Follow Gartner’s 4-Step Framework to Implement an Effective Supplier Relationship Management Program

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Effective supplier collaboration is a priority in procurement’s agenda, yet many companies still fail to launch — and optimize — an effective supplier relationship management program. This research outlines the key steps that supply chain leaders should follow to implement this key initiative.

Analysis

In a recent Gartner survey, leveraging supplier collaboration as a source of value was selected by 62% of the most mature procurement organizations, making it the No. 1 priority in procurement’s agenda.¹ There are many reasons why supplier collaboration continues to grow in importance. For one, procurement leaders have realized that a traditional approach of squeezing supplier margins as a source of savings is not sustainable in the long run. A second reason why collaboration has become critical is because procurement leaders are looking to evolve their value proposition within their organizations, going from a function that is exclusively focused on cost savings to one that is seen as a source of competitive advantage.

But perhaps one of the greatest reasons to consider is this: Buying organizations are less empowered today, and the best suppliers in the market are now in a position where they are selecting who they partner with. These highly capable suppliers are also in a position where they can decide which customers they give preference to in terms of innovation, talent and overall capacity.

Sourcing and procurement leaders looking to leverage supplier collaboration as a source of competitive value will often launch what is commonly referred to as a supplier relationship management (SRM) program to kick-start their efforts. However, these initiatives will often fail due to poor program design and lack of engagement from key internal and external stakeholders.

Another problem is how some sourcing and procurement leaders plan to implement an SRM initiative without considering how it will support the organization’s long-term goals, plus the minimum requirements and resources that are needed to support it, such as control and governance on external spend. Regardless of the reason, a failed attempt at implementing SRM often leads to lost credibility with both internal stakeholders and the supplier base.
There are multiple definitions of SRM in public literature. Some sources refer to it as a software application that may facilitate managing a supplier base. Others refer to SRM as equivalent to traditional supplier management, which describes all the different activities and strategies that organizations should employ to manage their entire supply base.

But there is a last group that focuses on SRM as being a collaborative approach to identifying and partnering with a select number of strategic suppliers. While this last approach emphasizes collaboration, it does so with only a handful of suppliers that are deemed to be strategic for the organization. For companies that have thousands of suppliers, this means that collaboration efforts would be focused only on these top “key” suppliers and neglect the value that other “nonkey” suppliers can bring to the organization using a more collaborative approach.

Gartner’s research, outlined below, focuses on SRM as an enterprise approach used to leverage supplier collaboration as a source of competitive advantage. SRM goes deeper than traditional supplier management as it focuses on deploying different tactics aimed at maximizing value from different supplier segments, not just strategic suppliers. This does not mean that gain-sharing agreements, top-to-top executive meetings or joint product development will be used for a large number of suppliers. Rather, it’s about acknowledging that increased supplier collaboration overall can increase value to the business, and tactics such as supplier summits or supplier surveys — not exclusive to strategic suppliers — should be within scope of the SRM program. It’s not that supplier collaboration with nonstrategic suppliers is less important; it’s just different.

SRM is an enterprise approach used to leverage increased supplier collaboration as a source of competitive advantage. SRM goes deeper than traditional supplier management, as it focuses on deploying a combination of tactics aimed at maximizing joint value with different supplier segments.

For an SRM program to be successful, it is critical to understand what it is not, as expectations should be made clear to all participating parties. There are some common misconceptions to be avoided regarding the purpose behind implementing SRM. They are:

- SRM is a powerful negotiating weapon to reduce costs.
- SRM provides a quick fix for poor performance.
- SRM can be accomplished using a software application.
- SRM is exclusively owned by sourcing and procurement.
- SRM applies exclusively to strategic suppliers.

Special focus should be placed on the following aspects of Gartner’s SRM definition:

- **Enterprise approach**: SRM is a process that requires support and active engagement from all key internal stakeholders. Sourcing leads the SRM process, but the business owns the success — or failure — of the SRM program.
Deeper than supplier management: SRM is often confused with traditional supplier management; however, the real purpose of an SRM program is to enhance collaboration with the supply base and use it as a source of untapped value. All companies dealing with suppliers must somehow manage their supply base, yet only few companies will take an active collaborative approach with the supply base to maximize value.

Combination of tactics: Most companies implementing an SRM program focus on segmenting their supply base. Then they identify a select group of “strategic” suppliers with which they will hold quarterly business reviews (QBRs), with executive leadership involved from both parties. While this is a good first step, companies often neglect the tremendous source of value that the rest of the supply base (i.e., the “nonstrategic” suppliers) can deliver. Recent research shows how mature procurement organizations use an average of 4.2 tactics, such as supplier surveys or supplier summits, as part of their SRM program.²

Joint value: For SRM programs to be successful, all tactics used must benefit buyers and suppliers alike. Companies that fail to frame how the tactics used in the SRM program will also benefit their suppliers will undoubtedly fail.

