



Session Code: IA

Supplier Relationship Management

for

Complex Outsourced Services: A Strategic Framework

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Wednesday, 09 May, 8:00am

Expense Management Solutions

- Boston-based management consulting firm founded in 1997
- Focus on corporate shared services functions including real estate, procurement, mail, distribution, print, travel, food service, records management, and others
- Fortune 500 client base including Microsoft, Coca-Cola, Yahoo!, Cisco, Aetna, Sun Microsystems, Morgan Stanley, CA



Agenda

- What do we mean by “supplier relationship management (SRM)?”
- Why is SRM important?
- An SRM framework
- What is unique about SRM for complex outsourced services?
- Key take-aways



What is supplier relationship management?

- While it is based on what happens during sourcing, it is about all the activities that occur *post-sourcing*
- It is about managing how a customer works together with their suppliers to enhance the value of the relationships



The reality about supplier relationships

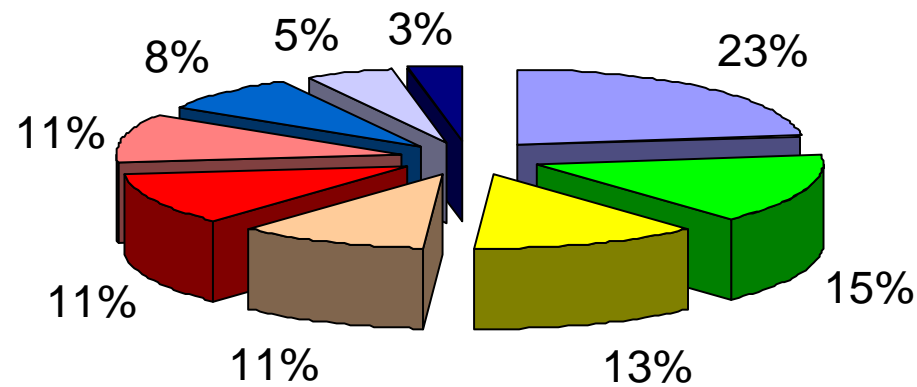
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“It’s the next level of real-time vendor relations. But we’re still beta testing.”



