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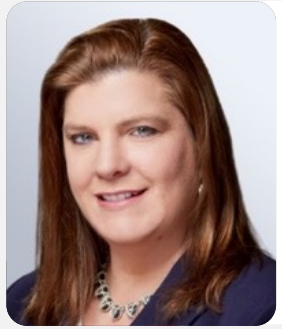
Becoming a Customer of Choice: How to Boost Your Supplier Relationships

September 20, 2022

Live Tweeting #EGAnalyst

Introductions



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Discussion points for today

Introduction to Supplier Relationship Management (SRM)

- SRM evolution
- Challenges and best practices

Critical SRM components

Q&A

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Effective supplier management is the key to evolving from a traditional savings business model to a value creation-based business model

The business model's evolution through an effective SRM strategy

Traditional savings model objectives	Value creation-based model objectives
Maximize cost savings	Maximize value through cost and business impact – link supplier performance with business goals
Optimize processes	Drive continuous process improvements
Reduce risk impact in the event of supplier failure	Actively manage risks related to key suppliers
Manage suppliers	Create competitive advantage through suppliers
Manage sourcing engagements	Foster innovation
	Structure governance programs and drive active stakeholder engagement

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As a supplier management professional, what challenges do you face in your day-to-day operations?

- Inefficient supply management processes – 18%
- Inadequate resource utilization – 13%
- Regulatory/compliance mismanagement – 7%
- Data silos – 13%
- Misalignment with procurement / business stakeholders – 34%
- Lack of technology usage – 16%

Supply management leaders face multiple challenges due to internal inefficiencies such as disparate systems and market events

Key challenges due to internal inefficiencies and market-related factors, and their underlying factors in supplier management

Internal

Data silos

Disparate systems

Manual processing

Poorly designed team structures

Multiple approval workflows

Legacy systems

Operational silos

Lack of standard processes

Lack of streamlined processes

Inefficient resource utilization

Regulatory/compliance mismanagement

Location concentration

Improper or excess documentation

Market events

Lack of maturity in tools/technologies in market

Cybersecurity threats

Expensive resources

Multiplicity of standards/protocols

Note: Font size indicates magnitude of challenge

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Discussion points for today

Introduction to Supplier Relationship Management (SRM)

Critical SRM components

- Stratification
- Governance
- Technology
- Performance management
- Risk management
- Supplier-driven innovation

Q&A

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An optimal buyer-supplier collaboration depends on a successful SRM strategy that involves multiple components

Supply base stratification
Segmenting the supply base on a defined set of business-related attributes to identify the most strategic suppliers and develop strong partnerships with them

Supply base governance
Putting in place organizational models to ensure that supplier management objectives are met; this process involves a regular cadence of planning and review meetings, as well as well-defined escalation procedures, to ensure that business needs are met

Technology
Adopting technologies for strategic supplier management and technology implementation for strategic activities such as demand, contract, and performance management

Performance management
Monitoring ongoing performance to ensure alignment between expected and achieved supplier performance levels, and conducting improvement activities where gaps are identified

Risk management
Identifying supplier-related risks and developing strategies to manage those risks over time

Supplier-driven innovation
Driving innovation through strategic suppliers to generate value through initiatives such as organized innovation days, steering committees, and the creation of an environment and governance structure that encourages innovation

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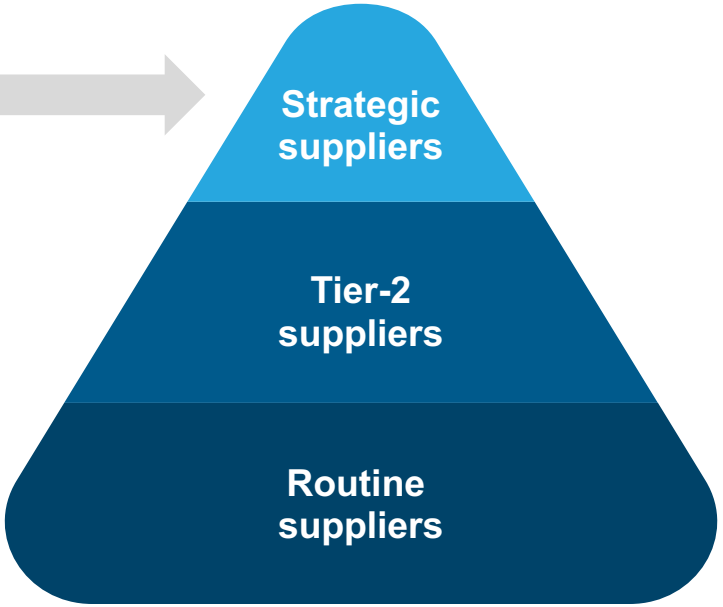
A multi-parameter supplier stratification framework is based on weighing and scoring different stratification parameters to define different supplier tiers

