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SUPERALLOYS

Supplies tighten as aviation SOARS

Good times are back, says the aerospace industry. Upshot for metals buyers: Prepare for tightened supplies, inconsistent deliveries and increased prices.

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Technology vs. process: Another round

*Buyers search for the blend of strategy
and functionality that is SRM*

BY DAVID HANNON

The supply chain and procurement industries are wrought with acronyms and buzzwords and its participants are getting more savvy about looking under the hood and finding out how exactly a given piece of technology will help them do their job. Such is the case with supplier relationship management (SRM) processes and technologies. In an informal poll, buyers said they were confused about where SRM begins and ends and how the mishmash of software labeled SRM can help them in the day-to-day process of managing strategic suppliers.

In short, SRM the process and SRM the technology are separate, but complimentary, and need to remain that way. There is a specific SRM process and there is SRM technology specifically developed to assist in that process. Managing suppliers is certainly nothing new, but the connotation with SRM is a deeper collaboration between buyer and supplier in various ways.

Setting strategy

"Usually when I hear the term SRM as a process it's in reference to supplier collaboration, and ongoing supplier relations," says Pierre Mitchell, a director with the Hackett Group. "Meaning, once you've done your strategic sourcing work, how do you best collaborate with the suppliers you've got? So it involves leveraging technology like supplier portals, scorecards, collaboration tools, etc. I see it as the collaboration with the supplier mostly."

Of course, one SRM process/strategy/philosophy will not cover every supplier or even every supply category in your database, so the first priority is categorizing suppliers and setting specific SRM strategies for each level of supplier before deciding which tool in the SRM toolbag will help support that strategy.

"Once you've done strategic sourcing, you determine the kind of strategies to take in the ongoing management, that's where SRM processes and tools

SRM=CM

Change management is a big challenge when it comes to SRM—getting longtime staffers to change the way they view supplier management. Larraine Segil, a partner with consulting firm Vantage Partners, says one of the biggest challenges is compensation incentives typically given to procurement professionals. "If you only reward buyers for beating suppliers up on cost, they'll continue to think that way," she says. "All this talk about intellectual property might not mean anything if procurement is only rewarded for cost savings."

come into play," says Mitchell. "The tool you choose should be based on your supplier categorization strategy."

Larraine Segil, a partner with consulting firm Vantage Partners, says some companies should prioritize suppliers not just from a cost perspective, but according to their contribution and competitive advantage in determining their SRM strategy. What kind of technology do they bring? What kind of intellectual property do they offer? How do they help minimize transaction costs?

"That kind of approach is difficult to bring from procurement up," she says. "It's more successful when brought from senior-level down. But you've got to bring the procurement people up into it both in their skills and their mindset. They need to recognize there is a fundamental change in how they deal with their most strategic suppliers in their organization."

Vantage does some work specifically in this area—helping procurement organizations categorize suppliers for different management strategies. Segil says most obvious are those suppliers that do the largest amounts of business with the organization. With more at stake the strategy often involves deeper integration and collaboration. But what about the suppliers that want to be a partner and have the potential and strategic product or service, but don't

have the volume yet? Where do they fit on the spectrum?

"Volume should not be the only criteria for strategic suppliers," Segil says. "Buyers need to acknowledge these suppliers are out there and develop a specific strategy for them, or they will get beaten up on cost and not contribute at the level they should."

Brett Mauser, director of global procurement at NCR Corp. in Dayton, Ohio, says he separates suppliers into those that impact the company's revenue stream and those that don't and applies SRM strategy and technology based on those factors. He says most procurement organizations are responsible for the relationship with the supplier to ensure they are looking for integrated cost reductions. But depending on what segment or component the supplier provides, procurement may look to work with suppliers on areas like design for manufacturing improvements.

"If the supplier is simply part of our cost stream and not contributing to our revenue stream, we're going to focus on cost and things like payment terms as much as possible," he says. "But if they provide raw materials or solutions for our end products, on which our revenues are based, or installation support

