

Optimal Supplier Relationship Management

OSCAR LINDGREN & VICTOR BERNHARDSSON

Industrial Engineering and Management, Faculty of Engineering, Lund University

Introduction

Due to the increasingly globalized and competitive markets, customers are demanding higher quality, shorter lead times, faster product development cycles and a wider range of products. This is significantly increasing the demands on companies to maintain a competitive advantage. Organizations and companies find their competitive advantage in the combination of their external and internal resources. Therefore, suppliers are key to a functional business and the selection of them is instrumental to run a profitable and effective enterprise. An efficient supply base can have a major impact on the improvement of everything from lead times and operational flexibility to product development. Thus, Supplier Relationship Management is an important aid to help tend and manage the relationships and the associated processes.

Supplier Relationship Management (SRM) is an umbrella term which encompasses how a company should interact with suppliers, which supplier they should interact with and to what extent. SRM is a strategic, organization-wide philosophy, that brings together a series of discrete supplier and supply chain approaches including Supplier Performance Management (SPM), Supplier Improvement & Development (SI&D), Strategic Collaborative Relationships (SCR) and supplier segmentation. With this definition, SRM is a means to integrate and apply core components of relationship and supplier management on a supply chain or on different suppliers to add the highest value possible to the targeted business.

The study

The purpose of this study was to analyze how companies within the engineered product industry engage in SRM strategies and activities in order to maximize value creation in supplier relationships. To accomplish this, a multiple case study was performed including five Swedish multinational enterprises within the engineered products industry.

Insights

The study revealed that there is a possible correlation between the size of the supply base and the development of an organization's SRM activities. This is probably due to smaller supply bases being more manageable, thus more

resources can be spent on developing relationships and improving suppliers, thereby making a difference and organizations will likely be able to realize greater yields.

A possible correlation between the level of refinement/value-add in the products that are purchased by an organization and the relative development of the SRM has also been identified. The case company which mainly purchased commodities also had the least developed SRM. Also, the company who purchased mostly high-end components has one of the most developed SRM initiatives. It is reasonable to argue that a higher level of refinement of purchased products leads to an increased likelihood that there is room for changes and innovation. Thus, leading to a larger potential gain/impact of SRM.

A similar correlation can be seen for decentralized versus centralized/centre-led purchasing organizations. Coordinating SRM efforts is likely to be easier the more centralized an organization's purchasing is. However, it is not always a clear-cut case to have a more centre-led structure. Where there are few synergies in coordinating purchasing efforts, there are not the same potential benefits from a well-developed SRM initiative.

The case study indicates that a pyramid segmentation model is the most common and applicable one. It seems to provide several benefits such as good representation of the supply base and providing an intuitive understanding of it. The study also shows that the weakness of the pyramid model is its failure to incorporate risk and the lack of a commercial strategic supplier segment, such as the strategic quadrant in the Kraljic matrix. The study shows that preferred customer status is important to develop feasible collaboration relationships with suppliers. It also shows that all companies work to achieve preferred customer status amongst their important suppliers. All companies engaged in some sort of volume pooling as an instrument to increase their buying power, however it does not always seem to be effective or efficient on its own. Companies who best managed to achieve preferred customer status paired volume pooling with additional tools or incentives, developed based on company specific competencies and abilities.