate capability in measuring the hard benefits of SRM efforts.

Firms need to realize that it is important to have adequate abilities to measure the benefits of their hard work in order to appreciate their efforts as well as to continuously sustain their performances. Some of the practices that are used to measure the hard benefits are:

- Excel sheets
- Lead-times
- Daily service
- Measured through stable supply, fast responses from suppliers as well as successful strategy-execution and constant “cost-out” benefits
- Manual list of delivery performance
- OTIF and cost
- Subjective evaluation on supplier/item based on six criteria, which are weighted among each other: price highest, cost reduction, delivery performance, product quality, dialogue, knowledge sharing
- Measuring the percentage of total spend which originates from strategic suppliers
- NWC
- Money, supply ability, quality
- Change in supplier quality and delivery performance
- Change in estimated total cost of ownership
- Delivery performance, logistical costs, different performance measures
- Supplier performance on delivery, quality and financial risk
- Measured by subjective criteria
- Follow up on delivery security - development in bonus - price benchmark
- We perform supplier audits
- Controlled price management
- Direct, easy and quick communication
- Ongoing development of working procedures
- Number of meetings with suppliers, orders placed, and claims
Not enough focus on the importance of SRM among the top management

To understand the picture concerning the organizational understanding of SRM, the respondents were asked to which extent the top management has focus on the importance of SRM and the work on whether SRM is understood as well as respected within their firms. Figure 4 clearly indicates that the top management does not focus much on the strategic importance of SRM (a share of 2.68) and the other functions within the organization do not understand nor respect the work done towards developing SRM.

It is important that the top management team should have a focus on the importance of SRM and support their firms in taking new initiatives towards the effective practice of SRM. On the other hand, even the other functions within the organization should understand the strategic importance of SRM in order to respect as well as support the effective practice of SRM so as to increase the strategic collaboration with their supplier network.

‘Working differently’ is the main way of pursuing SRM practices

The respondents were asked to what degree they pursue various SRM practices, and were provided with a list of various SRM practices. From Figure 5, it is evident that firms to a great extent work differently (conscious about the time and purpose) with their suppliers depending on the segmentation, for instance, standard (arms-length), bottleneck, leverage and partnership-like (a share of 3.08). Some of the respondents indicated that they approach their suppliers differently based on a structured segmentation of suppliers (a share of 2.90). In addition, respondents indicated that to an extent firms are working with selected suppliers with whom they consciously accomplish supplier development efforts and cooperative product development projects (a share of 2.90). Apart from these practices, some of the respondents indicated that to some extent firms are evaluating the performance of their suppliers depending on the relationship (a share of 2.60), managing supplier risk management profile in relation to SRM efforts (a share of 2.58).
No standard time in updating SRM classifications
The respondents were asked to what extent their firms update the SRM classifications; the results (see Figure 6) clearly indicate that 48% of the firms are updating only after one or two years, 24% of the firms are updating every year, and 8% of the firms are updating every six months. On the other hand, 20% of the firms are continuously updating the SRM classification. This result obviously conveys that firms do not follow a standard time interval in updating the SRM classifications. However, firms are operating in industries with different clock speeds which might result in different demands on updating the SRM classifications.

Almost a third do not recognize the supplier network’s ability of value addition
The respondents were also asked to what extent the value addition service is sourced from their supplier network. It is evident...
from Figure 7 that among 50 respondents, ten respondents indicated that 0-20 % of the value addition, six respondents indicated that 21-40 % of the value addition, five respondents indicated that 41-60 % of the value addition, seven respondents indicated that 61-80 % of the value addition, and six respondents indicated that more than 80 % of the value addition is sourced from the supplier network. On the other hand, it is surprising that almost 16 respondents indicated that they do not have any knowledge about such a concept.

Main barriers: 70 % of the respondents point to a lack of time

The respondents were provided with a list of barriers and asked to evaluate the relevancy of barriers for working with SRM. It is evident from Figure 8 that lack of time (more focus on daily operations) is the topmost barrier for working with SRM (70 % of the respondents). The second topmost barrier for working with SRM is lack of methods to make the benefits visible (38 % of the respondents) and the third top-
most barrier for working with SRM is lack of appropriate performance measures (28% of the respondents). In addition, 24% of the respondents indicated that too much silo mentality, lack of internal competencies and lack of management focus/attention are further barriers for working with SRM. Some of the respondents (22%) also indicated that the lack of alignment among corporate strategy and sourcing strategy is a potential barrier for working with SRM. The ‘other’ barriers, mentioned by the respondents, for working with SRM include:

- Establishing a shared holistic view of the entire value chain
- Other projects prioritized
- Onboard internal stakeholders

**Conclusion**

This mini-survey has focused on an important theme of SRM. The data reveals that the panel members do find SRM relevant, but also that they only practice it to some degree (with an average score on 2.80). Moreover, only 20% work with a special SRM model or methodology indicating a need for a more structured SRM approach among the panel members. An interesting finding is, that although SRM is playing a major role for companies’ competitiveness, the panel members find it hard to measure the SRM effort into hard benefits. This also indicates a development area, which in turn also could lead to a higher degree of top management awareness when one can document that SRM does pay off! The data also shows that SRM is not well understood by other functions in the company which indicates a need for internal marketing efforts to promote SRM. Main SRM practices are listed as differentiated approach towards suppliers, supplier development and joint product development. Almost half of the respondents update their SRM classifications with more than two years intervals. Finally, main barriers for working with SRM are reported as lack of time, lack of methods and lack of appropriate performance measures.

We do hope that this mini-survey can help stimulating discussions on the status of SRM in your company. Are you at the right level, and if not, what should you do about it? /

**References:**