

Harnessing and growing supplier innovation



2019 GLOBAL SRM RESEARCH REPORT
11TH EDITION

STATE OF FLUX



58
People

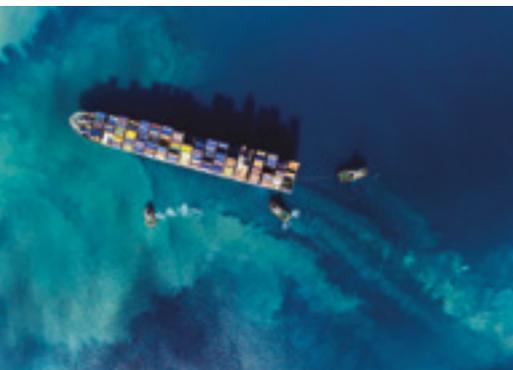
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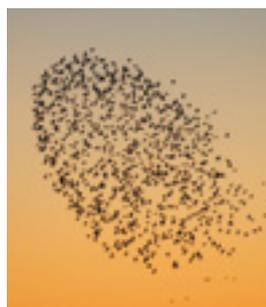


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Method sparks supplier innovation – not magic

Everyone knows it when they see it, yet innovation is slippery when you try to define it. Nonetheless, any organisation trying to innovate needs to agree on a definition before they can achieve their goals. If they cannot say what they want, they don't have much hope in getting it.

The problem in defining innovation is we are drawn towards shiny objects: new products that dazzle consumers; start-up companies that transform markets; technologies that change lives. While these are examples of innovation, they only represent a small set of circumstances in which innovation is necessary: businesses need new thinking in risk management and efficiency, as well as a way to accelerate growth. Established suppliers can help fulfil all of these needs, but only if you manage them in the right way.

Welcome to State of Flux's 2019 SRM report, which focuses on supplier



Organisations should not simply wait for supplier innovation to magically appear out of thin air. They must develop a method for creating a pipeline, just as sales and marketing departments create a funnel for sales leads.

innovation. Now in its 11th year, the report is based on a survey of 402 companies, a 32% increase on the previous year. It is also crammed with insight from leading researchers and business executives in the field. Company directors now have an appetite for supplier innovation, says Sir John Hood, who has sat on the board of global companies, as well as serving as vice-chancellor of Oxford University. Procurement teams will no-longer impress with the savings narrative alone, he says.

State of Flux has found that companies which engage suppliers pro-actively and work with them on innovation will be regarded as customers of choice. Equally being a customer of choice and a supplier relationship management leader means you are 3 times more likely to receive innovation from your suppliers.

Toyota has been recognised as a standard-bearer for supplier relationship management. On pages 8-9 Europe purchasing director Jean-Christophe Deville describes how the world's largest automotive firm is striving to accelerate innovation with new sets of suppliers.

Organisations should not simply wait for supplier innovation to magically appear out of thin air. They must develop a method for creating a pipeline, just as sales and marketing departments create a funnel for sales leads (see State of Flux analysis, p4). Then supplier innovation can be captured using business technologies, in the same way CRM has been used to manage customer accounts. On pages 76-78, Hubspot, the creator of a world-

beating CRM platform, discusses how software has helped improve customer management, and how the lessons can be applied to SRM.

But supplier innovation is not all about suppliers. On pages 6-7, North Carolina State University supply chain management professor Robert Handfield, who has literally written the book on supplier innovation, says internal business leaders hold the keys to successful collaboration with suppliers – but can be prone to slamming the door if not managed carefully.

The US Postal Service, Lloyds Banking Group and Premier Oil also lend their experience of improving business performance with SRM, as do Australian firms Narta and Stanwell. In addition we provide our own perspective on the many and varied attributes of successful SRM programmes.

As new technologies and economic challenges threaten businesses around the world, there has never been a greater need for supplier innovation to help secure the opportunities that come with the territory. In such a world, procurement should not be known only for running RFPs and administering contracts. We can all learn from the experience of the companies we have brought together in this report. Now is the time to start applying the lessons.

Alan Day
Chairman & Founder
State of Flux

Building a pipeline through innovation blockers

Supplier innovation improves efficiency, reduces cost and risk, and accelerates growth. But when organisations put plans into action, they often hit barriers. Here, we discuss these challenges and how to overcome them.

Artificial intelligence is set to transform how organisations offer products and services, potentially adding \$13 trillion to global economic output by 2030¹. But to benefit from AI, organisations will depend heavily on their suppliers.

As well as technology suppliers, vendors from a breadth of buying categories will provide the data necessary to ensure AI achieves business value. Manufacturing machinery will come with Internet of Things (IoT) sensors, and the supplier will build predictive maintenance models. AI will help drug discovery in the pharma industry, relying on data from research institutes and ingredients suppliers. Marketing suppliers will use consumer data to help model and predict the effectiveness of future campaigns.

Suppliers support the innovation endgame

AI is just one example of the changes sweeping through industries, but it shows how dependent organisations are on their supply chains to innovate at the pace they will require.

Kasper Rørsted, CEO Adidas is quoted as saying: "We recognise that we need to complement the inspiration and creativity of our people with external innovation... you have to open yourself up to ideas that you might not have been open to in the past."²



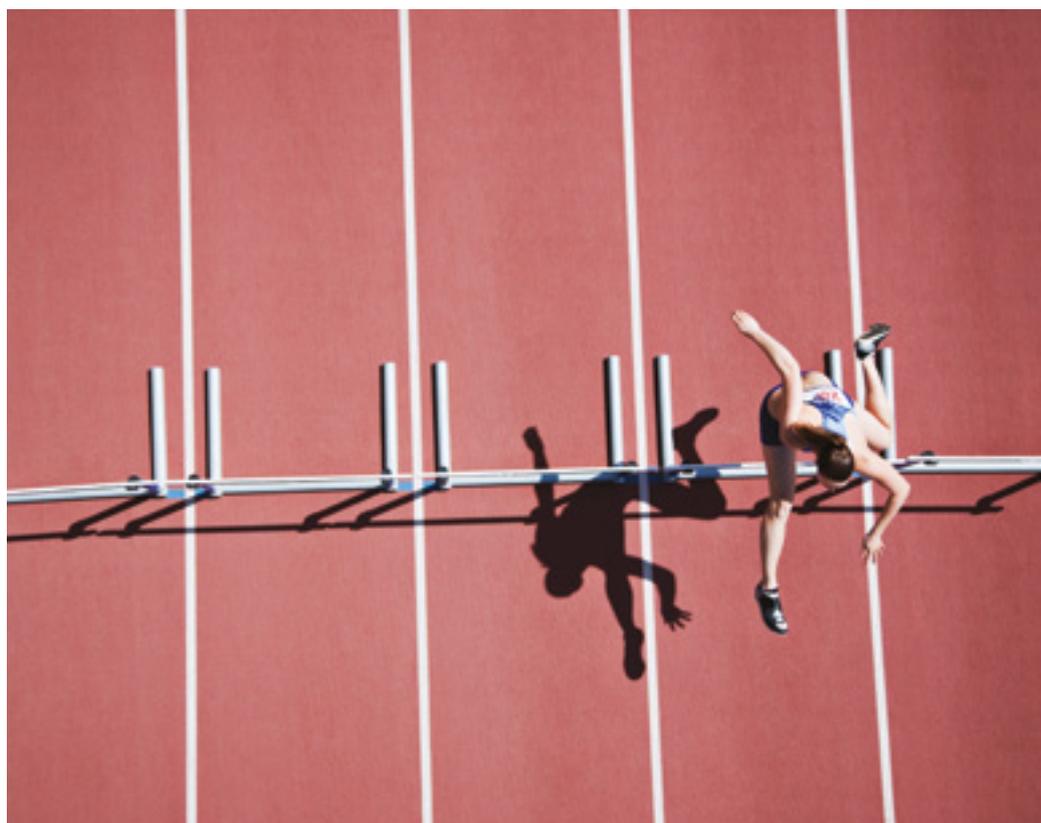
Organisations can create an innovation funnel and pipeline: a metaphor describing a sequence of steps to develop initial ideas into successfully implemented projects that deliver value to both the organisation and the supplier.

The rewards are clear: research shows that firms who collaborate systematically with suppliers record an EBIT growth rate double that of their peers³. But our research shows only 15% of organisations have systematic collaboration with their suppliers in place. The fact remains that "the first overriding result in almost every research report is that there is a significant gap between innovation expectations and performance"⁴.

In this year's State of Flux SRM report, we provide data and a detailed analysis of organisations' efforts at supplier innovation [p54] as well as, detailing how Toyota [p8] approach the subject. Olympic sprint cycling coach Justin Grace and former Oxford University vice-chancellor Sir John Hood also offer their perspectives on the subject [p12 and 10]

Many forms of innovation

At State of Flux, we have been measuring organisations' effectiveness in nurturing supplier innovation for more than 10 years. In that time, we have seen that innovation is not one thing. Focus tends to be drawn to product innovation when there are many other forms of innovation across a spectrum of organisational activity. It could be changing accounting processes to increase working capital. It could be operational efficiency to reduce costs and improve margins.



But organisations are often unsure where to start with broad-based supplier innovation. They ask, "How do we expand the definition of innovation and understand where suppliers can help? Where are the other examples of innovation in marketing, IT, finance and sales? What does innovation look like for these departments, and how can we express supplier innovation in a language they will understand?"

There are so many questions addressing innovation, and it is easy for thinking to become confused, and results difficult to come by. But State of Flux has been able demonstrate that organisations can develop a methodology for supplier innovation just as they can for sales and marketing.

Building an innovation funnel

Organisations face common barriers to supplier innovation (see box), but with a sense of purpose they can overcome them. As well as poor innovation management know-how, there are other factors contributing to a gap between expectations and delivery in supplier innovation. There can be disparate activity which sends suppliers mixed messages. Cultural blockers are also a factor: 78% of millennials believe that innovation is essential for business growth, but just 26% believe that their own organisation's leadership encourages idea generation and sharing⁵. Some organisations lack consistent executive leadership and have low internal collaboration. Organisations that are risk-averse do not support innovation well. Suppliers can be a factor if they have become disengaged through too many bad experiences. Meanwhile, organisations can get tired of too many management buzzwords that promote innovation; consultants describing the problem without offering solutions; and projects starting without reaching a conclusion. Supplier innovation becomes just another item on the list of failed initiatives.

State of Flux has shown that through SRM, organisations can create an innovation funnel and pipeline: a metaphor describing a sequence of steps to develop initial ideas into successfully implemented projects that deliver value to both the organisation and the supplier. It is a framework for

creating and managing ideas, similar to the marketing funnel (see State of Flux whitepaper *SRM: Stimulating and managing supplier innovation*⁶)

Regardless of the blockers, interest in supplier innovation is unquestionable, and it is a logical outcome of effective SRM. It is nearly always part of the value proposition for SRM and is moving higher up the list: the majority of organisations say it is among their ambitions. From CEOs, we see that the old vision of procurement is fading: the idea that the department will continually reduce costs is taken as a given, and they want to hear something more interesting from its leaders (see global business board member Sir John Hood's comments, p10). CEOs are hungry for innovation to keep pace with changes in technology and digital transformation. SRM is a way of harnessing supplier innovation and satisfying their appetite. ■

¹ <https://www.mckinsey.com/practice-clients/operations/the-power-of-successful-supplier-collaboration>

² PWC 22nd Annual Global CEO Survey <https://www.pwc.com/gx/en/ceo-survey/2019/report/pwc-22nd-annual-global-ceo-survey.pdf>

³ <https://www.mckinsey.com/practice-clients/operations/the-power-of-successful-supplier-collaboration>

⁴ <https://innovationmanagement.se/2011/05/27/the-innovation-gap/>

⁵ <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/dttl-millennial-innovation-survey.pdf>

⁶ <https://www.stateofflux.co.uk/ideas-and-insights/reports-and-publications/stimulating-and-managing-supplier-innovation-white>

⁷ <https://www.stateofflux.co.uk/ideas-and-insights/reports-and-publications/collaborative-supplier-innovation-1>

Common challenges in developing supplier innovation

Definition of innovation

Often, it is not clear what the organisation means by innovation. It can be a major step change or continuous improvement. It can be a product or process or service.

Handling good ideas appropriately

Good ideas from suppliers are like gold and should be treated as such. Some suppliers care enough to offer their thoughts and ideas. However, these are often under-valued and are either turned down without proper consideration or disappear into a 'black hole' of confused roles and responsibilities.

True innovation or a supplier sales pitch?

Innovation is often confused with sales pitches (by both parties). Companies can fear suppliers will use the process to simply try to sell more and sometimes this is borne out by supplier behaviour.

Guided innovation

Many businesses fail to communicate business challenges to stimulate innovation.

Process to receive and review innovations

Many organisations have a haphazard approach to developing new ideas. Crucial to benefiting from innovation is having a process that supports the evaluation of suppliers' ideas and acts on their suggested solutions.

Supplier feedback process

A supplier feedback process is vital to managing both proactive and reactive innovation. Nothing frustrates suppliers more than submitting ideas, only to hear nothing for months.

Benefit-sharing

Our SRM research has shown that most organisations still struggle with sharing benefits with suppliers, both in concept and in practice.

Contracts

Large organisations often fall into the trap of having an intellectual property clause within the supplier contract, stating that they own any good idea or innovation the supplier brings to them – hardly an incentive for suppliers.

Rob Handfield

Is the Bank of America University distinguished professor of supply chain management at North Carolina State University, and director of the Supply Chain Resource Cooperative (<http://scm.ncsu.edu>). He also serves as an Adjunct Professor with the Supply Chain Management Research Group at the Manchester Business School.

Learning from the history of supplier innovation

Dating back to the 1990s, the ideas behind supplier innovation are nothing new. So why do so many organisations still struggle to get the concept embedded across the business? Robert Handfield, professor of supply chain management at North Carolina State University, delves into history for some clues.



A few years ago, I was working with a global manufacturer of tractors and agricultural machinery. When I spoke to its suppliers, they said something which underscores why supplier innovation is so tough.

I found out that suppliers of fittings and accessories were quite often small and medium-sized businesses. Although they thought the large manufacturer was extremely ethical, they still did not trust it. They didn't trust the manufacturer's ability to communicate effectively. They knew it didn't understand their true costs. They knew it didn't have the ability to speak in one voice in terms of product planning. They said, "We really don't get any feedback, we're not able to talk to your end customers, so we don't really know if the products we're producing are good, or if customers like them or not, we're running blind."

I've been studying topics related to supplier innovation for more than twenty years, and this example shows you have to have so many elements in line, internally and externally, to make it work.

Twenty-five years of study

One of my first studies was in the 1990s at Michigan State University, where I worked with a global procurement benchmarking initiative, which ran for about eight years. From that, I worked for the Global Electronic Benchmarking Network (GEBN), a consortium of 200 companies. And we were talking to them about best practices, and I wrote a number of technical reports about category strategy and ecommerce, supplier development, a lot of the concepts that were just starting to emerge in the mid-1990s.

I think of supplier innovation as an extension of supplier performance management and supplier relationship management: it is the top of the pyramid. Once you get your performance in line, and can measure it, and you're developing suppliers, it creates opportunities for suppliers to start to innovate and start getting involved in product, process and service, and design integration.



There's a lot of internal resistance to supplier innovation. It is almost as if you are telling engineers they are not good enough, and they are worried their role is going to be outsourced.

The work with the GEBN led to a grant from the National Science Foundation, which led to our work being published in the California Management Review and eventually several books.

The lessons we found for organisations embarking on supplier innovation are that it requires a lot of alignment inside the buying company and some complex negotiations around intellectual property. Defining the roles and responsibilities is important too.

Understanding the supplier's role

On top of that, it is not the same for every supplier. It depends on who they are and how they work with you. We came up with the white box, grey box, black box idea. In the white box, the buyer develops the design, hands it over to the supplier, which produces it exactly to those specifications. In the grey box, you may have the supplier involved in developing those specifications for the product as well, or they may be sitting on the design team. And then the black box is a complete outsource idea, where the supplier designs, produces and ships the product completely.

All these roles will vary in terms of what the supplier does for the buyer as you move along that scale. That's where it gets tricky: the supplier starts saying: "Look, this is my idea, I want to own the intellectual property." Well, that doesn't sit well with a lot of buying organisations that are stuck in the traditional way of thinking. One company we worked with had in its contract that if a supplier shares an idea, the company owned it. But the supplier will say that retaining that IP will be the only way they can cover their costs associated with developing the technology.

Then there is the problem of aligning internally. We have found often suppliers will come and say, "This is great, I'm excited about this idea, and I'm going to attend your design team meeting", and that does not always go well. I remember one time, I had an engineer at a buying company who pointed his finger in my face and said, "There will be a cold day in hell before any supplier tells me how to design my product." There's a lot of internal resistance to supplier innovation. It is almost as if you are telling engineers they are not good enough, and they are worried their role is going to be

outsourced. They can get so personal, those kinds of situations.

Harnessing supplier product knowledge

But the fact is suppliers know their technology better than the buying organisation, and it knows its products and market better too. It just makes a lot more sense to exploit that expertise.

Earlier this year, I reviewed progress from one of our most cited papers, Handfield & Bechtel (2002). The study helped me understand where supplier relationships are heading, considering the impact of technology on the economy (see box).

But there is still naivete from CFOs: they look at purchasing and still see the role as reducing costs and running RFPs and it cannot do anything beyond that. For supplier innovation to work the understanding has to reach across the entire business. I think 85% of it is internal alignment, not external alignment. It is getting everyone in your organisation to understand who the supplier is, what their role is, what the strategy is, and what we're pursuing together. That's when innovation can reap rewards. ■

Shifts in buyer-seller relationships: A retrospective on Handfield and Bechtel (2002)

One of the most highly cited papers in the Industrial Marketing Management journal was published 17 years ago and proposed a strong linkage in the elements of buyer-seller trust, asset specificity, contracts, and supply chain performance. In this paper, Handfield and Bechtel explore the question of "what has changed"? Highlights include:

- Velocity is the new value outcome in supply chains, due to the need for quicker decision-making
- Shifts to "big data" and AI have created a "real-time" shift in buyer-seller exchanges of analytics and data
- Buyer-seller relationships spanning multiple enterprises is increasing complexity in networked models
- Increased reliance on suppliers for analytics as a service will introduce new players into existing supply chains
- Industrial buyer-seller relationships will need to align with these major shifts in marketing ecosystems

Toyota looks to supplier innovation to build on global success

SRM has helped propel Toyota on its journey to become the world's largest automotive manufacturer. But to meet the challenges in the next leap forward in mobility, the company is striving to accelerate innovation with new sets of suppliers, says Toyota Motor Europe purchasing director Jean-Christophe Deville.



Jean-Christophe Deville

In 2018, influential automotive consultancy Planning Perspectives confirmed again the importance of strong relationships with suppliers and their positive impact on both side bottom-lines.

The importance of supplier relationships is not news to Toyota. We have long focused on supplier relationships to boost our performance, and the hard work has paid off. For 10 years, Toyota has been named the top original equipment manufacturer by suppliers in Planning Perspective's industry survey in the US. Our philosophy applies globally and we also behave in the same way in Europe.

Our suppliers play a huge role in determining our performance and our costs. But even though our approach to managing relationships has been successful, it must adapt to meet the

challenges the industry faces in the coming years.

Like all automotive manufacturers, Toyota is looking to succeed in a transforming industry. Not only do we have to shift to electrified vehicles to play our role in a low-carbon economy, we also need to build connected cars, develop mobility as a service, and adopt increasing automation.

Toyota is already leading in these areas. In Japan, the Toyota Motor Corporation has launched a Mobility Services Platform (MSPF), a cloud-based digital ecosystem that provides the tools necessary to bring to market mobility services including ride sharing, car sharing and remote delivery. Meanwhile, Toyota Connected works with telematics, big data and mobility services in partnership with companies such as Avis Budget Group and Uber.



We are looking to technology firms to help us, as a host of in-car services becomes possible. To ensure success, we need to work with them very differently to the way we do with incumbent suppliers.

New challenges in automotive and supplier relationships

But to continue to make progress in these areas, we need to work with some suppliers in new ways. Not only will automotive firms buy goods and services from technology suppliers, they will also become providers of data which could become part of services involved with navigation, fuel saving, maintenance, insurance and so on. It fundamentally shifts the relationship between these suppliers and OEMs. These companies will not simply be suppliers, but partners in the way we both serve customers.

We are looking to technology firms to help us in this transition, as a host of in-car services becomes possible as mobile internet is boosted by 5G mobile data. To ensure success, we need to work with technology companies very differently to the way we do with incumbent suppliers.

Success stories with supplier innovation

But it's tough to work in new ways because we've had years of success built on a deep working relationship with existing suppliers. Our work with them is almost intrusive – in a good way. We are in their factories nearly every day. We support the development of their manufacturing processes and if there's a problem. If a supplier has a crisis, we often help. We also make sure that, after deep negotiations, we sustain our word and pay our partners on-time. Late payment is not an option for us.

In return, we need our supplier to focus on cost, quality, delivery and innovation. Over the last 20 years, we have helped suppliers become more involved with projects. The latitude for them to work on our generic specifications

and functions, rather than on a given drawing, offer them opportunity to bring in innovation resulting from their R&D. They take responsibility for innovation and, although our profitability remains high, the supplier is capturing more value by working closely with us.

The approach we have adopted helps us make advances in powertrains such as hybrid, electric and hydrogen-powered cars; in contrast, in the field of connectivity and digitalisation, we need to stretch ourselves to also open our doors to disruptors and non-automotive players. This is a major challenge for us to onboard these new partners. Many of them are a different size, work to different timescales, and have a different mindset to our existing automotive partners. It's a very good stimulus for us to adapt our ways of working.

New approaches to onboarding small innovative suppliers

As said, our onboarding process is a challenge for the smallest partners. Even though we need them to guarantee efficient and top quality product development, both our terms and conditions, as well as our concrete requests during development, can be perceived as intimidating for start-ups and small companies. We need to work to make that onboarding easier and change our mindset to build relationships that create trust more rapidly. We need to understand that mutual trust developed through historical partnerships cannot be given overnight to companies we don't know. We need to speed up the pace at which we build trust with partners.

Over the next decades, we're going to see the way people travel transformed. The automotive industry needs to lead this transformation or risk being sidelined. While Toyota has become a world leader in supplier relationships in our industry – and these relationships have boosted our innovation – the techniques we have built in the past will not be enough to maintain our position in the future. By finding new ways of working with our smallest suppliers and high-tech start-ups, we can ensure our history of world-leading innovation continues long into the future. ■



Business leadership hungry for supplier innovation

Sir John Hood was the first vice-chancellor of Oxford University to be elected from outside the academic body in 900 years, but he also has vast experience in industry. As a director of several global companies, he says business leaders are keen to see suppliers create more value.

**Sir
John
Hood**

You hear a lot of management talk about how to persuade the board of this or that. Senior managers seem to be looking for a secret recipe to ensure C-level executives invest in their pet projects. But my experience of modern CEOs is they don't need persuading about supplier innovation.

Anyone running a business of any scale knows that they have to see procurement as a channel for creating value and enhancing the cost side of the organisation. For this reason, the procurement team should now be deeply integrated with all the functions of the business, from operations to marketing to finance. I'm surprised people ask the question about influencing the board. Instead, procurement teams should be asking how to streamline their function. Digital automation offers the opportunity to eliminate many administrative tasks in procurement, while data analytics and machine learning can help with many of the judgement calls. These efficiencies can then create more time and resource to spend on innovation and customer value.

Reasons for supplier innovation

As the global economic landscape changes rapidly, organisations need innovation from suppliers now more than ever. It is expected that half of the globe's top 500 companies will come from emerging regions by 2025. The global supply chains of companies from western economies that have been created in developing regions simply to find cheaper goods and services

The CEO's reading list

Board-level leaders have to keep abreast of trends affecting their business or department. They can do so by reading a range of publications. Anyone who wants to work closely with them should do the same.

- Look for specialist features in the daily press, including the trade press and consultants' publications. Always read the science and technology, business and finance sections in the Economist
- Because we're all busy, podcasts are a good way to stay on top of topics while travelling
- Most of the major consulting firms, publish reports worth digesting. Also, read the Harvard Business Review and like publications
- There are ever-frequent, interesting conferences and talks – you don't have to attend; many of them are broadcast online
- Lastly, look at business and technology best-seller lists. Skim read the most interesting ones: there are frequently 15-20 pages that are worth reading

will become less competitive. An ongoing tariff war is also likely to have a distorting effect. While businesses are still looking for new low-cost regions from which to source, they are also looking to suppliers to create new value, rather than simply to help reduce costs.

