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From Cost Cutting to Value Creation—

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Introduction—

We exist in an age of complexity. Complex systems, complex relationships, complex organizations, and the web of interaction is only getting messier. Across business functions the story is the same, from legal to finance to marketing. New technologies and disruptive ideas are fundamentally changing the way we do business, and nowhere is this more true than in procurement.

“As business gets more complicated and more global, it has added another facet to the whole issue of procurement,” says CFO Paul Janicki in CFO Magazine. “That’s why procurement has become more strategic” he explains, “– it’s now no longer just the means to do business, but also an area of optimization”. Optimization yes, but also value creation.



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Francesca is a writer and journalist with a professional background in policy, research and investment. She has particular interests and specialisms in procurement and supply chain issues, the global economy and sustainability. Francesca has a 1st class degree in politics from the University of Nottingham, is a Fellow of the RSA and has spent time working as a policy advisor for central government.

The real need for SRM –

A question of value

From back office to boardroom, what a company buys, where they buy it and who they buy it from can now be a headlinegrabbing decision of strategic importance. When the Rana Plaza garment factory collapsed in April of this year, burying over 1,000 Bangladeshi workers alive, the world stood up and took notice.

Mainstream media reported the death-toll in real time, while images of buried workers spread across social media platforms like wildfire. Consumers were shocked and the fashion industry was goaded into action. Not only did they have their reputations to manage, but also significant concerns to address around business continuity and risk management.

The question is, could the Rana Plaza disaster have been prevented if the buying companies had taken a more effective and value-focused approach to supplier management?

Supplier management: a cross-functional strategy

Before going any further, it's probably worth clearing up what we mean by the term 'supplier management' and its relation to the associated alphabet soup of SIM, SRM and ERP, to name but a few. The short answer is that where these acronyms represent individual elements, 'supplier management' is the whole umbrella.

From due diligence and supplier information management (SIM) to supplier relationship management (SRM) and through to on-going risk assessment and supplier enterprise collaboration, supplier management is a holistic vision of complete insight and control over your organization's selection, management and interaction of and with its suppliers.

Author of the expert report *Supplier Management – Market Insight*, Declan Kearney notes that supplier management is distinct from traditional 'procurement' in that supplier management is "entirely cross functional". No matter what part of the business you work in, you almost certainly have key supplier relationships which you need to manage. The marketing department might use shared services or procurement to

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The real need for SRM –

buy its computers or stationary, but is unlikely to delegate the management of its lead creative agency to anyone. Having an effective and business-wide supplier management strategy, however, can finally bring key strategic relationships such as these into a more complete and value-rich understanding of a company's entire supply chain.

As chief marketing officer Jon Bovit explains in *Forbes*, product quality and continuity is increasingly dependent on companies successfully joining the dots between the different elements of supplier management. This view is validated by PwC, which found in its Global Supply Chain Survey 2013 that supply chain 'leaders' are more than twice as likely to treat their supply chains as strategic assets, relative to supply chain 'laggards'.

Old habits

So why do so many companies continue to not engage with supplier management in any meaningful way? A 2007 article in the *Harvard Business Review*, encouragingly titled "Are You the Weakest Link in Your Company's Supply Chain?", points the finger at short term thinking. With global trading conditions still highly volatile, it's understandable that many companies still feel reluctant or unable to shift the procurement function's focus away from

cost-savings and towards something more value driven. Spending time and resources investing in an effective approach to supplier management can feel unjustified at first glance, but a closer look can reveal just how economically valuable such an approach can be.

The authors of the same 2007 article make the astute point that "sometimes a near-term focus leads to tactical decisions that conflict with one another, creating unintended – and sometimes costly – consequences in the supply chain." Rana Plaza and Foxconn are just the latest and most high-profile examples of this.

Reluctance to embrace supplier management and a more value-focused approach to procurement can, however, have much higher costs than a few errant sales figures. As Declan Kearney gravely points out, "the cost of getting it wrong, or ignoring supply chain risk, can be catastrophic up to and including the survival of the entire organization".

Why should we embrace supplier management, and where do we start?—

Less stick, more carrot

But shifting to a more effective approach to supplier management doesn't need to be all stick; there's more than enough carrot to take it all the way into the boardroom. Declan Kearney points to figures that show financial value up to 4x the average savings target being secured through the "pro-active management of suppliers". In his insight report, Kearney also highlights a number of business benefits and opportunities offered by better supplier management, such as:

- The need and opportunity to create mutual value with your suppliers;
- The strategic and cross functional nature of supplier management; and
- The possibility of simplifying and adding order to an increasingly complex business environment.

Having a better approach to supplier management means companies can get ahead of risk, whether labour scandals or raw materials bottlenecks, but also create opportunity for innovation and new products. Rather than view difficult market conditions as a reason not to invest in supplier management, KPMG insists that companies should seize the opportunity. Instead of choosing suppliers based on price alone, in a 2010 report KPMG advises executives to take a more strategic and holistic approach to supplier

management. By working collaboratively with suppliers towards goals which improve corporate sales and preserve, or even improve, profit margins for the supplier, both companies can secure long term mutual value.

(cont) Why should we embrace supplier management, and where do we start?—

Supplier management: a market breakdown

So, where to start? In our view, the key to an effective supplier management program is finding the right technology. Real time business intelligence, accurate and extensive databases and selected automation are all bedrock elements of any supplier management strategy worth its salt. Other desirable features include a social networking platform and collaboration tools.

