

SDI Point of View

*The Importance of
Supplier Relationship Management*



SDI, at its core, is a supply chain management company that is exclusively focused on creating client value through the efficient and effective management of the MRO supply chain process.

The MRO supply chain is a highly complex, fragmented and evolving segment of the business that is a core enabler of business operations. It can impact both the top line and bottom line of many businesses.

In order to effectively manage the supply chain there must be a Supplier Relationship Management (SRM) strategy. But first, what is SRM and what does it include?

Definition

Supplier Relationship Management (SRM) is a systematic, enterprise-wide assessment of suppliers' assets and capabilities in view of the organizations overall business strategy, a determination of what activities to engage in with different suppliers, and planning and execution of all interactions with suppliers, in a coordinated

fashion across the relationship life cycle, to maximize the value realized through those interactions. The focus of SRM is to develop two-way, mutually beneficial relationships with strategic supply partners to deliver greater levels of innovation and competitive advantage than could be achieved by operating independently or through a traditional, transactional purchasing arrangement.¹

¹ "Maximising the Value of Supplier Relationships". CIO Leadership. 9 November 2009.

SRM encompasses five primary tasks:

1. Segment the Supply Base
2. Measure & Improve Supplier Performance
3. Become a Better Customer
4. Collaborate with Suppliers
5. Improve Supplier Quality

Segment the Supply Base

As an MRO Service provider, one key aspect of SDI's offering is that we are brand and supplier neutral in our approach, focusing solely on delivering value to our customers in the execution of their MRO supply chain. This differs from a distributor, whose

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primary business and revenue models are focused on selling specific lines of products to clients – regardless of need or expanding inventory levels. A supplier neutral approach allows us to fully align to our clients’ business goals in an unbiased way while developing deep supplier relationships – rather than eroding value through immature and fractured supplier relationships that are not focused on value delivery.

Another factor that can impact the overall size of the MRO supply chain is the vast nature of the commodities included under the MRO umbrella. In the case of SDI, nearly 40 such commodities exist. This is further compounded by the high demand mix of MRO parts required for increasingly complex production lines – a 60% turnover rate that leads not only to a higher incidence of obsolete inventory, but also leads to proliferation of the supply base.

As such, SDI’s active supplier base has ebbed over time, growing with new clients and supplier entrants and shrinking through focused efforts on identifying those suppliers with whom the greatest value creation opportunity exists. As a way to counteract supply base growth, SDI engages in a process of supplier segmentation, seeking to identify those suppliers with whom we can work with to achieve greater levels of value

creation for our customers. Segmentation of suppliers is one way to help ensure the proper alignment of resources within an organization and thereby manage for value versus managing solely for performance.

Measure & Improve Supplier Performance

Performance is much more than compliance. While establishing strong contract relationships and ensuring buyer and supplier compliance to those agreements is one part of delivering value, it can, if not properly contained, distract from the ultimate value created from a supplier partnership. Value from a supplier partnership comes through innovative and collaborative activities that focus on solving customer problems. Within SDI, we recognize that in our customer’s eyes, we are only as good as the suppliers with whom we choose to do business. If our suppliers fail to deliver, then SDI has failed.

Supplier performance objectives and measurements must focus on, and be tied to, the overall objectives of the business. In SDI’s case, this means meeting and exceeding our clients’ expectations for the management of their MRO supply chain.

Become a Better Customer

In the multifaceted, fast moving and complex MRO supply chain,

creating and delivering value requires that an MRO Service Provider be capable of harnessing the vast resources, capabilities and innovations that exist within the supply chain. Very few companies, probably less than 5%, receive top performance and privileged access to their supplier’s best ideas, newest innovations and best resources.

In order to become a suppliers Best Customer, it is critical to have a deep understanding of the supplier’s perspective, business objectives and needs. Valuing what is important to the supplier and seeking to minimize distractions or impediments to those factors will go a long way toward moving an organization up the ladder to Best Customer status.

Segmenting suppliers and focusing the necessary time and resources on those preferred, strategic or partner suppliers will help to drive the necessary relationship development and maturity that can yield Best Customer status.

