



# Supplier Relationship Management: Moving From "Counterparties" to Collaboration

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With the growing importance of the Internet and other computer networks, companies have paid a great deal of attention to the customer side of their businesses. This has manifested itself in areas such as customer relationship management (CRM), knowledge management (KM), and in the move from call centers to contact centers.

Now many companies are applying this same emphasis on relationships to the supplier side. This has led to a new solutions area: supplier relationship management (SRM).

In each of these cases, companies have placed not only a focus on automation and other technical improvements, but on emphasizing the *relationships*. When traditionally applied to the customer side, the goal is not just improvement in financial terms but an effort to achieve the following goals:

- Greater customer satisfaction
- Deeper insight into customer needs and desires
- A longer-lasting, more profitable relationship with customers

While companies have also paid a great deal of attention to suppliers, the technical improvements on this side have often focused more on mechanistic means of squeezing efficiencies

from the process, rather than focusing on the relationship with the suppliers. This is reflected in the language used to talk about each process: customer *relationship* management versus supply *chain* management.

However, relationships are just as important on the supply side. In fact, they may be even more important. Most enterprises have a greater need to coordinate software and other aspects of IT with suppliers than they do with customers. Many companies will find that they do more business with their largest suppliers than they do with their largest customers — this is especially true for consumer-facing enterprises — and thus have more to gain from efficient cooperation and more to lose from a disruption in the relationship.

With SRM, enterprises employ a new way of thinking about the supply chain and supply chain transparency. Rather than specifically seeking the greatest short-term advantage in each transaction, customers and suppliers seek to work together for long-term mutual advantage. This involves a level of trust and commitment that was often lacking in the shallow, transactional interactions that characterized the Internet boom, but it could provide a much greater payoff for companies willing to stick with this philosophy.

### **SRM — What Is It, and How Does It Work?**

It may be tempting to think of SRM as merely a subset of supply chain management (SCM). In a way this is true. SRM is all about improving the supply process to gain efficiency and save money.

However, SRM doesn't just extend the principle of SCM, it represents a different way of thinking about collaboration with suppliers, demanding greater transparency and trust than many companies have so far been comfortable with. While the area is growing, IDC sees three key aspects of SRM: collaboration, integration, and trust.

In the world of SRM, collaboration doesn't just mean customers and supplier synching up their shipping schedules. Rather, they plan together for mutual, long-term benefit, and they work in concert in the execution of the full life cycle, from sourcing to payment. This can include not only installing content exchange applications that let each party know what is going on with the other but parameters that let parties negotiate and manage complex long-term purchasing contracts. For instance, such arrangements can let suppliers quickly check with customers to find out if they should move to make large purchases of raw materials when offered a good price. After such an exchange,

customers can share in the savings while suppliers can be guaranteed of not being left holding excess materials.

Supplier integration used to mean often painful and messy integrations of IT environments: installing the same software and platforms and creating specific shared networks. But now, the ability to integrate software via the Web and XML have made the technical hurdles far easier to deal with; companies can now easily share automated information in real time without undergoing any kind of deep IT integration. Web services allow companies to let applications interact in a modular manner, by sharing information rather than integrating code. When implemented correctly, enterprises should be able to hook just about any application into SRM.

With SRM, companies use these same tools to integrate something far more precious: their information. While the sharing of information with suppliers is not new, SRM takes it to a level beyond SCM, in terms of the depth of the relationship and the amount of automation applied to the process. This allows cooperating parties to roll out and codify best practices into their interaction, as well as enforcing compliance across multiple divisions and locations. Parties in an SRM arrangement allow each other to see the kinds of information they might have kept secret before, such as real-time changes in prices paid for components or changes in actual shipping costs.

Performance measurement — of internal processes, as well as supplier execution — is critical to SRM. Just as companies are using analytics to glean important information from their customer-side operations, they are also increasingly doing so on the supply side.

One key aspect of analytics is supplier performance measurement. This allows companies to gain a deep, 360° view of their supplier, rather than just rating them on the lowest price. Suppliers can be graded on many different areas, such as on-time delivery, quality of products or materials, selection, flexibility, and customer service.

### **Advantages of SRM**

SRM offers the promise of deeper, longer, more harmonious, and ultimately more profitable relationships with suppliers. These benefits will result from a number of different areas of improvement, including:

- **Procurement.** SRM provides better internal and external communications allowing for improved catalog management, workflow routing, document exchanges, and advanced shipment notices. This area is especially key in the

down economy because providing visibility into cost in this area can yield significant savings.

