
Abstract. In today’s competitive environment, developing strategic alliances with our key supplier partners is more important than ever. Whether we call this strategic and important activity Supplier Relationship Management or any number of other various names, the key issue at stake is very simple: Our supply base holds the keys to many of our undiscovered solutions to our supply management opportunities, and how we deal with our suppliers is a fundamental activity that needs attention and focus.

Objective. To provide thoughtful and meaningful information regarding on how a well thought out Alliance Management / Supplier Relationship program should be implemented and a part of every supply management organizations’ goals and objectives.

Alliance Management (a.k.a. Supplier Relationship Management)

Anyone in supply management who has experienced the benefits of a well-thought-out supplier relationship management (SRM) program understands that it takes a tremendous amount of work to get it right. SRM continues to dominate our best practices, and given its importance to our everyday business lives, and like any other aspect of business, actively taking any SRM program to the next level of emphasis can increase supply management’s effectiveness and bring added value in a competitive, fast-paced market.

Traditionally, we as supply management professionals have been very good, if not great, at the sourcing process. We have negotiated well, we are thorough in ensuring that our contract terms and conditions contain “risk-averse” language, and we advocate and broadcast to our executive management team our value of having negotiated lower pricing, receiving advantageous discounts, or added additional quality and value that help our respective companies maintain a competitive advantage.

Where we may have faltered in our supply management process is in our failure to fully capitalize on cost savings, containment and innovative ideas from our supply base. As most of us can attest, in the past those in our positions negotiated the deal, filed the contracts and then moved on to the next spend area to continue to look at driving down costs. However, a logical next step should be to place more attention in the SRM area. Regardless of which strategic sourcing model that you employ, the last step or element is SRM. It is probably the step that gets the least attention.

The hallmarks of an effective SRM program are numerous. The first of which is effective communication, which should be established during the negotiating or deal-making process when selecting our suppliers. It is imperative that we establish an atmosphere of sound communications with our suppliers and embrace a cooperative attitude. Secondly, we must
provide clear performance expectations — not only what is expected from our suppliers but also identifying our (the buyer's) obligations in the buyer/supplier relationship. Thirdly, and a culmination of our relationship development strategy, is to ensure that a forum of trust is established. In reality, when trust is established only then will we truly begin to receive the value-add from our supply base, in the forms of continuous improvement and innovation to help us produce savings and create efficiencies and cost reductions. When communications and expectations are established with clarity and accountability, then trust should be an automatic byproduct.

As supply management continues to be recognized by company leadership as a value-add function, we must use SRM to incorporate key suppliers as an integral and vital part of our supply management effectiveness.

At one point, an earlier terminology was previously described as “partnership.” When the “partnership” term was embraced, the reality of supply management at that time was that we didn’t do much of anything different in how we worked or treated our supply base. So, we are challenged to transform our thinking and provide increased emphasis in our SRM programs. We accomplish this by establishing a tone early on with the supply base that SRM is a two-way communication process whereby we value their participation.

As part of this SRM process, we need to identify new suppliers or those that we have the desire to continue to use as incumbent suppliers for one or more of our core spend areas with which to develop more advanced working relationships, or alliances. An alliance is defined by the Institute of Supply Management™ as “a commitment over an extended time to work together to the mutual benefit of both parties, sharing relevant information and the risks and rewards of the relationship.” The term strategic alliance is used in many organizations to mean the same thing as a supplier partnership. In some organizations, however, the term strategic alliance is used to describe a more inclusive relationship involving the planned and mutually advantageous joint utilization of additional operating resources of both organizations.

Once we have successfully completed our sourcing work and identified a supplier that fits into this alliance category, a best practice would be to form a supplier or alliance management team (AMT) consisting of representatives of the buyer and the seller.

The objectives of this team are to:
1. Ensure that the relationship stays healthy.
2. Address all issues.
3. Provide an environment and platform for continuous improvement.
4. Ensure that established performance objectives are achieved.

It is important to realize that not every agreement or supplier relationship developed by our supply management organizations need’s the focus and attention of such a formal, organized and process-oriented team. Time, resources and priorities will not allow this much energy to occur on traditional or non-core supplier relationships. However, it is imperative that we identify those supplier relationships that are core to our business and that also demand more of our attention in an alliance management team fashion.
The Process

There are six elements of an effective SRM process for your consideration:

1. **Define the type of relationship.** As mentioned earlier, supplier agreements and relationships that are *core to our business* should demand more of our attention versus those that are not essential or critical to our business. It is these relationships (supply base is *core to our business*) that will require us to take a more formalized and active role in maturing the relationship into one that has an alliance mentality. The diagram below provides a good first step in determining where our focus should be. Those supplier relationships that are core, and those that are challenging or complex to manage, will result in the need and establishment of alliance management teams.

