

Spend Matters™ UK/Europe

White Paper

Supplier Lifecycle Management:

Reduce risk, Improve Performance and drive Supplier Value

Supplier Lifecycle Management works from the premise that the supplier should be considered as central to procurement activities and processes, an approach which drives significant benefits

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1. Introduction

The performance of a supplier has a huge impact on an organisation's success and will ultimately determine how the procurement function and its leadership will be regarded by the business.

A supplier who provides an excellent product and service can provide real value - regardless of the quality of the sourcing process or contract, but a brilliant category management process and best practice contract will amount to nothing if the supplier simply fails to perform.

Risk of supplier failure or supply-chain failure should also be of vital interest to procurement. Whether driven by natural disasters, economic or political developments, or regulatory and compliance issues in the supply-chain, its importance is growing by the day.

Some organisations also face the issue that their suppliers have become so integrated into the delivery of the end product that they are indistinguishable from the customers' perspective representing a source of brand and reputational risk.

That's why choosing the best supplier and then managing them in a joined-up, integrated and consistent manner *throughout* their life as a supplier should be at the very heart of everything procurement professionals do and care about.

This seems sensible, although we often see a paradox; Procurement executives will often complain that their own organisations do not fully appreciate the importance of suppliers and their contribution to business success, yet it is clear that those same executives do not reflect this importance in the way they and their procurement functions think, organise and work.

"Supplier Lifecycle Management" (SLM) addresses this central role of suppliers and although a relatively new concept, picks up on well-known procurement themes, such as value, risk and performance. This holistic approach is also becoming increasingly important in the world of procurement solutions and technology with some vendors now putting SLM at the heart of their latest product suites.

In this paper, we will explore the key cycles in procurement processes and explore what is meant by Supplier Lifecycle Management and its different elements and we will show the benefits that arise from putting a strong focus on managing the supplier in an integrated and focused manner.

2. Process cycles in procurement

Most procurement professionals will recognise two fundamental but separate processes or cycles in their procurement functions; the *strategic sourcing process* and the *transaction (procure to pay) process*. They have had a lot of analysis and attention in procurement literature in recent years.

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The **operational** or **transactional** process cycle is the recording of the transaction, often referred to as “purchase to pay” (P2P). It normally starts with a requisition or requirement, adding a purchase order, a delivery, receipt of goods and services, and concludes with invoicing and payment.

The **strategic or strategic sourcing** process cycle starts with establishing the internal requirement, moves into market and supplier research, then into the supplier selection process (PQQ, RFX etc) and contracting / negotiation. Moving on to post contract award with contract and supplier management in various forms.



Fig. 1 The Strategic and Operational Procurement Processes

While this approach is easy to understand, it has a number of flaws. The cycles are separated and so important linkages between them are overlooked, for example, some form of supplier selection must occur in the Transactional Cycle before a purchase order is placed (assuming that random or ad hoc decisions are not made by the budget holder or the buyer).

Most importantly, the two cycle approach misses a common and critical factor that runs through the entire procurement task – **the supplier**. Suppliers are seen almost as a passive recipient of actions, rather than a dynamic, central party to the whole process. Supplier information is key to both P2P and sourcing cycles and supplier master data is the foundation of both processes. Choosing the best suppliers and managing their performance to obtain value and minimise risk forms the absolute bedrock of procurement functional and wider organisational success.

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So we suggest that a third process should be considered – the **supplier** cycle, designed to manage the supplier throughout the entire lifecycle of the relationship should be high on the priority list for senior procurement executives. Clearly, the supplier lifecycle links with the other two cycles and is in fact, the common thread that provides supplier master data as the foundation and the glue that binds the procure to pay and the strategic sourcing processes together.



Fig. 2 The Supplier Lifecycle

3. Supplier Lifecycle Management

What exactly do we mean by Supplier Lifecycle Management and why is it so important? We describe it as ***“an end-to-end, cradle to grave approach to managing suppliers in a transparent, structured and integrated manner”***.

Perhaps more important is the *purpose* of SLM, which is: ***to recognise suppliers as a prime source of value to the organisation and deliver that value by putting them at the heart of procurement strategy and management.***

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The power of this approach is clear. Choosing the “right” supplier (providing validity to a budget holder’s choice) is the most fundamental aspect of the procurement role. There is a strong argument that this supplier-centric view of procurement, with supplier lifecycle at the heart, should be a key paradigm when we think about procurement in our own world **and** when we articulate procurement to other stakeholders.

It’s a message that can help provide a powerful position for procurement functions and leaders within their organisation and fits well with wider strategies.

Within private sector businesses, the sales function manages the relationship with the *customers*, the engineering department manages product design and marketing function manages the organisation’s *brand* and product roadmap, there is a clear precedent and clarity in positioning the procurement role as the manager of the organisation’s *suppliers*.