Reasons Outsourcing Fails

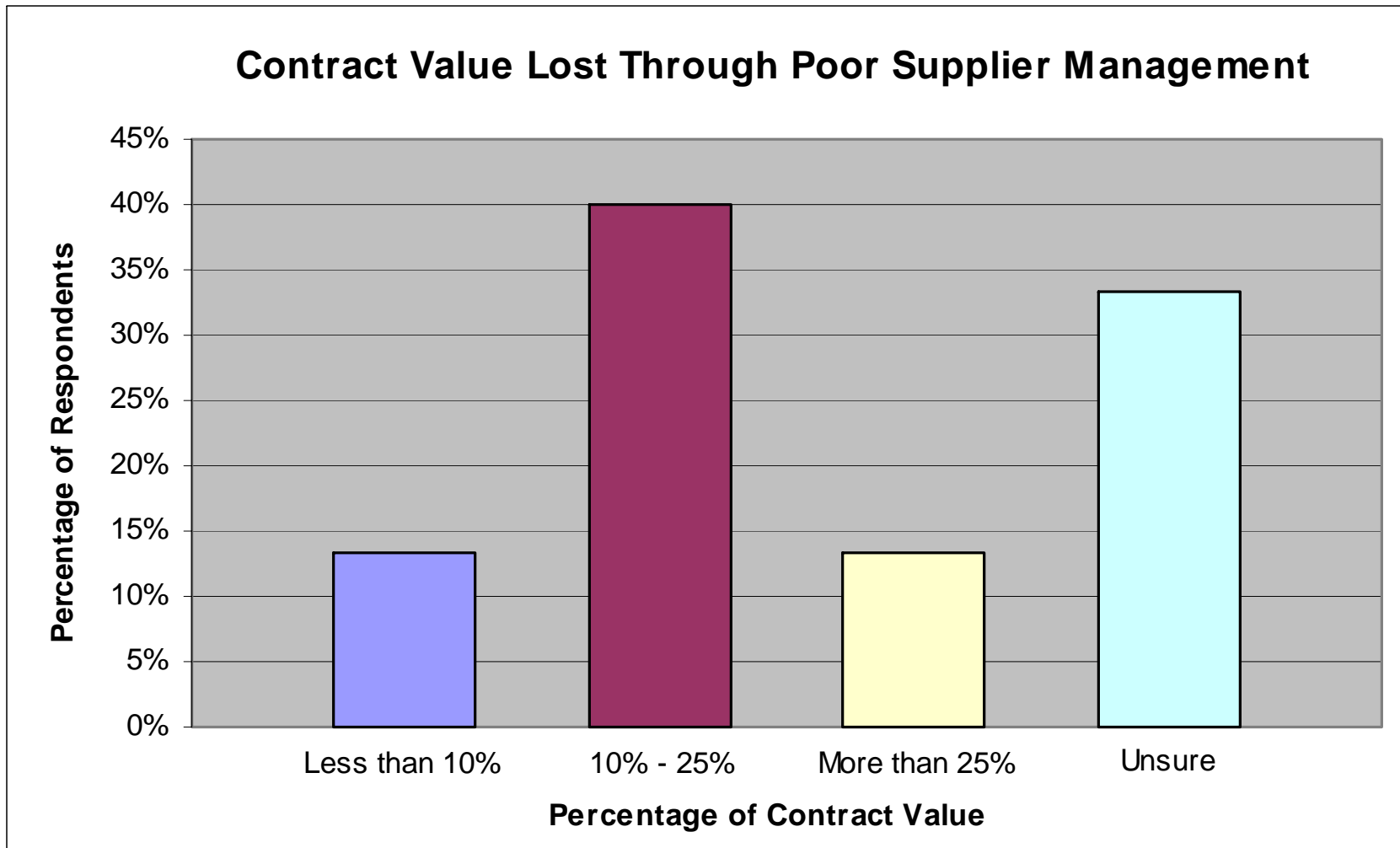


- Unclear expectations
- Poor governance
- Not mutually beneficial
- Poor performance
- Buyers multi-supplier environment