Who's who in SRM: The names you should know

A listing of the top technology companies focusing on the SRM market

Company/ provider name	Name of software	Website:	Specific SRM modules (name):
SAP	mySAP SRM	www.sap.com	SRM includes: Strategic Sourcing, Operational Procurement, Supplier Enablement
Intentia	Intentia Application Suite	www.intentia.com	Purchase delivery scheduling, Purchase order processing, Request for quotations, Supplier evaluation and statistics, e-Procurement
Oracle	Oracle Advanced applications/ procurement.html	www.oracle.com	Oracle Advanced Procurement PeopleSoft, Enterprise SRM, JD Edwards EnterpriseOne Supply Management, JD Edwards World Distribution Management, and Supplier Self-Service
Open Ratings Inc.	SBManagerT	www.openratings.com	SBManager suite
Frictionless Commerce	Frictionless SRM	www.frictionless.com	CPO Central, SRM Explorer, Spend & Compliance Enterprise Sourcing, Contract Management, Supplier Management XPress
SAS Institute	SAS Supplier Relationship Management	www.sas.com	SAS Supplier Relationship Management, SAS Sourcing Data, SAS Spend Analysis, SAS Procurement, ScoreSAS Sourcing Strategy
i2 Technologies	Supplier Relationship Management (SRM)	www.i2.com	Strategic Sourcing, Negotiate, Contract Management, Component and Supplier Management, Product Sourcing, Hazardous Material Management (RoHS Compliance)
SSA Global	SSA Supplier Relationship Management	www.ssaglobal.com	SSA Supplier Collaboration, SSA Sourcing, SSA eProcurement
Perfect Commerce	Perfect Commerce On-Demand SRM Solutions,including The Open Supplier Network	www.perfect.com	The Open Supplier Network includes: Spend Analysis, Perfect Source—Event Manager (RFx and electronic auctions tool), Contract Manager, Scorecard Manager - PerfectProcure—Procurement Manager, Catalogue Manager, Services Spend Management, PerfectFinance, Invoice Manager, Discount Manager, Settlement
Epicor Software	Epicor SRM	www.epicor.com	Epicor Sourcing, Epicor Procurement
SupplyWorks	SupplyWorks	www.supplyworks.com	Supplier Collaboration, Direct Materials Inventory Replenishment, Supplier Kanban, P.O. and Release Management Visibility, Alerts & Notifications Shipments, Tracking, Receiving, Performance Measurement

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or maintenance for those products, then they assist in driving revenues, so we need to have more strategic relationships with them."

NCR uses Oracle's SRM tools and Mauser points out that the suppliers that are providing components or solutions for end-products may end up in a product lifecycle management system or other design collaboration tool, while those suppliers that do not contribute to revenues will likely see NCR's sourcing and transactional tool.

Collaboration

Mitchell says one of the differentiating factors between best-in-class procurement organizations practicing SRM is the involvement of cross-functional teams. Sure, many companies leverage cross-functional teams in the early processes like supplier discovery and strategic sourcing—but few use them beyond that phase in areas like managing the ongoing relationship with suppliers. That is often left solely to the procurement organization.

Supplier councils are also valuable in evaluating which SRM strategy to pursue, but Mitchell says the challenge is integrating the recommendations of the supplier councils into the commodity management teams and processes.

"Supplier councils are very good for macro issues, but when the rubber hits the road in turning supplier recommendations into processes, that's more difficult. I think that's where the leaders excel and the others don't."

Segil worked with a supplier council for a major aerospace company with a very simple strategy. All the suppliers were brought into one room and told to partner more efficiently.

"Of course they hated this, because some were competitors," she says. The post-mortem to that supplier council we did is that one of the suggestions they came up with was ignored. The years are well past when someone will show up for a two-day meeting with no action items. People are more aware of

> "Get a real good understanding of your business requirements and figure out what technology will support that. It's not the amount of technology—it's applying the right technology. The technology platform we enabled is successful for our business driver—but that doesn't mean it will work for someone else, but it works for us."
> —Brett Mauser, NCR Corp.

how they spend their time, so a supplier council needs to have an outcome. The supplier is a very powerful player."

Technology

With all of this in mind, there are still some disconnects between SRM process and tool. At the Conference Board's SRM Conference in Atlanta earlier this year, attendees said they heard too much about supplier discovery tools and software and not enough about supplier management technology. Vantages Partners' John Hughes was involved in organizing the conference (along with Steve Rogers, who wrote a companion story following this one) and says he found out that SRM means different things to different people—even different technology providers. While some software compa-

nies may package a suite of tools under the SRM umbrella, there may only be sourcing and spend management tools in a new package, says Hughes.

The deeper SRM packages have more collaborative functionalities such as scorecarding, contract management and supplier portals.

Even the term "supplier portal" can mean many things. As Mitchell points out, a nice user interface can often hide shoddy functionality, which only serves to frustrate suppliers.

NCR is using an off-the-shelf portal tool from Oracle and now has 3,500 active suppliers on it. Suppliers can download and acknowledge P.O.s, request changes, reject P.O.s, submit invoices, and view invoice and payment status. The company also uses a home-grown scorecarding tool which is integrated with specific supplier strategies. Suppliers in strategy A have different weights and metrics than suppliers in another category.

"Soon we'll deploy supplier collaboration tools to let suppliers see our demand plans for manufacturing," says Mauser. "They'll be able to see our demand so they can shift their manufacturing as needed. There are a lot of Web forms that can do this, but this goes direct into the database so changes in our database show up on the portal immediately to eliminate extra work and handoffs."

