

The Supplier Relationship Management Process

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Overview

The supplier relationship management process provides the structure for how relationships with suppliers are developed and maintained. Close relationships are developed with a small set of key suppliers based on the value that they provide to the organization over time, and more traditional relationships are maintained with the others. In this chapter, detailed descriptions of the strategic and operational sub-processes that comprise supplier relationship management are given. The interfaces that are necessary with the other seven supply chain management processes are identified and guidelines for successful implementation of the process are provided.

Introduction

The cost of materials as a percentage of sales can exceed 50 percent for manufacturing companies. For wholesalers and retailers, the cost of goods sold is higher than the materials costs of manufacturers. Overall spending on purchased goods and services can represent 70 percent of a company's costs.¹ These numbers suggest that significant benefits are possible through better management of the supplier network. This includes the integration of operations with key suppliers to improve firm performance. An additional benefit of cross-functional, collaborative relationships with key suppliers is the ability to co-create value (which is described in Chapter 17). Sharing information can promote integration with suppliers and key metrics can be used to drive performance and align perceptions. While higher levels of integration with suppliers results in improved performance, the appropriate level of integration will depend on the relationship, and an effort should be made to identify a strategy tailored to each relationship (see Chapters 15 and 16). Also, integration of suppliers beyond the first tier of the supply chain may increase firm performance.

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¹Hardt, Chip W., Nicolas Reinecke and Peter Spiller, "Inventing the 21st Century Purchasing Organization," *The McKinsey Quarterly*, Number 4 (2004), p. 116.