- Misaligned interest over time
- Poor communication
- Other
- Poor cultural fit

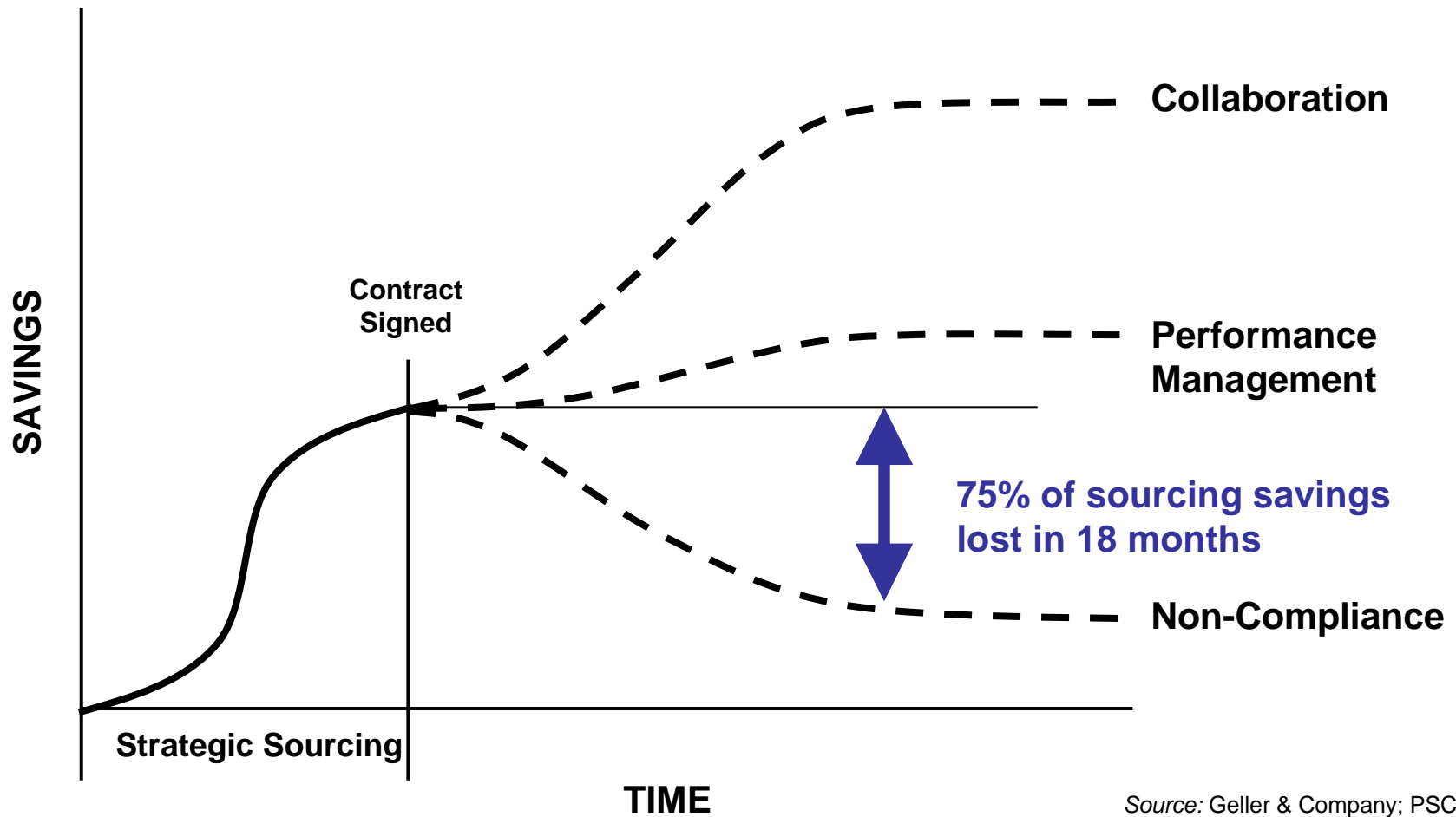
* Source: *Outsourcing Center 2004 Survey*. Outsourcing Center, 2004.