Secondly, the choice of suppliers is becoming more important because of pressure from consumers and ethical groups for companies to be more transparent and responsible for their supply chains. The environmental, social and economic impact of supply is becoming all the more apparent to consumers, and they understand and care about the ethical credentials of the goods and services they receive. But they still expect competitive prices. Building more ethical and sustainable supply chains while keeping costs down requires innovation.

Thirdly, artificial intelligence, automation, and cloud computing create a manifest change in the way suppliers and the companies they supply can be integrated to create value. While these systems have been available for some time, this extraordinary set of tools has become cheaper, more accessible and easier to use in recent years. They are already having a profound effect on the way relationships develop and suppliers can integrate their data into the buyer's systems.

Consumer Goods Forum, which represents FMCG suppliers and global retailers, has been promoting technology-led innovation and collaboration. In one of its recent papers, Julie Hamilton, global chief customer and commercial leadership officer of The Coca-Cola Company, says: "Technology will... have millions of trickledown effects that we must understand. But we can't do it alone. Successful evolution of this industry will only come through collaboration with our supply chain partners and retail customers."

For these three reasons, we are long past the time when procurement created functional relationships that simply drove down the cost for on-time delivery. Most CEOs now think relationships between companies and their most important suppliers should be focused on how they can create value for each other.

Sir John Hood's career highlights

- 2009 – present. **Chief executive officer of the Robertson Foundation**, a private, family foundation which seeks to have a positive social impact. It awards grants in education, climate change and environment, and medical research.
- 2011 – 2019 **Chairman of the Rhodes Trust**, part of the University of Oxford, which has a mission to identify and develop leaders to achieve public good.
- 2018 – present. **Director of Blackstone**, a world leading alternative assets investment firm which seeks to create positive economic impact and long-term value for investors.
- 2015 – present. **Chairman BMT Group**, a leading international maritime design, engineering and risk management consultancy.
- 2017 – present. **Director of Aurora Energy Research** which offers data-driven analytics on European and global energy markets providing intelligence and consultancy services.
- 2007 – 2016. **Non-executive director, BG Group Limited**, a British multinational oil and gas company which Royal Dutch Shell acquired in 2016.
- 2004 – 2009 **Vice chancellor of Oxford University**, ranked the top university in the world by Times Higher Education in 2019.

Barriers to innovations

Businesses know they should rid themselves of the tendency to neglect ideas that were 'not invented here'. Business leaders are aware that if their organisation is not taking the best ideas from suppliers, then their competition probably will. No one can tolerate 'not invented here' for long.

On the supply side, suppliers are hungry for change. They understand that to sustain market share and increase revenue with their current customers, they must show how they are creating value. With the connected technologies I've already mentioned, suppliers can be linked directly into their customers' systems, and everything managed and tracked. The automation of certain aspects of work from supplier to buyer inevitably intensifies as they work together to create value for final customers.

Avoiding complacency

Suppliers who have failed to see these opportunities need to get up to speed or buyers will transition away from them. There are many hooks in the supplier-buyer relationship in working in this way and buyers do not want to end up tied to the wrong vendors. It is a risk they will want to address through deeper understandings of, and partnership, with their suppliers.

While those at the forefront of SRM might have some advantages as they try to harvest supplier innovation, they cannot rest on their laurels. Organisations can be fragile. You cannot make too many assumptions about the future based on the past. You have to be current and on your toes. As a company director, I keep abreast of what is happening in the supply market, geopolitics and technology (see reading list box). The trick is not to be complacent based on past success. ■

**Justin
Grace**

All suppliers are supposed to work to exacting standards and to tight deadlines, but in elite track cycling, the pressure is at a different level.

I can tell you, more or less to the minute, what time we'll be racing at the Tokyo 2020 Olympics, just about a year from now: that's an absolute deadline, no slippage, no-scheduling, if it's missed it's missed and four years of dreams and hard work are gone. While I can tell you when we're racing, what I can't tell you is the exact equipment we'll be using: it will continue to be developed and refined up to the very last minute with the help and cooperation of our suppliers.

In planning training and competition schedules for the Great Britain Team, which won six sprint medals in the 2016 Rio Olympics, I have to ensure riders, bikes, clothing and technology are all the best they can possibly be and at the track at the right time. These preparations rely heavily on a complex network of suppliers.

When we're asking a supplier for components to be ready on a Wednesday, and they do not arrive before Friday, then the whole reason we needed them might have passed, because they were supposed to go

to a race in Poland on Thursday. The significance of these deadlines and what they mean to our ultimate goal is something we need to share with our supplier partners.

New technology, new suppliers

Cycling technology and training have advanced dramatically over the last 20 years. As such, our team now employs materials developed in Formula One motor racing and other high-performance sports.

To understand why getting supplies to events and training sessions on time is so important to the team, it helps to get to grips with the minutia of detailed planning that goes into developing athletes, bikes and surrounding technology to be at the absolute peak for the big events. The team might enter an event to test the performances of the equipment, knowing that riders are not physically ready because they have been training for another event later in the season. If suppliers do not get equipment to the team on time, the effort might be wasted. Suppliers also need to understand the purpose of such events and not become focused on that specific outcome: they need to understand the big picture.

Suppliers can need reassurance that there are specific boxes to tick, and anything that sits outside of them is irrelevant. If they buy into that, it's easier to debrief them afterwards. But sometimes there are the suppliers who haven't really understood the big picture, and they can go to a debrief and are fairly vocal if they feel the work they've done has been compromised.

Experts manage relationships

British Cycling has recruited from a number of industries, including automotive and aerospace, to help it develop the technologies it needs to win top events. These are the individuals under my management who form relationships with the most important and innovative suppliers.

We introduce these experts, who also manage relationships with suppliers, by educating them about the sport and tapping into their diverse experiences to think of ways that we could do things

Winning relationships support Olympic success

Justin Grace has coached track sprint cycling for national teams in the UK, France and New Zealand, helping win a string of Olympic medals in the process. Here, the sprint coach of the Great Britain Cycling Team tells how innovation from suppliers is vital to remaining competitive.



not just differently but also things that have never been done before.

For example, the team's head of research and innovation used to be the team principal for Jaguar Formula One. That's the person we use to make connections with new suppliers, to be able to do things ahead of other nations, like sourcing carbon fibre parts.

An example from my time in New Zealand is using equipment to measure the distances between bikes traveling in close convoy, which involved attaching lasers to the back of each bike. The relationships that those guys brought to the party were pretty amazing.

The team's 'supply managers' must be in constant communication with suppliers to make sure materials and technology are ready for every staging post in the team's development – and suppliers must be willing to go the extra mile. An example is our shoe supplier based in New York which has sent someone to look at the riders personally and gather relevant data, rather than subcontracting it out.

Suppliers in constant contact

With suppliers in such a high-pressure sport, developing personal relationships is essential. There is an understanding that they are at the other end of the phone and we're talking to humans, not robots, which

ensures suppliers – especially the ones relatively new to the industry – understand our deadlines and what our expectations are around the development, production and delivery of goods. As in any field it's not perfect and occasionally things don't always go to plan. When this happens, we are careful not to over-react and focus on learning and applying lessons to make things better next time.

There are plenty of occasions when suppliers have pulled out all the stops to meet deadlines with their technology, including a supplier which delivered carbon fibre components to the Olympic Village while they were still warm out of the moulds.

But suppliers do not only innovate to help with the performance of the bike and the rider. They can also boost efficiency across the whole team. When I was a coach with the New Zealand cycle team, it struggled to get its bikes shipped around the world because of the country's remoteness. The team might require 50 or 60 items of luggage between six riders and staff. We found shipping suppliers who were prepared to form a partnership with the team. To ease logistical problems, the company developed new fibreglass cases that were specifically designed to pack equipment more effectively and fit into the small aircraft and shipping containers. It helped keep equipment safe and costs down.

Keeping egos out of it

I started as a competitive rider, representing New Zealand at the Commonwealth Games and World Championships. I was an okay bike rider: good enough to be there, but not good enough to win. I was very lucky to be able to get to travel the world and live out my dream as a semi-professional cyclist.

At the same time, I also developed a career in the engineering industry and helped other riders with their training plans. Somehow, I caught the eye of the New Zealand Team, which invited me to be their sprint coach. A spell in French cycling followed before I joined Team GB.

In developing high-performance teams, which includes supplier's, being open and honest about performance is critical. We're in an industry where everybody's passionate about what they are doing. So sometimes, when people receive constructive criticism, it can be easy, when under pressure, for big egos to kick in and turn it in to a personal criticism. Managing relationships across the whole team is a challenge that is important to step up to.

Generally, our relationships with suppliers are really good. We've tried hard to learn how to manage them well because they can help give us a competitive advantage. We'll see if the effort pays off on the track in Tokyo 2020. ■

About SRM, State of Flux and our research

About SRM

Many people now equate SRM with all forms of supplier management. While it's true that the management of contracts, performance and risk at the operational level are vital, SRM applies to the additional layer of engagement with those suppliers that can contribute most to achieving an organisation's strategic goals. So, in State of Flux's 11th annual publication of SRM research, we re-visit and refresh the definition of SRM that will build value beyond the contract.

While SRM remains part of the entire supplier management landscape, it must be recognised as a differentiated approach for critical and strategic supplier partners.

About State of Flux

Founded 15 years ago, State of Flux continues its total focus on clients and works globally on a range of consulting support, supplier management technology and training solutions. With offices in Europe, the US and Australasia, we are able to deploy our resources and establish great working relationships no matter where in the world our clients reside.

We have added talent to our team and invested in our technology solution. Our approach remains routed in the

Six Pillars of SRM model for excellence and helping organisations navigate the SRM Journey.

About our research

Following the 10th anniversary of our research last year, we have seen renewed interest and enthusiasm to take part this year with an increase of 32% in the number of companies responding and an increase in requests for maturity and benchmark feedback.

Maturity and benchmark analysis

We provide research into participants with individual insights in to the maturity of their SRM programme and how it rates across each of the Six Pillars of SRM and aligns to four levels of maturity. We also differentiate between leaders – those companies that we believe have developed more mature and successful SRM programmes; fast followers, who show strong evidence of SRM development; and followers – companies who have limited SRM ambition or are at the start of their journey.

State of Flux SRM Index

The State of Flux SRM Index is designed to make it easier for businesses to establish a baseline for their SRM performance and set targets for improvement. The Index score is calculated based on the responses received to specific questions within our 2019 SRM survey. These questions are selected to reflect what organisations are actually doing and experiencing, and are weighted to reflect their importance to an effective overall approach to SRM. The index is based on a range of 0 to 6 and this year the average SRM index achieved by leaders is 4.3 and for fast followers 3.3.



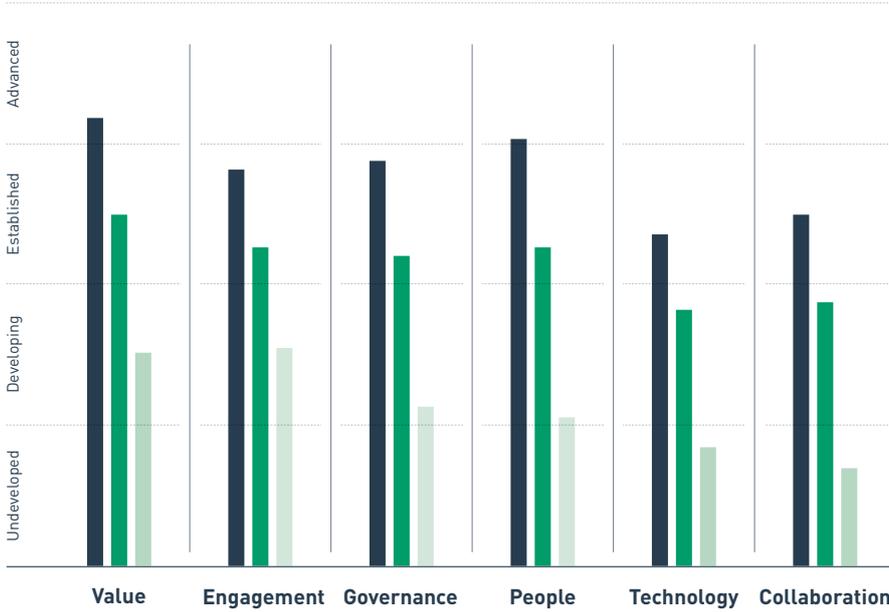
Leaders



Fast followers

2019 global SRM maturity

- Leaders 39 Companies (10%)
- Fast followers 54 Companies (13%)
- Followers 309 Companies (77%)

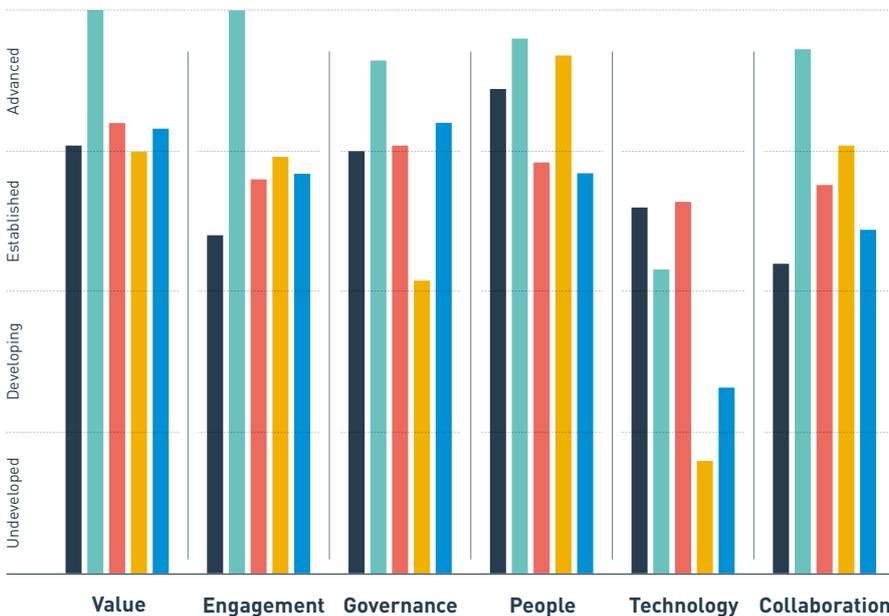


SRM is a structured and disciplined approach to working collaboratively with those suppliers that are vital to our success, to build trust, develop healthy relationships with a shared purpose to create value.

State of Flux 2019

SRM leader maturity by industry sector

- Financial Services
- FMCG
- IT & Telcoms
- Public Sector
- Manufacturing & Automotive



Industry sector perspective

This year's research findings include feedback from over 25 industry sectors. The analysis of maturity shown here is for the SRM leaders in the five sectors that provided the most company/organisation responses accounting for over 50% and therefore provide a more representative view of that sector. Whereas in 2018 it was the IT & Telecoms sector that led the way, this year industry sector leadership has been attained by FMCG compared with its third place last year.

Your SRM benchmark and index

Participants of our SRM research are able to request a complimentary maturity and benchmark analysis including your SRM index score. The analysis will enable you to benchmark your organisations SRM activities against best practice and your industry peer group.

If you would like to obtain a benchmark and index score, please contact: enquiries@stateofflux.co.uk

Summary of key findings

Headline feedback for each of the Six Pillars of SRM



Value

Understanding value

90%

Over 90% of SRM Leaders have documented their SRM value proposition

Benefits being realised

55%

Of the companies identified as SRM Leaders 55% report financial gains in excess of 4%

90%

Reduced risk is the most often reported non-financial gain



Engagement

Support from the leadership team

56%

56% of SRM Leaders can rely on strong and active support from the leadership team

Support from the front line

50%

Business and operational support stands at just over 50%

Suppliers are engaged

70%

Suppliers remain ready to go with over 70% said to be supportive of SRM



Governance

Segmentation is almost done

98%

98% of companies now segment for supplier management

2 in 3

Around 2 in 3 have also created treatment strategies to match

Governance is half and half

50%

Just over 50% of companies have effective governance in place for over 50% of key suppliers

Getting the basics right

1 in 3

More than 1 in 3 companies are failing to implement adequate contract, performance and risk management for up to half of their key suppliers

Innovation

Not a pillar of SRM in its own right but the headline feedback is as follows:

What is innovation for you?

40% of companies have broad definition of innovation that covers continuous improvement bringing incremental advances to transformational improvement that is genuinely disruptive and new

Is it important?

More than 1 in 4 companies see supplier innovation as a critical business driver for SRM

Are we any good?

50% of companies rate themselves as less than 5 out of 10 for supplier innovation

What's the problem?

Insufficient time and resources to engage suppliers on innovation is the biggest barrier



People

The job to be done

58%

The main SRM role is now defined by 58% of companies but for SRM Leaders its 90%

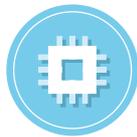
Investing in people

25%

The SRM skill set has been defined by 25% of companies

1/2

Only just over half of companies have invested in SRM training



Technology

A post contract technology vacuum

64%

Technology to help manage contracts is used by 64% of companies

21%

Technology to help manage relationships is used by 21% of companies

6%

Technology to manage supplier innovation is used by 6% of companies

Somethings not working

50%

Over 50% say that their current technology solutions are failing



Collaboration

For some its early days

42%

For 42% it's too early to say if collaboration is on the up, but for over 90% of SRM Leaders its positive feedback

Broad based collaboration

27%

27% of companies are building more trust and 23% are driving more continuous improvement

Working together with real purpose

50%

SRM Leaders are making increased use of joint business plans: over 50% are using them to drive value

Six Pillars of SRM

Value



A clear value proposition aligned to strategic objectives driving collaborative initiatives and culminating in measured financial and non-financial benefits.

What are your strategic objectives? To what extent are you dependent on the contribution of third-party suppliers to achieve them? What more could you be doing with your most important and strategic suppliers to help achieve those goals? These are among the questions which help establish an SRM value proposition. Then, it's a question of working with the supplier to understand exactly what you can do together, both within existing contracts and beyond. Read more on page 20.

Engagement



Achieving and maintaining strong internal and supplier engagement and support throughout the SRM lifecycle.

Is your SRM programme a business change programme with a large footprint outside procurement? How engaged and supportive of SRM is the C-level team? How do you get buy-in from business and operational managers who deal with suppliers day-to-day?

How will you engage suppliers more in the process? The answer to all three questions lies in a strategy for stakeholder engagement and support. Read more on page 28.

Governance



An effective and efficient supplier management and governance approach that is differentiated based on the output from a segmentation process.

How do you decide which suppliers are truly strategic? What decision making criteria should you be using? What are the best process, governance and engagement models to apply? Are roles and responsibilities properly defined? Is contract, performance and risk management sufficiently robust? These questions help create strong SRM governance. Read more on page 40.

People

A people development process that includes clear role definitions, identifies and assesses the requisite skills and competencies, and provides need-based training.

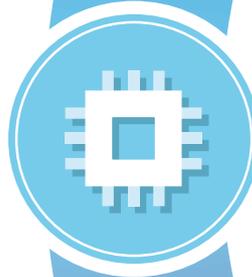
Is the SRM role properly defined? Is SRM reflected in the role profiles of others in the organisation? Do you understand what skills and competencies the role requires? Have you evaluated current skills and competencies and developed training and personal development solutions? Is SRM part of performance objectives and measurement? Answering these questions help form a people strategy for SRM. Read more on page 58.



Technology

Using the best available technology to enable all aspects of supplier management and compliance.

Are you able to manage and share supplier related information? Can you extract data from all relevant enterprise software including ERP, finance, procure-to-pay, and contract management systems? Are all aspects of the supplier management lifecycle sufficiently enabled by technology? Organisations need to answer these questions to support SRM with the right technology. Read more on page 70.



A model for SRM excellence developed over 15 years, State of Flux's Six Pillars approach helps global clients define the desired outcomes from supplier relationships and develop the tools and techniques to deliver them.

Collaboration

Developing collaborative relationships that are based on trust to build value, foster innovation and support joint planning.

Are you collaborating sufficiently with your strategic and most important suppliers? Are you developing joint plans that deliver the strategic objectives of both organisations? Are your relationships sufficiently open and transparent and based on trust? Are you benefitting from supplier innovation? If the answer to all the above is 'no', you need a plan for collaboration. Read more on page 80.





Value



Value is the first of the Six Pillars of SRM for a reason. Understanding an organisation's aspirations to create value will ensure SRM becomes a standard way of working with strategic suppliers.





Summary

The proportion of organisations establishing a value proposition for SRM fell slightly in 2019, down 3 points on 2018 to 47%. At the same time, drivers for SRM remain relatively constant : risk and cost reduction or avoidance remain the primary drivers, at 57% and 56% respectively. Meanwhile, 28% of organisations seek greater supplier innovation through SRM, a significant fall from 43% in 2018. Between 2018 and 2019, we have seen the proportion of organisations gaining financial benefits of more than 4% increase from 30% to 42%, a rise in return on investment in SRM. In terms of non-financial benefits, 41% of organisations have managed to reduce risk through SRM. However, success in innovation remains elusive: only 12% recorded innovation as a non-financial benefit.

47%
OF ORGANISATIONS HAVE
A VALUE PROPOSITION
FOR SRM

28%
SEEK GREATER SUPPLIER
INNOVATION THROUGH SRM

41%
OF ORGANISATIONS
HAVE REDUCED RISK
THROUGH SRM

What does success look like? Most people think they know, but it is not always obvious. If projects are not based on the strategic goals businesses aspire to, they can never be said to succeed; nor can they fail. Organisations which create sustainable SRM programmes tend to build in value from the beginning. They have explored value in its broadest sense to understand, in detail, why they invest in managing supplier relationships, whether that is to reduce cost, boost revenue, improve margins, slash time to market, mitigate risks, innovate in product or process or find new markets. SRM can help with all these objectives, but unless project leaders define them from the start, they stand little chance of succeeding.

Value proposition

The value proposition is the vehicle which supports the business case for SRM and encourages executive buy-in. Our data shows the proportion of all companies having documented a value proposition is down on 2018, falling from 50% to 47%.

But the importance of the value proposition is undiminished among

SRM leaders and fast followers. They are three times more likely to have a value proposition in place compared to SRM followers.

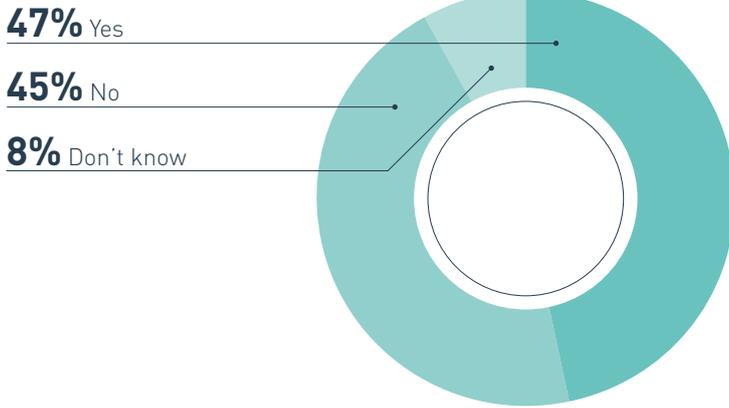
Business drivers

In a hierarchy topped by strategic objectives business drivers will be the strategies and initiatives that are expected to deliver those objectives. They will typically include increased sales, improved margins, speed to market, reducing costs, efficiency and productivity, capturing profitable market share, reducing risk exposure, innovation, improved sustainability etc. In the context of SRM the business drivers are what working collaboratively with suppliers should impact on.

The business drivers that have been the focus of SRM have remained relatively constant over the last 10 years. Risk management and cost-reduction are more or less equal and are cited by just over half of respondents. Other business drivers, including internal and end-customer experience, innovation and services level improvement, have all seen a slight fall in the number of organisations citing them as business drivers.