Research Highlights

Gartner’s four-step process to implement an effective SRM program (see Figure 1) helps supply chain leaders identify the key actions needed to implement an SRM initiative that delivers the greatest value to the organization. The following research provides access to the details behind each of the steps outlined in this framework.
Figure 1. Four Steps to Implement an Effective SRM Program

### Four Steps to Implement SRM

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<th>Step</th>
<th>Program Scope Definition</th>
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| **Design** |  - Define SRM objective.  
- Identify stakeholders.  
- Create shortlist of potential strategic suppliers.  
- Create implementation plan, identifying the tactics to be used with strategic and nonstrategic suppliers. |  - Communicate business case to internal stakeholders.  
- Finalize supplier segmentation process.  
- Create SRM governance team.  
- Define roles and expectations for the SRM team.  
- Set strategic supplier goals and objectives. |  - Communicate the objective of the SRM program to strategic suppliers.  
- Reach mutual agreement on metrics, targets and scoring methodology with strategic suppliers.  
- Execute an initial strategic supplier assessment and development plan. |  - Set up effective quarterly business reviews (QBRs) with strategic suppliers.  
- Deploy other tactics to unleash further value from the supply base, such as supplier summits, performance awards and supplier feedback surveys, among others. |
| **Align** |  |  |  |  |
| **Launch** |  |  |  |  |
| **Govern** |  |  |  |  |

Source: Gartner ID: 385591

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**Step 1: SRM Program Design**

With an ever-growing number of supply partners and continuous pressure to reduce costs, sourcing and procurement leaders often rush to implement SRM without realizing that poor program design may lead to lack of stakeholder support, misaligned priorities and program failure. In the design phase, the objective is to clearly articulate the SRM program objective, identify key stakeholders required to support the initiative, create an initial list of potential strategic suppliers and identify the tactics to deploy within the program (see “The Journey to Supplier Relationship Management Success: Step 1 — Program Design”).

**Step 2: Stakeholder Alignment**

Sourcing and procurement leaders cannot effectively drive supplier innovation and performance improvement plans without stakeholder support and resources. Involving stakeholders early and often in the design and deployment of SRM can help secure critical mind share when multiple projects and limited resources make it difficult to get their attention. In the stakeholder alignment phase, the objective is to build the business case for the SRM program to secure stakeholder support. It also looks at defining the SRM team structure, which must include representatives from procurement and other business stakeholders (see “The Journey to Supplier Relationship Management Success: Step 2 — Internal Stakeholder Alignment”).
Step 3: Program Launch With Strategic Suppliers

Procurement leaders should be cautious when communicating the SRM program to their strategic suppliers, as some will be skeptical about the underlying drivers for entering a new relationship model. In the launch phase, the goal is to communicate the objective of the SRM program so that strategic suppliers fully understand the benefits to their organization. This includes securing support across all stakeholders within the supplier’s organization. It also includes deploying the set of metrics that both organizations will use to track the partnership’s performance (see “The Journey to Supplier Relationship Management Success: Step 3 — Program Launch”).

Step 4: Program Governance and Deployment of Tactics With Other Nonstrategic Suppliers

The value of SRM programs will diminish without proper governance in place, or if collaboration efforts are limited to strategic suppliers only. Companies will typically focus their SRM programs on establishing stronger partnerships with strategic suppliers only. While this is a good first step, there is significant value to be gained from deploying other tactics to increase collaboration with the broader supplier base. In the gover phase, the objective is to establish the guidelines of effective QBR meetings with strategic suppliers. In addition, we look at different activities such as supplier summits, supplier feedback surveys and supplier advisory councils, which are commonly used by leading organizations to leverage supplier collaboration for competitive advantage (see “The Journey to Supplier Relationship Management Success: Step 4 — Program Governance”).

Evidence

1 Gartner Procurement’s Value Contribution in Supply Chain: “What are your organization’s top 3 priorities for sourcing and procurement function?” (n = 264)

Results presented are based on a Gartner study to understand the business outcomes procurement is most focused on supporting, the primary levers it is using to achieve these business outcomes, and the technology enablers required to operate these levers effectively. The primary research was conducted online from July through August 2019 among 264 respondents in North America, Latin America, Western Europe and Asia/Pacific.

Companies from retail, manufacturing, healthcare and natural resources were screened for having annual revenue of less than $1 billion.

Respondents were required to be at a manager level or above, and should have primary involvement in and responsibility for the sourcing and procurement function in their organization.

The study was developed collaboratively by Gartner analysts and the Primary Research team that follows supply operations.

Disclaimer: Results do not represent “global” findings or the market as a whole, but rather reflect the sentiment of the respondents and companies surveyed.
2 Gartner Procurement’s Value Contribution in Supply Chain: “Which of the following are you using to increase collaboration with your supply base?” (n = 262)

Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

“Key Success Factors to Assess Your Supplier Relationship Management Program”

“Video: Reinventing Supplier Collaboration at Schneider Electric”

“How Supplier Feedback Can Help You Become a Customer of Choice”

“Increase Supplier Engagement Through Supplier Summits”

“Supplier Performance Management: It’s More Than a Scorecard, It’s a Strategy”