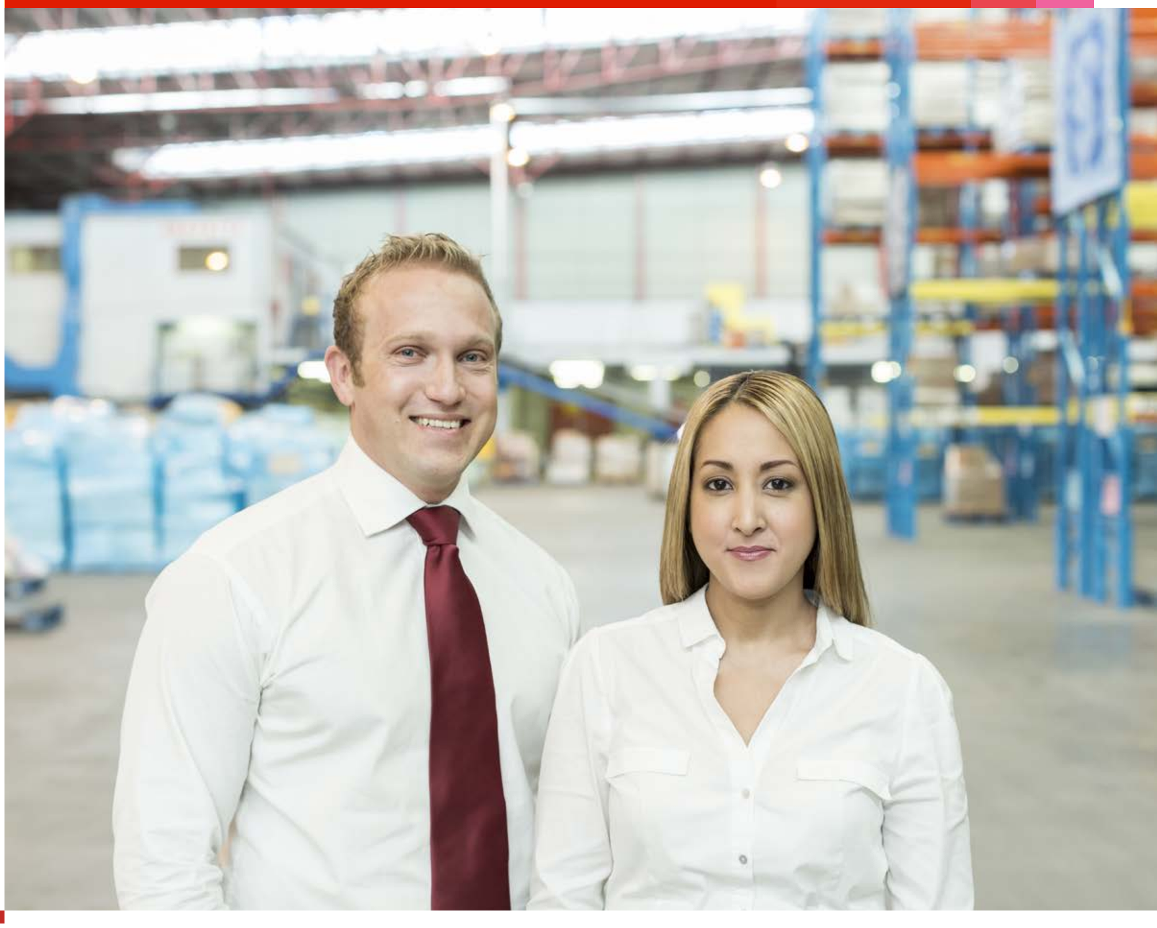
Supplier Relationship Management

How key suppliers drive your company's competitive advantage



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Foreword

Remko van Hoek
Global Procurement Director PwC & Visiting Professor Cranfield School of Management

Nearly all self-respecting procurement organisations have a stated intent and commitment to do more in the area of supplier relationship management. And for all the right reasons:

- Without SRM, negotiated savings may never be realised,
- The business might consider procurement "missing in action" when something goes wrong, and
- Suppliers may begin to see procurement as just negotiating, i.e. not involved in the real business. As a result, they might not make their best effort going forward, let alone be proactive in offering innovative suggestions.

The call to do more with SRM is not new, so isn't it about time we actually started doing more and talking less? The answer is yes, but the process is not easy and some help and input on the following could be valuable:

- The capabilities and composition of the procurement team might need to change,
- The team's orientation may need to be adapted (with a view to primarily selling the company to suppliers to get the best inputs first),
- Time allocation could need tweaking (e.g., spending more time with suppliers than with the procurement team), and
- Roles and engagement with internal stakeholders might need a review (essentially, inserting procurement into a business-centric relationship).

Put simply, being able to negotiate a deal does not mean a buyer is able to manage a relationship, nor is it possible to ensure premium access to suppliers in a contract. So our team and our toolkit need work.

We initiated a study to gain a better understanding of SRM and to advise our clients on this topic. The value of this study for procurement leaders is many-fold:

- It informs our understanding of what is keeping us from doing more in the area of SRM,
- It offers practical perspectives and insights that can enhance our action planning,
- Because the study is based on discussions with our peers, expert interviews and a online survey, it is not theory centric or wishful thinking; it is about real-life lessons from the market,
- Finally, it is part of our team's ongoing effort to help improving SRM practices with insight and practical advice.

However, our efforts will not end with this report. On the contrary, our work has just begun. There are lots of opportunities to join the discussion in upcoming roundtables and further practice development. Do let us know if you would like to get involved and benefit from the process. The time is ripe for procurement to start doing what it has been meant to do more for a long time. Please use the advice, experience and tools captured in this report to your advantage. It is our hope that this will help you on your SRM journey.

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Executive summary

Ensuring the best prices through strategic sourcing is no longer perceived as a strategic capability of the procurement function. As a result of further outsourcing of non-core competencies, organisations are starting to realise that they have become more reliant on suppliers in terms of innovative power, security of supply, corporate social responsibility, and on-going cost savings. Strategic partnerships are at the top of the corporate agenda of many global organisations and Supplier Relationship Management (SRM) is seen as one of the few remaining procurement topics that can still make a significant difference. But many organisations encounter difficulties in initiating, developing and managing partnerships. In particular, leadership and soft skills are mentioned as primary reasons for failure, alongside technical & functional competencies. We initiated a study on SRM to gain a better understanding of the typical challenges involved and to determine how supplier capabilities drive competitive advantage.

A CPO roundtable, desk research, an online survey and expert interviews were input for our research. Below, we summarise the ten key findings of our study report:

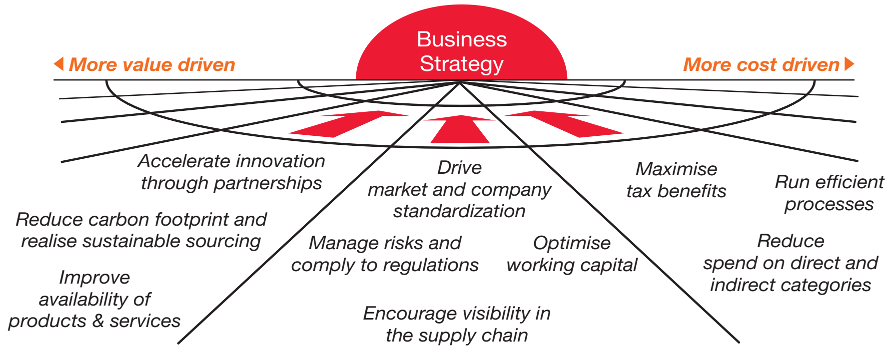
1. The most important SRM objectives are leveraging supplier capabilities, delivering cost savings and reducing supply risk exposure.
2. Approximately 60% of the respondents have a formal segmentation process in place, with spend size, product/service importance and risk exposure as the most important segmentation dimensions.
3. While the benefits of SRM are acknowledged, the average SRM maturity level is still low.
4. The top-three challenges respondents encounter are an overemphasis on cost reduction, a lack of specific SRM competences and insufficient alignment between the business, procurement and supplier.
5. Typical best practices are quantification of benefits and costs (ROI), proactive and two-way performance management, and documented supplier strategies per segment.
6. Benefits measurement, executive sponsorship and strategic coherence are indicated as the most critical success factors.
7. Technical/functional, relational and developmental competencies must be balanced and continuously developed.
8. Innovation, sustainability, leagility and resilience are seen as the key drivers for SRM value creation.
9. Current SRM programmes already contribute to performance management and risk exposure reduction.
10. The respondents indicate that there is a positive correlation between the presence of SRM and an increase in market share, responsiveness to market changes, increased return on investment and shortening order fulfilment lead times.