(A similar parallel exists in the public sector where stakeholder names and nomenclature differ but procurement still leads in terms of the contribution from suppliers).

That positioning is not revolutionary; many progressive procurement organisations have defined their role like that for years, But what is more unusual is to find organisations that then base their actual strategy, systems and processes around this concept. More often, procurement functions are category-centric, user-centric, contract-centric or (unfortunately) in some cases, requirement-centric (still driven by the users shouting, “we need this product tomorrow”)!

Supplier Lifecycle Management describes a holistic view and set of activities around managing suppliers and so it covers all aspects of dealing with suppliers, from *cradle to grave*:

- initial identification and engagement
- classification and qualification
- risk assessment and management (throughout the lifecycle, - not just a one-off event)
- sourcing and evaluation
- on-boarding and contract implementation
- contract and performance management
- supplier development and relationship management (SRM)
- spend analysis and reporting, and
- rationalisation

To avoid confusion in terminology, it is helpful to describe how SLM differs from other frequently used process descriptions with somewhat similar acronyms.

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Supplier Relationship Management (SRM) focuses on the post-contract phase of supplier relationships and generally looks at the organisation's most strategic suppliers and longer-term developmental issues. It is differentiated from **contract management** in that it goes beyond the focus on a single contract and considers the entire relationship between the buying and supplying organisations.

Unfortunately, a high proportion of SRM programmes fail. There are many reasons for this and one real world example had SRM "tacked on" to the wider supplier selection process. This caused a disconnect from the rest of the procurement process and led to a supplier still being treated as part of an SRM programme, whilst being excluded from new tenders on the basis of financial instability! The relevant executives in procurement and elsewhere in the business were not communicating, and had no joined-up view of what was going on with that particular supplier.

Supplier Information Management (SIM) usually focuses on data and information about the supplier and is, in our view, an important subset of the SLM process. SIM generally covers initial information gathering and on-boarding stages and may also extend to include risk management and ongoing contract performance information management. It generally does not include the sourcing elements of the broader SLM process.

Supplier Lifecycle Management encompasses (for relevant suppliers) activities that tend to be labelled SRM, but SLM is far broader in its scope. Supplier Information Management is also a key subset of SLM, but SLM stretches from the first contact with the supplier through to strategic relationship management and to conclusion of the relationship.

In the next section we will explore how the benefits of the wider SLM methodology arise from taking a comprehensive and holistic approach to supplier information, risk, sourcing and contract management.

4. The Benefits of SLM

Taking a structured approach to Supplier Lifecycle Management delivers benefits from both the individual parts of the process and those arising from an integrated approach. We can consider the benefits as falling into four main categories.

Process cost reduction

Those benefits include greater efficiency for procurement staff, users and suppliers; better planning and lower process costs. For example, collecting and managing supplier information is surprisingly costly and time-consuming. In addition, the cost of on-boarding is not purely administrative and case studies have shown that the best organisations can implement beneficial new contracts within days of agreement whereas other organisations take months, during which time the benefits are being missed. Over the life of a relationship with a supplier, far too much time and effort – largely unproductive at that – is spent in

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communications of an administrative nature, gathering supplier information, with questions and queries ricocheting backwards and forwards between supplier and buyer.

At this point, it is valuable to discuss the importance of “supplier (or vendor) master data”, which lies at the heart of the entire procurement process. Supplier master data includes the basic details needed to be able to transact with the supplier and also extended information about company structures such as subsidiaries, that are important to understanding the supply base and support effective spend analysis. Increasingly, it will include details of industry accreditations (health and safety, quality, specialist technical) and particular factors that enable organisations to track aspects of their supply base such as size or ownership. Supplier master data is ubiquitous across core procurement processes and so uniquely identified, accurate and up to date master data is vital.

Risk reduction

The importance of supply chain and supplier risk management has become increasingly appreciated over the last few years. Unfortunately, both natural disasters (such as the Tsunami in Japan) and man-made (such as the Deepwater oil spill) have highlighted the importance of having a thorough understanding suppliers and supply chains. Risk events can lead to supply interruption or additional costs; but more serious are those that cause damage to the reputation of the brand or the whole business. We have seen many of those in recent years!

Identifying weaknesses at individual supplier and supply chain level needs robust and up to date information with tracking of supplier accreditations, capabilities and performance through the contractual period. This all helps to manage, reduce or mitigate the inevitable risk inherent in every organisation’s supply chain.

SLM provides the basis for proper understanding of suppliers and the risks they present by obtaining, managing and updating the information required for thorough risk management. It helps to ensure transparency of information relating to the supplier, compliance to corporate standards and policies and reduces the risk of supplier related failures, disruptive events and crises.