Total supplier spend	Business/ Revenue impact	Supplier relationship and tenure	Strategic alignment	Product/ Service	Contract complexity	Risk impact

All suppliers

Filtering via a prioritization framework based on weighting and scoring different stratification parameters

Multi-parameter stratification framework



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Case example: An insurance firm defined a multi-level supplier stratification process to achieve focused agility and risk management-related benefits

The firm classifies suppliers as strategic based on multiple factors

500 suppliers across seven categories	Semi-annual review process

Key segmentation levels	Critical process	High dependency	Compliance impact	Confidentiality	Stakeholder interaction	Spend level	Branding impact

Benefits	Increased capability for targeted risk management	Focused management of ~500 suppliers	Frequent review of stratified suppliers	Innovation and improvement through dedicated relationship management

KEY TAKEAWAY

The supplier stratification process uses multiple criteria to classify suppliers as strategic, giving each criterion different priority levels depending on the company's internal needs

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A well-defined governance approach identifies goals and develops frameworks for stakeholder mapping, escalation, and conflict resolution

Define goals	Embed a governance structure	Set roles and responsibilities	Establish a communication matrix	Monitor performance
• Identify short- and long-term measurable goals across SRM processes, talent, and technologies • Set realistic expectations across stakeholders, with clear priorities and timelines	• Recognize different governing functions and define key accountability areas across governing stakeholders • Plan an engagement model along with a defined level of interaction through stakeholder mapping	• Identify different activities across the sourcing value chain • Establish a comprehensive set of roles and responsibilities at each activity level, with defined involvement level	• Outline a clear communication structure, with a regular cadence of planning and review meetings • Define the primary and secondary stakeholders for the cadence • Structure the escalation matrix for effective conflict resolution	• Develop an effective performance management process through regular meetings and reviews • Ensure adherence to contractually defined SLAs and performance targets • Identify supplier capabilities and develop corrective actions to continuously improve value

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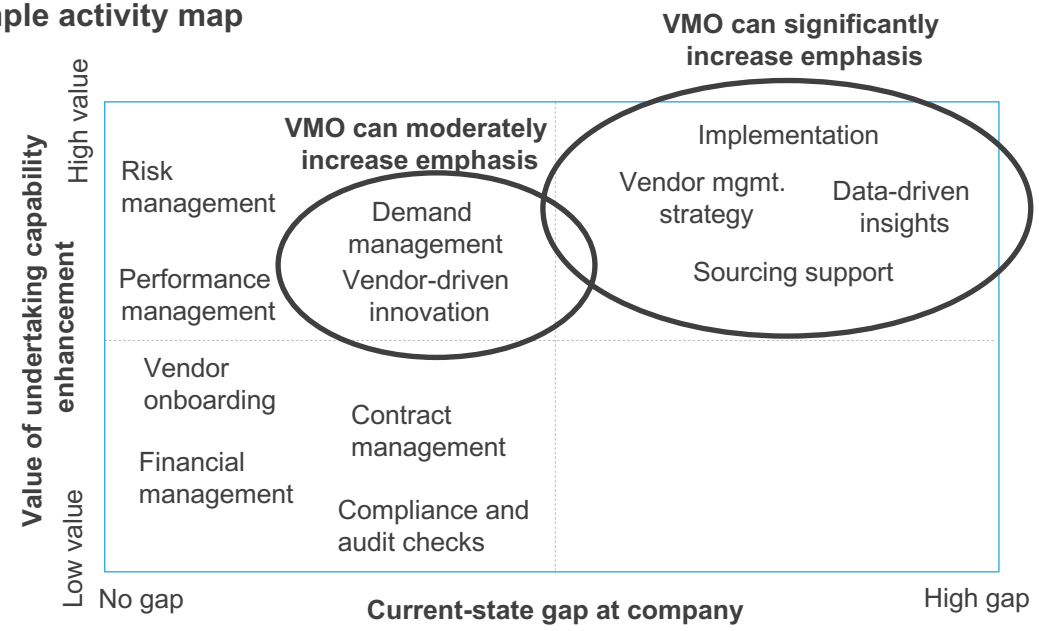
Case example: a life sciences company defined a vision for its Vendor Management Office (VMO) through an activity map and clear delineation of roles across stakeholder groups