Introduction

Procurement becomes strategic

The role of the procurement function is drastically changing in today's challenging world. In the past, procurement was expected to ensure the timely availability of products and services while also being responsible for accurately processing transactions. Economic developments during the 1980s and 1990s prompted companies to recognise the potential contribution of procurement to meeting cost-out targets. Through the implementation of category management and running strategic sourcing initiatives, procurement was able to rationalise the supply base and consolidate volumes, resulting in price reductions. Global sourcing and outsourcing of non-core activities became popular as well. However, the procurement function was still functionally organised, with little collaboration and alignment with other business functions, which kept the price-orientation alive.

During the advent of the Total Cost of Ownership (TCO) concept, organisations started to realise that a change from a functional orientation towards processes optimisation was required, with cross-functional collaboration. As a result, procurement became the responsibility of cross-functional teams while its strategic importance and recognition increased. The procurement function not only contributed to price reductions, but also played a crucial role in optimising total lifecycle costs. The next step towards procurement excellence is to adopt a value-driven orientation with external/supplier collaboration as a key cornerstone.



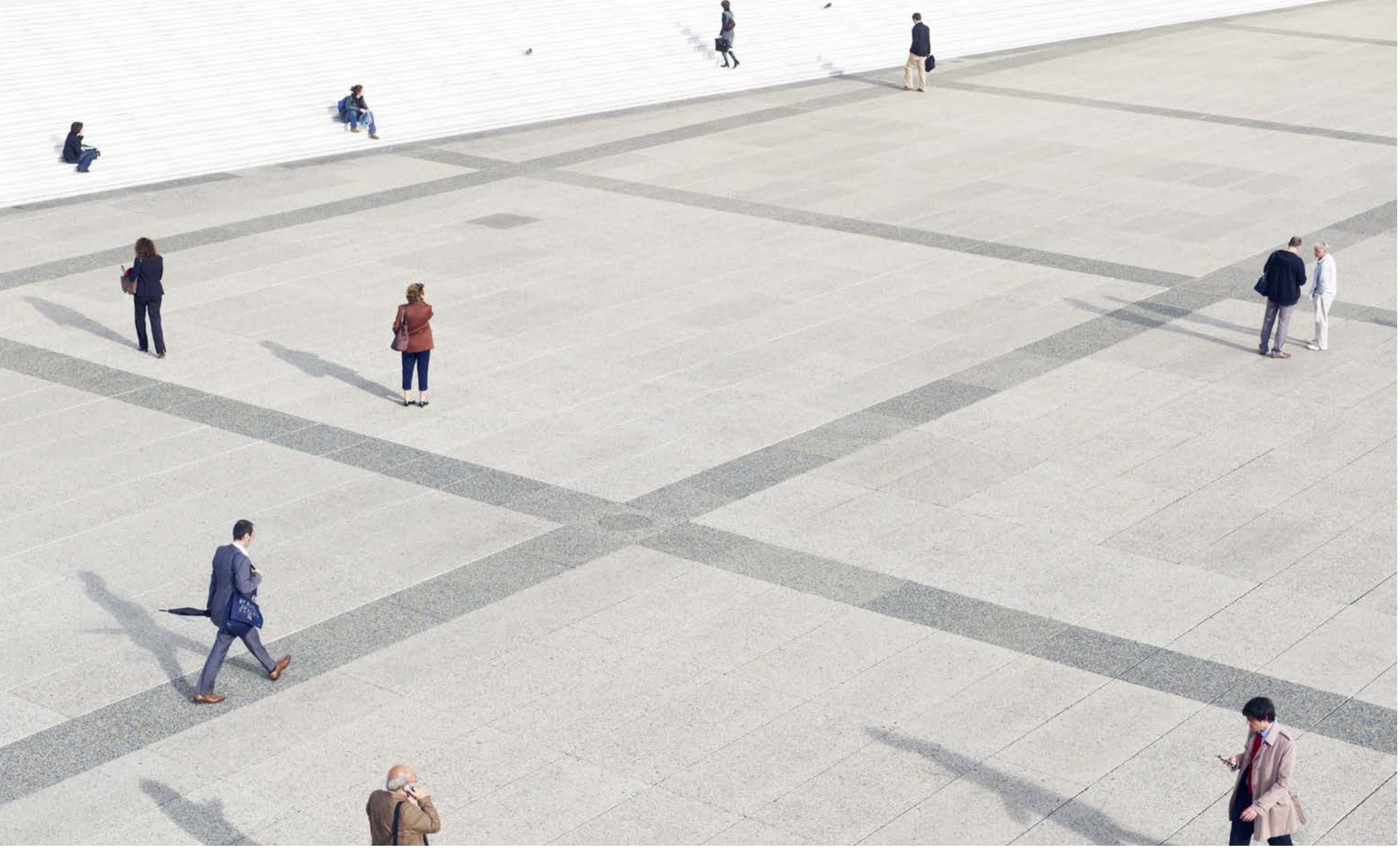
A Procurement Strategy is developed with the objective of impacting and supporting the Business Strategy and is, therefore, fully business driven.

As stated previously, ensuring the best prices through strategic sourcing is no longer perceived as a strategic capability of the procurement function. As a result of further outsourcing of non-core competencies, the procurement costs as a percentage of total cost is 50-80% for companies that develop, manufacture, trade and/or distribute goods. Besides this financial impact, organisations are starting to realise that they have become more reliant on suppliers in terms of innovative power, security of supply, corporate social responsibility, and delivering on-going cost savings. Together with sustainability, strategic partnering is at the top of the corporate agenda of many global organisations and is seen as one of few remaining procurement topics that can still make a significant difference.

External integration: next step towards procurement excellence

Companies are now aware that they must integrate and collaborate with suppliers to remain competitive and take the next step towards procurement excellence. Supplier management is not a new topic, but it has always been the 'stepchild' of the procurement function. KPIs like spend reduction were an important culprit here. Companies became rather proficient and mature in running strategic sourcing initiatives and created "money on the table". After realising the contracted savings, category teams and buyers jumped on the following sourcing initiative while neglecting the implementation and management

"Besides risks, we need to financially materialize the contribution of innovation and sustainability"

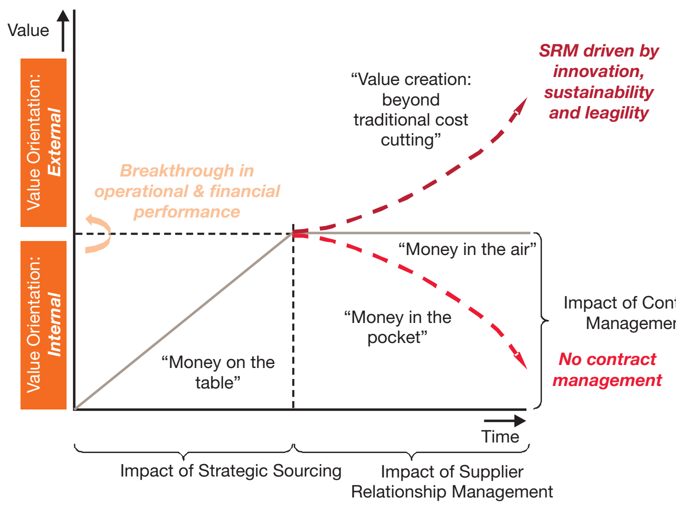


of contracts. Delivering "money in the pocket" reflected as savings in the P&L appeared to be another story. Research indicates that there is an average of 25% contract value leakage ("money in the air"). Formalising contract management and delivering "performance to contract" is a challenge for many organisations.

Not every supplier is qualified as a partner: supplier segmentation is necessary to differentiate supplier strategies. If a supplier is qualified as strategic, an organisation can decide to initiate a partnership.