Aberdeen Group research suggests good risk management can reduce the risk of “supplier crises” by 30% for best in class organisations, demonstrating the clear value here. The negative is very evident. The cost of getting it wrong, or ignoring supply chain risk, can be catastrophic up to and including the survival of the entire organisation. SLM also enables the organisation to track policy management issues, such as the desire to support smaller suppliers, minority, veteran or female owned businesses, or promote the use of local industry and suppliers. This type of issue is steadily gaining a higher profile and importance in many countries.

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Value gains from suppliers

Managing suppliers well across the whole lifecycle is a pre-requisite for achieving value gains, taking cost out of the supply chain and ultimately achieving the best possible value in whatever is being procured.

There are drivers for improving value at all points within the supplier lifecycle. Powerful Spend Analytics goes beyond providing a basic picture of spend into managing compliance, identifying opportunities for standardisation and complex analysis around fraud, over-payments or (more positively) identifying potential post merger or acquisition savings. The scope for analysing spend data is huge. But it all relies on the accuracy and completeness of the underpinning supplier data.

It is an accepted that running an effective sourcing and supplier selection processes drives competition, good value and the right choice of supplier. Holding those suppliers to account through comprehensive performance management, tracking KPIs and SLAs, is just as important to overall value. Additionally, a joined-up view of how suppliers perform across the enterprise is particularly important for larger organisations and can drive significant performance improvements. For those suppliers where development and strategic relationship management are key, post-contract activity assume further importance.

Managing compliance, in the sense of ensuring suppliers do what is contractually required of them and directing spend towards the appropriate contract and supplier are further key value drivers. They depend on a clear view of the supplier, their contracts and the importance of their business with the organisation.

Innovation and “soft” gains from suppliers

Whilst the hard value gains are vital to the success of the procurement function and the organisation, it is often innovation gains provided by suppliers that ultimately outweigh pure cost savings. Making use of a supplier’s own strengths and optimising business with them is key and such gains come when the supplying and buying organisations have close, well established relationships. Identifying which suppliers are both important to the business **and** high-performers is the basis for developing an environment in which trust and innovation thrive. Too often suppliers are invited to participate in a “strategic relationship management” programme on the basis of size of spend, with little reference to their measured performance, the prospects for future business with them, or thought about any additional value that could be obtained from the programme.

The ability to consider the entire end-to-end view of the supplier and their relationship with the whole organisation, will lead to better decisions, working together strategically and capture the supplier innovation that can deliver real competitive advantage.

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SLM as an integrated process

The last example takes us firmly into the benefits of the holistic, integrated SLM approach., it is possible, of course, to achieve many of these gains through a series of separate processes, systems and approaches, but looking at the supplier lifecycle as a single integrated process has undoubted benefits. 360° supplier visibility across the organisation allows managing risk holistically across the supply chain to ensure that the total impact of supplier failure is understood and mitigating actions are in place; and use of post-contract performance monitoring to feedback into the supplier evaluation process for new contracts. These are all powerful examples of the SLM process working as a whole and demonstrate the potential for better supplier performance and value improvement.

5. Conclusions

Supplier Lifecycle Management is a new way of looking at the fundamental procurement function. By defining the supplier as the common and central factor in both the transactional purchase to pay process and the strategic sourcing process, SLM brings together and makes sense of traditional ways of looking at procurement cycles.

SLM considers all the elements of our relationship with a supplier, from initial engagement and information gathering, risk management, the sourcing process, through the working relationship, to development and on towards final parting of the ways. This holistic approach brings significant benefits through a clear, single view of the supplier and the business with them – benefits that range from greater value delivered by our supply base, internal efficiency gains, to improved risk management.

Supplier Lifecycle Management can be both the glue to bind together different parts of an existing strategy to achieve efficiency **and** the turbo-charge to drive a step change in the benefits derived from existing procurement processes, tools and performance.

A truly holistic and integrated approach to supplier data, information and management is a huge enabler to achieving benefits across a whole range of procurement actions and activities, from managing compliance, to digging into deeper spend analytics, or getting more out of key strategic suppliers.

Few organisations will be starting from scratch; implementing SLM can build on existing processes, tools and approaches, enabling users to get more out of existing investment and capability. In summary, we believe Supplier Lifecycle Management to be an important concept for the procurement profession and one that should be embraced as a high priority.

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About the Author

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Peter has 25 years experience in procurement and supply chain as a manager, procurement director, consultant, analyst and writer. He edits Spend Matters UK / Europe, and with Jason Busch, the founder of Spend Matters in the US, has developed it into a leading web-based resource for procurement and industry professionals. Peter worked as Procurement Director for the NatWest Group, the Department of Social Security (the DSS), and the Dun & Bradstreet Corporation, and held senior positions in the Mars Group during his management career. He has an MA in Mathematics from Cambridge University, is a Fellow and was 2003 President of the Chartered Institute of Purchasing and Supply, and his first (co-authored) book, "Buying Professional Services", was published by the Economist Books in June 2010.

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