Clearly articulated vision	Activity map	Roles and responsibilities
Defined and articulated a vision for the VMO across key stakeholder groups	Conducted comprehensive activity mapping to define supplier management needs	Developed a RACI matrix to define roles and responsibilities for each activity across procurement, business, and VMO

Sample activity map



Sample RACI matrix

R Responsible A Accountable C Consulted I Informed

Activity bucket	Roles and responsibilities: VMO	Procurement	Business owners	Service areas / SMEs
Vendor risk management	C	R A	C	I
Performance management	R A	R A	R	R
Compliance and audit checks	I	I	I	R A
Vendor onboarding	C	C	C	R A

KEY TAKEAWAY

The supplier management office needs to ensure that it meets critical supplier management objectives in its day-to-day operations and clearly articulates its value proposition across relevant stakeholder groups

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Supplier lifecycle management encompasses of a series of activities that require multiple technology solutions across different user groups

NOT EXHAUSTIVE

Vendor lifecycle management

Supplier onboarding and information management				Vendor financials and risk management		Vendor performance and relationship management				
Supplier information management	Supplier data enrichment	Supplier ratings	Risk monitoring	Risk mitigation planning	Invoice management	Demand management	Stakeholder dashboards of the supply base	SLA tracking	Supplier performance tracking	Relationship surveys and benchmarks
apexanalytix	Excel	dun&bradstreet	SirionLabs	ARCHER	enlighta Supplier Governance & Risk	servicenow	SirionLabs	SirionLabs	LeanLinking	LeanLinking
graphite	TealBook	ecovadis	STATE OF FLUX			enlighta Supplier Governance & Risk	enlighta Supplier Governance & Risk	STATE OF FLUX	STATE OF FLUX	Excel
		RAPIDRATINGS							servicenow	

Vendor collaboration and performance reporting

Vizibl LeanLinking

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Case example: an insurance company that used multiple tools across the SRM lifecycle planned to integrate information to create a unified supplier view

Vendor lifecycle management

Supplier onboarding and information management | **Supplier financials and risk management** | **Supplier performance and relationship management**

- Supplier information management
- Supplier data enrichment
- Supplier ratings
- Risk monitoring
- Risk mitigation planning
- Invoice management
- Demand management
- Stakeholder dashboards of the supply base
- SLA tracking
- Supplier performance tracking
- Relationship surveys and benchmarks

Supplier collaboration and performance reporting

General technology categories (e.g., ERP, S2P platforms, RPA, VMS, Data Visualization/BI, Integrated Risk Management(IRM)) — Representative best of breed systems

Insurance company's tools

Ariba Beeline ServiceNow	SIG ServiceNow SharePoint	RSA Archer Service Now D&B / Credit Risk Monitor	RSA Archer ServiceNow OpenPages	Manual	Excel Beeline Ariba	Excel	PowerPoint Excel	Spreadsheets QlikView	QlikView	Excel Qualtrics

Future roadmap

- **Introduction of automation across tactical processes**
- **Use of best-of-breed solutions for performance management**
- **Integration across systems to create unified supplier view**

KEY TAKEAWAY

While it is common to have multiple tools across the supplier lifecycle, the key is to integrate multiple views and use emerging tools to fill in technology gaps across processes

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Which of the following metrics are part of your supplier performance scorecard?