In our definition, Supplier Relationship Management (SRM) is a systematic approach for developing and managing partnerships. It is focused on joint growth and value creation with a limited number of key suppliers based on trust, open communication, empathy and a win-win orientation. Non-partnerships are managed by means of other measures like contract administration, contract management and vendor rating. In our opinion, Monczka e.a. (CAPS Research, 2011) described the SRM objectives and benefits very concisely:

1. Become 'customer of choice': preferential treatment regarding availability, costs, access to technology, innovation and risk reduction
2. Focus on value: increased market competitiveness through consideration of all relevant elements that determine stakeholder value
3. Leverage on supplier capabilities: advantageous position through early involvement in the innovation and product & process development processes
4. Share growth, profits, risks and investments: joint objectives, efforts and resource commitments resulting in a healthy culture for continuous growth



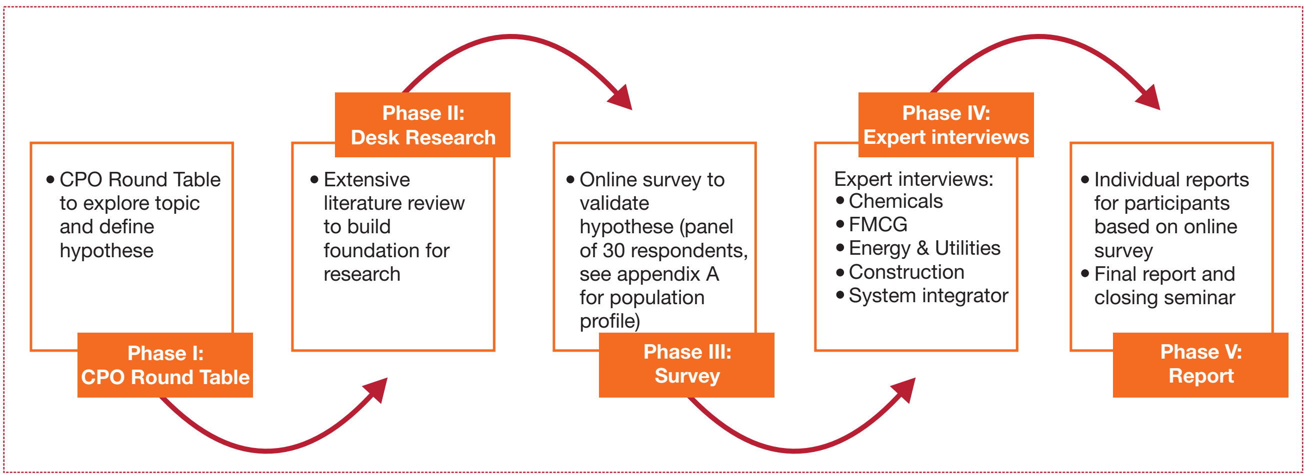
Research objectives and approach

With more than 500 sourcing & procurement practitioners worldwide, we have broad and deep expertise to support organisations in solving supply-related issues. We have noticed that many organisations encounter difficulties in initiating, developing and managing partnerships. And as we mentioned, besides technical & functional competencies, leadership and soft skills were mentioned as main reasons for failure. We initiated this study on SRM to get a better understanding of the typical challenges and to determine how supplier capabilities drive competitive advantage. Our research focused on private companies that develop, manufacture, trade and/or deliver goods. The majority of the participating companies are headquartered in the Netherlands. To achieve our goal, we wanted answers to the following research questions:

- How is SRM currently structured at private sector organisations?
- Which key challenges do organisations encounter in building strategic partnerships?
- Which best practices can be adopted to achieve world-class SRM?
- Which supplier capabilities drive competitive advantage?
- How can organisations successfully implement SRM?

The research team deployed several research methods to collect observations, draw conclusions and define recommendations. After several initial interviews with business executives and professors, we decided to organise a CPO Round Table to further elaborate on SRM. We also took this opportunity to define hypotheses. Next, we performed extensive desk research (PwC and non-PwC sources), which we used as a basis for developing and launching an online survey. The results of the online survey and case studies served to validate the hypotheses. This report presents our observations, conclusions and recommendations. It is important to note that our database is growing because organisations are still contributing by means of the online survey.

This report is structured in three chapters. Chapter 1 presents current SRM practices, including SRM objectives, current maturity level, typical key challenges, unique supplier capabilities, and benefits achieved by organisations. Chapter 2 describes best practices for achieving world-class SRM. Finally, chapter 3 provides a framework for implementing and deploying world-class SRM. We wish you much reading pleasure and we hope to offer you and your organisation 'food for thought' to further enhance Supplier Relationship Management.



1. Key research findings

Chapter 1 presents the main observations and conclusions of our SRM study. Our findings are structured around six elements, namely:

- *SRM objectives*
- *Typical SRM challenges*
- *Current maturity level*
- *Unique supplier capabilities*
- *Critical success factors*
- *Potential benefits*

SRM Objectives

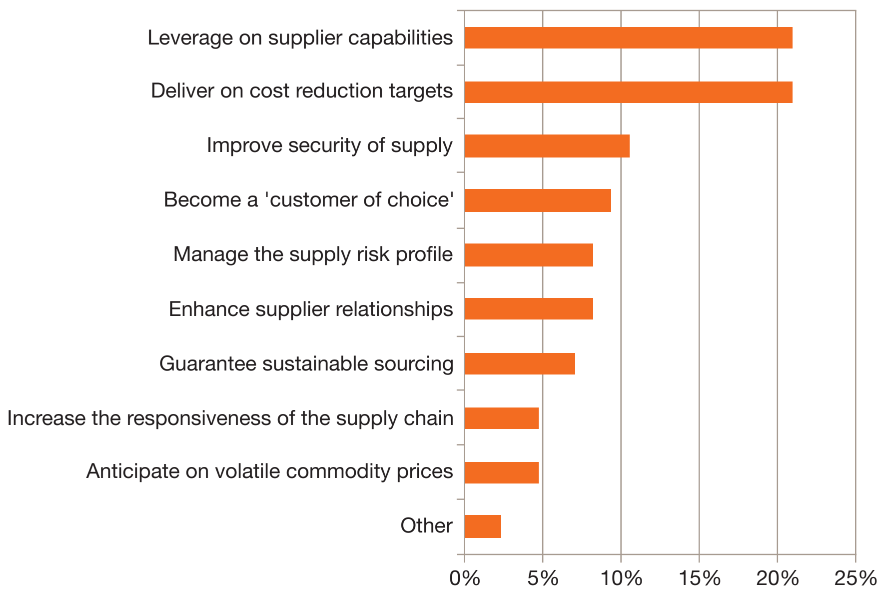
Developments in the business environment have become much more difficult to anticipate due to the globalisation of demand and supply markets, more demanding customers and consumers, shorter product lifecycles, continuous pressure on costs and cash, and societal pressure regarding corporate social responsibility. As a result of outsourcing, procurement and supplier management have become more important and strategic. But what are the most important objectives of SRM? We asked the respondents to select three objectives from a list of ten that are most relevant for their organisation.

SRM is focused on joint value creation based on trust, open communication and collaboration with a limited number of key suppliers. Leveraging on supplier capabilities is mentioned as the most important objective of SRM. Organisations are aware that they don't have the means to finance all activities on their own. Activities that were always perceived as strong contributors to competitive advantage and were kept in-house (e.g. product development, manufacturing, services, etc.) are now qualified for outsourcing. Gaining access to unique knowledge, resources, capabilities, talent and ideas are an integral part of this key objective.

The second most important objective is reducing cost. This would appear to conflict with the focus on value creation, but cost-cutting is still one of the key imperatives. The main difference with traditional approaches is that benefits are now realised and shared together with partners. This objective is also related to the low maturity level of SRM as a business process (see following paragraph): the business perceives procurement, and therefore SRM, primarily as a contributor to cost reduction.

Security of supply is selected as the number three objective of SRM. Due to the globalisation of supply chains, stronger

Figure 1. Objectives to initiate SRM



fluctuations in demand & supply, material scarcity, and preferential behaviour by sellers or even countries, it has become difficult for companies to ensure product availability to customers. By means of partnerships, buying companies aim for preferential treatment while driving out strong volume and mix fluctuations through integrated forecasting & planning, product substitution & simplification, and hedging.

Other SRM objectives that are not included in the above graph but were mentioned during expert interviews: increase innovative power, reduce working capital, prevent reputational damage, enable closed-loop supply chain management, shorten time-to-market, increase supplier service, and improve product quality.

Typical SRM challenges

Although organisations are aware and convinced of the SRM benefits, many still encounter difficulties in developing, implementing and operating partnerships. SRM requires a completely different mind-set, which makes SRM a complicated exercise. But what are the key challenges the respondents encounter? We asked them to select three from a list of ten that are most relevant for their organisation.