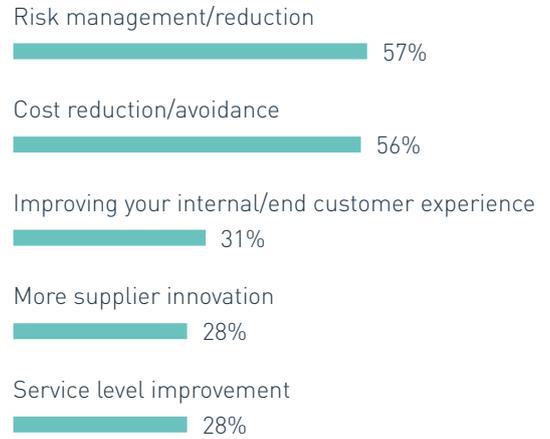
A little less than half of organisations have a value proposition

Companies that have documented a clear value proposition for SRM (all companies)



Risk management and cost reduction are the greatest drivers for SRM

The most important business drivers for SRM in the next 12 months (all companies)

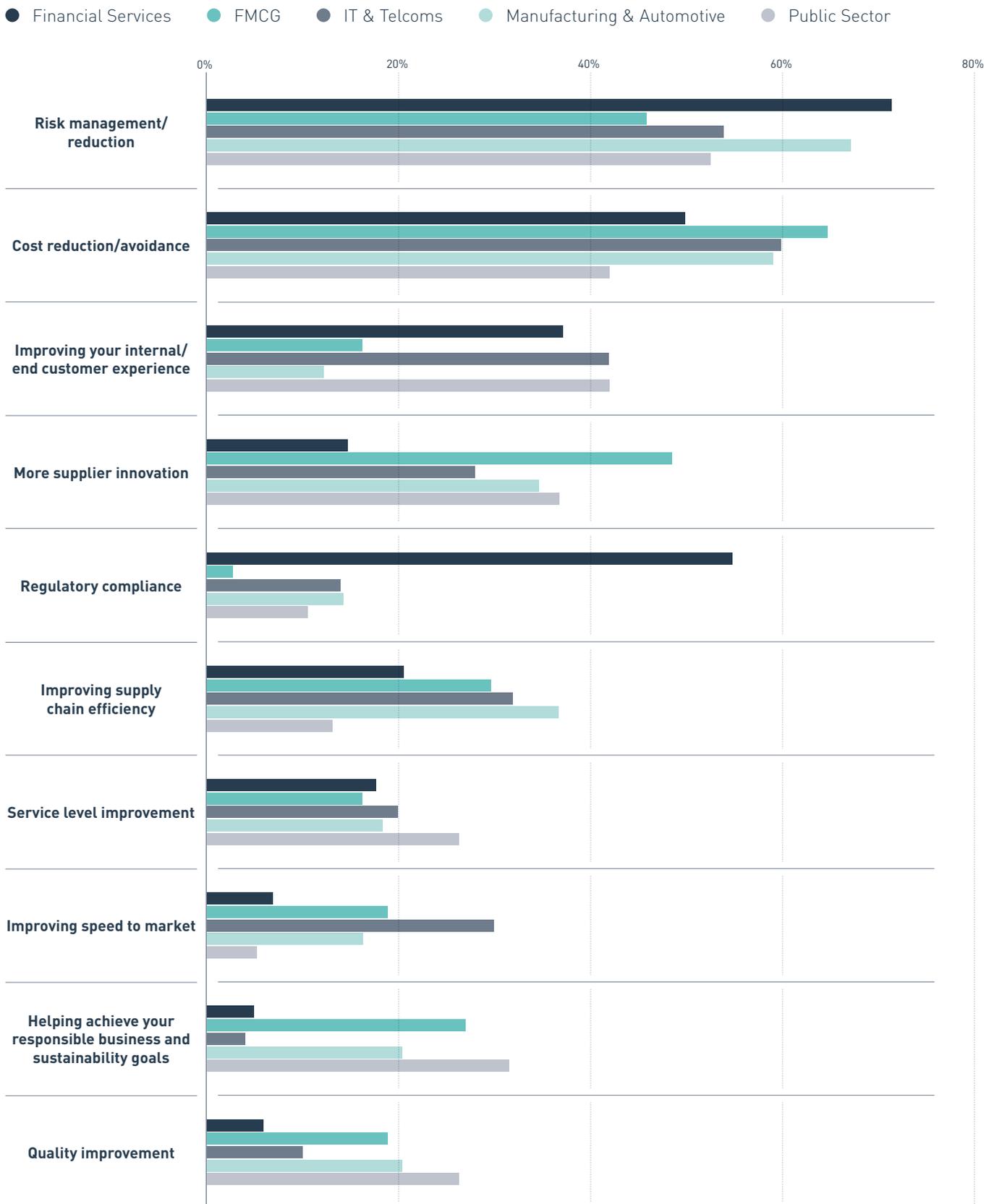


Snapshot analysis

In 2018, supplier innovation was among the top three business drivers for SRM. By 2019, it had been replaced by improving the experience for both internal and external customers, cited by 31% of respondents. It is a sign that organisations are becoming more customer-focused, but their plans have yet to fully bear fruit. Only 22% of organisations gain the non-financial benefit of improving internal/end customer experience.

Risks and regulations drive SRM in financial services

The most important business drivers for SRM in the next 12 months (industry sectors)





Regulators are keen on a proactive approach involving supplier relationship management, prompting further interest from companies in the sector. Other sectors take note: risks can be financial, operational, legal or reputational. SRM can help manage them all.

Industry sector perspective

Just as the strategic objectives of companies vary, so too do the business drivers they will focus on. This variation will explain the different shape and priorities of SRM programmes typical in different industry sectors. It will also explain why some industries have drivers in common. For example, in the chart, it is easy to identify the more highly regulated industries such as financial services and those with critical operational dependence on suppliers such as manufacturing and automotive by their focus on risk management. Whereas highly competitive and consumer-focused industries like FMCG will put more emphasis on supplier innovation and sustainability.

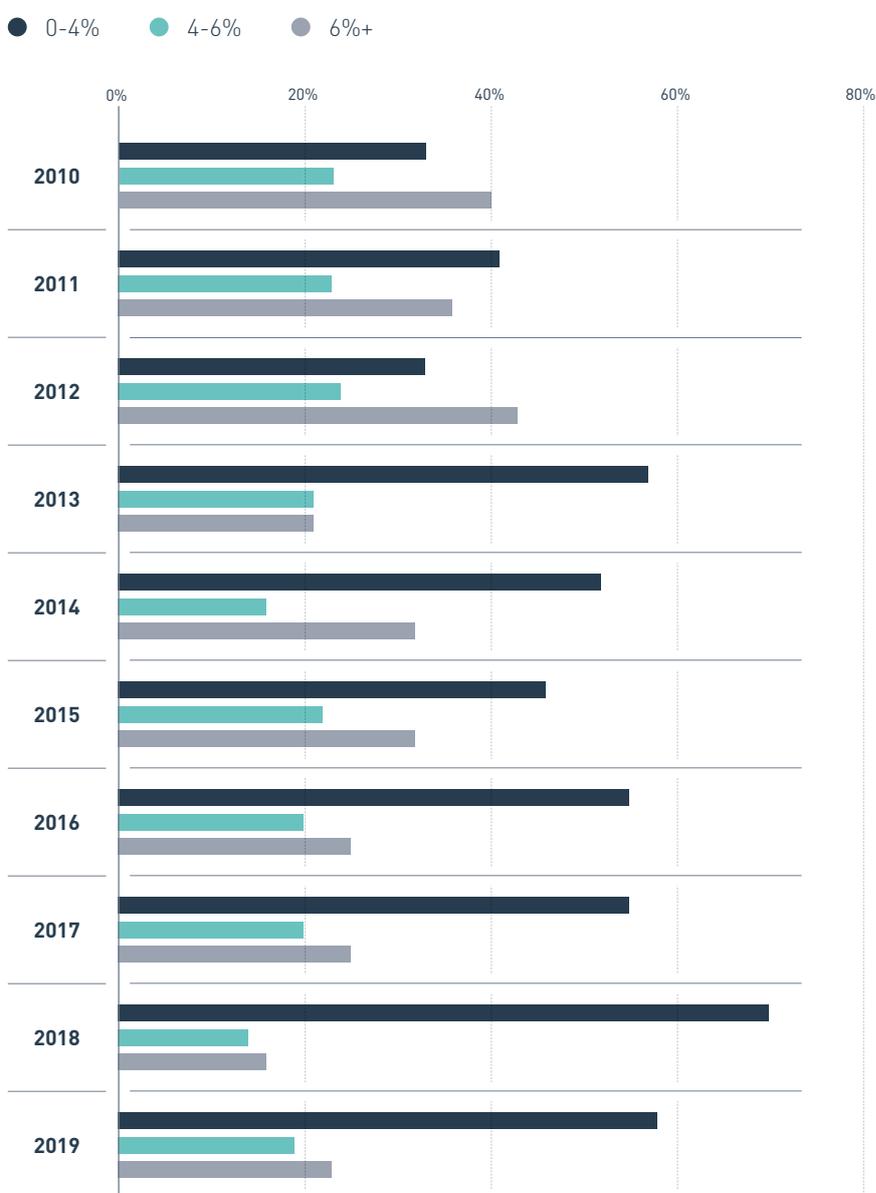
Increase in higher value financial benefits

Isolating and tracking the financial benefits specifically attributable to an SRM programme is a challenge for many organisations. Since we started our research in 2009, we have asked this question in the same way: "What financial benefit do you believe your SRM programme is delivering?" Between 2018 and 2019 we have seen the proportion of organisations gaining financial benefits of more than 4% increase from 30% to 42%, a rise in return on investment in SRM.

For 2019, manufacturing and automotive and IT and telecoms sectors

Consistent achievement of benefits greater than 4%

SRM financial benefits reported 2010 to 2019 (all companies)



Snapshot analysis

The 10 years since the financial crisis has seen regulators across the globe take greater interest in risk management in financial services firms. In a heavily outsourced sector, this includes management of their suppliers. Regulators are keen on a proactive approach involving supplier relationship management, prompting further interest from companies in the sector. Other sectors take note: risks can be financial, operational, legal or reputational. SRM can help manage them all.

Innovation slips down the list of non-financial benefits

Non-financial benefits reported (all companies)



are vying for the top-spot in terms of financial benefits. Around 25% of respondents from both sectors report financial benefits in excess of 4%.

Risk reduction leads non-financial benefits

In order to satisfy a number of business drivers for SRM, the activity will not translate immediately into financial benefits. In fact, four of the top five business drivers for SRM do not easily lend themselves to being measured in financial terms. It is therefore vital to be able to achieve, measure and report non-financial benefits. This year's research reveals that almost 41% of companies report reduced supply chain risk as a direct result of their SRM programme, making it the most significant non-financial benefit.

In financial services, a sector particularly sensitive to risk, more than 60% have seen non-financial benefits in risk management. Another very relevant benefit reported by financial

services (over 55%) is that regulatory compliance is better assured.

Second to the reduction in supply chain risk are improved service levels, cited by one in three respondents. Improved service levels will also have a positive impact on other key business drivers including end and internal customer experience. The third and fourth most often reported non-financial benefits are improved account management and a generally increased level of commitment on the part suppliers who are part of SRM programmes: in effect, 'oiling the wheels' of a relationship.

It remains the case that too many SRM programmes fail to deliver innovation as a non-financial benefit. Only around 12% of respondents are reporting increased engagement with suppliers on this objective. SRM leaders and fast followers fared better since 44% report a benefit in innovation, but the result shows the potential of SRM to support business innovation is left unfulfilled.



State of Flux ■ ■ opinion

Value is the first of the Six Pillars of SRM for a reason. Understanding an organisation's aspirations to create value will ensure SRM becomes a standard way of working with strategic suppliers. However, it is not enough just to dream of value; it must be driven through a structured and collaborative approach, measured, validated and reported. So, it is concerning that the number of organisations building an SRM value proposition has declined. After increasing from 33% in 2017 to just over half last year, it has fallen back to 47% in 2019. The value proposition is fundamental to attracting business engagement in SRM and should get more attention.

But there are some upsides to the results. Risk management is more or less joint highest business driver for SRM, and it is also the greatest non-financial benefit. Compare the result with innovation: while 28% of organisations see it as a driver, less than half of that (only 12%) actually achieve innovation as a non-financial benefit. Elsewhere in this report, we share how the digital transformation is sweeping through economies (Hubspot, p76) makes supplier innovation a necessity. Those organisations failing to make it part the value they gain from SRM face being left behind.



It is not enough just to dream of value; it must be driven through a structured and collaborative approach, measured, validated and reported.



Engagement



Business leaders are facing more uncertainty today than at any point in recent times: geopolitical upheaval, climate change and technology-led disruption all present risks that present conflicting priorities. Helping them understand that SRM helps manage these uncertainties – while sustaining growth – is vital to improving engagement.



Summary

Engagement in SRM has shown signs of stalling in the last five years. Senior management support for initiatives has fallen from 75% in 2015 to 55% in 2019, while support from operational management also fell over the same period. Those who gain the most value for SRM – the leaders in our survey – are seven times more likely to get strong and active support from senior management than SRM followers. Other business priorities are the most likely cause of poor engagement with SRM, although a lack of awareness of the value proposition is also an important factor. While 72% of suppliers support SRM, their engagement has also been falling off in recent years. SRM is not just a procurement game; broad-based engagement is necessary to get the benefits. There is a lot of work to do.

57%

OF SRM LEADERS GET STRONG AND ACTIVE SUPPORT FROM THEIR LEADERSHIP TEAM

33%

SAY OTHER BUSINESS PRIORITIES ARE A BARRIER TO SRM

72%

SAY SUPPLIERS SUPPORT SRM

No matter what the value of SRM on paper, without engagement with business leaders and the people who have hands-on, day-to-day dealings with suppliers, the whole enterprise can fail. The trouble is, they can see procurement as a barrier to be got over or around. Some of them have decades of experience, so they have earned the right to say they know their suppliers and the supply market. They may say they have more important things to do than work on a new procurement programme – without understanding SRM can help them achieve their strategic goals.

Leadership team engagement

SRM leaders – those organisations that get the highest returns – are almost twice as likely to have strong and active support from their leadership team (57% do) as the fast followers group of survey respondents (34%). Leaders are also seven times more than SRM followers who make up the majority of our sample. SRM followers are also much more likely to get neutral support for their programmes (39%) than fast followers (8%) and leaders (6%). Neutral support is really no support at all.

Across all survey respondents, engagement with the leadership team remains a challenge. If we look at the last 10 years of results, we see a decline in the overall level of support from company leadership teams. While direct opposition is unusual, the level of what could be regarded as a neutral attitude has increased. This indicates less successful engagement with the leadership team over more recent years. 33% of respondents put this down to competing business priorities.



The level of support from business and operational teams is a tell-tale sign of the health of a programme. SRM leaders are almost three times more likely to be receiving strong and active support than fast followers.

SRM leaders are seven times more likely to get SRM support than followers

Leadership team support (Leaders, Fast Followers, Followers)

● Leader ● Fast Follower ● Follower

Strong and active engagement and support



Supportive



Neutral



Some opposition



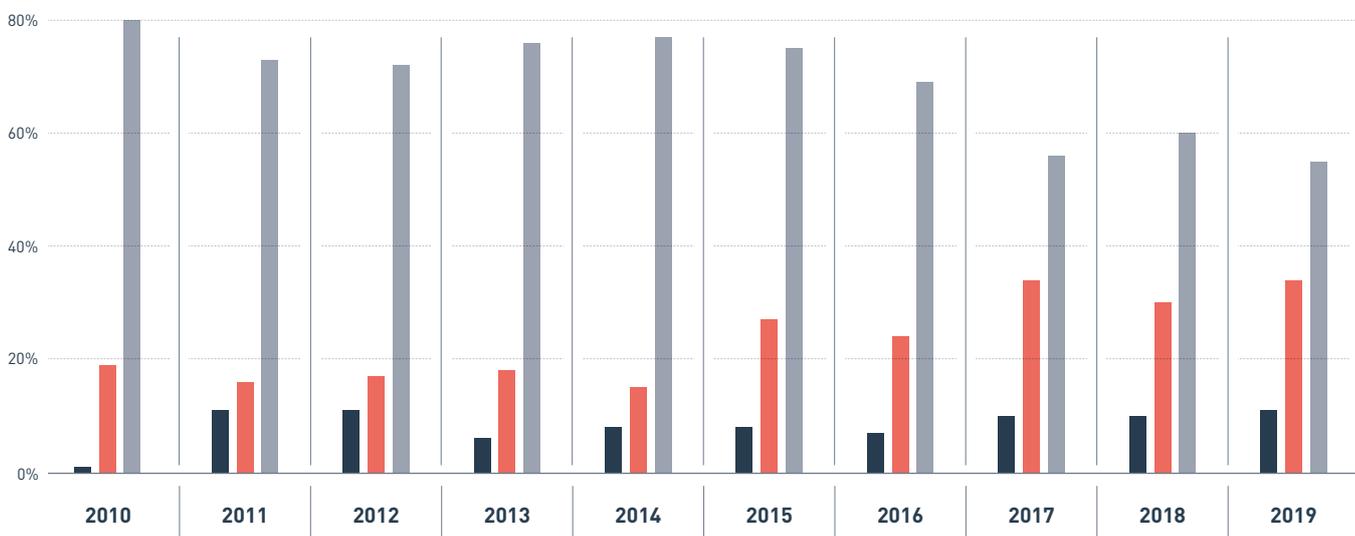
Strongly opposed/resisting



Support for SRM has declined over the decade

Leadership team support for SRM 2010 to 2019

● Opposed ● Neutral ● Supportive



Other priorities are a barrier to SRM for a third of organisations

Barriers to leadership team support

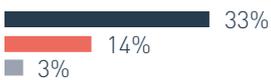


SRM leaders are the most likely to get operational support

Business and operational team support (Leaders, Fast Followers, Followers)

● Leader ● Fast Follower ● Follower

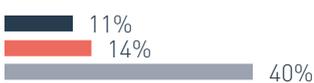
Strong and active engagement and support



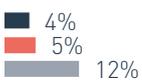
Supportive



Neutral



Some opposition



Strongly opposed/resisting



Barriers to leadership team support

The trend in declining leadership team support is likely to be caused by familiar barriers to SRM. Chief among them is organisations putting “other business priorities” ahead of SRM. The second most reported barrier is that the leadership team have insufficient awareness of the SRM value proposition, which is hardly surprising given our survey also shows almost half of companies have not developed a value proposition for SRM. Together, the results demonstrate why the value proposition is so vital to SRM engagement.

The industry sectors (C-level) where a higher proportion of the senior leadership are fully on board with SRM are IT and telecoms and FMCG.

Business and operational engagement

Whereas strong and active support from the leadership team is vital to initiating and sustaining SRM, day-to-day management of suppliers is largely in the hands of the business and operational teams. Ensuring they are fully engaged with SRM is also vital to delivering the value proposition.

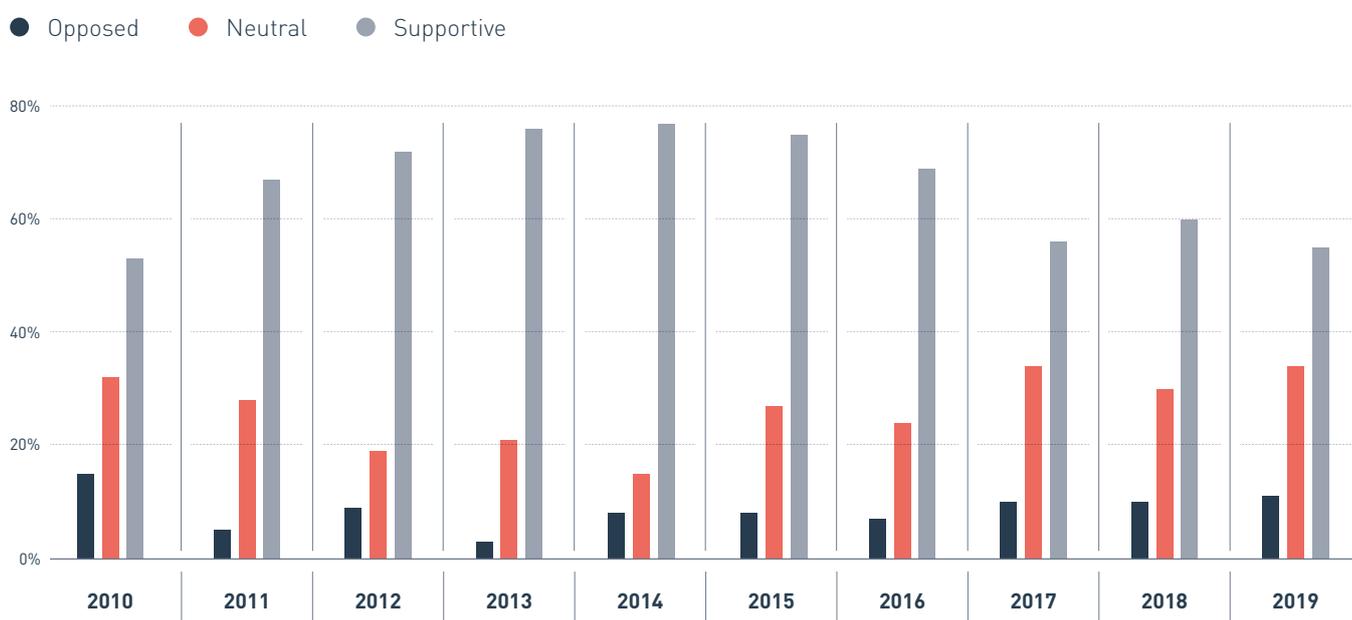
As with the leadership, the level of support from business and operational teams is a tell-tale sign of the health of a programme. SRM leaders are almost three times more likely to be receiving strong and active support than fast followers. This level of support is very rare among followers, partly due to

Snapshot analysis

Business leaders and operational managers alike can get caught up in the challenges in front of them. And there are many. So underlying trends can get ignored, such as the growth in activities handed over to the supply chain. A strategic plan for managing these relationships helps businesses innovate and avoid risks. While procurement cannot force stakeholders to understand the importance of SRM, they can set the stage for them to learn. That’s what engagement is about.

Growing support for SRM has levelled off in the last three years

Business and operational team support for SRM 2010 to 2019



programmes being in early development or, in some cases, failing to engage with the business.

Over the last 10 years, the research has shown some increase in operational support for SRM. However, the general level of support remains too low, and growth in support has levelled off in the last three years. Given the important role that business and operational teams play in delivering SRM and business benefits, the level of engagement and support must be stepped up.

The industry sectors that have the strongest support from their business and operational teams are IT and telecoms and financial services.

Supplier support

While they are a vital ingredient in successful SRM and the delivery of value, suppliers are not always regarded as genuine stakeholders in the approach that organisations adopt. There can be a tendency to assume that suppliers will simply comply with the SRM strategy; that it is something done to them, rather than with them. Suppliers are generally

supportive and see SRM as a real opportunity to engage more pro-actively with customers. Supplier support for all programmes is healthy (at 72%) but shouldn't be taken for granted.

The picture over time shows supplier support peaking around 2014, but since then, the research shows a declining trend. This could indicate a growing level of supplier frustration with SRM projects which organisations have launched but failed to sustain in the longer term.

The industry sectors that are maintaining the highest level of supplier engagement and support are IT and telecoms and manufacturing and automotive.

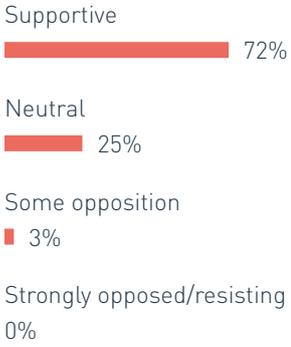
There is an opportunity to better engage stakeholders in the value SRM brings. To gain the greatest benefits, organisations should invest more time and effort in identifying, understanding and communicating with stakeholders. They also need something to tell them: that's why a compelling value proposition is the cornerstone of engagement.



While procurement cannot force stakeholders to understand the importance of SRM, they can set the stage for them to learn. That's what engagement is about.