- Contractual performance – 45%
  (i.e., agreed-upon engagement metrics)
- SLA outcomes – 29%
- Environmental Social Governance (ESG) factors – 0%
- Customer satisfaction score – 17%
- Supplier financial risks – 6%
- Supplier attrition – 3%
- Reputational news on the supplier – 0%
- Cybersecurity elements – 0%
- Innovation and process improvement – 0%

Several metrics can be aggregated into impactful categories of supplier performance in a performance scorecard

Categories of metrics for performance measurement

Contractual performance

- Agreed-upon engagement outcomes
- Operational and SLA compliance

Environmental Social Governance (ESG)

- Diversity and inclusion
- Sustainability
- Fair labor practices

Customer satisfaction

- On-time service delivery
- Timely issue resolution
- Internal customer feedback
- External customer feedback (if applicable)

Risk

- Financial stability
- Fourth-party relationships
- Attrition levels
- Cyber risks

Innovation and process improvement

- Supplier-driven process improvement
- Revenue improvement initiatives
- Efficiency and productivity growth
- Savings delivered

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It is crucial to set alert triggers based on metric calculations to trigger performance remediation plans

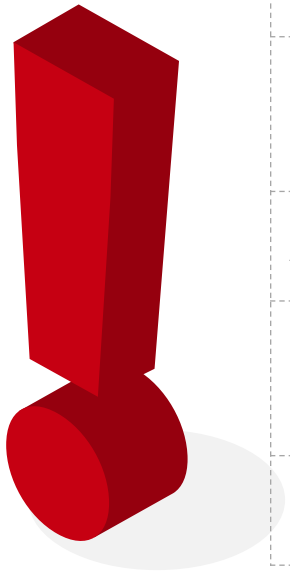
Components of a performance scorecard

KPI reports
Metrics used to assess service delivery across contractual commitments – each metric is classified into green, yellow, and red zones

Critical alerts
Action items across strategic projects conducted by suppliers, such as process improvement, security, and product development

Remediation plans
Plans with clear accountabilities for stakeholders to ensure supplier hand-holding and remediation

Issues log
Financial, operational, or regulatory issues that can impact a vendor



Examples of alert triggers for commonly used metrics

Supplier performance metric	Alert trigger
Operational and SLA compliance	<80% for three consecutive months
Stakeholder feedback	CSAT score below 3.0 for three consecutive survey periods
Attrition	>20% in any quarter
Supplier financial health (Z-score)	<1.81 in any quarter
BCP score	Not met by expected date

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Case example: a leading financial services firm creates a balanced scorecard for its outsourced vendors and ensures CXO-level involvement in remediation plans

Sample scorecard

Trend ⬇ Decreased since last month ⬆ Increased since last month

Overall summary

- Supplier misses KPIs in January due to increased attrition, compounded by higher absenteeism
- Supplier helps with some additional business needs

Type	Description	Actions	Status	Date open	Target close date
Corrective plan	Supplier consistently misses KPIs	Meeting scheduled with Supplier COO / senior leaders	Active	XX	XX

Measure	Goal	Actual	Trend
SLA compliance	98%	⬇ 95%	Decreased since last month
Customer satisfaction	4.50	4.50	Same as last month
Attrition	TBD	⬇ 20%	Decreased since last month
BCP/DR preparedness	Complete	On track	Targets have been met
Cybersecurity	90	⬆ 95	Increased since last month
Financial health (Z-score)	>3.0	⬇ 2.54	Decreased since last month
Contract term compliance	90%	⬆ 100%	Increased since last month

Key principles of the performance management process

Ongoing hand-holding in corrective plans	**Use of market intelligence to improve performance and risk score carding with regular reassessment of scorecard metrics**	**Leadership involvement in remediation planning**	**Advanced innovation and productivity tracking techniques**

Key takeaway

It is critical to balance multiple performance parameters for a supplier and ensure metrics are linked to appropriate remediation plans

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Organizations include multiple risk parameters in their risk scorecards, measured across different frequencies