The most severe challenge is the dominant role of costs. Cost reduction is an essential part of value creation but too much focus on this aspect discourages a long-term orientation. KPIs are focused on short-term optimisation, provoke counterproductive behaviour & collaboration, and emphasise procurement's traditional role of getting the lowest prices. However, value drivers like innovation, sustainability and leagility require a long-term orientation which is conflicting with the short-term focus.

So far, procurement has always been responsible for running sourcing projects. Functional competencies like negotiation skills, market analyses, and cost & risk management were perceived as the key to success. However, SRM requires completely different skills like influencing, leadership and change management. Traditionally, buyers do not naturally have such skills or are not trained to develop them.

The third key issue selected by the respondents is that the strategic objectives of the buyer and supplier are incompatible. This situation is exacerbated if the buying organisation wants to develop a partnership while the supplier is focused on exploiting the customer. Furthermore, organisations can inherently have different orientations: some are farmers, while others are hunters and this will never change. Expert interviews have taught us that a lack of executive sponsorship and business case are the most important hurdles to overcome. Executive ownership ensures alignment with the corporate objectives, sufficient resource allocation as well as a mandate to change and solve issues. A business case creates appetite at the start, helps to track and trace progress and translate the impact of benefits into the P&L and balance sheet.

Other key challenges that are not presented in the graph but were mentioned during expert interviews include a lack of training, no specific SRM strategy & objectives, no harmonised way of working with a standard toolkit, the fact that KPIs are focused on operational issues and a lack of rigorous programme management.

Figure 2. Challenges & issues when implementing SRM

Overall SRM maturity level

Maturity models help organisations to define the current state of affairs and provide the opportunity to facilitate a discussion on the ambition level. We distinguish four different levels:

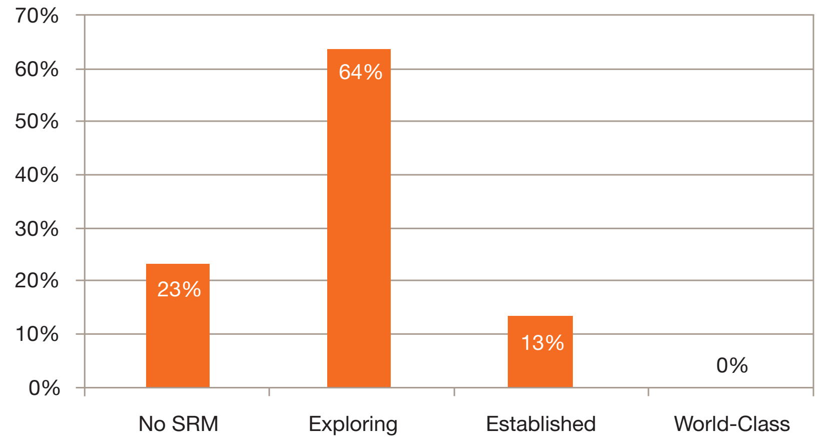
1. No SRM: the organisation manages all suppliers by means of contracts without any differentiation in supplier strategies. The objective is to realise 'performance to contract'. Performance management is one-directional and rather directive. Collaborative improvement initiatives are rather unstructured.

2. Exploring: the organisation recognises the value potential of key suppliers and initiates a limited number of pilot projects to build trust, experience and credibility. Joint initiatives now go beyond cost reduction and are organised in a more structured way, but are still rather operational/tactical by nature.

3. Established: SRM is a mature business process and fully integrated in the operating model. All key suppliers are covered by the SRM programme and financial benefits are delivered while risk exposure is significantly reduced. SRM starts to deliver top-line improvements as well and is seen as a strong contributor to competitive advantage. Joint improvement initiatives are formalised with a clear governance structure.

4. World-class: SRM is at the heart of the business and fully incorporated in the corporate strategy. The organisation is "customer of choice" for a selected number of strategic suppliers with which it is fully integrated. The organisation shows double-digit improvement percentages year-on-year and, as a result, stays ahead of its competitors. Collaboration between both partners is a way of working: procedures are no longer necessary.

Figure 3. Current maturity level of SRM



Based on the respondents' answers, we conclude that the current maturity level of SRM is still relatively low. Almost a quarter of all respondents (23%) indicate they have no SRM programme at all. Collaboration with strategic suppliers is unstructured, as are joint improvement initiatives. Most organisations are at the 'exploring' stage (64%). They initiated an SRM programme and are developing toolkits & templates, but only for a limited number of partners. A minority of the respondents have fully "established" SRM programmes (13%) while none of the respondents has a 'world-class' SRM programme in place.

"SRM is from the entire organisation: procurement seduces, inspires and facilitates"

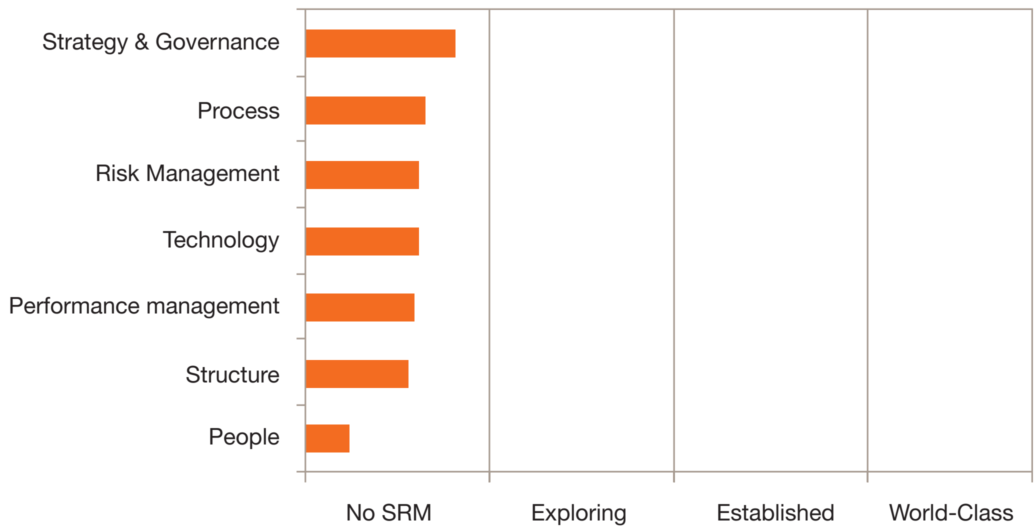
SRM Maturity Model

Based on desk research and expert interviews, we developed an SRM Maturity Model to help organisations determine their current maturity level and define their future ambition level. This model recognises the four maturity levels as discussed above, and distinguishes seven SRM enablers that are critical to success. Appendix 2 presents the maturity model in more detail.

We asked each respondent to score their organisation on the seven individual enablers. The results are fully in line with the overall SRM maturity level as presented above. The average score per enabler is between level 1 and level 2 whereby 'Strategy & Governance' seems to be most developed enabler. This is hopeful because a successful SRM programme starts with a clear vision and objectives. The 'People' enabler is clearly lagging, which emphasises the importance of having a balanced set of the competencies in place.

	No SRM	*Exploring*	*Established*	*World-Class*
Strategy & Governance	Focus on 'performance to contract' No SRM strategy & objectives	Focus on cost reduction SRM strategy formulated but poorly understood	Partial focus on value creation SRM strategy known and fully understood	Full focus on value creation SRM strategy fully integrated with business strategies
Process	No SRM process in place with specific toolkit All suppliers treated the same	Documented SRM process with basic toolkit Little differentiation	SRM process fully known and advanced toolkit Advanced supplier strategies	SRM process fully integrated Partnership strategy jointly developed and managed
Structure	No formal SRM structure in place	SRM initiatives are coordinated through existing relationships	SRM through cross-functional teams from business and procurement	SRM through centralised SRM office, with SRM roles and responsibilities
People	People are low skilled in SRM competencies with no training	Level of SRM competence varies significantly across organisation with some basic training	Key SRM stakeholders have moderate SRM competences with standard training program	All SRM stakeholders have deep SRM competences and there is tailored SRM training
Technology	No SRM support systems and tools	Some SRM support systems and tools in place, but limited integration	Integrated systems with suppliers for sharing and reporting information	Real time exchange of operational, tactical and strategic information
Performance management	SRM performance is not being tracked	Some basic performance measures are tracked and reported (one-way)	Critical performance measures are developed and periodically reported (two-way)	Performance measures are jointly developed with suppliers and cover all SRM aspects
Risk management	No risk management approach in place	Risks are mapped, but concrete actions to mitigate these risks are lagging	Full visibility on relevant risks, approach to mitigate risks developed internally	Full visibility on relevant risks, mitigation approach developed with suppliers

Figure 4. Current maturity level on SRM enablers



Supplier Relationship Management will not be successful simply by implementing these seven enablers. Expert interviews and desk research taught us that appropriate competencies make the real difference. We asked the respondents to score their own organisation on three different SRM competencies:

1. Technical/functional competencies: sourcing, negotiating & contract management, supply market analyses, spend analyses, operational excellence, cost management, risk management and supplier management.
2. Relational competencies: envisioning, leadership style, project & programme management, change management, process & organisational design, influencing, issue solving, personal relationships and emphatic behaviour.
3. Developmental competencies: innovation power, sustainability, continuous improvement, lean and/or agile operations, production capacity and information management.