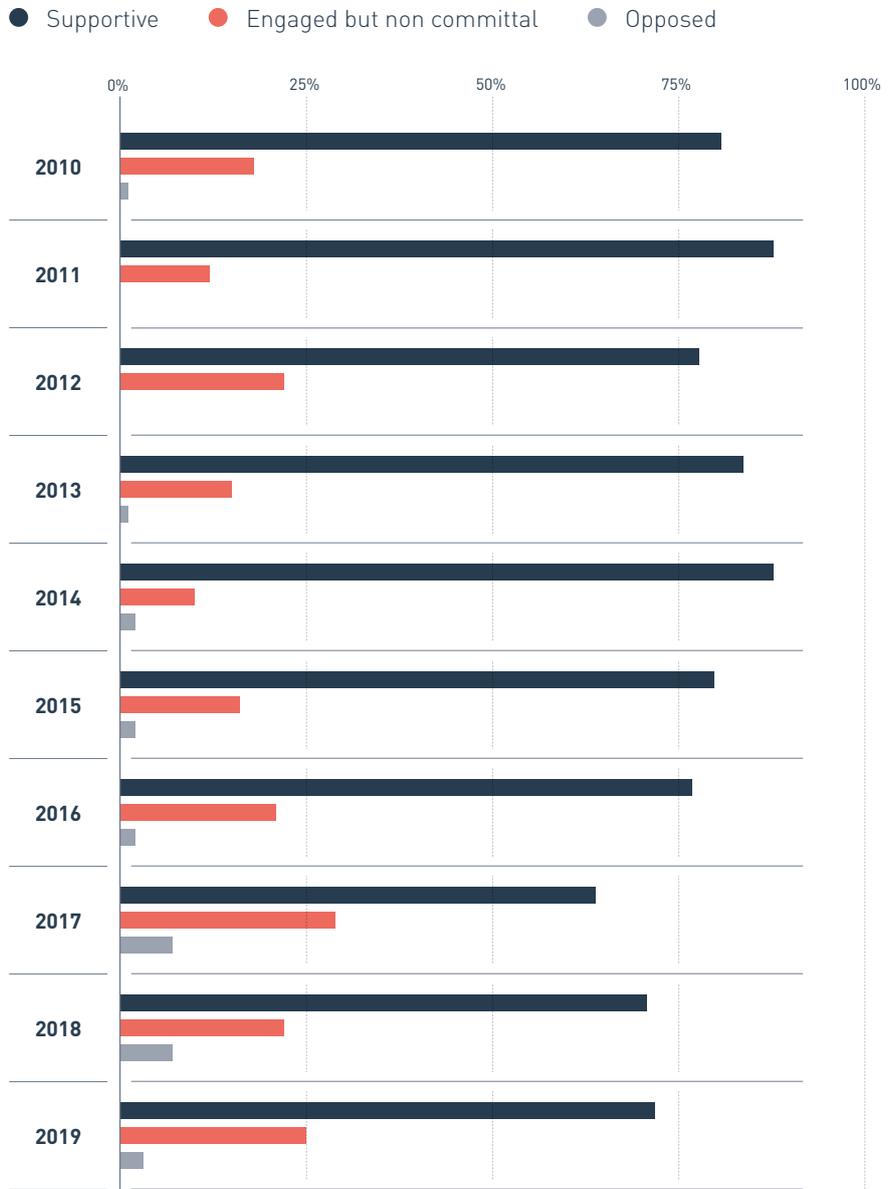
Suppliers are broadly supportive of SRM

Supplier support and engagement (all companies)



Supplier support for SRM drops after 2014

Supplier support and engagement 2010 to 2019



Snapshot analysis

When procurement professionals think about stakeholders, they tend to imagine marketing, R&D, HR, IT, manufacturing, finance, and so on. Engaging suppliers can be taken as a given. But it should not be. Suppliers have seen it all before, across many of their customers. They understand the difference between customers making a sustained effort at SRM, and those paying lip service to the concept. Organisations taking SRM seriously will get the most in return from suppliers.

State of Flux ■ ■ opinion



Everyone in the business who thinks about, or works with suppliers should be able to understand why SRM is relevant to their objectives.

SRM is a team sport. To win, people at the top need to see the vision, while those on the ground need to get something in return. While the benefits of SRM can fill management strategy and consultancy documents, everyone in the business who thinks about, or works with suppliers should be able to understand why it is relevant to their objectives. Procurement should approach the subject with care. Australian energy firm Stanwell shows some subtlety is required when getting stakeholders onside with SRM (case study, p36-38). But engagement starts with the value proposition. If organisations fail to create one, or if it is poorly communicated, they are unlikely to get sufficient backing for SRM – or achieve the benefits they hope for.

Stanwell energises stakeholders' support for SRM

Not all experts are receptive to new ideas from suppliers. Energy firm Stanwell broke down barriers by listening for when business stakeholders were prepared to ask for help.

Telling someone they might need some help is always a tricky proposition. When it is a procurement team telling engineers that suppliers might know better than them, it can be doubly difficult. That's why stakeholder engagement is critical to the success of SRM, says Andre Harvey, general manager, procurement and supply, Stanwell.

With a portfolio of assets contributing more than 4,000 megawatts to the Eastern seaboard of Australia, Stanwell is one of Australia's largest and more established electricity generators posting earnings of AU\$857 million in 2018. The organisation is subject to the recent energy industry disruption that has seen an influx of technology advances, as well as asset and plant optimisation strategies. Against this backdrop the Stanwell leadership team felt it could gain more insight and value from suppliers to the benefit of its customer base.

But Harvey wasn't sure whether the engineering teams who dealt with suppliers day-to-day would be willing to take on board ideas from suppliers.

"To start with, you have to acknowledge the nature of the relationship with the supplier. For us, it was typically something like buy, implement, and if you're not happy, complain. It is difficult to get into a conversation about insight and value because of a level of scepticism on the part of the workforce primarily responsible for managing suppliers. Any innovation would potentially be seen as a challenge to the expertise of our engineers," Harvey says.



Overcoming scepticism

Where scepticism could have been a problem, Harvey’s approach was to discuss the challenges in the Australian energy industry. It is currently undergoing a transition from a slow-changing industry, to one marked by increased renewable investments, transformation of the energy ecosystem and dynamic market forces. A discussion about industry disruption led to a conversation about where stakeholders felt they need or would benefit from help. That might be whether our competitors were seen as suppliers’ ‘customer of choice’ thus enjoying favourable prices or services; or when other organisations were undertaking dialogue differently with

their suppliers; or whether Stanwell was prepared to do this differently.

“Facing disruption alone will see limited successes. We needed to create a space to have that conversation, allowing us to use it as a catalyst for change. When people feel they have permission to ask for help, that gives them more control of the conversation as well as a sense of curiosity,” Harvey says.

After getting agreement to discuss ways suppliers may help, Stanwell worked with State of Flux to road-test supplier relationship management and demonstrate its value to the business. Not a big bang approach – rather more of an opportunity role model. The next step was to select three suppliers to work with. Harvey’s team picked one supplier of a highly complex product, one that was high risk and one that was high value. Then an open dialogue began to uncover what the suppliers found difficult about working with Stanwell and where the energy firm could improve its performance. Two of these projects have concluded, and one is still ongoing after two years.

Sample supplier survey

Early progress with these three suppliers was well received by the business allowing the procurement team to work with State of Flux to develop a voice of the supplier survey to sample the supply base of 5,000 suppliers. With around 160 responses, Stanwell began to understand how suppliers perceived the company, if it was treating them well, or if it was not talking to them regularly enough. It wanted to understand on a broad scale what issues suppliers might have in working with Stanwell. This could extend from suppliers potentially having problems with payments and other transactional interactions to if they were getting enough communication about the Stanwell strategy and priorities.

“It was about having permission for a different conversation with suppliers. Not everyone is going to have a strategic relationship or alliance. Some suppliers are happy to be dealt with on a transactional basis, but they want to get paid on time, and we want a quality





product. Sometimes you need to have a conversation about that,” Harvey says.

From its sample, Stanwell divided suppliers into five portfolios of mining, generation, ICT, materials and inventory, with a relationship manager in charge of each portfolio.

Success through longer-term contracts

One of the greatest successes came through renegotiating with one of Stanwell’s largest maintenance contractors. The firm had been working on an annual contract, which was rolled over each year. Following the SRM process it became evident that for the companies to work together with more trust and confidence a longer, and deeper commitment would be necessary. With this in mind, both companies approached a review of the contract with the overarching philosophy which says: ‘a contract is an act of community: what’s important for this community to pay attention to so it can gain the most from the contract?’ Consequently, Stanwell signed a four-year contract with the supplier, which enabled it to negotiate a deal that improved supply chain continuity and security while saving Stanwell AU\$2 million. Though the real benefits continue to flow at contract engagement and management levels, the operating teams also enjoy a richer dialogue.

“The contract was a key to operations and maintenance. When both organisations truly collaborated to the benefit of the contract, we were able to have a more forward view of what we could do differently. We’re now talking about optimising tasks and processes and having a better conversation around safety. The effect was immediate. The supplier was saying, ‘there were a whole bunch of things we had observed [we could do differently] but felt that we would not be listened to’,” Harvey says.



Facing disruption alone will see limited successes. We needed to create a space to have a conversation, allowing us to use it as a catalyst for change.

Stanwell also realised its sourcing, tendering and invoicing processes were impeding suppliers, and they were building these inefficiencies into the contract price. Stanwell helped to secure greater goodwill from suppliers by introducing new tools, including e-procurement, source-to-contract, and procure-to-pay systems. As well as improving efficiency, the systems can offer up-to-date surveys of transactions and tenders as well as collating supplier satisfaction scores. “The process of buying and procuring will always be present in business. What we learnt was doing it quickly and efficiently; and allowing a space for ‘do-different’, shifted our position to being a ‘customer of choice’ across our supplier community,” Harvey says.

Shifting the dialogue with suppliers

Stanwell is benefitting from SRM, but it is careful not to use the name. Instead, it calls the process ‘key supplier management’. “It is a simple play of words that seems to have connected quite quickly with our managers, SRM is procurement speak we needed a business language,” he says.

Harvey’s team is working through the process of putting contract management frameworks and supplier governance in place to make the key supplier management process more sustainable when personnel shift in and out of the business.

To succeed with SRM in the long term, the organisation needs to get away from the idea that it is a task to complete, Harvey says. “It is not a spreadsheet to be done and then forgotten. Those SRM projects that prosper are those that do something with the results. It gives permission to shift the dialogue with suppliers.”

Stanwell is showing how SRM can help organisations navigate changing industries. But creating the right moment to engage stakeholders was crucial to success.

Are you a customer of
choice?

Understanding your organisation from the supplier perspective is vital if you are really to become a customer of choice. State of Flux have been conducting Voice of the Supplier studies for more than ten years. The feedback received will help shape your approach to supplier management and often acts as a catalyst for cultural change.

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srm.stateofflux.co.uk/2019-report



Governance



No organisation can claim to have effective governance and oversight in place if they are not managing supplier contracts, performance and risk in a way that is appropriate to the products and services in question.





Summary

While the strongest of the six pillars, governance can be a struggle for many organisations. Most segment suppliers based on spend and criticality, but growth and innovation (42%), risk to reputation and sustainability (39%), and the competition in the supply market (38%) also factor in their assessment. Among SRM leaders, 91% have a governance model in place for over 50% of their critical or strategic suppliers. While this clearly leaves room for improvement, only 70% of fast followers are reaching that level and for followers the figure is just 44%.

Our research shows no increase in the proportion of companies with effective contract and performance management or risk management in place for more than three quarters of their critical suppliers. The financial services sector is most likely to have effective contract and performance management in place: almost 60% report good practice implemented with more than 75% of critical suppliers, significantly higher than other sectors.

42%

OF ORGANISATIONS USE GROWTH AND INNOVATION IN SUPPLIER SEGMENTATION CRITERIA

55%

OF FOLLOWERS DO NOT HAVE GOVERNANCE IN PLACE FOR HALF THEIR CRITICAL SUPPLIERS

27%

REPORT EFFECTIVE RISK MANAGEMENT IS IN PLACE WITH MORE THAN 75% OF CRITICAL SUPPLIERS

SRM governance is a framework of rules and practices by which oversight, accountability, fairness, and transparency is maintained. Organisations can best achieve good governance by working in partnership with their critical and strategic suppliers, so both parties fulfil their respective roles and responsibilities.

Good governance starts with segmentation. Currently, the vast majority of organisations carry out segmentation (over 98% according to our latest figures). Mostly, this is applied to a legacy supplier base. But in best-practice SRM it can be part of the go-to-market sourcing plan in which the type of relationship becomes one of the selection criteria. In addition, conducted thoroughly and asking the right questions, segmentation can contribute to better supplier strategies by identifying risks and opportunities not previously considered.

Over the years, companies have progressively expanded their segmentation criteria, whereas now

only 4% of companies use just spend, and 8% use just spend and business criticality. The vast majority now use a range of criteria designed and weighted to reflect their business priorities.

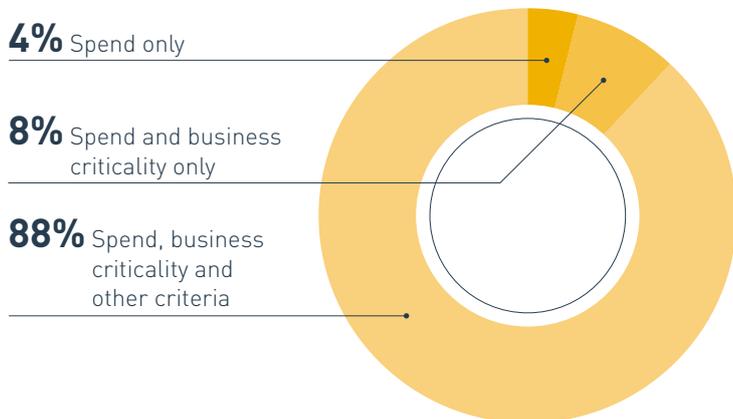
In addition to spend and business criticality, the most frequently used criteria include: suppliers' potential to add to growth and innovation (42%), risk to reputation and sustainability (39%), and competition in the supply market (38%).



There is little point in companies segmenting suppliers unless they then use that information to manage suppliers in different ways.

Organisations use a wide range of criteria to segment suppliers

Supplier segmentation criteria 1 (all companies)



Growth and innovation among segmentation criteria for 42% of respondents

Supplier segmentation criteria (all companies)



Snapshot analysis

Business criticality and level of spend are a given as criteria used to segment suppliers. But it is encouraging growth and value creation is used by 42% of organisations to segment their suppliers and underscores that innovation is a permanent fixture on the SRM agenda. The problem is, too few organisations follow through these intentions by working pro-actively with suppliers to stimulate and manage innovation effectively. It is only by genuinely harnessing supplier-based innovation can organisations create competitive advantage.

Treatment strategies

There is little point in companies segmenting suppliers unless they then use that information to manage suppliers in different ways. Differentiated strategies for the various tiers of segmentation not only make sense from a compliance and oversight perspective but also for the most efficient and effective deployment of resource and effort to maximise a return on your investment in SRM. Feedback from our research indicates that 68% of companies that have completed supplier segmentation have gone on to define differentiated treatment strategies aligned to the output. Having the right treatment strategy in place is fundamental to successful SRM and good governance. SRM leaders and fast followers are almost twice as likely than followers to have defined their treatment strategies.

Effective governance

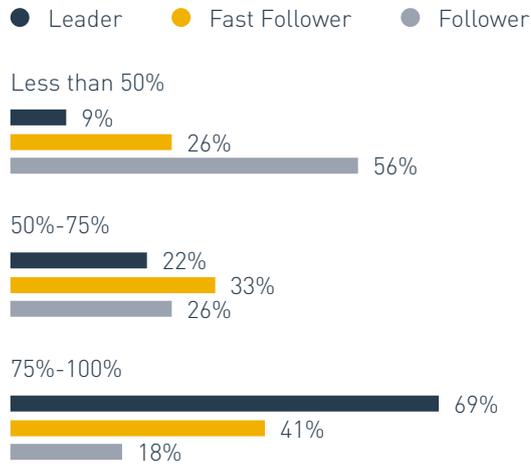
Key roles and responsibilities defined, meetings with agreed terms of reference and oversight consistent with the supplier’s segmentation: they are all essential to effective governance.

A significant majority of SRM leaders (91%) have what they regard as a fit for purpose governance model in place for over 50% of their critical or strategic suppliers. While this clearly leaves room for improvement, only 70% of fast followers are reaching that level and for followers, the figure is just 44%. The lower figure means a lack of oversight and compliance which could represent a significant risk to the organisation. The result does, after all, relate to critical or strategic suppliers that, by definition, will represent high risk, particularly important in highly regulated sectors such as financial services. The majority of organisations in our followers sample do not have an effective and efficient governance model in place to create structured and consistent engagement with suppliers to advance the SRM agenda.

Financial services and IT and telecoms are the industry sectors that lead comfortably in terms of developing and implementing governance with the highest proportion of their critical and strategic suppliers, our data shows.

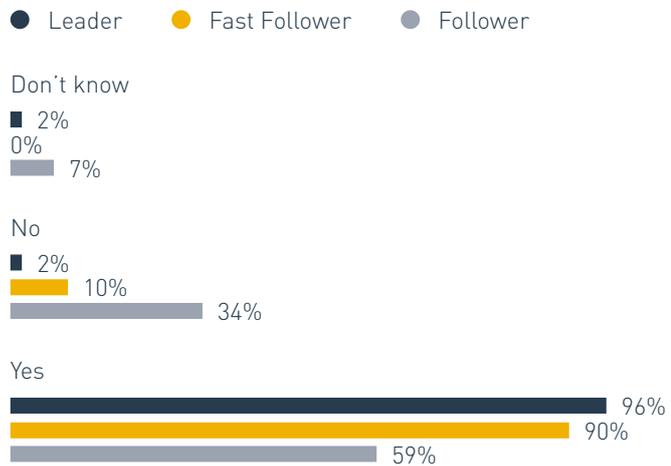
Over half of followers do not have governance in place for half their critical / strategic suppliers

Critical / Strategic suppliers (%) with governance models in place (leaders, fast followers, followers)



SRM leaders most likely to employ differentiated treatment strategies

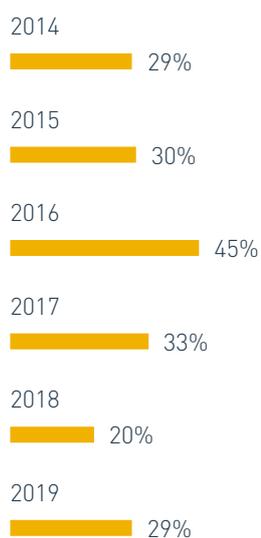
Treatment strategies (leaders, fast followers, followers)



Such a failure of organisations to manage the basic contractual and performance aspects of their relationship with key suppliers not only represents risk to the business but also undermines the case for SRM with internal stakeholders.

No progress in contract and performance management

Companies reporting effective* contract and performance management in place with more than 75% of critical suppliers (2014 to 2019)



Snapshot analysis

A telling difference between SRM leaders and followers is their attitude towards governance. There can be a tendency to think of it as housekeeping: a tidy thing to do but not the be-all and end-all. But governance is fundamental to managing suppliers: organisations need to know which ones to work with, how to work with them, and how to measure the results. Working with suppliers, they need to create clear roles and responsibilities. SRM leaders understand the importance of governance and it shows in the benefits they accrue.

Contract and performance management

Effective* contract and performance management means that all supplier engagements are covered by valid contracts, approved by the appropriate authority; key contract terms and milestones are understood, monitored and acted upon; contracts contain appropriate SLAs and KPIs; and contract change is managed effectively. It also means SLAs and KPIs are clearly defined and agreed; performance against KPIs is measured and reviewed on a regular basis; and corrective and improvement actions are agreed and executed.

Earlier in this report, we discussed the definition of SRM and how the term

should be reserved for engagement with those suppliers that can contribute most to achieving an organisation's strategic goals. However, that engagement can only be truly successful if it is built on a solid foundation of contract and performance management.

Our research has covered contract and performance management since 2014 and the results have been a cause for concern. They show no appreciable increase in the proportion of companies with effective contract and performance management in place for more than three-quarters of their critical suppliers. Such a failure of organisations to manage the basic contractual and performance aspects



of their relationship with key suppliers not only represents risk to the business but also undermines the case for SRM with internal stakeholders.

Effective risk management

Organisations can only say they have effective risk management in place if a comprehensive risk assessment has taken place and is documented, typically covering all aspects of risk related to the provision of the supplier’s product or service. It should include risk and impact of failure, financial stability, supply continuity, and reputational risk. A single risk register should be maintained and reviewed on a regular basis. Business continuity plans (BCPs) and exit plans should be put in place.

Alongside contract and performance management, risk also represents part of the good practice foundation that SRM needs to be built on. Analysis of feedback over the last six years reveals

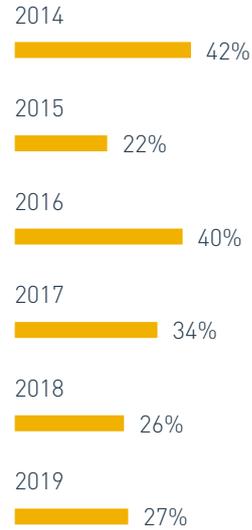
an equally worrying picture: respondents have done little to improve the risk management of their most important suppliers. In fact, our data shows it has declined in the last six years.

In 2019, financial services is the industry sector most likely to have effective contract and performance management in place: almost 60% report good practice implemented with more than 75% of critical suppliers, significantly higher than other sectors.

It is surprising how poorly the manufacturing and automotive sectors perform: half of the firms in the sector have effective contract and performance management in place for less than one in four critical suppliers behind both IT and telecoms and FMCG. However, the figure would probably be different if only direct suppliers to automotive and manufacturing companies were reported. Less surprising is that financial services also leads the way on risk management.

Risk management of suppliers has declined in the last six years

Companies reporting effective risk management is in place with more than 75% of critical suppliers (2014 to 2019)



State of Flux ■ ■ opinion



Good governance is what is appropriate to the supplier relationship in question – not too much, not too little.

Some degree of governance and oversight is required for all suppliers. That's why segmentation and aligned treatment strategies are so important. These activities enable the organisation to manage an often large and diverse supplier base in the most effective and efficient way, ensuring risk and opportunity are properly managed as well as optimising the allocation of time and resource.

Good governance is what is appropriate to the supplier relationship in question – not too much, not too little. It's providing the right level of control and oversight in a structured and consistent manner.

No organisation can claim to have effective governance and oversight in place if they are not managing supplier contracts, performance and risk in a way that is appropriate to the products and services in question.

Premier Oil to strike rich returns on contract management plan

Premier Oil is responding to changes in its industry with a shift in how it manages its most significant contractors. It finds contract and relationship management can incrementally increase value from its contracts as it prepares for an extended period of low to moderate oil prices.

The last five years has seen the longest sustained period of sub-\$70 oil price for more than six decades. The result has been a significant change in the oil industry which has had a dramatic effect on both oil firms and their contractors, since around 70% of activities are outsourced in some way. For leading independent producer Premier Oil, it meant less choice in the supply market as supply chains contracted, lowering buyers' leverage with existing contractors.

Russell Dandie, global supply chain manager, says: "Since the oil price dipped below \$60 or \$70 a barrel the supply market has been more than a bit moribund, and the contracting capability has definitely diminished. The contractors that are left are either very large (tier 1) or really small (tier 3 or 4 or below). If you're not careful, you end up becoming a price and quality taker, and the contractors can almost pick and choose their clients, especially where those clients are comparatively small."

With annual group revenues of approximately \$2 billion, Premier Oil operates in the UK, Brazil, Mexico, Indonesia, Vietnam and the Falkland Islands. During 2017, it brought the North Sea's Catcher oil field on stream and made notable discoveries in the Zama oil field in Mexico via its non-operated investment in Block 7 where Talos is the operator.

New sector economics force rethink of contract management

As the supply market changed profoundly, it revealed

how Premier Oil's approach to managing contractor relationships could be improved. The oil and gas firm has historically invested very little in contract management and SRM, preferring instead to require even contractors delivering critical scopes to constantly re-bid for contracts, possibly every three years. This has long been seen within the industry as a means of accessing the lowest price for outsourced requirements. Longer term or strategic framework agreements did not feature in any significant part of the firm's global or regional supply chains, Dandie says.

Given clients are "king" when specifying how scopes will be delivered, there is a natural end point where this approach becomes less effective in driving down prices as the nature of the market changed. Contractors were being forced to endure minimal profitability or even bidding under cost as scopes and specification were left unchanged. Meanwhile, there was also a risk of further value leakage from contracts where the relationships were poor through a lack of systematic or strategic control from the client, Dandie says.

"We recognised that in the life-cycle of a contract, we were not putting the right measures in place. It was just about getting as quickly as we could to the "starting line" (contract execution) and thereafter letting the contract run. We needed to help the contractor manage how the contract is executed and be aware how the contractors' view of us might impact that execution, as well as how we view them. People tend to forget that when they are used to a command-and-control approach," he says.

Dandie's team saw that implementing effective contract management for Premier's tier 1 and 2 contracts should help differentiate Premier Oil from its competitors. Becoming a client of choice among contractors, and properly managing contracts, would offer benefits of between 4-8% on performance value when measured across cost, schedule, quality and health and safety commitments held within these contracts.

Engaging contract owners

However, the supply chain teams within Premier Oil needed help to get effective contract management in place. "Basic contract management was not seen as value-add or something that should be committed to. Ownership of contracts was seen to reside with the supply chain teams across large parts of the business. So, contract and supplier relationship management has largely been ignored as our contracting infrastructure did not lend itself to operationalising the concept," Dandie says.