Typical risk assessment factors included in reports

● At the time of onboarding ● Trigger-induced ● Semiannually ● Quarterly/monthly

Risk assessment factors	Prevalent frequencies of measurement
Financial health Profitability, revenues	● ●
Supplier organizational changes Leadership changes, M&A, attrition	● ●
Operational compliance Productivity and efficiency, contractual compliance	● ●
Business impact Supplier engagement and penetration within the organization	● ●
Confidentiality Data protection and IP, regulatory and compliance	● ●
Supplier environment Fourth-party risks, supplier industry and market trends	● ● ●
Geographic Location-based (e.g., political, economic issues) and supply chain impact	● ● ●

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Risk mitigation through contingency planning is gaining importance, especially in the case of portfolio consolidation and diversification

Impact of implementing portfolio strategies for risk mitigation

Types of portfolio strategies	Portfolio consolidation	Portfolio redistribution	Portfolio diversification
	Consolidation of supplier portfolio	Rebalancing of work across suppliers	Addition of suppliers to the current portfolio mix
Risk levels	• May increase risk, as dependencies on limited set of vendors increases • **High need for contingency planning**	Improved risk management if rebalancing involves rightshoring and geopolitical risk mitigation	**Increased need for risk assessment and mitigation planning** across contractual, operational, and financial parameters for new service providers

Best practices in contingency planning

- Identify backup suppliers at the time of setting contracts as part of internal business continuity / risk mitigation strategies
- Set a process around backup supplier identification, such as identification and strategy planning to be completed within 90 days following contract signatures
- Choose backup supplier(s) from list of approved/preferred suppliers to ensure smooth process setup in case the contingency plan needs to be invoked
- If a new supplier needs to be selected as backup, gather key information about supplier capabilities and market impact

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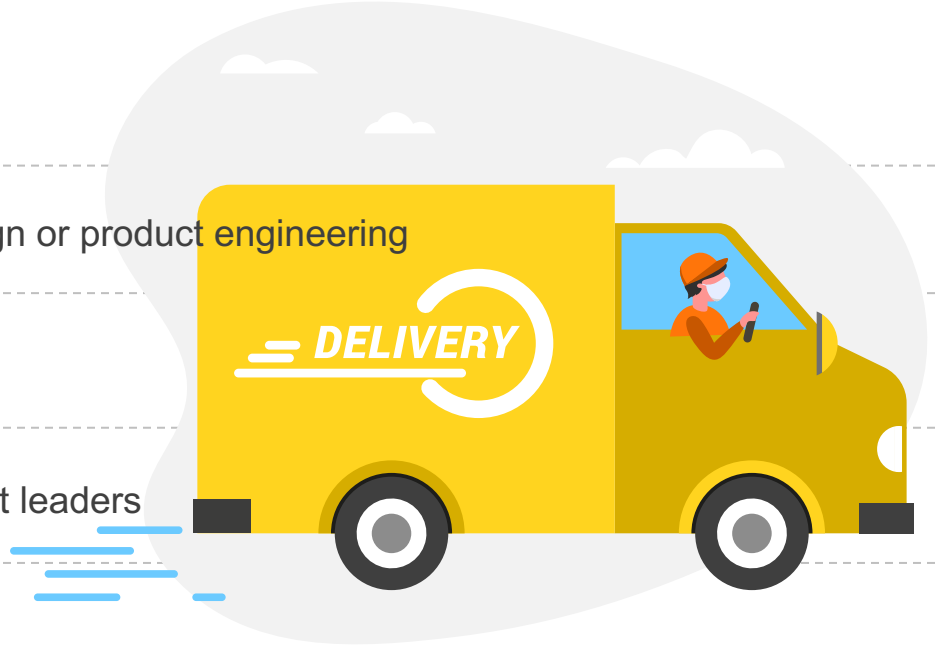
Case example: A risk management framework for IT applications outsourcing at a leading transportation and logistics company

- The company manages a large supply base in IT outsourcing, with 10-15 suppliers acting as strategic partners for its IT function
- The firm developed a risk management framework for its suppliers through a set of governing principles to guide IT portfolio strategy decisions

Best practices the company follows

- Ensured wide delivery location coverage to overcome offshoring risks
- Identified premium skill sets to overcome resource shortages, such as digital design or product engineering
- Built multiple time zone presence to ensure all-time service delivery
- Developed a strong mix of commodity participants, solution designers, and thought leaders
- Incorporated planned scope redundancies to avoid service delivery failures