On average, none of the competencies score higher than level 2, which again is in line with the overall SRM maturity level. We expected that the technical/functional competencies would score relatively higher because these cover the traditional activities of procurement. Based on the questions asked, we cannot explain why this is not the case.

Finally, we asked the respondents at what level they currently collaborate with key suppliers. Once more, the results are consistent with the previous observations: collaboration with key suppliers is in the 'Exploring' phase with joint continuous improvement programmes and product development as the frontrunners.

Figure 5. Current maturity level on SRM competencies

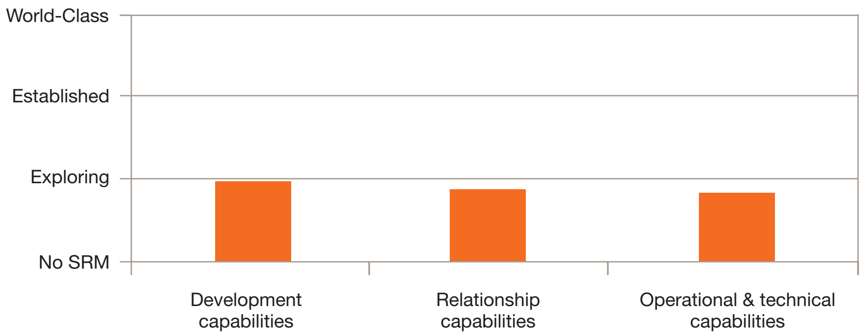
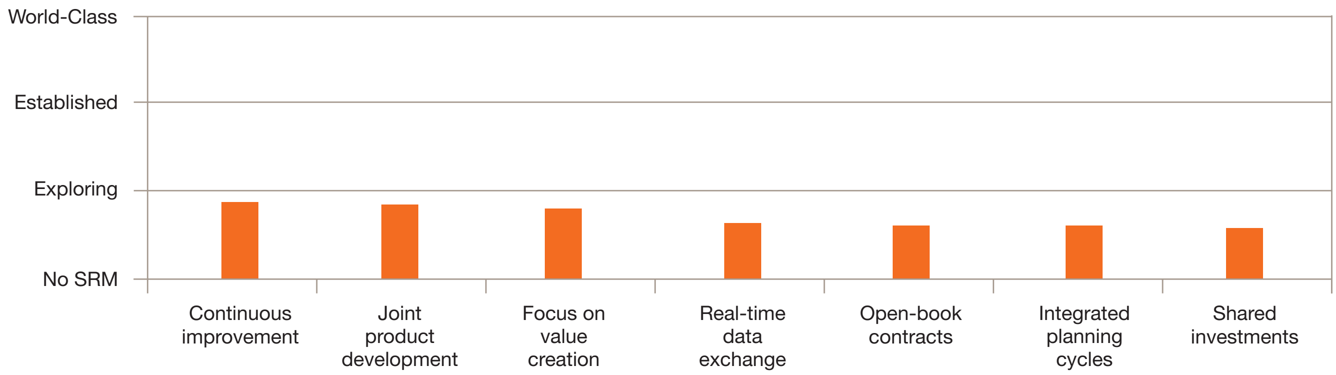


Figure 6. Current buyer-seller interactions with key suppliers



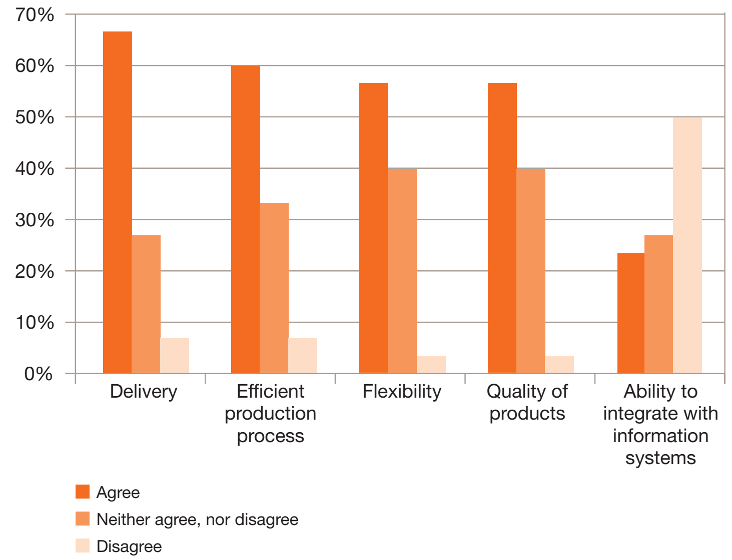
Supplier competencies

The success of SRM is also highly dependent on the competencies of the supplier. Supplier competencies are the resources, processes and measures a supplier can offer the buying firm, and which are needed to develop and manage partnerships. One overall conclusion from the study is that most organisations score the competencies of their key suppliers significantly higher than their own competencies.

Operational & Technical competencies

Almost 70% of the respondents indicated that their key suppliers deliver their products/services on time in full and according to specifications. They also perceive the production process of their key suppliers as efficient. The ability to integrate with information systems is scored relatively low.

Figure 7. Supplier operational & technical competencies

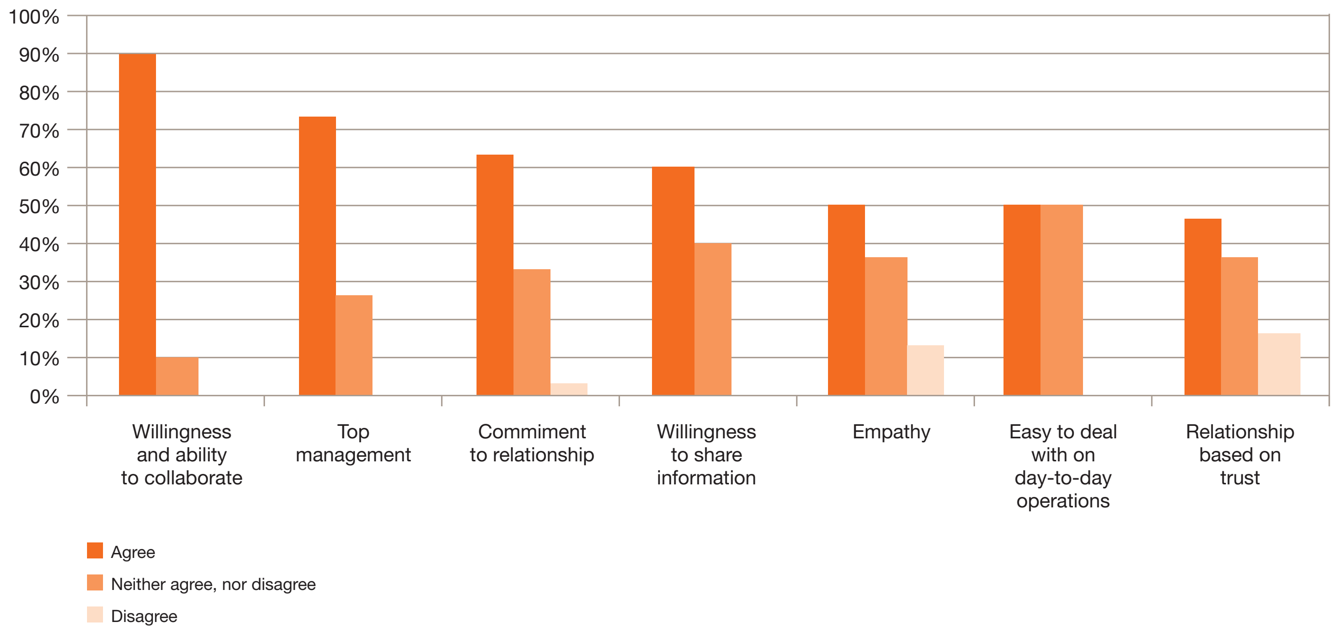


Relationship competencies

Almost all respondents (90%) indicated that their key suppliers are willing and able to collaborate. Top management support is guaranteed at the majority of the suppliers.

