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Viewpoint

Tapping Into SRM for Supply Strategy And Procurement Execution

Manufacturers today have an opportunity to leverage their supply base for competitive advantage. Unfortunately, most do not have the tools required to tap this value. For the last decade they have focused mainly on growth issues such as supply chain planning and customer relationship management.

As the engine of growth has stalled, manufacturers are casting a new, critical eye on controlling and cutting costs. But they are learning that the results go far beyond cost cutting; the supply base is emerging as a strategic asset.

By designing the supply base around a business strategy, manufacturers can create competitive advantage in four distinct ways:

1. Cut direct material costs throughout the supply chain by focusing business with strategic suppliers.
2. Increase responsiveness to customer requirements through better supplier synchronization.
3. Create higher margins by channeling new spend to strategic suppliers.
4. Drive more rapid introductions through supplier collaboration.

Missing the Opportunity

Unfortunately, most global manufacturers are missing this opportunity to create competitive advantage.

Why? Because they can't answer the following questions:

- What do I spend with my top 25 suppliers?
- What cost savings can I realistically achieve this year?
- Which suppliers contribute to my inability to deliver customer orders?
- Do I pay consistent prices for the same materials? Across plants? Week-to-week?
- What percent of NPI spend required new suppliers?

Is the problem really as bad as this?

number of factors contribute to making these kinds of efficiencies more difficult to achieve at the corporate or enterprise level. These factors include:

- Fragmented and localized sourcing and purchasing processes.
- Multiple disparate Enterprise Resource Planning (ERP) systems, creating islands of manufacturing and purchasing information.
- Manufacturing, purchasing, and sourcing professionals who are dispersed both geographically and organizationally.

Evaluating and selecting the right Supplier Relationship Management solution is a critical step toward driving cost savings and ultimately best-in-class performance for your company.

At the plant or regional level, certainly not. At the corporate level, absolutely! Most procurement professionals are doing an extremely good job of answering these questions for a limited area. As companies become more diverse and global, however, they either have no strategy or it is disconnected from regional operations.

Even though many companies are benefiting from local efficiencies, a

These factors are obviously inter-related. Fragmented and localized processes create the biggest challenge, as they have developed for a variety of reasons: acquisitions, personnel limitations, technology, and cultural normalities, to name just a few. ERP systems have a similar history and despite the push over the last decade to standardize, very few companies

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have a uniform ERP suite completely rolled out across the organization.

Finally, geographical, organizational, and information boundaries impair people's ability to interact across the enterprise. To overcome these challenges, manufacturers need to implement a strategy that supports the seamless interaction in these three areas.

Synchronizing Processes, People and information

The key to leveraging the supply base for competitive advantage is tying together the processes, people, and information in a way that is aligned with the supply and business strategy.

This starts with a focus on best practices. Whether the process is sourcing, spend analysis, or purchase order processing, the goal should not be to create "standard" processes that everyone in the corporation must adhere to, but to identify centers of excellence and facilitate re-use or adaptation in other areas of the company. Not only is it unrealistic to assume the same process will be used consistently, it may be unproductive.

As part of the business process analysis and definition, the associated roles and information flow need to be well defined. Clearly defining the roles of the buyer, planner, commodity manager, and supply manager, and communicating people's roles within the company is critical to maximizing performance.

Eliminating 'Value Gaps'

Finally, regardless of the process and roles, the information used to make decisions needs to be easily accessible and flow consistently among processes. The contracts a purchasing manager buys off of need to be the same ones negotiated as part of the supply strategy. Unfortunately, this level of synchronization is rarely the case, often resulting in "value gaps."

A new enterprise application category called Supplier Relationship Management (SRM) is emerging. SRM

applications are designed to synchronize the various processes, people, and information required to build, manage, and mine the supply base for competitive advantage.

Defining SRM

Given the maturity of this area, however, many different definitions of SRM exist. In order to extract the value from the supply base, the SRM solution must be comprehensive enough to incorporate the various processes and integrate the relevant procurement roles.

The set of processes between manufacturers and suppliers are both diverse and complex. In the operational purchasing area, depending on

Many global manufacturers are missing an opportunity to create competitive advantage simply because they cannot answer some straightforward questions.

the supplier relationship, a number of replenishment modes are required such as purchase order collaboration and schedule collaboration. Alternatively, when architecting the supply base, more strategic functions are performed. These include spend analysis, commodity strategy, and supplier performance reviews.

A comprehensive SRM solution should at least support the following processes:

- Strategic sourcing for cutting direct material costs, including:
 - Spend/cost analysis
 - Supply strategy

- RFQ/bid analysis
- Contract management
- Purchasing collaboration for synchronizing with suppliers, including:
 - Material plan collaboration
 - P.O. collaboration
 - Supplier performance evaluation
 - MRP-driven requirements
 - Pull-driven replenishment
 - Inbound logistics
- New product introduction for driving revenue and profits, including:
 - Cost analysis
 - New part sourcing
 - Cost reduction scenarios

Typically, manufacturers leverage a number of these processes in different divisions of the company. Strategic sourcing may be centralized — one plant runs lean, while another is planned with MRP (Materials Resource Planning). As a result, an SRM solution must support flexible configuration of roles and organizations.

Seamless Information Flow Between Process and People

Finally, the information flow must be seamless between process and people. There is no point developing and executing a commodity strategy if all the plants do not leverage the results. Integrating real-time information between strategic and operational processes is critical to maximize benefits.

Furthermore, companies can use Supplier Relationship Management solutions to integrate the information in disparate ERP systems into these processes. This requires a sophisticated and robust integration architecture that preserves data integrity and guarantees security.

Leveraging the supply base strategically is a huge opportunity. However, companies must take a strategic approach and support the mission with a world-class Supplier Relationship Management solution. Evaluating and selecting such a solution is a critical step toward driving cost savings and ultimately achieving best-in-class performance. ■