Collaborate with Suppliers

Collaboration is something that we hear a lot about, but we may not always be able to clearly define it or even recognize it properly in the context of day to day business dealings.

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So let's define it: Collaboration is working with others to do a task and to achieve shared goals. It is a process where two or more organizations work together to realize shared goals. This is more than the intersection of common goals seen in co-operative ventures, but a deep, collective determination to reach an identical objective.

Within the MRO Supply Chain collaboration can lead to improvements in supply availability or delivery. It can support improvements in overall inventory management, helping to improve customer financials. It can support the identification, review and approval of alternative parts that reduce replacement costs, improve productivity and support reductions in the total cost of ownership or improve overall equipment effectiveness.

Improve Supplier Quality

Within a focused and collaborative supplier relationship environment there is significant opportunity to bring about improvements in supplier quality. In part this is an outgrowth of investment in regular meetings with the supplier that focus on all aspects of business performance. Further it can be enabled through the sharing of data related to product failures within the various client environments. This data can be effectively captured when

an MRO Service Provider has invested in tools specifically designed to address the warranty, service, reparability and maintenance of MRO items.

Supplier Management @ SDI

SDI maintains a brand and supplier neutral approach within our sourcing & purchasing activities in order to align with the needs of our clients across a wide spectrum of industries and with varying and distinctive needs within each of their areas of operation. Whether that be unique product manufacturing activities across a set of client locations or the need to service more than a thousand independent schools with unique requirements.

With this complexity there is a need for a varied and extensive supplier network. SDI currently maintains approximately 6k supplier relationships in order to meet the needs of our clients. This provides our clients with access to the items they need, when they need them, whether they are for newly acquired assets or assets that have been in use for multiple decades. Access to SDI's vast supplier network simplifies our clients' business as they are no longer required to maintain relationships with these suppliers, thereby simplifying their supply base and allowing them to focus on those suppliers who are truly critical to their business.

Of course, with this number of suppliers it is impossible to maintain deep relationships with each one, therefore SDI implements good SRM practices and builds Preferred Supplier relationships with a focused set of organizations. With these Preferred Suppliers, SDI leverages the fundamental concepts of SRM with a focus on a collaborative relationship that provides for improvements in quality, supplier and SDI performance with respect to delivery, ordering and efficient business practices.

SDI leverages our supplier network, both preferred and non-preferred to ensure that our clients receive the best value for the purchasing dollar. Through competitive bidding SDI is able to achieve competitive market pricing, either for longer term, repeat stock purchasing activity or for one-off non-stock transactions. While both our clients and SDI seek to reduce costs through our purchasing activity, it is equally important items be available on-time at the right time. Therefore, while price is a key factor, a supplier's ability to meet SDI's client delivery schedule is key factor that can influence supplier selection.

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Today SDI's SRM program contributes to our ability to manage our supplier relationships with a degree of effectiveness and efficiency that is not generally possible within our clients' environments given the sheer number of suppliers and interactions required to manage the MRO supply chain.

Looking forward, SDI is embarking on a process to develop the requirements and expectations associated with a new level of supplier partnership that goes beyond traditional SRM practices to defining SDI Supplier Partners. With SDI and our Supplier Partners forming an ecosystem within the MRO supply chain that delivers maximum value to our clients – through access to new technology, best practices in storeroom and inventory management, reliability and engineering services and cost management.

About the author

Take strategic sourcing and mix it with operations in addition to organizational management and throw in over 15 years of experience leading IBM's procurement teams and you'll find [Kurt Meiers](#), one of the most savvy sourcing VPs this side of the indirect supply chain.

Kurt's industry experience and client-centric approach makes him a sourcing expert for both SDI's internal and external clients. His expertise in all sourcing and category management activities means our clients have full confidence in SDI's ability to drive value throughout their enterprise.

About SDI

By helping organizations understand how each link in their MRO supply chain impacts the entire enterprise, SDI helps them achieve year-over-year savings, enterprise-wide efficiencies and newfound control.

Using a custom suite of products, services and tools, SDI's platform coordinates, aligns and optimizes every step of the MRO indirect process.

Lower costs, smarter inventories and more reliable production are all natural results from a more connected MRO supply chain.

To learn more visit sdi.com today.