SRM is based on building relationships and trust is an important enabler. However, 50% of the respondents indicated that their relationship with key suppliers is not based on trust.

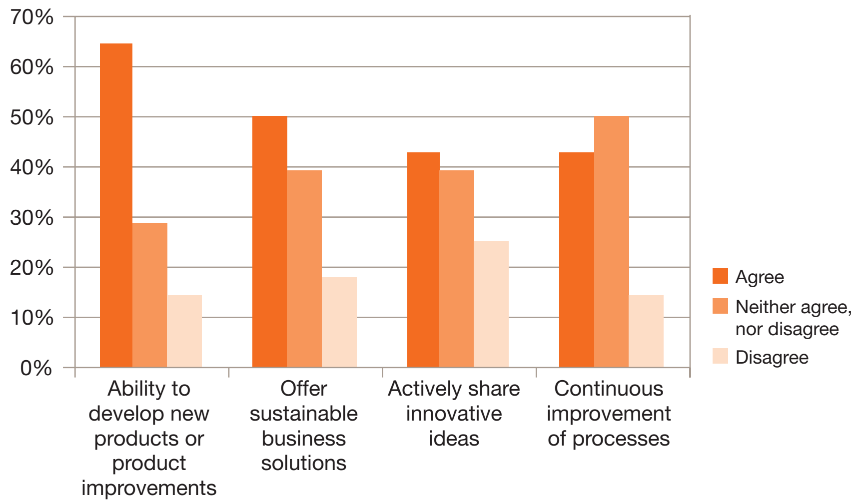
Figure 8. Supplier relationship competencies



Developmental competencies

The respondents gave the developmental competencies of their key suppliers relatively low scores compared to the other two capabilities, while the respondents scored their own developmental competencies as highest. The ability to develop new products or realise product improvements was the only supplier competency with an average score of over 50%.

Figure 9. Supplier developmental competencies



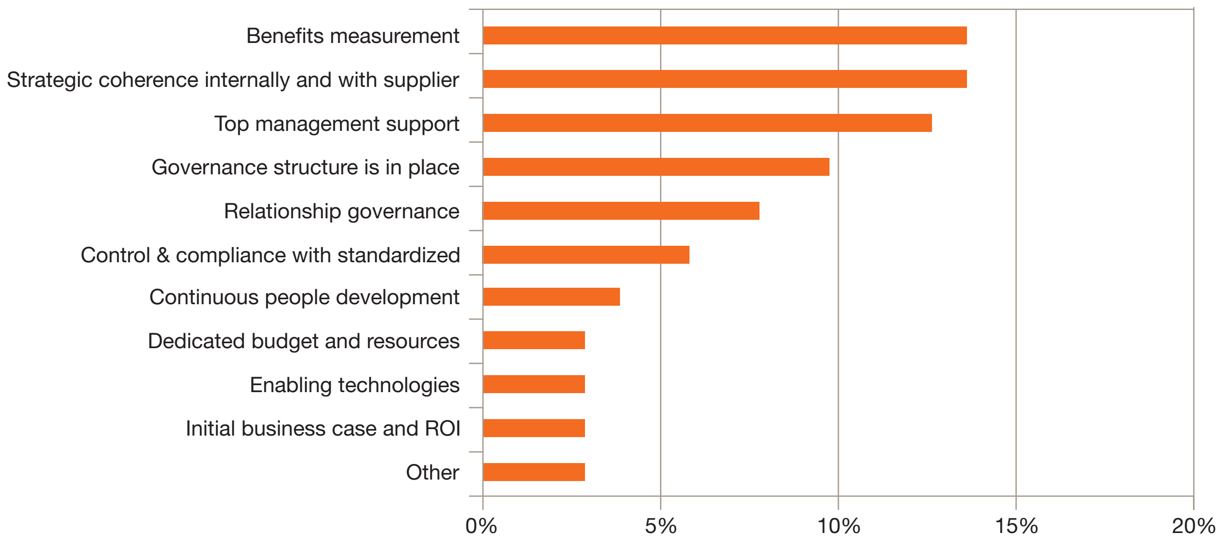
Critical Success Factors

To successfully achieve the SRM objectives, organisations need to meet several prerequisites. We asked the respondents to select three critical success factors out of a list of ten that are most relevant to their organisation.

It is vital to track the progress of the intended benefits. Positive results build credibility and ensure focus. The second important critical success factor is strategic coherence. First, the business and procurement should be internally aligned so that SRM fully contributes to business objectives. Once that is realised, a partnership will only succeed if there is a strategic coherence between the buying firm and key supplier. For example, the cost leadership strategy of a buying firm does not really match with a supplier's strategy focused on differentiation by innovation. The third-ranked critical success factor is sponsorship by top management. It ensures that the right priorities are set and that sufficient/ appropriate resources are allocated.

Other success factors critical to SRM that are not presented in the graph but were mentioned during expert interviews are: get the supplier data right, full-time dedicated supplier relationship managers, cross-functional teams, supply market & supplier intelligence, and clear understanding of SRM by the organisation.

Figure 10. Critical succes factors for SRM



Benefits of SRM

Performance improvement and risk exposure reduction are communicating vessels. Taking more risk could result in short-term advantages but threatens long-term financial and operational performance. In our research, we asked respondents to indicate which benefits have already been realised with current SRM initiatives. The figures do not reflect the level of performance improvement but how often a benefit was mentioned by a respondent.

Other SRM benefits that are not presented in the graph but were mentioned during expert interviews are: higher contract compliance rates, more successful outsource deals, increased supplier service percentages, strengthened relationships, higher speed-to-market and less waste in the supply chain.

This chapter described current SRM practices. Chapter 2 will elaborate on best practices that provide guidance to establish and/or enhance SRM at your organisation.

Figure 11. Performance benefits of SRM

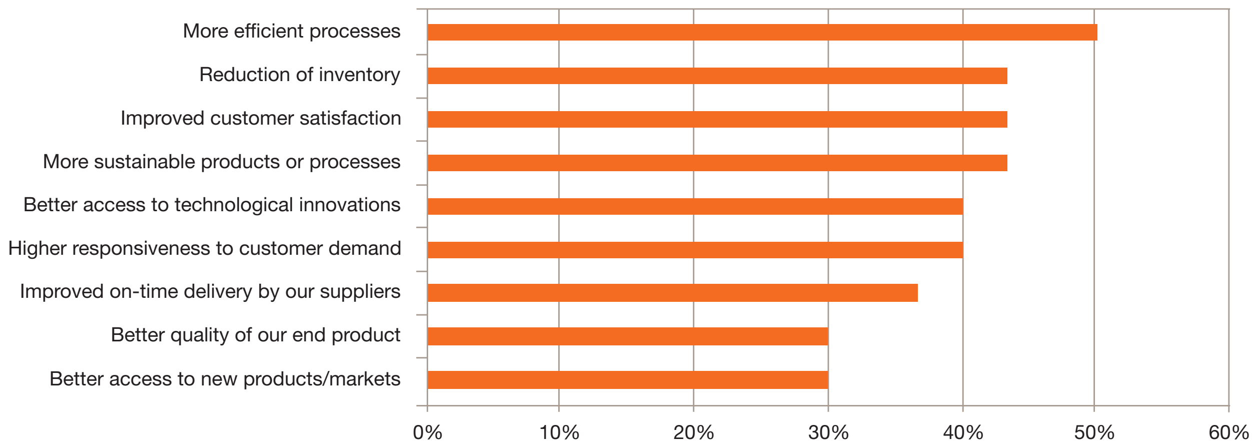
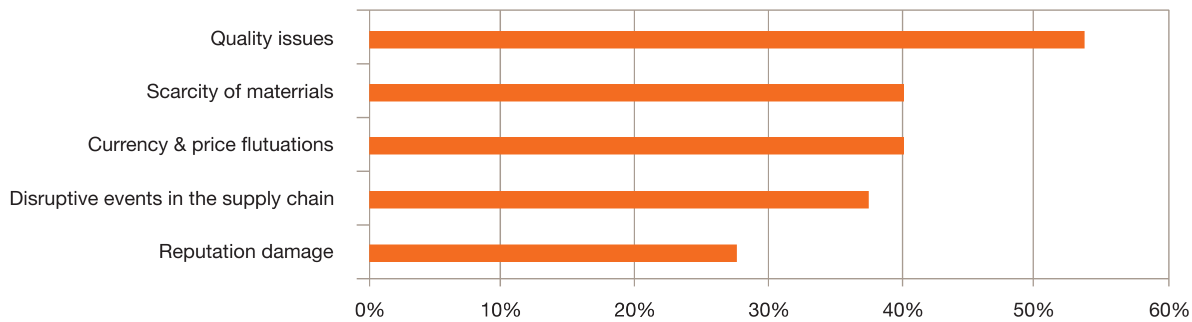


