

WHITE PAPER

OUTSOURCING...WHAT'S NEXT?

Delivering value through SRM



- Sophie Jarvis

Introduction

So you've found a supplier who has a keen price, good systems in place and a customer focussed service mentality: how do you now ensure they do what they promised; and how does Supplier Relationship Management (SRM) work across functional boundaries, different cultures, and other challenges?

Organisations have taken to outsourcing functions, usually support areas, as a means to reduce cost whilst allowing them to focus on their core business. Outsourcing is also seen as a way to improve standardisation and quality, increase speed to market, and foster

innovation whilst minimising capital investment.

In a global economy, goods and services are traded across borders; and increasingly countries are specialising in the nature of goods they produce and services they offer. For example, it is generally accepted that a large proportion of Australian manufacturing has moved to China and IT development to India. Whilst some challenges can exist regarding language, culture, time zones and access to resources, it is not dissimilar to sourcing goods and services from other geographically distant Australian or overseas locations.

There may be an added complexity if dealing directly with an overseas entity that is not familiar with the 'Australian' way, however outsourced arrangements - whether interstate or off-shore - will usually consist of key account or relationship managers being available locally to build positive collaborative working relationships with their clients, and so form a supplier-client relationship similar to common local supply arrangements.

This paper discusses SRM in the context of strategic relationships whether they are local supply arrangements or Outsourced functions operating on-shore or off-shore.

To achieve successful outsourcing there are a number of considerations that need to be addressed; these include but are not limited to:

- *Good governance structure;*
- *Supporting systems and tools;*
- *Clearly defined processes and accountabilities;*
- *Timely and focussed reporting;*
- *Skilled and competent people;*
- *Management support;*
- *Stakeholder engagement, and a*
- *Robust SRM program.*



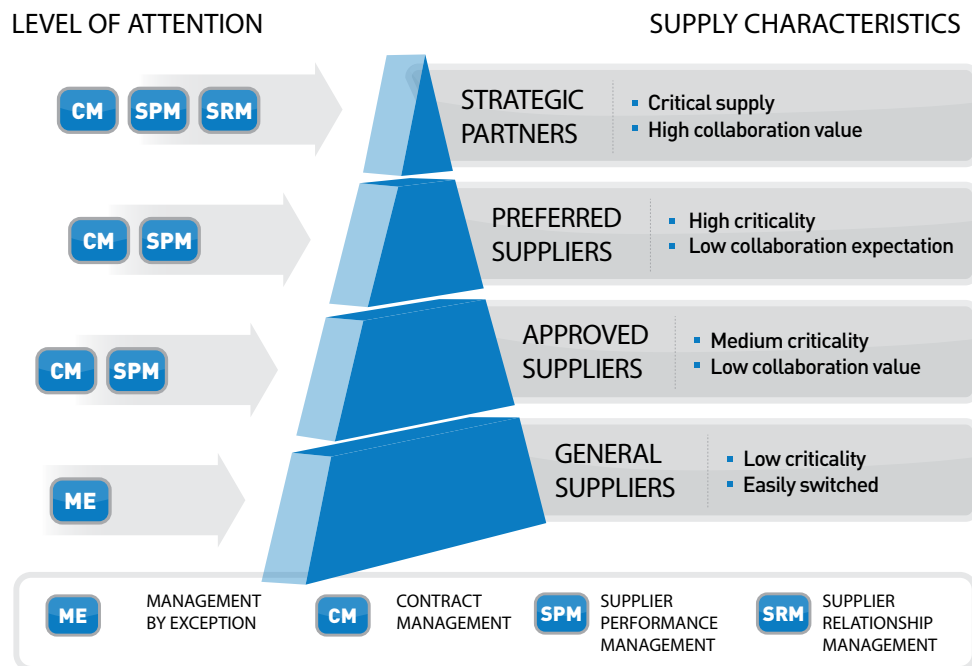
SRM – What is it? When is it relevant?

SRM is a comprehensive approach and a disciplined means of strategically planning and managing interactions with those suppliers that are vital to the success of an organisation in order to maximise the value delivered.

Not all supply arrangements will be subject to SRM. As per figure 1 below, an organisation will invest resources in SRM where the supply is generally critical in nature and where there is high potential for closer, more collaborative relationships with key suppliers in order to facilitate innovation and the creation of new value whilst reducing risk.

Similarly, suppliers map the relative value of their customers as key accounts or 'customers of choice' where there is a high attractiveness of the account or through high relative dependency. SRM would be successful and maximise benefits when both the buying organisation and supplier mutually deem each other strategically important such that they allow preferential access to resources, ideas and innovations to allow for mutual value creation and capture.

Figure 1: Supplier segmentation and level of activities¹



¹Framework adapted from The SRM Dividend, State of Flux, Supplier Relationship Management Research Report 2011

SRM – What are the critical success factors?