Key takeaway

Setting principles around contingency planning and scope redundancies can help mitigate risks before they arise

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Strategic suppliers can be transformation or value-add partners, with varying SRM strategies associated with each supplier type

Applicability of partnership strategies such as driving innovation

Type of supplier	Labor arbitrage supplier	Project-based	Transformation partner	Value-add partner
Associated SRM strategies	• Performance management • Perception management	• Process optimization • Trust building • Talent management • Schedule adherence • Skills building	• Cost containment • Productivity gains • Automation • Process improvement • Outcome-based pricing models	• Value-add commitments • Innovation • Industry insights / competitive intelligence • Gainsharing in pricing models • M&A target identification • Management of Total Cost of Ownership (TCO)

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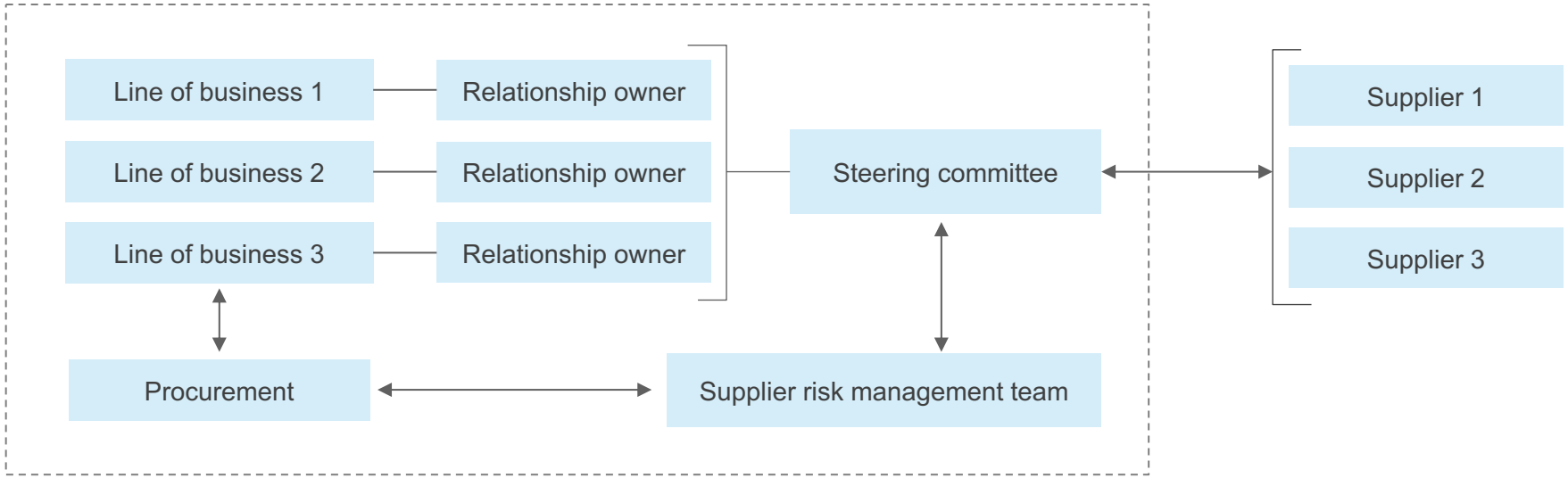
Case example: An insurance firm drives innovation and transformation by ensuring governance through a steering committee



Innovation governance

- Supplier relationship owners in each line of business report to a centralized steering committee
- The steering committee governs the overall relationship and drives supplier innovation strategies
- Relationship owners drive functional supplier relationships and performance monitoring

Best practices

- There are regular innovation days and jams with suppliers to communicate intended outcomes
- The steering committee pushes innovation as a strategic goal
- Supplier relationship owners coordinate day-to-day monitoring and dialogue
- Stakeholders take a collaborative approach to encourage innovation

Key takeaway

Firms can drive a strong innovation culture where suppliers openly share ideas and drive them to execution through dedicated steering committees or innovation resources