Having worked on supply management process and procedure prior to joining Premier Oil, Dandie was aware of State of Flux's reputation in this area and approached the consultancy to become involved. "We were looking for consultants who had expertise and know-how, who have experience of doing this work not necessary in the oil industry, but in other environments that are largely outsourced but also work at low margin. These are the sectors

that traditionally execute contract management in a professional manner and who tend to gain significant value from the investment, we didn't see any other oil company expertise in this area. We engaged State of Flux to help develop the process, the deliverables and the workshops and education needed to land a new core competence to our organisational skill set," he says.

State of Flux also helped to design a voice-of-the-supplier survey. It gathered responses from 40 Premier Oil tier 1 and 2 contractors for the UK Business Unit all of whom would play a part in the contract management process. The business was surprised by the results.

Listening to the voice of the supplier

"The business thought we were quite good at contract management. But we found the contractors did not share that view. It turns out they liked us because they saw us as a cash-cow. Clearly, we needed to be more robust in some relationships and have an open conversation with contractors regarding what good performance looked like," Dandie says.

State of Flux also helped build a segmentation model for Premier Oil to determine which contractors to include in the contract management process. The segmentation tool has now been completely embedded within Premier's Contract Management system, SCIMITAR, and is standard across all of its business units. The system links

the segmentation tier to the need for various deliverables, for example, the production of contract briefs and contract management plans for tier 1 and 2 contractors.

The team has now carried out approximately 30 workshops and distributed State of Flux's eight module contract and relationship management process to more than 200 people within Premier Oil.

Because the training has been ongoing since the 2Q of 2018, it is currently too early to see measurable outcomes so far, Dandie says. However, there is a general buzz of excitement through the organisation from the board of directors down to the executive committee and on into business units from this move towards a different range of interactions with our critical contractors, Dandie says.

Contract management performance will be measured against the value proposition on an annual basis. After two or three years of contract management, Dandie expects the team to work towards SRM with around 10 of its most important strategic contractors to capture aspects of the relationship beyond contract performance.

As volatility in the oil price continues to play a significant role in determining industry fortunes, Premier Oil is preparing the groundwork for SRM with sound contract management. It will stand the business in good stead no matter what the future holds.



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 We needed to be more robust in some relationships and have an open conversation with contractors regarding what good performance looked like.

SRM drives supplier performance at the **US Postal Service**

In 2018, the USPS supply management organisation updated its SRM governance model. Its experience shows even in a mature approach can be improved.

Delivering more than 400 million pieces and approximately 47 percent of the world's mail each day, the United States Postal Service's (USPS or Postal Service) Supply Management (SM) organisation uses a well-established supplier relationship management (SRM) programme to drive timely performance from its key suppliers while also focusing on supplier innovation. While mature in its deployment, the USPS continually seeks to enhance its SRM governance and innovation metrics.

Through a developed model, each year USPS Purchase Teams review a series of supplier attributes and determine key suppliers for each of its organisational Portfolios and Category Management Centers (CMCs). Suppliers are placed and grouped within definitional areas of "supporting", "leading", "critical", and "strategic", and SM assigns a Relationship Manager (RM) to each supplier. The RM is established from within the management chain and teams with an operational internal business partner in managing the relationship.

RMs include senior USPS management, and this level of involvement in SRM is an example of how seriously the USPS takes its relationship with suppliers. RM's include the Postal Service's chief financial officer (CFO) and the vice president of supply management, as well as other executives and managers through the SM organisation.

RMs also include senior managers within business units; however, the SM team ensures governance





One of the hallmarks of our programme is that we don't just have a static scorecard. There is an element of it which is the same, but then there's also a tailoring effect.

and use of supply chain scorecards for measurement of supplier performance. Scorecards have both uniform and customised metrics based on the specific commodity. At all times, the established metrics allows business units to utilize measures of performance, which help them achieve their business objectives.

New benchmarking for business challenges

In 2018, the USPS SM organisation updated its SRM governance model to incorporate best practices and ensure it maximised innovation and efficiency from suppliers. It moved from using a nine-quadrant approach to a four quadrant system.

"We believe strongly in the use of SRM, and we benchmark our programme against other companies, using Gartner, and work with the Center for Advanced Procurement Strategies (CAPS), which is a partner organisation to the Institute for Supply Management (ISM). We discuss SRM processes with suppliers within our own supply base, all in an effort to adopt approaches which get the best results," says Mark Guilfoil, vice president of supply management at the USPS.

The Service uses more than 15,000 suppliers annually, although only around 10% of those are contracted for repetitive business each year. The annual review process establishes approximately 75 suppliers as key suppliers, who are invited to, in addition to prior SM Supplier Award winners, participate in the Postal Supplier Council.

Relationship managers on the same level

The procurement team asks a series of questions to determine whether a supplier might sit in one of the quadrants (Supporting, Leading, Critical, or Strategic). Questions include the level of business spend with the supplier, as well as the supplier's market position and power. Other factors are also considered such as substitutability, intellectual property ownership, and demonstrated innovation in the commodity. "If the supplier is placed into one of the quadrants based on our analysis to these questions, then they are qualified for consideration of key supplier designation. We assign a RM based on their quadrant from both SM and from our internal business partner (IBP) to establish scorecard metrics and establish a performance review schedule," Guilfoil says. "While some suppliers are assessed quarterly, most are measured every six months."

Since the relationship is managed by a senior manager within SM and the Postal Service's business unit, the suppliers are expected to match and put forward a manager of commensurate position from its side to interface with USPS.

"If we are holding a performance review with a key supplier within our





Supplier management also uses targeted innovation, where the Postal Service suggests topics on which it would like proposals. Such topics have included robotics, autonomous vehicles, emerging delivery technologies, and robotic process automation.

automation and material handling commodity area, for example, then we would designate a senior engineering manager from within the Postal Service engineering team to join the SM lead, and the supplier would assign their head of engineering, so that the parties are on a similar level," Guilfoil says. "We want to make sure that we are having the right conversations at the right level to improve collaboration with our suppliers and drive results," he added.

New measures for innovation

Once designated, each key supplier has its performance measured using a scorecard. Four uniform metrics — timeliness of performance, quality, cost reduction, and innovation — are standardised across the business. However, RMs are also free to select other metrics from a master set and use them according to the business need and supply category.

"Unlike some firms that have a scorecard that might have a fixed number of perhaps 10 to 15 different metrics, we always require the four standard metrics but then we leave it to the relationship manager to establish other metrics that they feel are critical for success or something that they have observed the supplier could improve on," Guilfoil says. "This is a unique aspect of our SRM processes here at the Postal Service, and we believe it balances both uniformity across commodities as well as allowing customization to measure specific business performance requirements for our IBPs."

The USPS added innovation as a standard measure on the scorecard within the last few years. The purpose was to more specifically target innovation and collaborate with its supply base to deliver value. SM also uses targeted innovation, where the Postal Service suggests topics on which it would like proposals. Such topics have included robotics, autonomous vehicles, emerging delivery technologies, and robotic process automation (RPI). RPI is a process where software assists performance of routine computer-based administrative tasks. The innovation metric also enables suppliers to come forward with their own ideas for innovation within areas the Postal Service may not have considered.

Flexibility in measurement

"Specific measures which vary between supplier and category could include a measure of corporate social

responsibility in subcontracting, which are required pursuant to their purchasing guidelines", Guilfoil says.

"We negotiate goals with suppliers on their use of small, minority and women-owned businesses. Accordingly, if we believe the supplier may be able to increase these type of firms' participation in the contract, we would set a goal to improve, and we would add that metric into the scorecard," Guilfoil says. "One of the hallmarks of our programme is that we don't just have a static scorecard. Metrics can be added for a performance period while maintaining the four core elements. There is an element of it which is the same, but then there's also a tailoring effect," he added.

For example, if the RM wants to measure quality, they can draw from roughly 12 different quality metrics established for different categories, such as software code or engineering manufacturing.

Open to innovation

The USPS provides suppliers the opportunity to offer feedback through its Postal Supplier Council (PSC) as noted above. Comprised of nearly 120 suppliers, the PSC holds two meetings each year and creates a Board of Advisors, which provides feedback on SM programs and policy guidelines as well as acting as a supplier communications conduit. The Postal Service also surveys the whole PSC membership for feedback on targeted topics and can offer feedback of its own volition through established standing committees.

"The PSC is an important supplier communications tool. We get feedback if we have some contracting process or clause that suppliers feel is too onerous. They provide that feedback to the members of the Policy Standing Committee and that group meets generally every month," Guilfoil says.

The Postal Service also hosts an annual conference attended by all PSC members which includes breakout sessions on topics such as innovation. Future approaches may include the building of an online supplier portal to gather supplier innovative ideas.

Even in an organisation with a mature approach to SRM, governance can be improved. Refinements at the Postal Service show how SRM is ensuring suppliers both measure up and have a communications channel to support the Postal Service in the business challenges that lie ahead.

Define the
optimum
governance model

Good governance is the bedrock of SRM. It provides the structure, discipline and oversight missing in so many critical relationships. Whether you already have governance in place or are starting from a blank page. Let us help you define the optimum governance model that is fit for purpose, embedded and aligned across your organisation.

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Is SRM and procurement missing the **supplier innovation dividend**?

Procurement professionals hear a lot about supplier innovation, but what are organisations actually doing? Here, State of Flux digs into its unique supply chain data to reveal the inside story.

Everyone loves to talk about innovation. What people mean by it is quite another matter. In our research, we find organisations rarely have well-defined terms for innovation and use the slippery nature of the word to avoid measuring impact or demonstrating value. To prevent the definition becoming a constant caveat when analysing evidence of innovation, we asked respondents what they mean by the term. We found 34% of companies define innovation as truly transformational change and improvement, but a larger proportion (40%) believe it also encompasses continuous improvement. A smaller group (24%) see innovation as only continuous improvement.

Supplier innovation – how good are we?

In this year's research we asked companies to assess their current approach and capability on a scale of 1 to 10 (1 = very poor and 10 = very good). The largest proportion of respondents (65%) rate themselves at 5 or lower, indicating very low confidence in their ability. Only 6% rated themselves as good (8 or above).

Barriers to innovation

It is clear from the feedback that organisations struggle with supplier

innovation and despite the opportunity it represents are faced with a number of barriers. The two most commonly reported relate to people and process. Almost half of companies say they do not have sufficient time and resources to engage with suppliers properly, and just over 40% blame not having an innovation management process. Other barriers include organisational complexity and other business priorities both mentioned by around 40% of respondents.

Despite the perceived barriers, supplier innovation remains a top-three business driver for investing in an SRM programme for over one in four companies. More than eight in ten companies that have created a value proposition for SRM (47% in total) have made specific mention of supplier innovation.

Supplier innovation is also used to segment suppliers by 29% of organisations and over 50% of SRM leaders. Of those companies that have developed treatment strategies aligned to their segmentation (67% in total) 69% have included specific reference to supplier innovation.

Do organisations benefit from supplier innovation?

Overall most organisations say they do

not benefit from supplier innovation. Only just over 12% of companies report more supplier innovation as being one of the benefits they receive from SRM. While the picture is different for SRM leaders, still only just over 26% say they benefit from supplier innovation. There is much room for improvement.

Innovation metrics

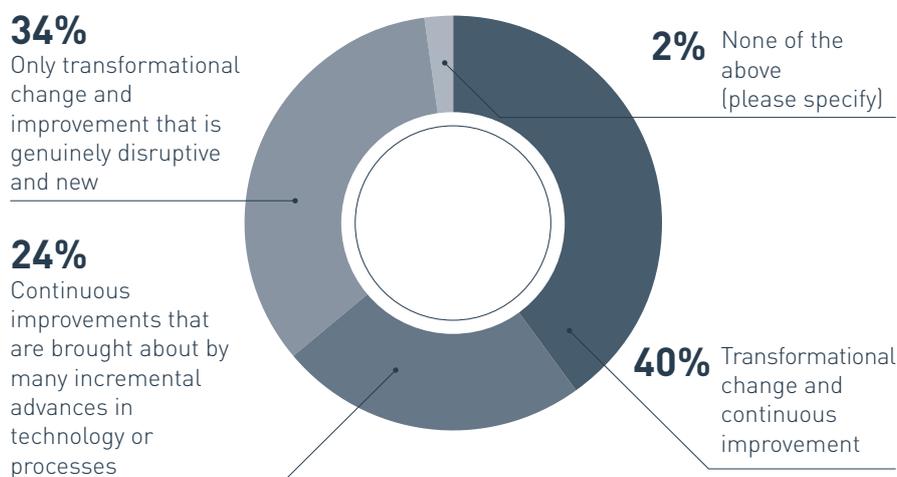
With so few organisations reporting that they have effective supplier innovation management processes in place, it is not surprising that few organisations have meaningful metrics. One in every three organisations report having metrics for supplier and those tend to measure outputs. Only 37 out of 402 companies report having effective measurement of the end-to-end process covering inputs, in-process and outputs.



Despite the perceived barriers, supplier innovation remains a top-three business driver for investing in an SRM programme for over one in four

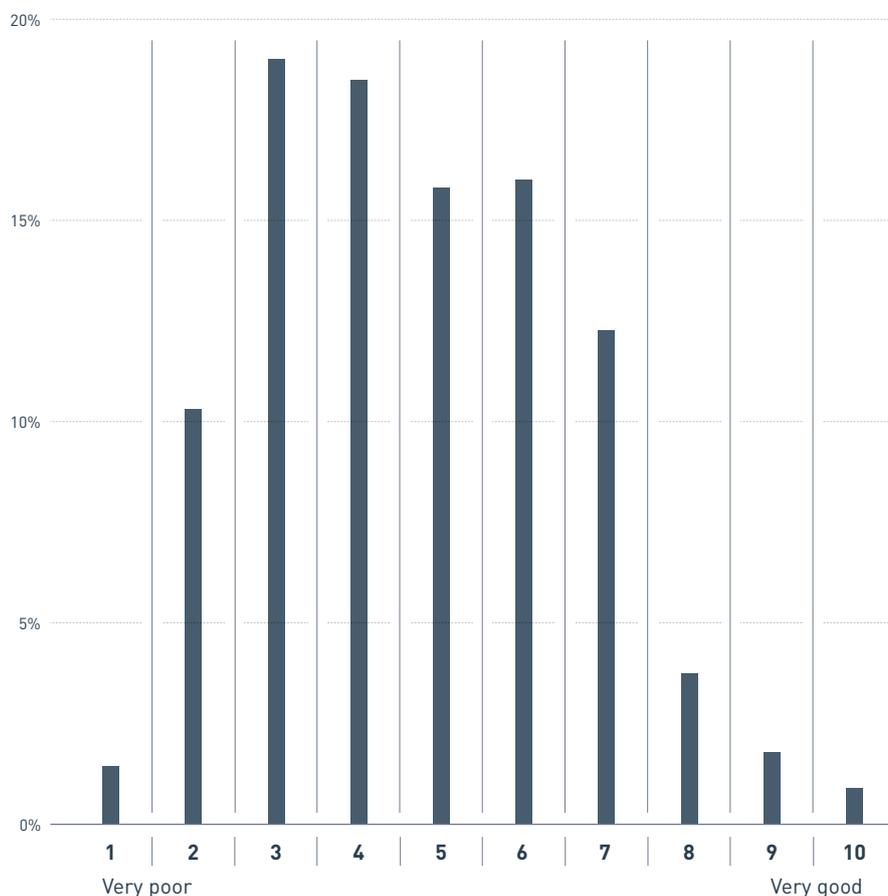
Supplier innovation is broadly defined

Definition of innovation (all companies)



Most organisations think they are poor at supplier innovation

Supplier innovation approach and capability self-assessment (all companies).



Executive support

Support for supplier innovation amongst executives almost exactly mirrors that for SRM overall at close to 60%. The two ideas are closely linked and can feed off each other. SRM can gather more support via its value proposition, which should include a strong element of supplier innovation – a concept high up the corporate agenda.

Innovation strategy

Evidence of innovation strategies is sadly lacking. Only 24% of companies have a supplier innovation strategy. However the figure for SRM leaders is more encouraging at 61% and for fast followers, the figure is 40%. Those getting the best returns from SRM are investing in a supplier innovation strategy.

What's in an innovation strategy?

Where an innovation strategy exists, most companies include a common set of best practice features. Innovation should be aligned to business growth and improvement goals: 73% of companies with an innovation strategy ensure this is the case. It is important that people understand what you mean by innovation in the context of the company's approach. Around 67% of respondents say they include their innovation definition in their strategy document. It should have senior leadership endorsement and ownership: 62% of respondents say they have such support.

Enablers and incentives

Despite the relative immaturity of supplier innovation management processes, we were keen to discover what enablers and incentives organisations have put in place to help with innovation and to engage suppliers positively. The most frequent approach is to insert a requirement in an RFP requiring the supplier to either offer innovation as part of a proposal or to lock them into innovation as part of the contract. Almost 58% of companies include it in RFPs, and 41% make it a contractual clause. The popularity of using RFPs and contracts in this way reflects the relatively unambitious

approach adopted by many companies. While neither is without merit, these approaches alone will not stimulate the collaborative approach to innovation required to maximise its impact.

More effective approaches to creating incentives for supplier innovation include provision to protect supplier intellectual property rights. Evident in 53% of companies. Other measures that are more likely to be effective are adopted by fewer companies, for example having a mechanism in place to share benefits (28%) and setting up an innovation incubator or similar (26%).

Innovation process

Bright sparks of inspiration are often seen as the source of innovation. It seems like a natural phenomenon that does not sit well with a disciplined and structured process. But that’s a misunderstanding of what it takes to benefit from innovation. The idea is only part of it. Developing ideas into something that creates value for customers and stakeholders: that requires a process. Just 15% of companies believe they have an effective process in place to simulate and manage supplier innovation.

Looking at the propensity for SRM leaders to have an innovation management process, we see a markedly different picture. Leaders are twice as likely to have an innovation process compared to fast followers and five times more likely than followers. Again, the leaders are also the organisations getting the most value from SRM.

Resources and skills

When we looked at barriers to successful SRM, we found resources and skills were chief among them. Just 33% of respondents said they had sufficient resources and skills, nearly half said they did not, and 18% were unsure.

We find similar problems in technology support. Less than 6% of companies have an IT system that helps them manage supplier innovation. Even where this is the case, it is often only a supplier portal that acts as little more than an electronic suggestion box.

Lack of time and resources block supplier innovation

Barriers to more supplier innovation (all companies)

We don’t have sufficient time and resources to engage properly



We don’t have a defined process to manage supplier innovation



Complexity of our organisation



Conflicting business priorities



There’s no clear internal ownership for supplier innovation



We don’t have an innovation strategy



There’s a common perception that suppliers are just trying to sell



We don’t get sufficient ideas from suppliers



There’s a general reluctance to consider external ideas



Our innovation strategy doesn’t include external innovation



Two in three organisations do not measure supplier innovation

Supplier innovation metrics (all companies)

We don’t have any metrics on supplier innovation



Outputs are measured - meaning the financial/non financial impact of supplier innovation



Inputs are measured - meaning supplier innovation ideas received



In process/pipeline stages are measured - meaning key stages/gates from receiving an idea to accepting/rejecting



Senior executives support supplier innovation

Senior executive support for supplier innovation

Supportive



Neutral



Strong and active engagement and support



Some opposition



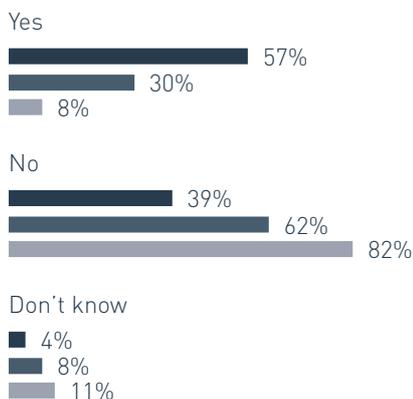
Strongly opposed/resisting



SRM leaders are most likely to support supplier innovation

An innovation strategy is in place (leaders, fast followers and followers)

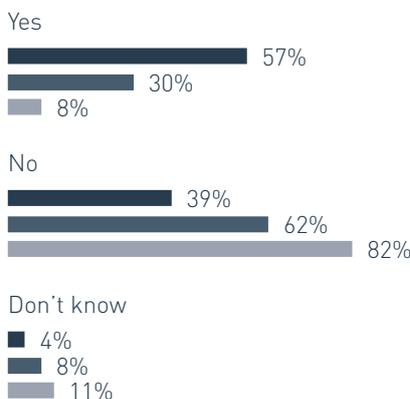
● Leader ● Fast Follower ● Follower



SRM leaders are five times more likely to have a process than followers

An effective innovation process (leaders, fast followers and followers)

● Leader ● Fast Follower ● Follower



Innovation incentives remain crude

Features of a supplier innovation strategy (all companies)

We have a provision to consider innovation as part of RFPs
22%

We have arrangements to protect supplier IPR
20%

We have an appropriate supplier contract clause
16%

We have a mechanism for sharing benefits of innovation with suppliers
11%

We have an innovation incubator or similar
10%

We have an innovation fund
7%

We have supplier innovation awards
6%

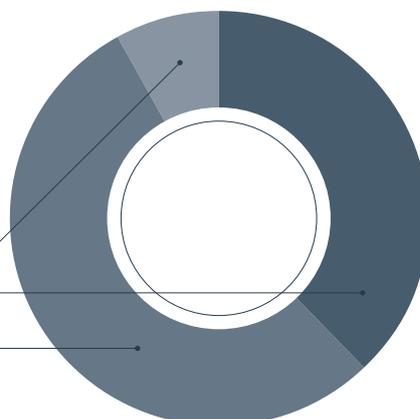
Other (please specify)
5%

We don't currently have any enablers or incentives in place
4%

Most companies do not have an effective innovation process

An effective innovation process (all companies)

38% Yes
54% No
8% Don't know



Working collaboratively with suppliers on innovation

It's encouraging that more companies are reporting increased collaborative working with suppliers (over 66%), it seems that not much of this is focused on innovation. Just 20% report increasing collaborative work on innovation. SRM leaders perform better, but still, only 30% say that supplier innovation is one of their collaborative gains. Even leaders are missing many opportunities.

Conclusion

Despite widespread acknowledgement that organisations will increasingly rely on suppliers for innovation, only a minority of companies have a plan to ensure they maximise suppliers' brightest ideas for improving products, processes and services.

The pitfalls are common. Because innovation is poorly defined, it is difficult for organisations to know if they are getting what they want. They seldom apply the right metrics, so they are unlikely to know if they have succeeded. Incentives to involve suppliers are crude and fail to understand the supplier's perspective. Organisations tend not to put the skills, resources or technology behind supplier innovation.

Lastly, too few companies have a process for supplier innovation. Naively, they think it can be forced via contract and performance management. But those who develop a method to harvest innovation from suppliers will get the most value from them, as SRM leaders' performance demonstrates.



Too few companies have a process for supplier innovation. Naively, they think it can be forced via contract and performance management.



People



Without investing in people, organisations are unlikely to reap the rewards of SRM, and programmes will disappoint business teams. It is up to SRM leaders to attract the necessary investment in skills and training.





Summary

Lack of consideration of skills and investment in training continues to be one of the weakest features of SRM practice. Nearly a third of followers, the largest group in our sample, have no provision for SRM training at all. Organisations rank communication, strategic thinking and influencing, as their top three most important SRM skills, in descending order of importance. But there is a gap in the provision of training: 41% of organisations see communication skills as a priority for improvement, but only 17% are providing training.

Similarly, 53% want to improve strategic thinking, but just 10% are looking to develop the capability in their SRM practitioners. Only 46% of organisations have provided SRM training in the last 12 months, and 24% have not completed the people and skills development steps that result in effective training. For organisations to improve return on SRM, they must increase their focus on people.

57%

OF ORGANISATIONS RANK COMMUNICATION IN THE TOP THREE SKILLS THEY REQUIRE FOR SRM

46%

OF COMPANIES REPORT HAVING PROVIDED SOME FORM OF SRM TRAINING IN THE LAST 12 MONTHS

24%

HAVE NOT COMPLETED THE PEOPLE AND SKILLS DEVELOPMENT STEPS THAT RESULT IN EFFECTIVE TRAINING

Regardless of how well organisations plan SRM, it is people who make it come to life. The most successful SRM programmes have paid close attention to involving the right people internally, assessing their skills and developing training to meet their needs. But, sadly, that is not often the case and we find that the approach to developing and recruiting people for SRM is too often weak.