Internal to an organisation, critical success factors for SRM are finding people with the right skills and competencies to deliver effective SRM as well as benefits tracking, sharing of benefits and information sharing.

Recent research looking at SRM best practice² in private and public sector organisations concluded that the top five success factors among respondents for an effective SRM approach are:

- Good communication
- Level of trust
- Relationship continuity
- Investment in the relationship, and
- Willingness to take a long term view

Other considerations for success included and were not limited to: executive sponsorship, cross functional team including business stakeholders, positive business relationships, fairness, shared benefits, business alignment, level of dependency, and mutual respect and empathy.

Outsource arrangement decisions are often made with the longer term in mind, reinforcing research that with SRM to be successful a willingness to take a long term view is needed.

How could I structure my SRM program to maximise benefits and minimise risks?

In general, regardless of whether SRM

is a dedicated role or part of a broader category function, SRM managers are often procurement professionals with the ability to implement ongoing processes and controls to ensure mutual success.

It is advisable to manage the SRM program from a cross functional team perspective (i.e. procurement category or SRM managers as well as business representatives participate in steering meetings) to allow for cooperation and coordination in the way the supplier is managed and thus avoid any potential delinquent supplier or internal stakeholder behaviour.

The cross-functional team usually attends regular business review meetings, completes regular performance scorecards and surveys, acts as an escalation point,

evaluates ideas and innovations proposed by the supplier, workshops innovation forums, and the team is included in the formulation of supplier account plans. Thus ensuring risks are minimised, issues are dealt with promptly, and benefits are delivered, quantified and reported.

As the services provided by the outsourcing partner are typically not 'core functions' of the business there is the possibility that the relationship can be neglected by internal stakeholders. A good SRM structure can ensure that this does not occur.

Risks can be higher when outsourcing functions off-shore as cultures and operating environments can differ based on some of the following factors:



- Political and economic instability
- Longer supply chains and lead times due to geographical distance
- Foreign exchange gains/losses
- Non-alignment with Australian Laws
- Compliance with Australian and International Standards
- Unauthorised data/information use and distribution
- Intellectual property piracy
- Social, ethical and environmental practices, etc

However, a well performing SRM function, which encompasses Supplier Performance Management (SPM) and Contract Management (CM), can protect an organisation and the interests of third parties, such as its customers from these risks. Often the benefits of Outsourcing can outweigh any perceived risks.

Buyer Benefits
Cost reduction / avoidance
Risk reduction
Supply chain efficiency
Innovation
Improvement to KPIs and SLAs
Quality improvements
Lead time improvements
Contract compliance
Process improvements and best practice
Preferred access to people/capacity/products

Supplier Benefits
Access to new business
Sales /revenue growth
Access to decision makers
Faster/robust decisions and resolution of issues
Shared financial savings
Market insight and knowledge sharing
Sharing of Research and Development
Joint projects
Risk sharing

Through collaboration, procurement professionals specialising in SRM would be minimising risks whilst maximising benefits.



Conclusion

In summary, once an outsourcing decision has been made and a good governance structure is in place with tools, systems, processes and reporting that supports the supply arrangement, the implementation of an SRM program based on fostering collaborative relationships can create competitive advantage through benefits realisation for both buyer and supplier.

To maximise benefits the SRM program will be implemented by a procurement professional specialising in SRM delivered through a cross functional team (executive sponsorship and key stakeholder involvement). Good communication, trust, and information sharing is essential and both parties must be willing to invest in the relationship and to take a long term view.

About the Author



Sophie Jarvis

Sophie Jarvis MCIPS has extensive experience in managing the procurement and negotiation of strategic services, goods and assets for Portland Group. Prior to her role with Portland Sophie held senior practice manager roles for Australia Post and is recognised as a highly skilled practitioner and consultant. Sophie has been an Executive Judge of CIPS Australia's Annual Procurement Professional Excellence Awards since 2007.

About Infosys Portland

Infosys Portland is a subsidiary of Infosys BPO Ltd., a part of Infosys Ltd. Our mission is to make our clients successful by increasing their profitability through procurement and supply chain improvements. We are unique in providing services to improve efficiency and effectiveness across our clients' complete procurement and supply chain functions, ranging from innovative, high-end strategy through to effective, low-cost operations and transactional processing. The resulting transformational benefits for clients include lower costs, reduced risk and improved service from client suppliers.



For more information, contact info@infosysportland.com

www.infosysportland.com

© 2014 Portland Group Pty Ltd. All Rights Reserved. Portland Group, a subsidiary of Infosys BPO, believes the information in this document is accurate as of its publication date; such information is subject to change without notice. Portland Group acknowledges the proprietary rights of other companies to the trademarks, product names and such other intellectual property rights mentioned in this document. Except as expressly permitted, neither this documentation nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, printing, photocopying, recording or otherwise, without the prior permission of Portland Group Pty Ltd. and / or any named intellectual property rights holders under this document.