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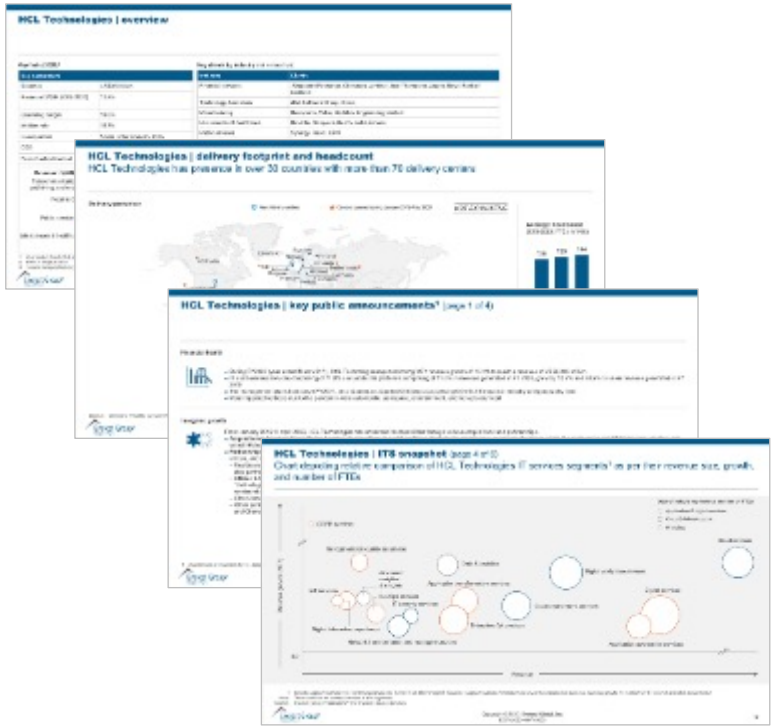
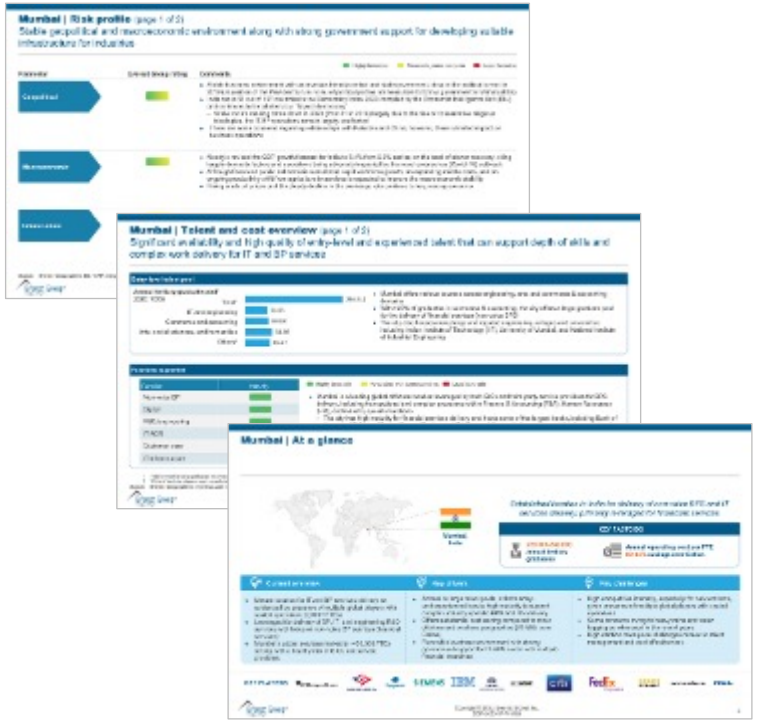
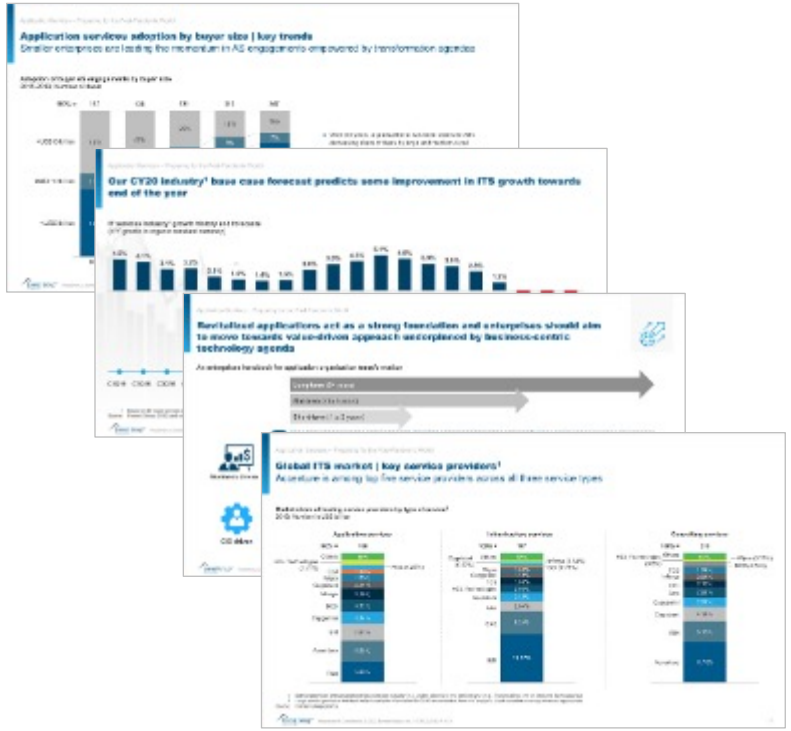
Do you have the market intelligence you need?