Successful SRM requires a broad range of so-called 'soft' skills. Some recognise that the SRM role creates a different demand for skills and competencies compared with procurement roles such as sourcing and category management. Nonetheless, SRM roles are frequently filled by people who have built careers in those roles.

Skills and their importance

The chart opposite ranks skills in order of importance, from top to bottom, according to our data. The chart bars show where organisations see the greatest need for improvement, and where they have already delivered training.

Organisations rank communication as the most important skill they require for SRM. Indeed, the data shows 57% say it is in their top three. Communication should go well beyond speaking and writing clearly; it should include empathy, as well as the ability to listen and comprehend. For SRM, an ability to communicate effectively with a wide range of stakeholders from the C-suite to operational teams is vital – it is the most important skill.

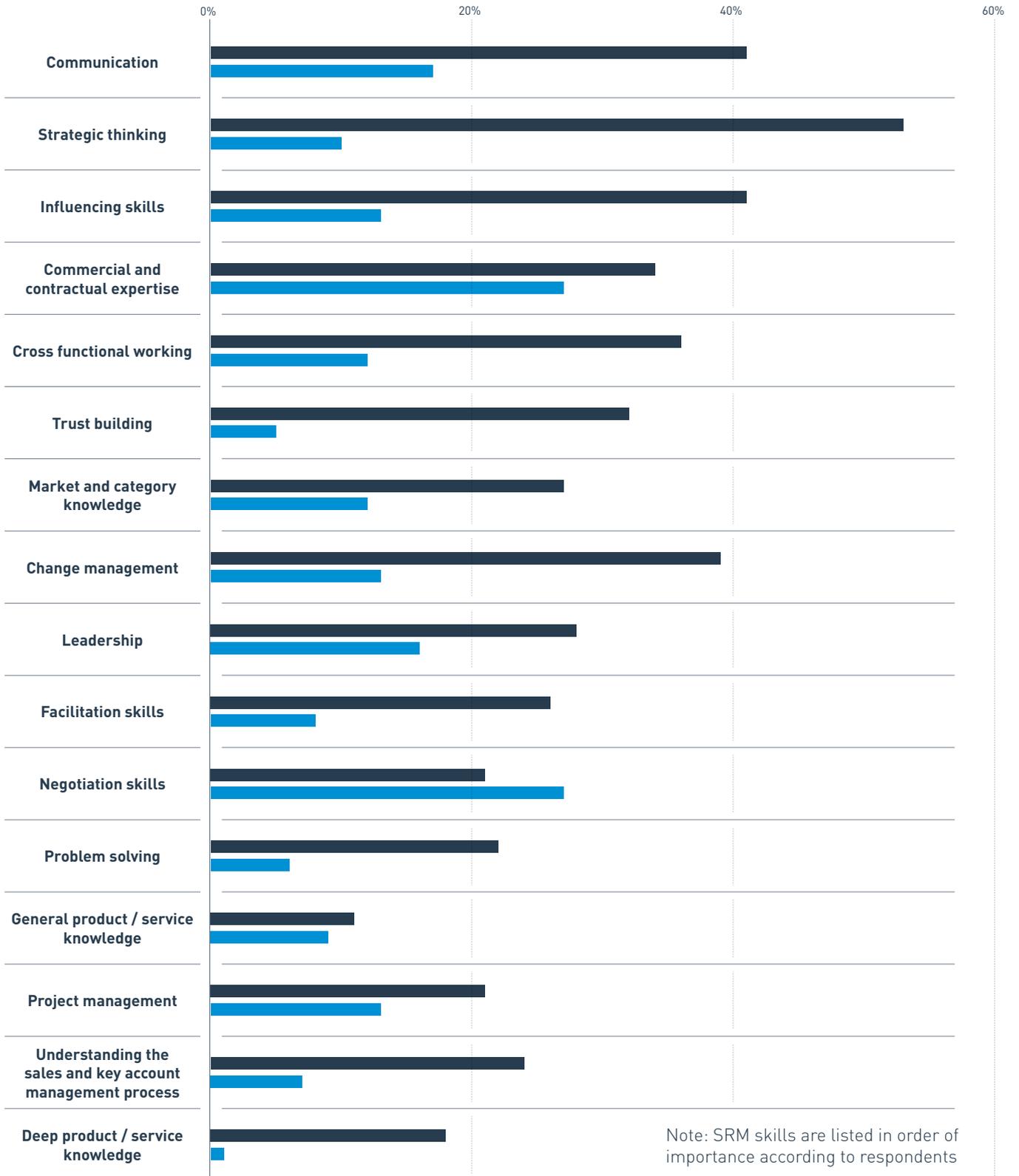
The second-ranked SRM skill is strategic thinking. SRM requires a strategic thinker who can grasp the big picture and set direction. They need to be conceptual and directional and link the future with the past to grasp new opportunities. In our survey, 49% of companies put strategic thinking in the top three SRM skills.

Completing the top three skills is influencing, which is cited by 48% of survey respondents. A combination of communication, negotiation and persuasion, influence is about getting the necessary buy-in for a business decision from all stakeholders. It is about developing and making the most of personal connections and inspiring confidence.

Training demand outstrips supply for the three most important SRM skills

The skills most important for effective supplier management, ranked.

● Most improvement required ● Training delivered



Training: demand and supply

The need to improve skills creates demand for training, while the provision of training represents supply. The gap between them signals points of interest. The biggest gaps are within the skill areas organisations say are most important to SRM. For example, 41% of organisations see communication skills as a priority for improvement, but only 17% are providing training. Similarly, 53% want to improve strategic thinking, but just 10% are looking to develop the capability in their SRM practitioners. Lastly, 41% of companies believe influencing skills need to be improved yet only 13% have provided any training in this area. The only areas where demand and supply seem well matched are commercial and contract expertise and general product and service knowledge. It appears that the supply of negotiation training is currently outstripping demand by six percentage points.

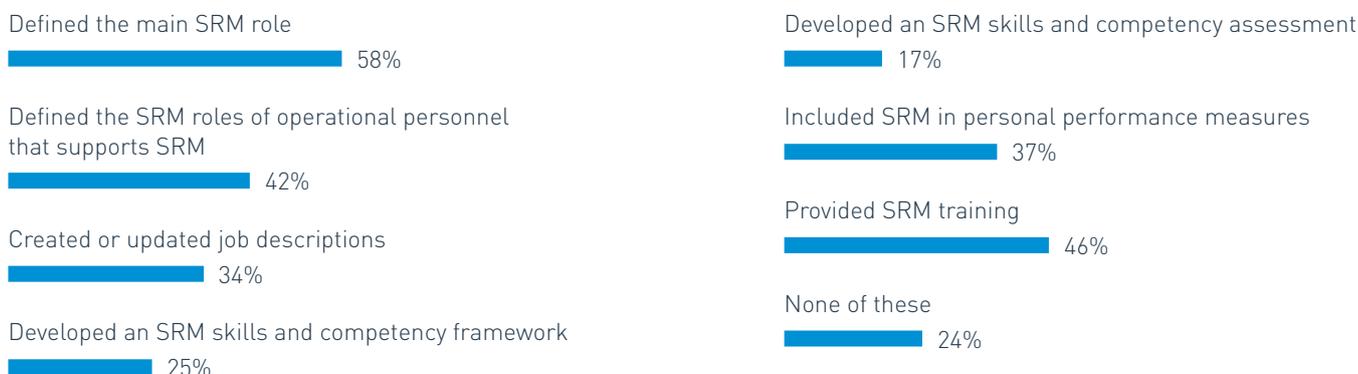


Leaders are four times more likely than followers to have carried out skills and competency assessment to identify training needs and target the provision of training accordingly.



Nearly a quarter of organisations have not invested in SRM skills

Organisations completing sequential stages of SRM skills development



The people and skills development process

Typically, companies lack purpose and strategy in their approach to people and skills development for SRM. But an effective method for developing the right skills is relatively straightforward to follow.

It starts with defining the SRM role with consideration of the programme's aims and objectives: 58% of organisations say they have done so. Next, define the roles of business and operational personnel who will play a part in supplier management such as service and performance managers. For 42% of organisations, that stage is complete. They then need to create or update current job descriptions to reflect the new role and responsibilities which 34% have done. A quarter of them have then thought about what skills are required to deliver the role successfully and created a skills and competencies framework. Only 17% have completed the next stage: an SRM skills and competency assessment to determine the training needs of team members. But more, 37% have included SRM in personal performance objectives and performance reviews. Only 46% of companies report having provided some form of SRM training in the last 12 months. However, 24%, have

not completed any of these stages.

What the figures don't fully reveal is that in many cases organisations jump steps in the process: for example, developing a skills and competency framework without having defined the role; or delivering training without having assessed current skill levels.

Looking at the investment in people and skills made by leaders, fast followers and followers, leaders, and fast followers are investing more, but still leave gaps in the process. However, leaders are twice as likely as followers to define the SRM role and more than four times more likely to carry out a skills and competency assessment. Despite their advantage, leaders are still not employing the full range of development tools to get the best out of their investment in people.

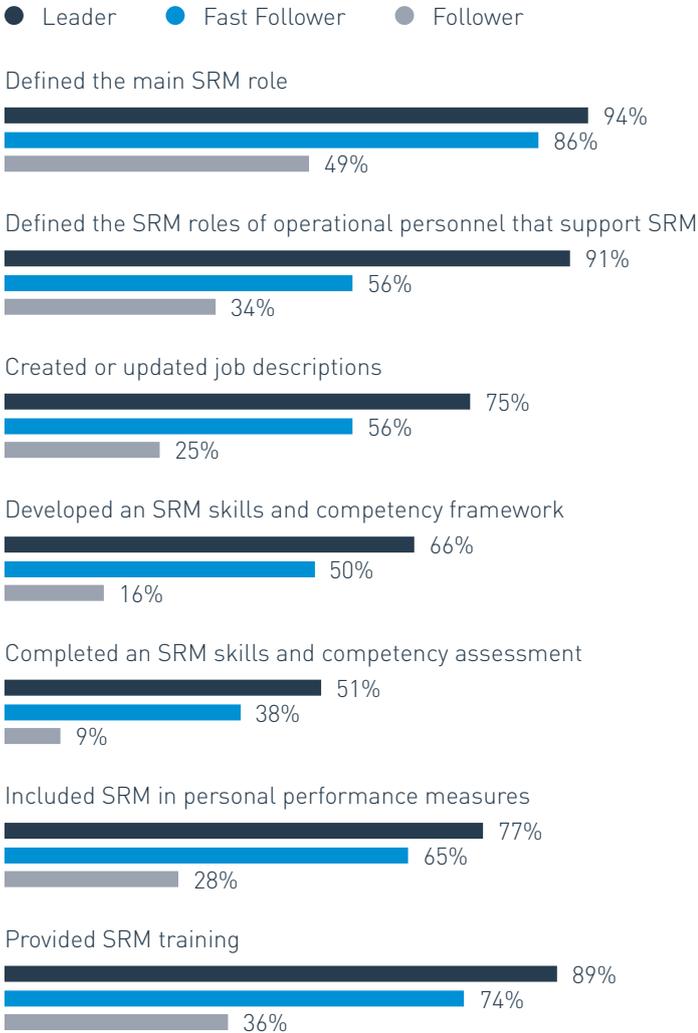
Industry sectors also differ in their approach. Financial services have invested most heavily in the front end of the process: more than 50% of firms have defined the SRM roles and created job descriptions. FMCG and telecoms sectors are more likely to have created a skills and competency framework, but financial services is again leading on skills and competency assessments and provision of training.

Snapshot analysis

The problem with SRM skills in procurement is fighting the last war. It is delivering the training already well developed and tested in the marketplace such as training for negotiation. But that's not what they need for SRM. Organisations that only provide the training they know and understand will fail to develop the skills they need for SRM and achieve the potential it promises. Meanwhile, investment in SRM strategy and technology could be wasted.

Nearly a third of followers have no provision for SRM training

Leaders, fast followers and followers compared in their SRM skills investments



The biggest gaps between demand and supplier of SRM skills are within the areas organisations say are most important to SRM.

Snapshot analysis

SRM leaders make by far the biggest investment in people and skills development. However, the leader group is far from perfect. Only half of them have completed an SRM skills and competency assessment. In skills, organisations are as strong as their weakest link. If they are unsure of their current level of SRM skills, how do they know what training they need? Not only do we see a lack of investment in skills, but we also see that some investment may be wasted.

State of Flux ■ ■ opinion



Without investing in people, organisations are unlikely to reap the rewards of SRM, and programmes will disappoint business teams.

There is no secret to the skills and competencies organisations require to build successful SRM programmes, yet our research shows investment in people is still lacking. The absence of consistency in implementing good basic practice in people and development speaks volumes about SRM's status in the organisation: it is not taken sufficiently seriously as a key capability that will drive growth. It is something of a chicken and egg situation: without investing in people, organisations are unlikely to reap the rewards of SRM, and programmes will disappoint business teams. It is up to SRM leaders to attract the necessary investment in skills and training.

Lloyds puts people at the centre of SRM

Lloyds Banking Group is focused on keeping pace with an ever changing and complex threat landscape in its management of third-party risk whilst seeking to increase value in its supply chains for its customers. A people-first approach to SRM is helping it rise to the challenge.

Many consider SRM a speciality within procurement, but to the Lloyds Banking Group, it is much more. The financial services firm, which serves 30 million customers and employs 75,000 staff, drives SRM through its divisions, with single points of accountability for around 1,200 managed supplier relationships.

The approach puts SRM in the hands of those who best understand the suppliers' goods and services. The company has been considering how it ensures that its colleagues have the right capabilities, what learning they might need to undertake, and how to keep their skills up to date as business needs change. Lloyds Banking Group has been answering these questions with a capability assessment and learning programme for colleagues involved with SRM, in an organisation-wide project created with the help of State of Flux.

It is not the most common approach. State of Flux research from 2019 shows only 17% of organisations have carried out skills and capability assessments to understand what skills they will need while only 46% of firms have invested in SRM training.

Pauline Sears, Lloyds Banking Group senior manager, supplier management strategy and centre of excellence, says: "We have a central team in Lloyds Banking Group, who strive to continuously improve the Group's SRM framework, and who are previous SRM practitioners themselves. A strong SRM



community has been established right across the Group for a number of years with a network that covers executives and practitioners. This has been a key enabler for collaboration in shaping the design, delivery and embedding of change, drawing on a wide variety of business needs and experiences.”

Supporting the SRM community

Divisional executives are appointed with accountability for SRM for the suppliers that they own and each executive is supported by a lead divisional SRM practitioner. Together they drive and oversee how SRM is achieved within their divisions with

support and challenge from the centre.

This is supplemented by a wider community network which is open to all who have an interest in supplier management including supplier managers and risk partners.

“We work together to share our experiences and practices to help drive continuous improvement,” Sears says. We want to ensure that SRM is recognised across our organisation as a skilled profession and provide a structured career path for our colleagues to achieve their full potential.”

Capability assessment

But to support SRM, the company needs to know the level of capability which already exists in its SRM community. Working with State of Flux, it has conducted a capability diagnostic which will help focus its learning and assist line managers in developing individuals. It measures fifteen capabilities in an online situational questionnaire and helps individuals rate their own capability. It offers an analysis of their strengths, and any gaps in their capability, which allows managers to open up a conversation about the tailored learning opportunities that individuals might need.

“This is so important to us because there isn’t a one size fits all approach. The diagnostic has been invaluable in highlighting thematic strengths and gaps as well as unique results for each individual. What we’re doing with State of Flux covers a broad spectrum of our entire supplier management community.”

The review has also assessed and refreshed the company’s dedicated supplier management “job family” so that it remains fit for current and future needs for the supplier management community, helping to recruit for those roles and support colleagues with structured career paths. The capabilities include supplier performance, contract and risk management as well as building strong relationships and identifying opportunities for improvement and innovation.





We passionately believe that effective SRM is pivotal to our success in proactive risk mitigation. Lloyds Banking Group has a diverse and complex supply base so this is about ensuring that SRM is recognised as a skilled profession and that we can retain and attract talent.

Training for the future

As well as defining roles, and helping recruitment, the diagnostics are feeding into a broader learning curriculum which includes company specific knowledge, for around 300 employees involved in supplier management. Those who demonstrate the requisite level of capabilities will be offered the opportunity to achieve external accreditation in SRM.

A desire to increase value and manage risk in the supply chains provides the main business driver for developing SRM skills at Lloyds Banking Group.

“Being in financial services, we need to make sure we understand which of our suppliers are critical to our organisation and have a robust control framework, which includes SRM. Ultimately, we need to know we can sustain customers’ trust in us via the products and services we provide. The risk landscape continues to evolve, so we need to constantly challenge ourselves, as do our suppliers and adapt to ensure the resilience of our supply chains.

“We passionately believe that effective SRM is pivotal to our success in proactive risk mitigation. Lloyds Banking Group has a diverse and complex supply base so this is about ensuring that SRM is recognised as a skilled profession and that we can retain and attract talent,” Sears says.

With the industry-wide challenge of more effectively managing third party risk, the early signs are that Lloyd’s people-led approach to supply chain management could well catch on.

Eyes on innovation

Meanwhile, as consumer and business customers adopt new channels and digital services, the Lloyds Banking Group requires innovation from its suppliers to meet these ever-changing demands.

“We are concerned with value, both in terms of suppliers delivering to the contract, but increasingly we are looking at those suppliers where innovation and creation of long-term value are important to us,” Sears says.

Our intent is to embed this approach as a sustainable part of our ongoing SRM programme and make sure that when new employees come on board, they are able to take advantage of the diagnostic and structured learning programme which we expect to continue to evolve,” Sears says.

For Lloyds Banking Group, SRM is vital in managing risk, increasing value through continuous improvement and accelerating innovation. It is laying the foundations for success in these challenges by understanding and developing SRM skills across the whole business.

Do you have the

skills

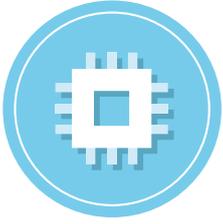
to deliver on your supplier
management strategies?

State of Flux supplier relationship management learning and certification programme helps you to develop your team, stakeholders and suppliers capabilities to achieve maximum benefit from your relationships. More than just training, our people and skills development approach will help you identify and assess the requisite skills for your team.

Our market leading and modular training curriculum is accredited by IACCM at "Advanced Practitioner" level.

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srm.stateofflux.co.uk/2019-report



Technology



If a new CEO joined an organisation and found it didn't have a CRM system, they would either think they had made a big mistake or put it at the very top of their to-do list. The same thinking should apply to SRM.





Summary

Technology trails other pillars of SRM. For 86% of organisations, the main software for managing information about supplier relationships is Microsoft Excel. Contract management remains the most adopted technology: 65% of organisations opt to invest in this functionality. The number of companies using technology to help with the management of supplier performance has remained low: just 38% of companies choosing to adopt it. Similarly, only 29% of organisations use supplier risk management technology. Half of organisations say their current technology solutions do not adequately support the supplier management lifecycle while only 6% are fully satisfied with their technology support for SRM. Given the ease with which organisations can deploy cloud-based applications, either off-the-peg or customised, there is a huge opportunity to make SRM more effective with better information support.

86%

OF ORGANISATIONS USE MICROSOFT EXCEL AS THE MAIN SOFTWARE FOR MANAGING SRM

38%

ADOPT TECHNOLOGY TO HELP MANAGE SUPPLIER PERFORMANCE

6%

ARE FULLY SATISFIED WITH THEIR TECHNOLOGY SUPPORT SRM

The application of technology to support effective and efficient management of suppliers remains the least developed of the six pillars of SRM. What we find is a patchwork of solutions ranging from enterprise software to spreadsheets. Neither extreme is satisfactory in that enterprise applications are often a compromise that has a combination of good and less good functionality depending on the phase of the supplier management lifecycle the organisation is hoping to manage.

Enterprise systems lack the ability to manage supplier performance because the business case and definition of requirements did not recognise the value and risk at stake in the post-contract phase. Meanwhile, spreadsheets are not efficient, secure or scalable.

According to our research, 86% of organisations manage information on their key supplier relationships using Microsoft Excel. It is an excellent personal productivity tool but is designed for individual users. Collaborative features are limited, and a document can be saved and changed in multiple locations, making a single

version of auditable data difficult to achieve. Research from IT security firm Mimecast shows 88% of spreadsheets contain errors¹. On average, poor quality data costs the organisations \$15 million annually, according to Gartner².

Meanwhile, keeping business-critical data in Excel presents a security risk. Mimecast says two distinct ways in which a hacker can access Excel. Firstly, Power Query, an Excel feature allowing users to combine data from multiple different sources, can facilitate Office 365 system attacks. Secondly, malicious macros can also be programmed to run a series of instructions designed to target users and steal company information.

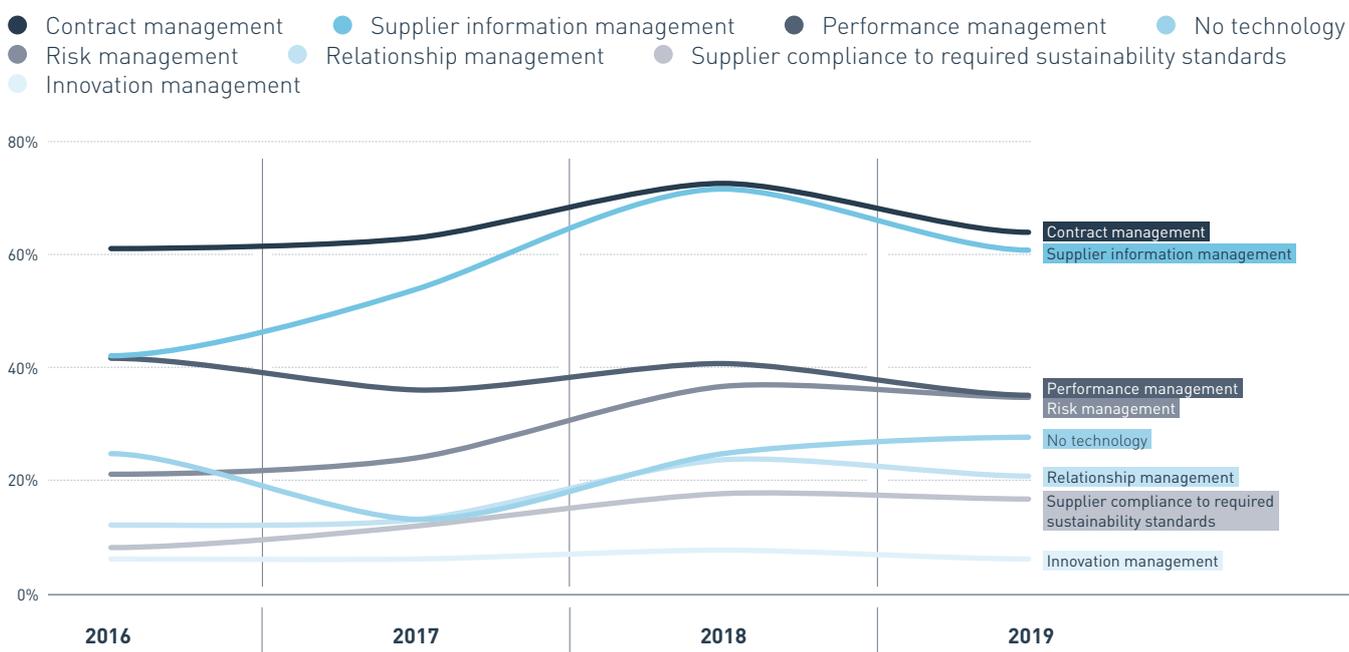
Data management is essential in management of supplier relationships, but only 6% of organisations use an SRM system to produce reports, our research shows.

Why the adoption of technology has stalled

The last four years has seen only a minor change in the number of organisations adopting technology software to support more effective and

Progress in supporting SRM with technology

Supplier management technology adoption (all companies 2016 to 2019)



efficient management of suppliers. The chart above indicates the proportion of companies in our survey that have adopted the different facets of technology to manage their supplier management lifecycle.

Contract management remains the most adopted technology, with an average of 65% of companies opting to invest. Supplier information management (including on-boarding and master data management) has seen an increase in the period rising from 42% in 2016 to 61% in 2019. The number of companies using technology to help with the management of supplier performance has remained low with an average of just 38% of companies choosing to adopt it. The situation is similar with risk management: only 29% of organisations adopt it.

Elsewhere our research shows low levels of effective performance and risk management of critical and strategic suppliers. There is an opportunity for investment in technology to help reverse this trend.