However, the vendor market for supplier management solutions is still relatively young and fragmented relative to the more established areas of strategic sourcing, e-procurement and spendanalytics. In addition, the bigger Enterprise Resource Planning (ERP) providers currently offer little by way of a comprehensive supplier management solution. This means the best option for companies seeking supplier management solutions is to either opt for best-of breed vendors, or partner with a forward thinking provider to develop a bespoke solution.

To help you make sense of the market, we draw on Declan Kearney's insight report to give you an overview of the supplier management market, breaking it down into 5 core segments, and 3 related markets. In total, the supplier management solutions market is comprised of around 30 credible providers – a figure which includes some of the larger ERP providers.

“Having great product ideas is not enough. Having the type of relationships that ensure stellar execution on great product ideas is critical. And, having the right level of collaboration with and insights into your supply chain is a key input to that stellar execution.”

Rachel Spasser, VP of Ariba

Types of SRM –

Supplier Information Management (SIM)

Supplier Information Management (SIM) is arguably the foundation of supplier management. Referring to the process of collecting and collating a complete set of supplier information, from financial results to CSR policies, SIM holds the key to supplier-related risk management – for both existing suppliers as well as future ones. The terms Supply Base Management (SBM) and Supplier Lifecycle Management (SLM) are variations of the same proposition.

Supplier Risk Management

Where SIM is the process of information gathering and management, Supplier Risk Management is the process of assessing and acting on that information. Unsurprisingly, SIM and Supplier Risk Management solutions have begun to merge, helping to better mitigate supplier related risk. Management of supplier risk is obviously a key element of the wider supplier management imperative, adding significant value to the whole business.

Supplier Relationship Management (SRM)

Supplier Relationship Management (SRM) is all about interaction and performance, and often agreed to incorporate Supplier Performance

Management (SPM). The benefits of a well executed SRM strategy can be numerous and of key value to the business. Done well, SRM can lead to effective collaboration with key strategic suppliers, adding mutual value to both organizations.

Supply sustainability

Supply sustainability adds a social and environmental focus to supplier management, engaging suppliers on issues such as waste, greenhouse gas emissions and energy consumption. Traditionally considered to fall within CSR, these issues are becoming increasingly strategic as companies start noticing (i) the detrimental effects of resource constraints on business, from higher prices to water shortages; and (ii) the business opportunities offered by smarter and more efficient production.

Social Supply Enterprise Collaboration

Relative to the previous four established market segments, Kearney classifies Social Supply & Enterprise Collaboration as an ‘emerging market segment’. But while it may be new, Kearney is confident that this segment will see unprecedented growth over the next 5 to 10 years. With social networking technologies facilitating real time information sharing and collaboration, this area is already delivering exciting results.

**“A
company’s
supply
chain is its
lifeblood.”**

Celia Brown, Forbes

Moving forward: The future for procurement—

An evolving landscape

Young and disparate the market may be, but crowded with exciting possibility it most emphatically is. The playing field is constantly evolving, with the illusive prize of a complete supplier management solution still firmly up for grabs. In the absence of 'that one solution', many leading companies are choosing instead to either develop in-house capability or partner with forward thinking providers to develop innovative bespoke platforms.

One stand out example of this is Nike's 2012 announcement that it had partnered with US based Llamasoft to 'co-develop' solutions which offer logistical as well as sustainability related supply chain benefits. Meanwhile Walmart has developed a collaborative supplier solution to reduce emissions across its supply chain, and in 2011 UK based Network Rail launched a supplier engagement program to promote innovation and improve customer service.

Full supplier management solutions may also touch on the related markets of Supply Chain Software and Services, Governance, Risk and Compliance (GRC) and Procurement Services Outsourcing.

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(cont) Moving forward: The future for procurement—

Towards a value based approach

“You have to be good at rice and beans, but it will never get you a Michelin star”. So said Unilever CPO Marc Engel at a 2011 Procurement Leaders Forum in Vienna when outlining the great lengths this world-leading company was going to in order to positively engage with its suppliers. The moral of the story is that in order to effectively play at the game of procurement going forwards, CPOs – and indeed CEOs – will increasingly need to embrace a more value focused approach to supplier management; leaving incessant and short term-ist price cutting firmly where it belongs. In the past. After all, as Procurement Leaders contributing editor Paul Teague points out: “value and cost management are two sides of the same coin”.

Though not the whole picture, supplier management enabling technology will play a key role in supporting this shift; helping to finally and truly elevate procurement from a back office transaction function to a central strategic role. Although the current lack of a supplier management solution which offers everything may at first glance look disheartening, the rich level of innovation and activity in this market is testament to its exciting potential.

Intriguingly, and encouragingly, market expert Declan Kearney predicts that “the C-level vision of aggregating all supplier-related activities into an intelligent 360 degree platform from which strategic decisions can be made is possibly not as allusive as has traditionally been deemed”.

Watch this space.

Endnotes—

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4. **Declan Kearney 2012.** Supplier Management - Market Insight, 360 Supplier View
5. **Jon Bovit, 2010.** Connecting the Dots on Supplier Management, Forbes
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Are you the weakest Link in Your Company's Supply Chain? Harvard Business Review
8. **KPMG, 2010.** Procurement as a Value Lever, p.3
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For more information on the supplier management market, and a detailed breakdown of market segments and providers, we highly recommend Declan Kearney's Supplier Management Market Insight report. Available on request from 360 Supplier View.

Thank you for reading this book

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