Choose a topic and schedule time with our analyst team to review the data

Option 1 Insights on service providers	Option 2 Insights on locations	Option 3 Insights on markets
Service Provider Snapshots	Location Spotlights	State of the Market Reports







Select a topic, and we'll reach out to schedule your complimentary analyst review of the MI – Click here to select your topic

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Key takeaways

1. **Multi-level stratification helps achieve focused vendor management leading to agility and risk management-related benefits**

2. **Supplier management tools range from general (ERP, S2P platforms, BI tools) to very specialized, best of breed applications to fit industry-specific needs**

3. **High priority risk and performance assessment areas are tracked at the time of onboarding, periodically, and when events trigger need**

4. **Companies are doubling down on risk and performance management given increasing portfolio complexity**

5. **Innovation-driving activities and a receptive culture are key to drive superior outcomes**

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Critical SRM components

Q&A

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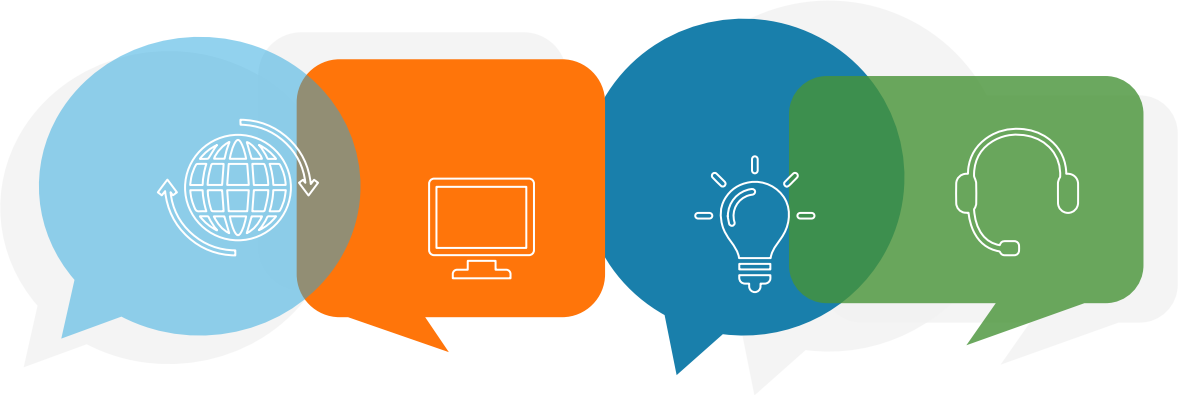

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- Access the **Questions** panel within the Zoom console, which is typically located on the bottom of your Zoom window
- Type your question in the dialogue box, then select **Send** to submit the question to our session Organizers/Panelists

- Attendees will receive an email with instructions for accessing today's presentation
- To ask a specific follow-up question, or for a complimentary assessment of your organization's digital effectiveness, please contact:
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