While the adoption of technology to support SRM has increased over

Snapshot analysis

While adoption of supplier management technology has been slower than expected, there is strong evidence of increasing demand. State of Flux has conducted more than twice as many technology demonstrations this year compared to last, with notable interest in Europe and the US. We are also seeing an increase of organisations leading their SRM programme implementations with technology, using it as the 'change agent' to help give stakeholders focus and structure.

More organisations are starting to challenge their IT strategy and ask why the vital tasks of managing high-value complex supplier relationships do not receive the same IT investment as the sales teams which often use state-of-the-art CRM systems.

¹ Mimecast 27th June 2019
Wired: How Hackers Turn Microsoft Excel's Own Features Against It
<https://www.wired.com/story/microsoft-excel-hacking-power-query-macros/>

² Poor quality data weakens an organisation's competitive standing and undermines critical business objectives <https://www.gartner.com/smarterwithgartner/how-to-stop-data-quality-undermining-your-business/>

Half of organisations say current solutions fail to support SRM

Satisfaction with current supplier management technology solutions (all companies)

Currently fails to adequately support the supplier management lifecycle



Adequately supports most aspects of the supplier management lifecycle



Fully supports the supplier management lifecycle



While adoption of supplier management technology has been slower than expected, there is strong evidence of increasing demand.

the last four years, it remains low at just one in five organisations. The management of supply chain sustainability and supplier innovation are the activities least likely to be supported by technology.

Around one in four companies are yet to make any meaningful investment in technology. Confusion over the range of software available, rather than a lack of interest or awareness, is likely to lead to poor investment strategies.

Contrasting with CRM

Most organisations are focused on delighting customers and ensuring the organisation provides a consistent customer experience. If a new CEO joined and found the company didn't have a CRM system, they would either think they had made a big mistake or put it at the very top of their to-do list. The same thinking should apply to SRM: technology should be deployed to ensure a consistent supplier experience whilst creating an increase in value and innovation, and a reduction in risk.

Effective SRM requires a combination of process, people and technology. The conventional wisdom is that an investment in technology usually follows the other two. But technology can be the catalyst for change and can be a key enabler at the start of a programme. By implementing it in this way, you only require stakeholders to

change once. Commonly, organisations adopt a new process and then change again when technology is implemented in an attempt to automate the process.

Organisations should not wait for the right technology, and build everything in Excel in the meantime, or try to extract data from disparate data sources when a system can be in place from day one.

How well do current technology solutions work?

In a world becoming increasingly dependent on data and technology, it is interesting so many organisations have a negative view of their current SRM solutions. Of the companies we spoke to, over half say that their current technology solutions do not adequately support the supplier management lifecycle; 44% report they are just adequate; and only 6% are fully satisfied. Dissatisfaction and frustration are clearly high. Some 30% of companies report a lack of fit-for-purpose IT as one of their top three barriers to achieving better SRM results.

In the last five years, the cost of deploying enterprise software has been slashed with the introduction of cloud-based systems. This development is transforming how organisations understand and engage with customers (see comment from Hubspot CEO Brian Halligan, p76-78). It can do the same for the management of their suppliers.

Snapshot analysis

There is little evidence of a genuinely strategic approach to supplier management technology. The business case for investment is not as clear cut and easy to measure as it is for CRM, for example. The current SRM technology landscape is complex, and organisations need to take the time and trouble to map the processes, develop a strategy and use the value-and risk-benefits of effective SRM to make the business case. Organisations should not be seduced by short-term fixes; instead they should look 10 years ahead and visualise success that is equal to that achieved by the best adopters of CRM technology.

State of Flux ■ ■ opinion



Technology can boost SRM outcomes – including reducing risk and nurturing innovation – but only if organisations are willing to invest the time and resources.

The market for SRM software has been dominated by solutions which are designed to create one-stop-shop for procurement, but which mainly focus on sourcing and P2P and only address SRM as an afterthought. As a result, they also force too many compromises.

At the same time, procurement software is often only an add-on to ERP. The result has left many procurement departments with uncooperative and unloved systems. Even applications that support SRM focus their usability on procurement roles, when people from across – and outside – the business often perform tasks relevant to SRM.

But procurement technology is changing. Cloud-based applications can stitch together data from many systems, making the one-stop-shop approach seem arcane. Technology should help all those involved in managing supplier relationships – including suppliers themselves. Solutions should enable supplier management processes, not dictate a rigid approach that works well for one part of the organisation. Technology can boost SRM outcomes – including reducing risk and nurturing innovation – but only if organisations are willing to invest the time and resources.

We believe now is the time to implement technology before another function takes the lead in this area. Don't wait to choose the perfect end-to-end procurement system, as most modern systems including our own SupplierBase are nimble enough to integrate with almost all the other business software.

There is a huge opportunity to improve SRM performance with technology. Organisations that take it will get greater returns from their supplier relationships, and at the same time boost the procurement team's business value.

CRM signals future of supplier management technology

As a concept and a technology customer relationship management has a 20-year headstart on SRM. Brian Halligan, co-founder and CEO of market leader HubSpot, describes what the future has in store for CRM and shows what it might mean for managing suppliers.



The landscape is shifting quite a bit in terms of where to expect major new advances in technology. In recent years, the advent of easily accessible technologies such as video, real-time chat, and bots have dramatically improved a business' ability to reach and serve customers and prospects. I am sure we will continue to see all sorts of innovations that save time, reduce costs and improve quality. However, in terms of big, dramatic leaps in productivity, the focus of innovation will be less on major new features and more on how all the parts work together.

In the front-office — the customer-facing space — CRM systems and tools that help manage the full customer journey from marketing through sales to customer service, are designed to provide staff and managers with a single view of the customer. From a single pane of glass, everyone can see a history of a customer's interaction with the company, from an initial visit to the website to becoming a lead, from the sales process through customer service and retention — even to customers driving new leads with positive word-of-mouth.

At the same time, customer information will always exist in all sorts of systems and solutions. Those independent products and other system-of-record platforms will continue to capture and generate customer information; they will continue to consume and provide information with the breadth of applications up and down the technology stack. The typical medium-sized business today uses





The explosion of apps and solutions, and the innovative way vendors are packaging them and bringing them to market, has been a huge boost to a company's ability to adapt and to create a delightful customer experience.

several dozen cloud-based solutions: the trend has been moving towards more solutions, not fewer. Part of the reason for this is that technology has become much more democratised — individual employees and small teams are empowered to find, experiment with and introduce tools that make their jobs easier and provide value to customers. And vendors have made their products easier to find, to try-out, and to buy on a small scale, pre-empting the laborious enterprise sales cycle.

Apps create a boom in customer data

The explosion of apps and solutions,

and the innovative way vendors are packaging them and bringing them to market, has been a huge boost to a company's ability to adapt and to create a delightful customer experience. But this explosion also comes at a cost: it takes organisations away from a single view of customer data.

Therefore, the advance many companies are looking forward to is the ability for all those solutions to easily interoperate and share customer data seamlessly.

While we can offer such an all-in-one solution, we also recognise that one company cannot claim a monopoly on all advancements in the field. To benefit from all advances in the market, the smartest businesses will adopt a general-purpose CRM platform, which allows them to benefit from more innovation on the market without compromising integration or efficiency. The marketplace is starting to place a premium on software that prizes integration over a single-vendor solution. As technology providers respond to that demand, the easier it will be for businesses to have single, complete view of their customer.

Technology to anticipate customers' wants and needs

For years now at HubSpot, we have made extensive use of personas as part of the inbound marketing on which our solution is based. A persona is a semi-fictional representation of an ideal customer based on market research and real data about existing customers. Most companies create several personas to develop their marketing plans.

But in the business-to-consumer world, we see a big shift away from personas. Companies are becoming less inclined to make a whole group of customers fit into a box. Rather, they are using AI and machine learning to develop highly individualised messaging and offerings. For example, music streaming subscription service Spotify does not use a persona like "ageing rocker"; instead it creates a unique music mix based on previous music selections and algorithms based on the choices of millions of other users.





Improving suppliers' response to customer needs will rely on technological innovation, and especially on the ability to share data up and down the supply chain. It will also depend on a shift in mindset; where there is a willingness to emphasise customer experience.

Such precise customisation is not so likely in the B2B world. However, where personas take a basic top-down, hand-crafted approach, data analytics provide marketers with a bottom-up, data-driven mechanism to detect fine-grained patterns among customer cohorts. We will see more and more innovation in detecting and visualising behavioural trends.

Linking understanding of customers with the management supply chains

Where organisations can understand and predict the behaviour of customers, they can feed this information into supplier management. Some B2B marketplaces, for example, capture and share information about traffic, search terms used, time spent on a supplier's page, and include data on the number of pages visited, time between visits and visit-to-lead ratios. In effect, the suppliers can use the marketplace as an extension of their marketing presence.

Competitive advantage is increasingly found in how you sell, and not as much in what you sell. The most valuable innovation among suppliers will be in their ability to help improve the overall customer

experience. For some businesses, that will mean simplifying the buying process by reducing the overall complexity of how a product or offer is assembled, packaged and delivered. For others, it will mean greater transparency not only into the status of an order but also into where and how parts are sourced in terms of environmental impact and fair employment practices. And for others it will be the ease with which items can be returned or exchanged.

Improving suppliers' response to customer needs will rely on technological innovation, and especially on the ability to share data up and down the supply chain. It will also depend on a shift in mindset; where there is a willingness to emphasise customer experience.

CRM has come a long way from simply being software in which organisations strive to get a single view of the customer, to a platform which integrates and analyses customer data from a diverse set of internal and external applications. Within the leap forward is the ability to understand and act on customer needs more rapidly, increasing the responsiveness of the whole supply chain. But it may take time to develop the right mindset and form the necessary trusted relationships.

Reinvent supplier relationships for a

digital world

SupplierBase is an intelligent platform that helps you maximise value from your supplier relationships. The platform is designed to create an automated and consistent supplier experience across your organisation by giving you a consolidated real-time view of your supplier relationships.

Developed using over 10 years of global supplier management research, SupplierBase is used by financial services, media, pharmaceutical and public sector organisations and many more.

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Collaboration



Collaboration has played a vital role in most successful endeavours and enterprises. Studying how modern businesses have achieved sustainable success reveals that as they grow, the focus shifts from individuals to the collective.





Summary

Around half of the survey respondents have found improved collaboration through SRM yields both direct financial benefits and indirect or non-financial benefits. Collaboration boosts other aspects of relationships: more than half of companies report that trust — a key component of successful relationships — has improved. Collaboration is also supporting performance: 44% of organisations say it helps them work more effectively on continuous improvement.

But we have found serious shortcomings in the extent to which organisations develop collaboration. Only one in five (17%) have developed joint business plans with more than half of their critical or strategic suppliers. Joint business plans are the pinnacle of collaboration and have been proven to help both buyers and suppliers release value. Yet, there are signs of optimism: 90% of leading companies report increased levels of collaboration.

17%

OF ORGANISATIONS HAVE JOINT BUSINESS PLANS IN PLACE WITH MORE THAN 50% OF THEIR CRITICAL OR STRATEGIC SUPPLIERS

44%

OF COMPANIES WORK MORE EFFECTIVELY ON CONTINUOUS IMPROVEMENT THROUGH COLLABORATION

90%

OF LEADING COMPANIES REPORT INCREASED LEVELS OF COLLABORATION

One way to do procurement is to put suppliers the other side of a fence. The objective is to get what the organisation wants from them at the lowest price. But over the last 20 years, this approach has seen diminishing returns. Driving down suppliers' margins discourages them from proposing new ideas and ways of working from which buyers could benefit. Collaboration, therefore, is one of the goals of SRM, and the one which, if achieved in the right way, can create the most value from a relationship. But collaboration it is not universally achieved by our survey respondents.

Just over half of organisations are finding that improved collaboration achieved via their SRM programmes is yielding both direct financial benefits and indirect or non-financial benefits. Almost half are optimistic but say it's too early to be sure about the value they have gained and a small proportion (7%) say they have seen no impact of SRM on collaboration.

All industry sectors report that they are collaborating more effectively with internal stakeholders and their key

suppliers as a direct result of their SRM programmes. IT and telecoms and financial services lead the way with almost 60% of companies reporting that they have improved collaboration in these sectors.

It is a different story for SRM leaders. They are registering the most significant levels of new and exciting collaboration with their key suppliers. Over 90% of leading companies report increased levels of collaboration. Fast followers are not far behind on 85%. Even followers are reporting improved collaboration: around 40% notice some improvement through SRM. This goes to show that even with a programme in its early stages, engagement with suppliers via SRM will start to have a positive impact on collaboration.

What type of collaboration is taking place?

The scope to collaborate with suppliers is huge, as is clearly indicated by the number of different areas of work reported by survey respondents. More than half of companies report that trust — a key component of successful

Half of companies find SRM has improved supplier collaboration

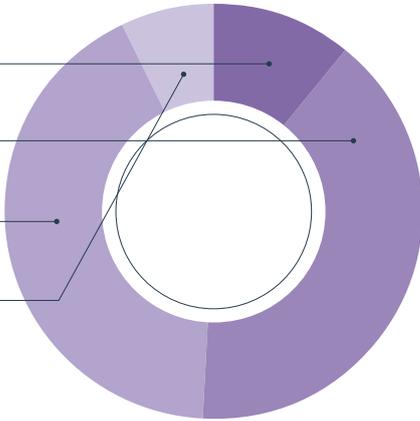
SRM programme impact on collaboration with key suppliers (all companies)

11% Yes - greatly

40% Yes - to some extent

42% Too early to say

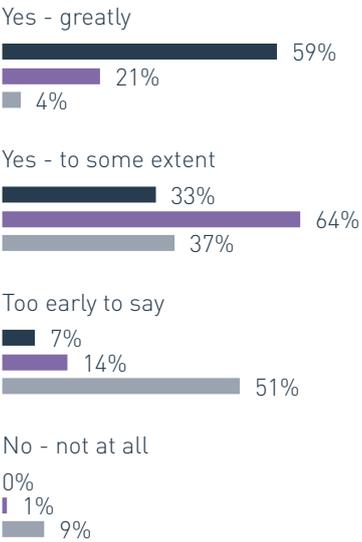
7% No - not at all



Nine out of 10 organisations see a positive impact on collaboration from SRM

SRM programme impact on collaboration with key suppliers (leaders, fast followers and followers)

● Leader ● Fast Follower ● Follower



relationships — has improved. Collaboration is enabling 44% of companies to work more effectively on continuous improvement while almost one in three have put in place improved governance. Collaboration also has a positive impact on operational and service performance and supply chain risk, as indicated by 26% and 18% of respondents respectively. Other examples of collaboration include better engagement from both internal and supplier executives, and fewer disputes and conflict escalations taking place.

Of course, there is room for improvement. Less than one in five companies are collaborating more with suppliers on innovation, and just 7% are collaborating more internally to drive supplier innovation.

Industry sector perspective

The industry sector perspective on the types of collaboration taking place shows a wide gulf exists between the industries which most often collaborate with suppliers and those which seldom do. Our research shows that over

Snapshot analysis

Concepts such as collaboration and innovation can be nebulous. It can be hard to get businesses to invest in them when they are constantly under financial pressure. But organisations also need to see growth and improve value. So, it's important to emphasise that SRM produces measurable financial and no-financial benefits through collaboration with suppliers. Around half of organisations say they gain these benefits from SRM, but many more could take the opportunity.





Joint business plans offer the opportunity for two organisations to work together on something concrete, on which they can see results and share the benefits.

88% of FMCG companies report more collaborative working compared to just 53% in the public sector. In the manufacturing and automotive industry, 62% of companies see trust improving compared with 41% in the IT & telecoms sector. As for collaboration on innovation, this again sees a significant difference between industries and some surprising results. IT & telecoms show by far the most willingness to collaborate on supplier innovation, both internally (24%) with stakeholders and externally (12%) on innovation with

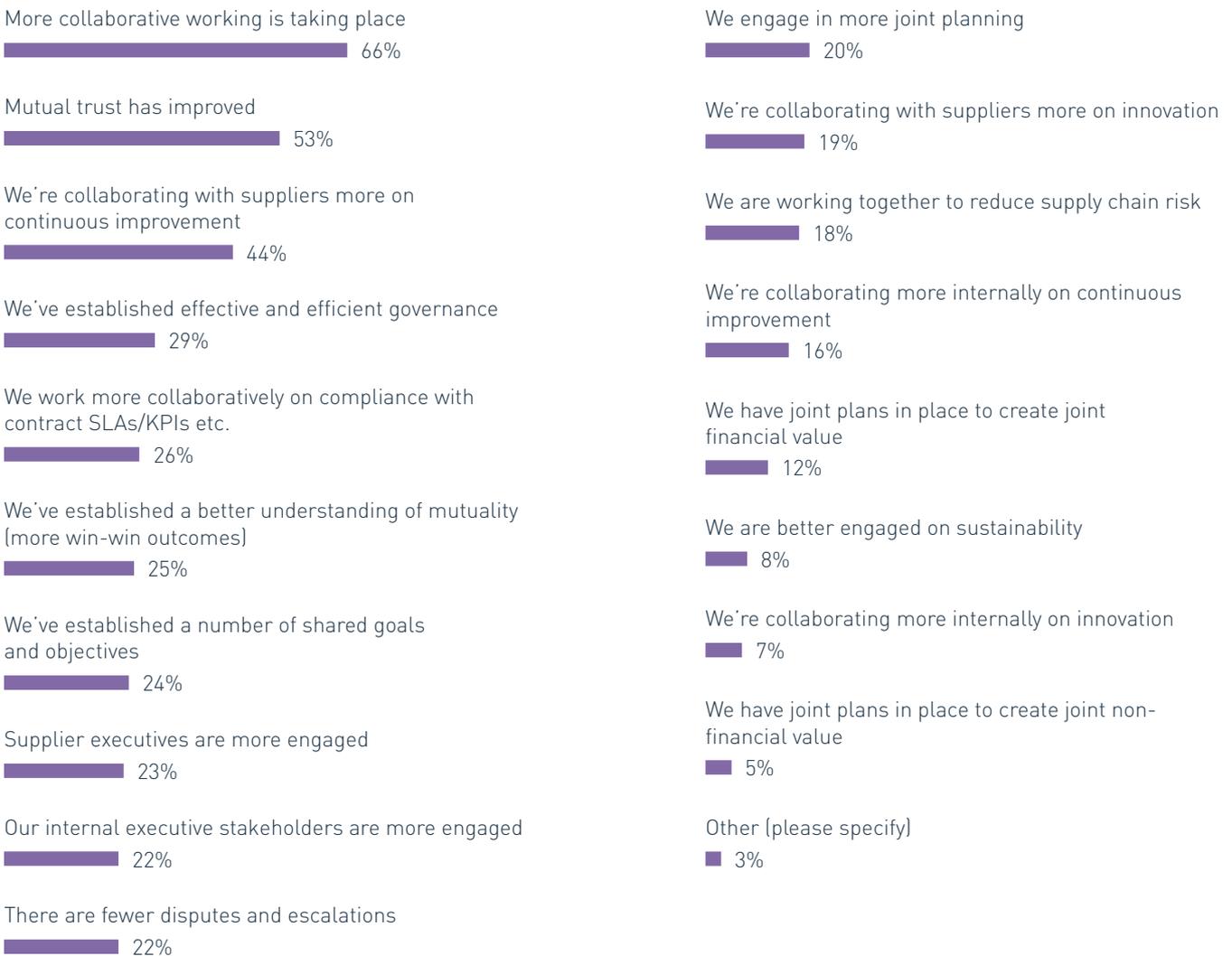
suppliers. The sector with the least focus on collaboration for innovation is the public sector.

Joint planning

Collaboration has a very tangible and beneficial impact in terms of the creation and execution of joint plans. Joint business plans are a vital step in delivering business value via supplier relationships. Currently, less than 17% of companies have joint business plans in place with more than 50% of their critical or strategic suppliers.

Collaboration boosts continuous improvement for 44% of respondents

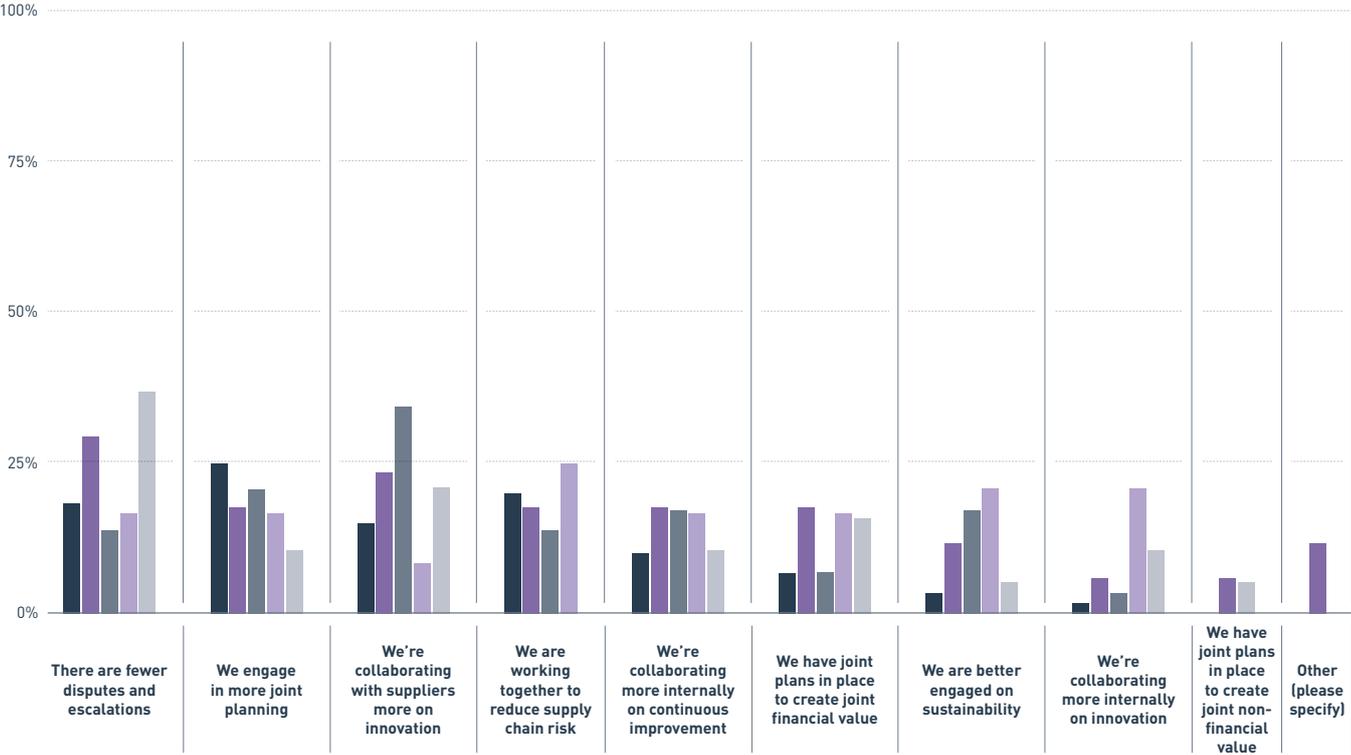
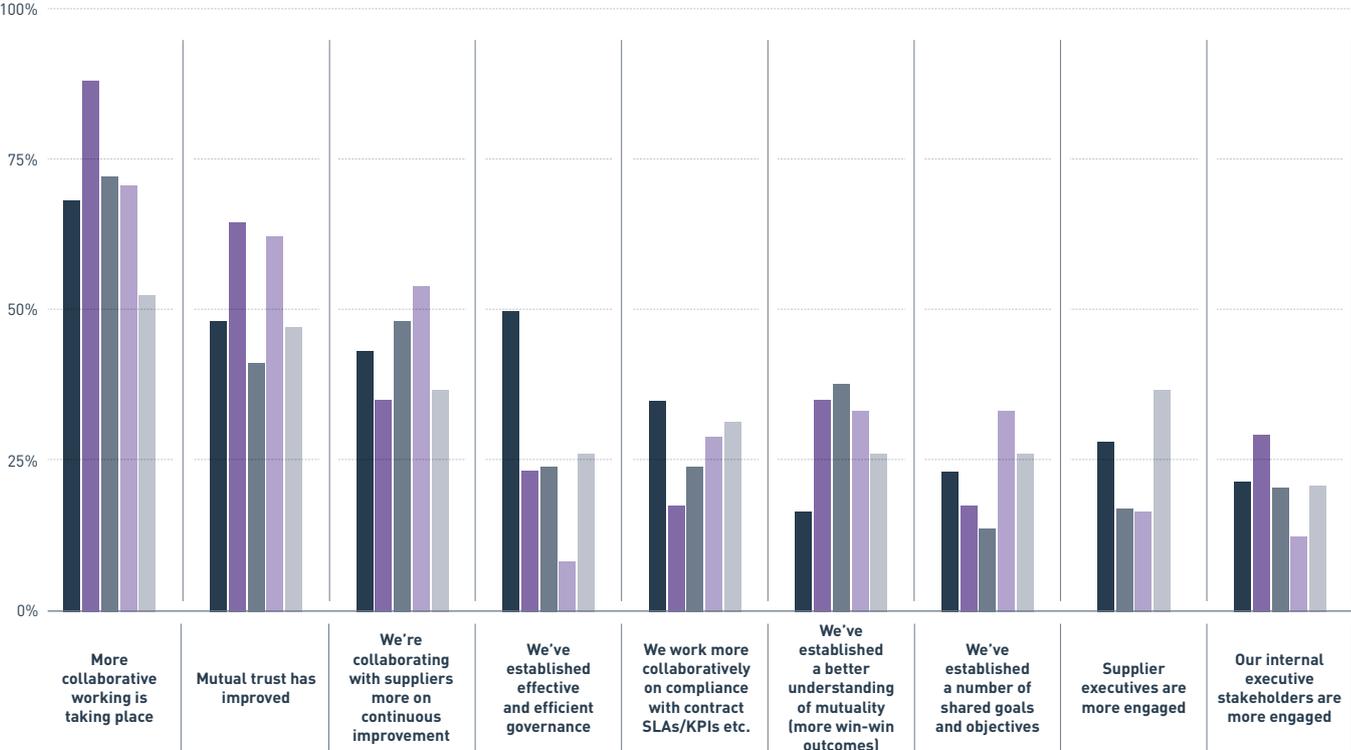
Types of collaboration taking place (all companies)



Nearly nine out of 10 FMCG firms report increase collaboration from SRM

Types of collaboration taking place (industry sectors)

● Financial Services ● FMCG ● IT & Telcoms ● Manufacturing & Automotive ● Public Sector



Snapshot analysis

SRM can help many aspects of supplier performance, but, through collaboration, the creation of joint business plans is an activity that can release the most value. They can be the culmination of a lot of hard work in bringing together internal stakeholders and executives from the supplier, but joint business plans offer the opportunity for two organisations to work together on something concrete, on which they can see results and share the benefits. Since only one in five organisations have joint business plans in place, we can see how much more they could gain from SRM.