EXPERT OPINION

The old idea returns again

BY STEVE ROGERS

One of the new, loud kids on the technology block is supplier relationship management (SRM). While it has been around for a while (PeopleSoft in its pre-Oracle days was an early promoter), interest in SRM is growing. Procurement organizations that have run several rounds of strategic sourcing need a way to sustain the gains and deal with cost pressures from energy markets and low-cost country wage inflation. SRM is emerging as one of the next big hopes.

Following in the footsteps of cus-

tomer relationship management (CRM) software on the sales side, SRM is becoming a popular buzzword in procurement circles. The problem is that:

SRM does not mean the same thing to everyone—including software companies doing SRM. It is about much more than using a software tool.

It is the rediscovery of something that has been around a long time. What's new are some (but not all) of the tools, not the idea. As program director of the Conference Board's annual SRM Conference, this range of

SRM definitions is even more obvious from attendee feedback that SRM is everything from supplier segmentation, alliances, and interpersonal skills to leveraging spend, managing results and software tools.

The software industry recognized that understanding the details of commercial relationships between suppliers and buyers is as important to the buy side as the sell side, although it can be more complex given the supply chain's tiers of suppliers. But beyond that, even the software providers aren't unanimous on what SRM is and does. Strolling through the ISM Conference exhibit hall in San Antonio last May, I was struck by the many vendors listed under SRM in the conference navigator. They ranged from extensions of spend-analysis products to software suites. The simple ones were supplier-centric instead of spend-centric or user-centric tools. At booth after booth, I asked what the tool did and upon receiving the explanation commented, "So it is really an extension of spend analysis?" As often as not, the answer was, "That's right but it tracks suppliers."

At the other end are suites of supplier-focused tools, assembled under the umbrella of SRM. These offerings have found SRM to be an easy to understand integration of many individual applications that deal with suppliers. No two provider's complete tool sets are identical, but over 80% overlap. They include supplier portals, financial settlement, bidding, spend analysis, spend history, supplier scorecards, catalogs, contract management—the connectivity links and assembly points that electronically carry on typical repeatable interactions and translate them into usable supply management information, all in a cool user "dashboard" (to use another buzzword).

And maybe that is the point! These are operational supplier-management tools focused on past and present management analysis. The "R" word is missing. These tools are just that—tools—

and they add enormous value via information and efficiency. They equip people to better do the "R" in SRM but they do not create relationships.

SRM is, importantly, about relationships. Why? Because suppliers are people not information, that's why. This is not a new concept—purchasing icons like Dave Nelson, Garry Berryman and the late Gene Richter said it for years, and were saying it long before the Internet and e-procurement came on the scene.

People first

SRM is about people, not just technology. It is about the multifunctional people on both sides of the table and the context in which those people work. This context includes corporate culture,

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Managing the people side *of suppliers is what SRM is all about, because people are the decision makers that create the future where the game will be decided. Once the contract and payment are done, then what?*

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market realities and constant change—a dynamic context in which individuals and organizations must stay in touch to insure alignment. Managing the people side of suppliers is what SRM is all about because people are the decision makers that create the future where the game will be decided. Once the contract and payment are done, then what? Knowing the people, what drives them, what they are good (and bad) at, and what their companies expect from them is effective SRM.

How your company thinks about suppliers is also critical to how you approach SRM. Are suppliers convenient value-extraction sites or vital value building allies, or some combination of the two? What is value? Cost, quality and delivery alone are not a guarantee of success. Speed, innovation and flexi-

bility/agility are a growing component of value, as are the reflection of suppliers' actions on your reputation (social responsibility) and holistic solutions to business problems. Software tools can support these value components, but the decisions and actions that create value propositions will be those of the leaders and doers within the supplier and the buyer.

Orchestrating interactions between companies requires a level of coordination, cooperation, communication and creative conflict (five very important Cs) that define relationships. This is a skill, both at the individual and organizational levels. The goal is to be tough but fair, be supportive while holding accountability and always be looking for where to go next, as the environment and customer expectations dynamically change. Creating trust, sustaining the value-duration of a supplier relationship and deciding when you need to exit gracefully are all part of SRM and have been for a long time.

I have always thought of these latter items as the definition of SRM while the electronic tools are part of the infrastructure that helps execute it. However, if the world decides that e-tools are the definition of SRM, then maybe we ought to call the full task "Strategic SRM", where the electronic helps the human deliver sustainable business results through the types of relationships with the suppliers humans choose to have those relationships with, amidst constant change. SRM isn't new and is more than software or information—it ain't easy but it sure is important and … people use computers to do it, not the other way around! ■

Steve Rogers is a former supply chain executive with Procter & Gamble and is now an adjunct professor of business strategy at Xavier University and a senior consultant at the Cincinnati Consulting Consortium, a collection of 30 ex-P&G executives.