- **Sourcing.** SRM applications can be used to improve supplier selection and integration, as well as collaborative functions like scheduling, enablement, and special exchanges (e.g., spot buying, auctions, and reverse auctions). Recent enhancements in electronic sourcing included real-time negotiation capabilities that let suppliers and buyers work on complex assembly systems and procurement projects, resulting in faster and more tangible ROI.
- **Contract management.** The combination of electronic sourcing and procurement allows for automated creation and execution of contracts. These capabilities can be augmented by sophisticated contract management functionality that enables the workflow, collaboration, and measurement necessary to handle all the business terms and documents related to procurement contracts.
- **Invoicing and payment.** Just as no job is complete until the paperwork is done, no business-to-business transaction is complete until the payment has cleared. Best practices in SRM require that invoicing, dispute resolution, and payments be handled online over the Internet.
- **Efficiency.** Better information and automation can be used to root out inefficiencies in ordering, shipping, invoicing, transaction costs, and other areas.
- **Back-office integration.** This leads to better integration of functions and planning with other areas of business, especially CRM, sales, and marketing.
- **Data management.** SRM applications are in strong demand because of their ability to provide reliable data. The combination of integrated analytics and best-of-breed category management technologies makes available a complete spend picture that used to be missing because of disconnected systems. While the analytics function helps enterprises understand how much they are spending and with whom, category management gives them a chance to create or rebuild the item master file that is either outdated or not useable, a common problem among companies that have multiple enterprise resource planning (ERP) systems.
- **Improved long-term planning/forecasting.** By understanding and communicating with suppliers, enterprises can get a better idea of prices and supplies over time, aiding in long-term decision making.
- **Deeper, longer, more mutually beneficial relationships with suppliers.** If all of the elements above work out and if

companies can attain trusting relationships with most suppliers, companies can increasingly act in ways that are mutually beneficial — for instance, by offering discounts on long-term contracts that make sense only when supplier and customer are in synch.

## **Supply Chain and SRM Trends**

SRM is hardly happening in a vacuum. After all, by its very definition, SRM is plugged into all parts of the enterprise and into the suppliers' operations as well. Given the interconnected, holistic nature of SRM, there are several key trends that companies should pay attention to when looking at SRM solutions:

- **Increased use of electronic procurement for services.** Companies are looking to outsource more and more functions. However, service offerings can be harder to compare head-to-head than more concrete goods. Weighted comparisons of multiple attributes become key. SRM helps give them a way to both communicate their needs and measure value and performance of services providers.
- **Increased use of vertical-specific SRM applications.** Different industries have different needs and are characterized by different types of relationships between customers and suppliers. Specialized SRM applications allow enterprises to manage relationships in ways that make sense for them. SRM application suppliers, in turn, have latched on to vertical market expertise as a key differentiator for their products (e.g., wholesale distribution).
- **Different thinking about suppliers and partners.** The Internet age was characterized by online exchanges; the thinking of the people on the other side of a transaction as "counterparties," not partners. This emphasis on transactions and de-emphasis on relationships became a problem as companies burned bridges and created an atmosphere of distrust around some industries. The survivors were often companies that did the best job on relationships. SRM allows companies to work together for mutual gain.
- **Deeper integration.** SRM allows for the creation of a seamless environment around procurement and sourcing — and fewer surprises about the actions of your partners. Within the enterprise, companies are focusing on integrating SCM and SRM applications with CRM and ERP functions.
- **Customer service.** With growing momentum in the build-to-order concept and increased reliance on contract manufacturers to assume complete or large-scale subassembly functions, enterprises such as Dell and auto

OEMs can no longer afford to treat suppliers as commodity items. Quality of customer service hinges largely on the kind of suppliers companies use as well as how they perform within the customer relationship management framework, which increasingly is linked to the back-end production systems. Hence the supply chain and SRM are so important to customer service that many companies are looking to integration CRM and SCM/SRM functions.

## Considerations

There are several potential pitfalls companies should pay attention to when implementing SRM:

- **Smooth migration.** Disruptions in the supply chain can be very costly, especially if they leave your workers idle or cause increased shipping costs. Problems in this area could potentially alienate important suppliers, keeping them from buying into the SRM approach.
- **Backward compatibility.** Companies need to be able to keep what works. The networked, modular nature of SRM generally allows for companies to implement solutions without causing problems with previously installed applications and platforms, particularly if companies take advantage of Web services. The goal then is to make sure that all aspects of the system come together.
- **Organizational buy-in.** Different areas of the company need to buy into cooperation with each other — and with the potentially scary prospect of deeper integration with suppliers. Even though the technical hurdles can be overcome with Web services and the modular nature of SRM, the organizational hurdles can be just as daunting.

## Conclusion

The perception of suppliers is changing, moving from a link in a "chain" to a vital "relationship." This will involve a new way of doing business for many companies, but there will be potentially rich rewards for those able to make the transition.

Just as companies are seeking to get closer to their customers to gain deeper, longer, and more profitable relationships, they can gain similar advantages by seeking these things with suppliers. While this may smack of touchy-feely new age business practices, the goals are very concrete: more efficiency, lower costs, and an improved bottom line.

There are a number of issues — both organizational and technical — companies must keep in mind for SRM to work correctly. While there can be important technical hurdles, the

human element here may be even more important. Companies must work hard to sell the new way of doing things, both internally to their employees and management and externally to suppliers, in order to realize the full benefits that SRM has to offer.

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