The result supports evidence from the collaboration question [p84], which found only one in five organisations were engaged more joint planning.

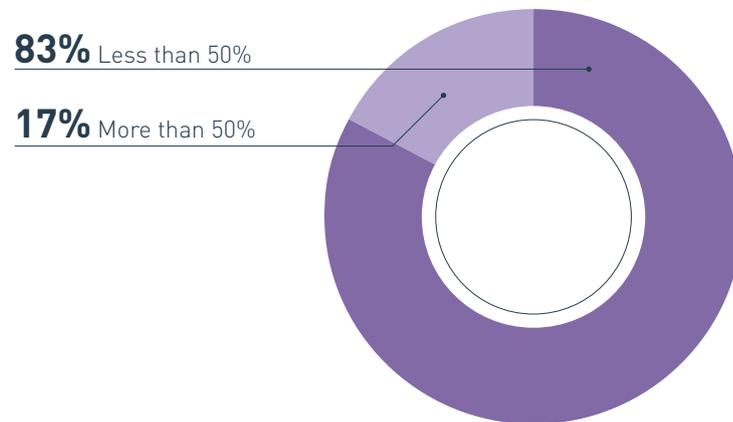
Joint business plans are very much a feature of the SRM programmes developed by SRM leaders: more than 55% report having joint business plans in place for more than 50% of their critical or strategic suppliers. Only 33% of fast followers and 17% of followers can say the same.

The industry sector most likely to have joint business plans in place with its critical or strategic suppliers is IT & telecoms. The sector least likely are is the industry is the public sector and manufacturing and automotive.

While we have seen some encouraging signs of progress in the collaboration pillar of SRM, there is much work to be done before organisations get the full benefits of working more closely with suppliers. As SRM leaders demonstrate, more collaborative working is possible and also desirable, as we see from leaders greater returns on post-contract value.

Only one in five organisations have joint plans with half their critical suppliers

Proportion of companies with joint business plans in place for more than 50% of critical/strategic suppliers (all companies)



Price and risk hinder supplier innovation

Sally Guyer, Global CEO, International Association for Contract & Commercial Management

If innovation is proactive and done in collaboration with suppliers, it stands a greater chance of achieving returns.

Despite the buzz around supplier innovation, we find few organisations are doing it well. In May 2019, an IACCM survey found that although 79% of contracts include terms related to innovation or continuous improvement, 70% of organisations say these contract terms are frequently ineffective. There is a schism between suppliers and buyers when you talk to them about their relationship. Procurement professionals tend to say that focusing purely on price is old fashioned and no longer the approach; they are really more interested in the overall value they gain from the relationship. When you talk to suppliers, they say, 'No, it is still about price'.

It is the same story with risk. Buying organisations say they are interested in understanding operational, legal, environmental or ethical risks and managing it effectively. For suppliers, they see procurement simply pushing risk on to them.

I'm not saying either view is correct, but when these divergent views of the relationship exist, it is difficult for organisations to come together and collaborate on innovative programmes. If there is too much pressure on price, suppliers cannot afford to innovate and try to maintain margins by doing the bare minimum. In the case of risk, they fear being caught out and feel safer sticking to rigid ways of working.

Equally, when we look at SRM, suppliers tend to fear it will simply be an opportunity for a buyer to extract lower prices or, worse, an opportunity to take intellectual property.

Given the divergent views on price and risk, we see a lack of trust which corrodes their ability to innovate and create new value between them.

So, instead of simply putting innovation in the contract, buyers need to work with suppliers on joint programmes that lead to greater trust separately from commercial considerations or discussions around risk.

State of Flux ■ ■ opinion

Collaboration completes the six pillars of SRM. In some respects, it is the product of the other five pillars: understanding value will help engagement with stakeholders. Good governance includes setting up the frameworks for effective collaboration. Training people in the necessary skills, and using technology to support collaboration, will improve results. However, collaboration not just a bi-product of the other pillars; it is something organisations need to be work on in its own right. Dedication to collaboration might include being prepared to share more information, building trust through openness and transparency, and pro-actively finding areas on which to collaborate such as innovation, risk-mitigation, cost-reduction or service improvement.

Collaboration has played a vital role in most successful endeavours and enterprises. Studying how modern businesses have achieved sustainable success reveals that as they grow, the focus shifts from individuals to the collective. Through complex dynamic interactions and relationships, we begin to see that collaborative and symbiotic patterns and interactions are of more fundamental importance than competition. The process starts internally and evolves as a way of working in teams and then naturally extends beyond the enterprise into working with partners, customers and suppliers.



Collaboration is not just a bi-product of the other pillars; it is something organisations need to work on in its own right.

Partnership boosts buying power

With a buying power of more than AU\$3 billion, Australian retail group Narta is an innovative solution to a geographic problem. Its next step is to manage supplier relationships.

Businesses in the same sector are natural competitors. They would do almost anything to gain an advantage over each other. However, when they face the same problem, it makes sense to come together as a group.

The remoteness and size of retailers Australia and New Zealand can make it difficult for them to obtain competitive prices from international suppliers. Founded 54 years ago, the National Associated Retail Traders of Australia, was designed to address this problem, using the buying power of its members to leverage deals from global markets. Six years ago, it branched out into buying indirect goods and services for its members.

Jen Barclay, Narta head of procurement, says: "With traditional buying models you are limited to your individual organisational spend; through collective sourcing you have greater opportunities to deliver value for your organisation, leveraging off total group spend and be a larger customer in the market. Essentially you go from being the little fish in the pond to the big fish in the ocean."

Beyond tactical procurement

To build a buying team capable of delivering value from indirect categories, Narta formed a partnership with State of Flux, which conducted a pilot in 2013 and formed its own buying team on behalf of Narta. In 2016, the team became fulltime Narta employees.

The approach has been successful. In the last year, the Narta procurement organisation has tended AU\$300 million and saved around AU\$80. It has



achieved around a 30% saving in indirect spend for its membership. But it cannot rest on its laurels.

Barclay says: "As a procurement person you know that you'll hit diminishing returns. You might get smaller fraction of saving next time and so on. The results so far have been extremely successful, but it will not be sustainable to keep running a tactical process."

To move beyond tactical procurement, Narta Has implemented an SRM framework to increase value to members & suppliers through key enablers: governance, technology & risk management to continue

increasing the value it gains from its suppliers.

Turning plans into actions (or similar wording for example)

Narta has appointed a relationship manager to improve policies and procedures relating to the management of suppliers and be a champion for SRM with all stakeholders. But the plan is to build on SRM as it exists in the member organisations and the work Narta has already done. "We're not adding in another SRM tool, but utilising the tools that we've already got. Most people are doing SRM; they just don't call it SRM. We already have a lot of information on suppliers; it's about taking the elements that you're already doing and putting them into processes."

Aside from appointing a dedicated SRM manager, Barclay also developed roles and responsibilities for SRM as part of a Raci process (which asks who should be Responsible, Accountable, Consulted and Informed about a given process) across the whole procurement team. This covered tendering to ensure all stakeholder requirements go into the sourcing event. The idea was to create a standardised process that could capture more value without taking more time.

She also worked with suppliers to create standard terms and conditions across Narta. Here, the association's buying power worked to help smaller members who were moved from 14 or 21-day payment terms to a standard 60-days, making a huge difference to working capital, says Barclay.

Greater value and engagement

But Narta is planning to extend SRM beyond improving existing processes and alignment with suppliers, to increase value to members, she says. The Australian government is introducing its 2018 Modern Slavery Act, with reporting that comes into effect from 1 January 2020. Although many of its larger members have already started work in this area, Narta is introducing a paper explaining the Act and introducing a standard sourcing process that will ensure all sourcing meets the minimum requirements.





As a procurement person you know that you'll hit diminishing returns. You might get smaller fraction of saving next time and so on. The results so far have been extremely successful, but it will not be sustainable to keep running a tactical process.

Narta is also introducing six-monthly "sourcing meetings", two-day events during which senior representatives from the preferred indirect suppliers come to explain the latest advances in technology, goods and services and sustainability programs "It gives smaller members access to strategic meetings with major suppliers that they would not be able to have in their own right. Yet another example of how using our scale and scope puts us in the top tier of customers with our supply partners"

"We want members to be engaged but we don't know whether that's happening. The event is to help members understand what's new in suppliers businesses, whether that's new processes, expanded service offering, or changes to their source Manufacturers to ensure ongoing sustainability and meet regulatory requirements. This is a way for us to know that engagement is happening, because we are driving it and are maintaining it," Barclay says.

Narta faces a particular challenge in engaging stakeholders with SRM, because some of the member organisations also have procurement teams who may have their own SRM programs. We must therefore ensure we are aligned in our plans and travelling in the same direction and not causing conflict between processes.

Supporting Procurement Teams

"They know what they're talking about. We need to make sure that we have the right plan in place to be able to manage those relationships. We have a two-pronged approach to managing a successful procurement programme. You have engagement at all levels and on all sides. You have your suppliers who are engaged, because they're getting the volume that you've committed, and members are engaged because you're delivering on your commitments through best in class procurement and providing value through the collective sourcing model," Barclay says.

The challenge for Narta's SRM is to ensure its processes are fit for its member organisations, whether they are big or small. As such it allows members to use as much or as little of its

procurement services as they want, and not replace their internal expertise.

Listening to members and stakeholders

"If I'm speaking to a member category manager for marketing, and I'm helping to buy print services, they probably have a passion for that category. The challenge is to add value to them without doing any harm. We are here to do as much or as little as anyone needs us to do. With some members, they don't have a procurement team, and we do all sourcing for them. Others will say, 'we're going to use you for tactical activities only'. Others will say, 'Okay, I've got three people, I could have five people, but I'm going to use you instead of hiring another two'."

"What we need to make sure of is that we're listening to the members, and we understand what they need and that it's bespoke. It's a trust thing for me. If you don't have the trust of that procurement team, that you are there to help and not to take over, the whole process will fail," Barclay says.

Narta's SRM journey is in its early stages, but it has the backing from the top of the organisation. CEO Michael Jackson says: "Collaboration is at the centre of what we do. Not only do our shareholders and members benefit from strength in numbers to gain pricing efficiencies for our customers, but also leverage our scale in the market to deliver valued services. Together we continue to form new relationships with various supplier partners ensuring market leadership and continued longevity. We know in the future, SRM will increase its role in our strategy and boost value for all our stakeholders."

Narta is continuing on its SRM journey. With complex demands coming from the variety of member organisations, its procurement team hope to show how effective stakeholder engagement is one of the cornerstones of success. Through a framework aligned to the specific needs of multiple businesses, the program will grow and change as the membership base does. However, the key pillars will stay the same: Value beyond savings, partnership growth, risk & compliance management and continuous innovation through operational leverage.

Collaborative
supplier
relationships =

value creation

Collaboration often needs a kick start. Our SRM value accelerator is designed to take a newly defined strategic supplier relationship from a standing start to a collaborative joint business plan and value creating initiatives in 12 to 16 weeks.

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Summary

While there has been some progress in achieving greater returns from SRM, key aspects of the activity need to improve, and potential remains unmet. There is an opportunity to develop supplier collaboration and innovation and, to achieve this, a pressing need to develop people and technology in support of SRM.

Growing value but more room for innovation

In 2018 the proportion of organisations gaining financial benefits of more than 4% post contract value from SRM increase was 30%; in 2019 42%, a significant rise in return on investment in SRM. Still, the concrete returns do not mean all organisations create a value proposition for SRM. Only 47%, a slight drop on last year. Despite many industries under threat from disruption, supply-side innovation is only cited by 28% of organisations as a top three business driver for SRM. Even fewer though get returns: only 12% recorded supplier innovation as a non-financial benefit.

Waning engagement in SRM should spark concern

Senior management support for SRM has dropped from 75% in 2015 to 55% in 2019. Support from operational management also fell over the same period. But the benefits of getting the right people on board are clear: The leaders in our survey are seven times more likely to have strong and active support from senior management

than SRM followers. And, while 72% of suppliers support SRM, their engagement has also been falling. Procurement cannot deliver value through SRM alone – it needs to put work into getting others on side.

Getting to grips with governance

Among SRM followers, the majority of our survey sample, only 44% have a governance model in place for more than 50% of their critical or strategic suppliers. They need to get a grip on the measures and processes which will help them understand and manage suppliers. SRM leaders know this: 91% of them have a governance model in place for over 50% of their critical or strategic suppliers. Almost all companies now segment suppliers based on spend and criticality, but growth and innovation (42%), risk to reputation and sustainability (39%), and the competition in the supply market (38%) are also an increasing factor in their assessment. Segmentation is an academic exercise unless it's linked to treatment strategies. While 98% say they segment suppliers, just 68% defined supplier treatment strategies.

Invest in people for SRM returns

In striving for SRM returns, organisations tend to bypass people. Nearly a third of followers, the largest group in our sample, have no provision for SRM training at all. Meanwhile, there is a gap between how organisations view their skills requirements and the training they provide: 41% of organisations see communication skills as a priority for improvement, but only 17% invest in them. Only 46% of organisations have provided SRM training in the last 12 months, and 24% have not completed the stages necessary to develop effective training. There needs to be a focus on developing people, both inside and outside procurement.

A lack of tools for the job

Most organisations lack the optimum software and systems for SRM. Enterprise tools are focused on customers, marketing, finance or the transactional stuff in supply chains. Despite the vital importance in managing supplier relationships, 86% of organisations, do it with Microsoft Excel, which is not fit for purpose as enterprise software. Specific aspects of SRM, such as performance management and risk management, do get some investment, but only from the minority of organisations. As cloud computing eases the adoption of business software, there is a clear opportunity for organisations to up their game in technology support for SRM.

Collaboration

To get suppliers to innovate in areas that will benefit your organisation, you have to collaborate with them. The ultimate goal is developing joint business plans with suppliers. But only one in five (17%) have done this with more than half of their critical or strategic suppliers. There is strong evidence for returns for collaboration. It yields direct financial benefits and indirect or non-financial benefits as well as nurturing trust between suppliers and buyers – a key ingredient to supplier innovation. There are signs of improvement: 90% of SRM leader companies report increased levels of collaboration.

Call to action

The time for thinking about supplier relationships, and what organisations can gain from them, has to come to an end. At some point, plans become action. Here, State of Flux offers a few ideas about where to start.

Prepare your elevator sales pitch

SRM value can be many things. It can address cost, efficiency, quality, growth, risk, compliance, sustainability and innovation. But to get the attention of those holding project purse strings, procurement leadership needs to create a concise, direct elevator sales pitch for SRM, one which presses all the right buttons in terms of business strategy and immediate priorities. Draw from evidence and celebrate success. SRM works, but you need to convince people before they will invest in it.

Find the right language

Talking about SRM in terms of enhanced contract or performance management is unlikely to set anyone's pulse racing. Focus on outcomes that are relevant to business goals. If the value proposition is in good shape, you should be able to engage people internally, but don't ignore suppliers. Taking their support for granted is a big mistake. Talk to them early, get their feedback through voice of the supplier surveys and build your programme to work both internally and externally. Lastly, stop thinking about SRM as a procurement thing: it requires a network of advocates across the business bound together using the value proposition.

Segment suppliers with purpose

Understanding the differences between suppliers is not enough; you also need to do something with

that knowledge. Don't get fooled into thinking that segmentation is 'job done': the whole point is creating differentiated treatment strategies, but too few organisations do that. Good governance is about people – getting them to the right meetings and using their input. That's where engagement will help. Lastly, SRM is about more than contract, performance and risk management, but failures in these areas will bring relationships crashing down. Use SRM to get the necessary controls and oversight in place.

Make people a priority

It has become a blind spot in SRM strategy: investment in people has been lacking for years and there has been little improvement this year. Beyond the data, technology and strategy,

relationships are about people. The best organisations see that they must: define operating models, describe roles and jobs, identify requisite skills, assess current skill levels, align training, and include SRM in personal objectives and development plans. Only organisations that invest in people will get optimum returns from SRM.

Wave goodbye to desktop tools

Many people love Microsoft Excel, but it is not the tool for SRM. Cloud-based software will now enable you to drive performance efficiently and with minimum risk. It is time to push back against traditional IT strategies. Who says you have to make serious functionality compromises when selecting a single procurement platform? Insist on best in class. Use the SRM value proposition to build your technology business case. Deliver value faster, reduce risk, and improve oversight and control. What's not to like?

Grow value together

It's easy to like the idea of collaboration on paper. But people only believe it is real when they see working examples. So, it's best to start small and build an accelerated collaboration and value pilot with selected suppliers to create momentum. Success will see the business willing to work with suppliers on joint business plans. Then, get ready to talk about it. Create a narrative around the advantages of collaboration versus adversarial relationships.

Final words on supplier innovation

Stop dodging the subject: define what innovation is for you, what you want and expect to gain. Kick down a few walls if you have to.

For SRM programmes that are struggling to gain traction, innovation can provide the spark that attracts the recognition they deserve. It is one thing which, in the eyes of some stakeholders, will make the whole supplier management thing worthwhile.

You might already have in place some of the key enablers for supplier innovation such as incubators, supplier ideas forums and even dragon's den-type activities – get them organised and create a consistent process. Link them to your treatment strategies and engage the right suppliers.

Our partners

EcoVadis

'EcoVadis is the first collaborative platform providing sustainability ratings and performance improvement tools for global supply chains. EcoVadis' easy-to-use scorecards help procurement teams to monitor suppliers' environmental, business ethics, and social/labour practices across 150 purchasing categories and 110 countries. Over 120 industry leaders such as Verizon, Merck, Heineken, ING Bank, and Nokia use EcoVadis to reduce risk, drive innovation and foster transparency and trust among trading partners. The partnership with State of Flux integrates EcoVadis ratings and scorecards into the Statess software, streamlining processes and decisions.'



www.ecovadis.com

IACCM

The International Association for Contract & Commercial Management (IACCM) enables both public and private sector organisations and professionals to achieve world-class standards in their contracting and relationship management process and skills. With over 60,000 members across 178 countries and 22,008 corporations, IACCM is leading the way in responding to the demands of global networked markets.

Our membership is drawn from many industries and is made up of contract and commercial managers, negotiators, attorneys and supply chain professionals.

Through our worldwide presence and networked technology, IACCM members gain access to the thought leadership and practical tools that are essential for competitiveness in today's fiercely contested global markets. We provide insight to the leading-edge contracting and commercial skills, policies, procedures and methods that are fundamental to managing enterprise and individual risks. This insight equips professionals and their leaders to implement best practice governance of contractual commitments and trading relationships.



www.iaccm.com

Procurement and Supply Australasia (PASA)

Procurement and Supply Australasia (PASA) is the leading provider of information, education and networking opportunities to procurement and supply professionals throughout Australia and New Zealand. PASA supports the largest community of engaged procurement stakeholders in the region through conferences and publications, and increasingly, its PASA Connect member network that provides members with exceptional peer-to-peer learning and structured networking. PASA is a trading name of BTTB Marketing, for many years recognised as the leading producer of conferences and events for the procurement profession in Australia and New Zealand, producing events under the BTTB, CIPSA Conferences and PASA brands.



www.procurementandsupply.com
www.pasconnect.com

Langley search & selection

Langley Search & Selection is the premier global executive search consultancy specialising in permanent executive level roles in procurement, supply chain and logistics areas. In addition, through Langley Interim Management, we provide executive interims at short notice in these niche areas. We operate globally across multiple vertical markets.

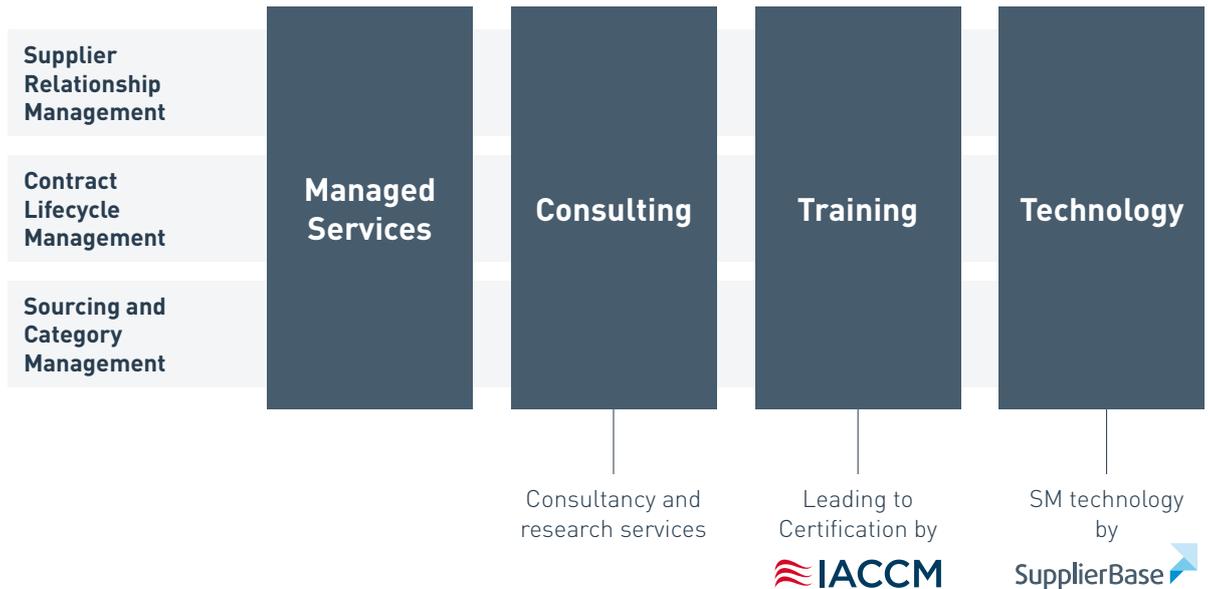
Our specialism in the areas of procurement and supply chain allows us to develop an in-depth understanding of the market and candidates in these niche areas. We screen candidates via the Langley 360TM competency based screening tool specific to procurement and supply chain skillsets prior to inclusion in our network or submission to a client. Through this we assess technical skills, knowledge and behaviours, and we identify the best candidates for each role.



www.langleysearch.com

About State of Flux

Headquartered in London, with offices in the UK, United States and Australia, State of Flux has been supporting clients in procurement for over 15 years.



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