   **Your Suppliers Will Fit Into One Of These Quadrants**

   ![Diagram showing a matrix with quadrants for strategic, non-strategic, easy to manage, and high-maintenance relationships.]

   *AMT Focus will generally be here*

   *Easy to manage, simplistic*  
   *Non-strategic, easily replaceable*  
   *High-maintenance, emotional, complex*  
   *Strategic, impacts core business*

2. **Establish the team.** Determining the members of the team is probably the most important element in ensuring the success of any AMT. Just as the strategic sourcing process involves the involvement of a collaborative team, the AMT team should also have representatives of the business units or others that will be either affected by or team members who are recipients of the goods or services from the agreement. From the supplier side, having sales people dominate the team is most likely not a good idea — but their customer service representatives would most likely serve a better purpose. Also, from the “buyer” side, having those who were involved in the sourcing, negotiation or contract development side to also serve on the team may not necessarily be the most effective team members.

   What are needed on the team are communicators, analytical thinkers, problem-solvers and those with a customer service focus. These attributes of the team members even trump those with technical skills or knowledge. This is not to say that technical knowledge is not important, but rather that effective communicators and team-oriented individuals will most likely be the more effective team players.

3. **Obtain the contract information.** With the team now formed and ready to go to work, an essential element is for the team to understand precisely what is in the contract or
agreement, and what was the strategy and thinking that led up to the signing of the agreement by both parties. One of the first priorities of any AMT is to receive a complete understanding (perhaps briefed by the sourcing team lead) of the terms and conditions of the agreement to include the performance metrics that were agreed upon.

Surprisingly, too many AMTs begin their work without this complete understanding and, initially, the team will struggle because neither party fully understands what is in the agreement and what the expected results may be.

4. **Assess current satisfaction and current state.** Throughout the alliance, both parties must continually ensure that customer satisfaction is meeting expectations. Too often, we witness that a continual program of monitoring ultimate customer satisfaction (whether internal customers of the buyer or external customers of the seller) is not properly executed. You will know you have room for improvement in this area, for example, when the seller representatives of the AMT feel that the relationship is healthy, whereas the team members of the buyer side of the AMT are concerned that the relationship is struggling. A best practice is for the team to continually take stock of the health of the relationship.

5. **Establish a feedback and fix process.** Simply put, this is a formal method of gathering user and supplier feedback and publishing the results to both parties. What means (tools) you employ to do this is at the team discretion but regardless, it is a process whereby the team:
   - Adopts a simple process for reporting issues, exceptions, and recommendations;
   - Acknowledges receipt of issues submitted;
   - Establishes a tracking tool set (such as a database, Excel or other commercial products);
   - Ensures that feedback is provided to the person who submitted the item;
   - Takes action to publish the results of the problem and the “fix.”

6. **Conduct structured ongoing alliance meetings.** It is important to have regularly scheduled meetings and if the relationship is new, to meet more frequently in the beginning. Some hints include:
   - Don’t wait for bad things to happen before calling a meeting.
   - Call special or unscheduled meetings to address unique circumstances.
   - Challenge each other and be open to constructive criticism.
   - Capture successes and let both organizations (buyer and seller) know about it.
   - Constantly report on the health of the relationship.
   - Always have an agenda that both parties have reviewed prior to the meeting.

**It’s A Necessity — Not An Option**

The face of supply management has changed. For most industries, market conditions have become a sellers market versus a buyers market over the past three years. This has resulted in supply management organizations changing their sourcing strategies to respond to the changing market. Add to this the fact that our companies are asking supply management organizations to get involved in areas of spend that up until now have been sourced
elsewhere. Further, there is increased focused on total cost of ownership rather than just looking at a price-only dimension. Logistics, particularly when considering contract manufacturing or other opportunities in the low-cost-country sourcing arena, is becoming more complex and important. And finally, the world of technology, process controls and compliance are demanding that we become very efficient in how we conduct our day to day business.

This new face demands that supplier relationship management becomes a necessity and not an option. Our suppliers present us with tremendous opportunities for cost savings and innovation — we just need to unlock and rethink the process to encourage them and to help us achieve our goals. The ultimate product of an effective SRM program is having the supply base feel that they are part of the solution and that they are encouraged to bring innovation and different thinking to the table to assist our efforts. When this trust is established, progress will be certain. A strong and effective SRM program with our supply base can and should be an integral part of our mindset and way of doing business.