Figure 12. Risk benefits of SRM



"The nature of the relationship determines the required capabilities"

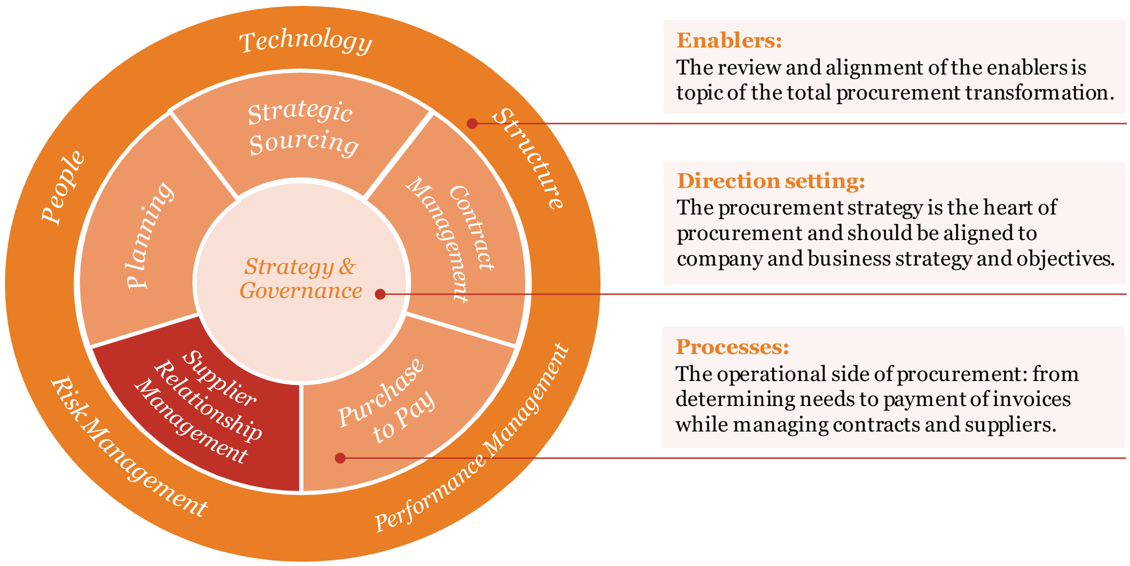
2. Towards world-class SRM

This chapter presents typical best practices to successfully establish and enhance an SRM programme or to develop and manage partnerships. We will use the seven enablers from the Procurement Framework of PwC which are:

1. Strategy & Governance: what does your organisation want to achieve with SRM and how are these objectives secured?
2. Process: which activities does your organisation perform and how is SRM supported by a standard toolkit?
3. Structure: how does your organisation structure SRM and which roles & responsibilities are established?
4. People: which unique competencies does your organisation need to establish and manage SRM?
5. Technology: which support systems does your organisation deploy?
6. Performance Management: how does your organisation measure and improve partnership performance?
7. Risk Management: how does your organisation identify and mitigate risks at key suppliers?

This chapter concludes with a short description of four key capabilities that, in our view, drive SRM value creation.

Figure 13. Procurement Framework of PwC



	Issue	*Best Practice*
1	*Traditional view on Procurement results in a strong emphasizes on cost reduction*	Let the business define what value means to them through a structured approach of value mapping
2	*The objectives and way of working of the SRM actors are not synchronised*	Make the SRM strategy & objectives explicit: internal alignment precedes external alignment
3	*There is a lack of executive commitment and no burning platform*	Develop the business case in collaboration with Finance to build trust & credibility and perform benefits tracking

1. Business drives value mapping

Procurement is still primarily seen as a contributor to cost-cutting initiatives. This perception is often reflected in the way companies establish and manage their SRM programme: a focus on cost reduction and accompanying performance indicators.

Value mapping encourages companies to think beyond cost cutting and allows them to incorporate value drivers that also contribute to revenue growth, asset utilisation and risk reduction. Although procurement can facilitate the process of SRM value mapping, it is essential that the business defines what value means and how SRM can contribute. A discussion on the organisation's key capabilities and what the organisation expects from partners should precede the SRM value discussion.

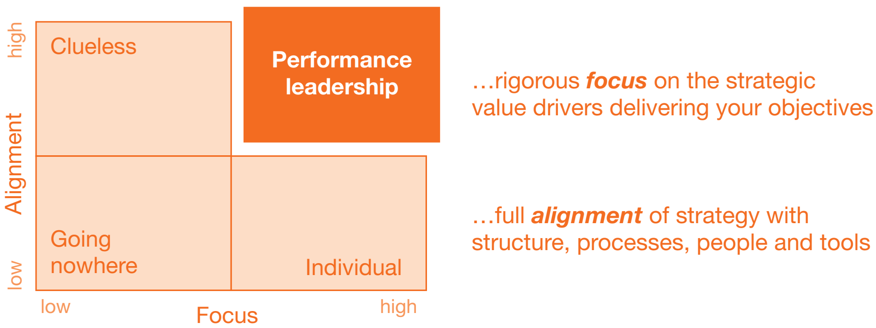
2. Internal and external alignment

Unfortunately, supplier management and partnerships are often a concern of the procurement function and sales function, with little involvement of the business. Our research indicated that the internal objectives (of the business and procurement) are not aligned and that there is a lack of strategic coherence between buyer and seller.

Value mapping facilitates the discussion between the business and procurement, and defines the exact business objectives as input for the SRM programme. We recommend that organisations document the objectives in an SRM charter to make them explicit and easy to share within the organisation. Following this internal handshake, the supplier's objectives should be aligned or other candidates should be sought if objectives or cultures do not match. As a ground rule, it is our opinion that internal alignment always precedes external alignment with suppliers.

Figure 14. Alignment

Performance leadership is all about craftsmanship, you will never achieve this without on boarding your people

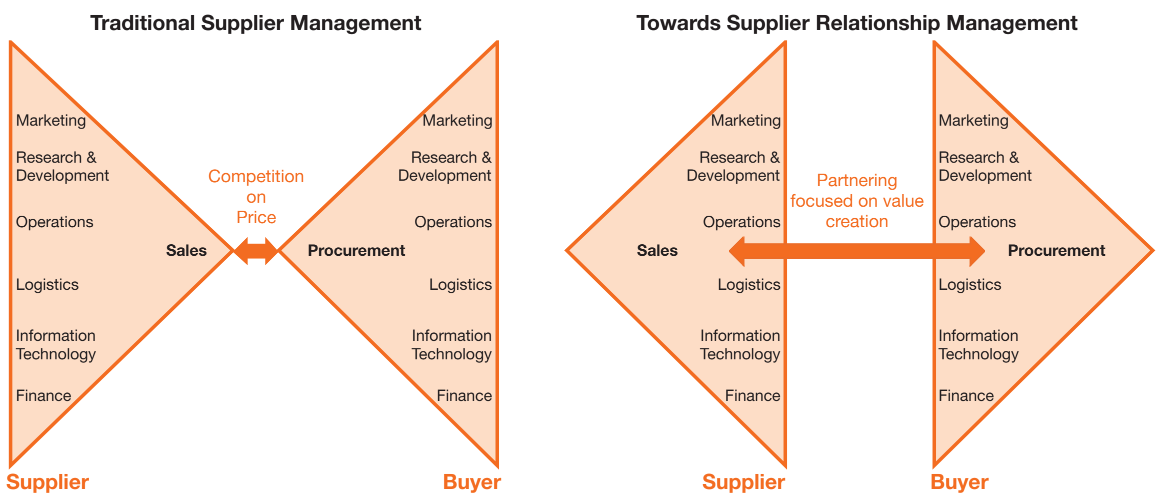


3. Positive ROI creates a case for change

Many of the respondents and PwC clients experience difficulties in getting appropriate commitment and funding for an SRM programme. One reason we often hear is that those involved are not capable of convincing or 'seducing' the leadership team because it is hard to build a business case that presents the financial benefits of SRM.