Lost Value



Savings Leakage



Source: Geller & Company; PSC



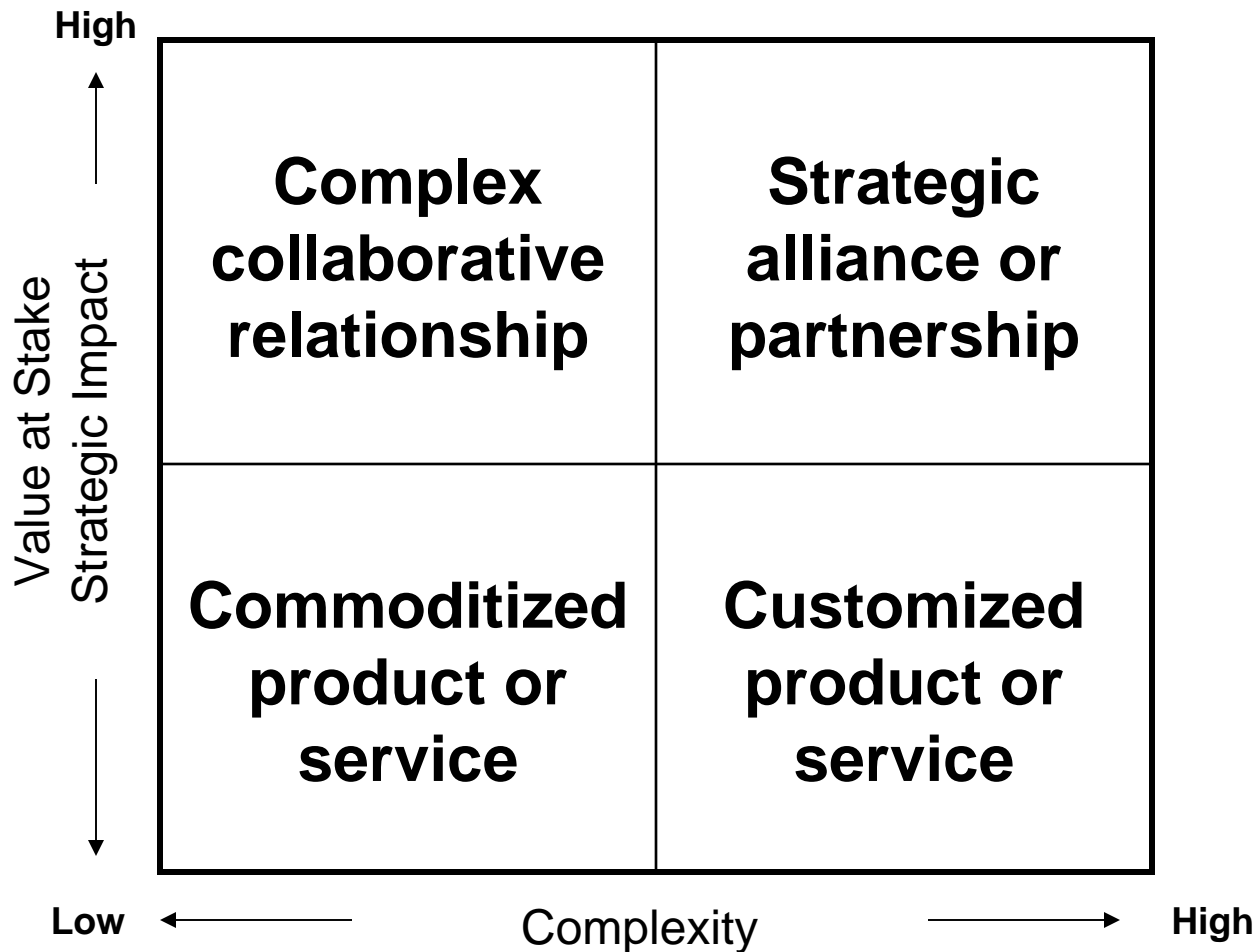
An SRM Framework



An SRM Framework



Supplier Segmentation



Supplier Segmentation

- ...for complex, outsourced services
 - More factors to consider when assessing complexity
 - Integration of a variety of services with a single supplier complicates segmentation
 - Volume is more about level of transactions than total purchase volume



Demand Management

- Managing internal demand
 - Utilize your preferred suppliers
 - Aggregate your demand across business units
 - Leverage contracts where timing of orders affects price
 - Use proper ordering processes
 - Make sure customers request appropriate levels of services



Demand Management

- ...for complex, outsourced services
 - Greater number of demand signals and usage points: more demand points = less control
 - Aggregated demand is more difficult to forecast, and more volatile
 - Forecast & communicate demand to supplier
 - Requires internal training, coordination, and outreach



Market Management

- You must analyze and manage
 - The marketplace
 - The products and services you procure
 - The relationship between your buyers and suppliers
 - The technology developments in the market
 - The economic factors in the market



Market Management

- ...for complex, outsourced services
 - Commodity managers have traditionally tracked markets closely...
 - Industry expansion/contraction
 - New legislation, regulations, requirements
 - Mergers and acquisitions



Performance Management

- Formal transfer process
- Identification of supplier and management team points of contact
- Performance review schedule
- Performance metrics and targets
- Scorecards, customer satisfaction surveys
- Communications plan
- Escalation process



Performance Management

- ...for complex, outsourced services
 - More complex planning and operational coordination
 - Performance assessment is more difficult, requires more inputs, and a more formal process
 - Multiple layers of performance assessment and roll-up
 - Communications are critical



Key Take-aways

- Establish a solid foundation during the sourcing process
 - Well defined scope
 - Clear, measurable SLAs with explicit targets
 - Pricing model with at-risk fees
 - Execute a formal transfer process with a detailed transfer document
 - Clearly define roles and responsibilities



Key Take-aways

- Segment the supplier base for all relationships
 - align segmentation with sourcing strategies
- Manage the internal demand
 - communicate forecasted demand to suppliers
 - Analyze discrepancies between actual and forecast
 - Take advantage of standard offerings and order timing
 - Guard against off-contract spend



Key Take-aways

- Understand the market – manage your relationships
 - Periodic market analysis process
 - Key statistics (total market, your share, your suppliers share)
 - Market segmentation
 - Technology drivers
 - Economic drivers



Key Take-aways

- Manage supplier performance
 - Customer satisfaction surveys
 - Formal scorecarding process
 - Performance assessment is open and collaborative
 - Relationship status is tracked and made visible across organization
 - Performance is fed back to compensation process



Effective Supplier Relationship Management

- Getting the supplier to meet our needs **BECOMES** • Finding a way to meet both our needs
- “It’s in the contract, now it’s the supplier’s problem.” **BECOMES** • Work together to achieve the performance and compensation goals
- Blame and punish the supplier **BECOMES** • Communicate the issues, jointly find solutions
- Unpleasant surprises **BECOMES** • Integrated planning and communications



Questions



Thank you

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