A positive ROI attracts the attention of executives and creates the required case for change. Using the value map as starting point, calculate or at least estimate the business case for each of the main SRM stakeholders. SRM benefits can be 'calculated' by estimating the impact of preventing risky events, value leakage due to a lack of contract compliance, benefits achieved in the past, and by telling compelling success stories based on case studies. We recommend involving the finance function from day one, because it can provide support in defining the impact of SRM on the P&L account and balance sheet.

Figure 15. Traditional supplier management vs. supplier relationship management



"I want to introduce the NPS for suppliers as part of the supplier service concept"

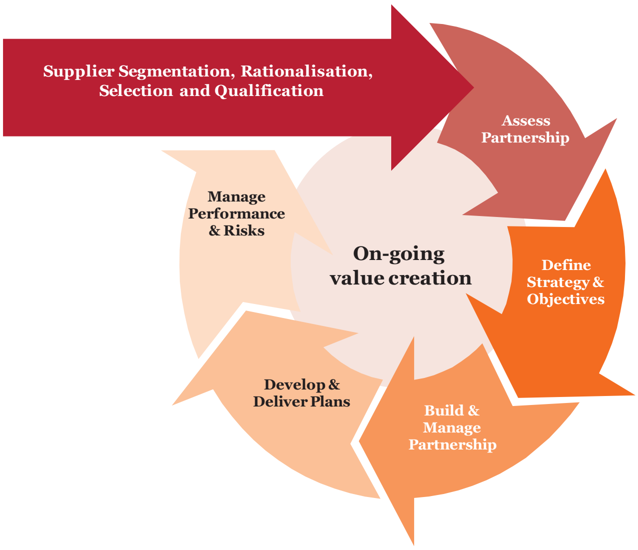
Process

	Issue	Best Practice
1	*Lack of formal business process resulting in inefficiencies and different 'languages'*	Harmonise the SRM process and develop accompanying toolkits and templates to make SRM explicit
2	*One size fits all strategy to manage suppliers with little differentiation*	Develop a segmentation process that is driven by the selected value drivers and is future-oriented
3	*SRM is a stand-alone programme with little integration*	Incorporate SRM into the target operating model so that integration with other processes is ensured

1. Formal business process

The majority of respondents and interviewees have initiated an SRM programme and operated partnerships. Their situation is often characterised by a diffuse approach whereby no standard way of working is applied and there is a lack of supporting tools and templates. Furthermore, SRM is often seen as a project driven by milestones. The latter is not per se wrong because SRM often starts as a project aimed at developing a foundation and establishing SRM.

Figure 16. SRM as a formalised business process



To encourage one SRM language across partnerships and business entities, organisations need to develop a harmonised and formalised SRM business process, including appropriate tools and templates, such as (but not limited to):

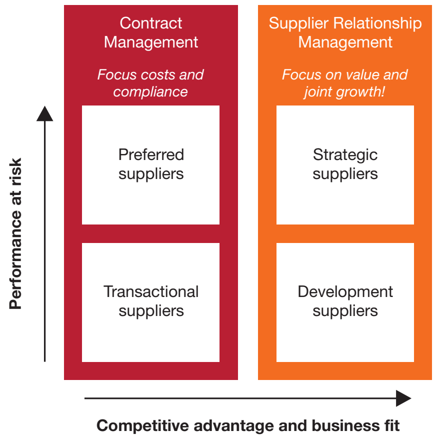
- Supplier segmentation tool
- Customer/supplier perception surveys
- Supplier account plans & alliance charter
- Performance scorecards
- Improvement charters
- Structured meeting templates
- Benefits tracking tool

As a result, SRM becomes more cost-effective while knowledge sharing and collaboration across the organisation is encouraged.

2. Multi-dimensional supplier segmentation

Approximately 60% of the respondents indicated that they have a formal supplier segmentation process. The respondents and interviewees also told us that spend size and, to a lesser extent operational risks, are still the main drivers for segmentation. Supplier strategies per segment are often lacking or not documented.

Figure 17. Supplier segmentation



The SRM value map provides a starting point and defines which dimensions should be applied – during supplier segmentation as well as during other stages of the supplier lifecycle – to rationalisation, selection, collaboration and (dis)qualification. Based on several existing models and our research insights, we developed a segmentation process, tool and grid based on two axes:

1. **Performance at risk:** what is the financial and operational impact of the supplier (now and in the future)? Examples include costs, revenues, quality, availability, supplier risks, and supply market risks.
2. **Competitive advantage and business fit:** to what extent do unique supplier capabilities contribute to competitive advantage in the future? Examples include innovation, sustainability and leagility. And do organisational structures and DNA match? These might include strategic coherence, corporate cultures, and organisation size.

The position on the grid automatically corresponds to the appropriate supplier strategy. Each organisation should customise its supplier segmentation process and grid based on sector and company-specific requirements.

3. Integrated in operating model

As presented in the PwC Procurement Framework, SRM is one of the five main procurement processes. Besides product development, these five processes indicate how buying companies and suppliers actually collaborate. The position in the supplier grid determines how intensely each process is executed and managed between the buying company and relevant supplier. It will indicate, for example, whether the organisation will deploy other contract types with strategic suppliers (e.g. open book) than it does with preferred suppliers (e.g. framework contracts). We recommend that organisations always consider SRM in relation to other (procurement) processes so that important process and IT interfaces are not missed.

"SRM should also deliver value for the supplier, otherwise you will never become a customer of choice"

Structure

	Issue	Best Practice
1	*SRM is perceived as a Pocurement topic resulting in a lack of business ownership*	Procurement manages the SRM Programme but the business owns the partnership: cross-functional teams as foundation!
2	*SRM is mispositioned and seen as an operational/tactical activity*	Assign an executive sponsor that owns the SRM Programme with appropiate targets
3	*Unclear roles & responsibilities, lack of capacity and diffuse communication*	Develop and implement a dedicated governance structure for the SRM Programme and individual partnerships

1. The business owns partnerships

We have experienced situations in which SRM is completely 'outsourced' to procurement. As a result, procurement develops the partnership in complete isolation, which means that business objectives are not met and the business does not show any ownership or commitment. Furthermore, the partnership will keep a focus on commercial aspects and solving operational issues.

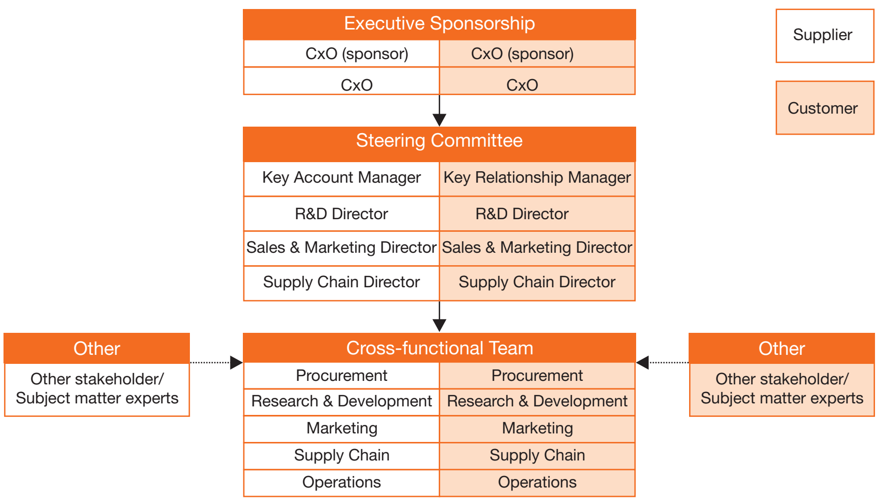
As stated previously, procurement will play a key role in facilitating the SRM process and establishing a cross-functional team so that the interests of all relevant stakeholders are served. However, the business owns the relationship and directly collaborates with the supplier so that business objectives are achieved.

2. Executive sponsorship and involvement

Due to the traditional view on procurement (see point 1 of 'Strategy & Governance'), SRM is often perceived as an operational/tactical process that will solve issues and reduce costs. Considering the enormous value potential and the fact that SRM is only deployed for key suppliers, such a view hinders a breakthrough in performance improvement and risk reduction.

We recommend that companies assign an executive sponsor from the Board in any case. Such sponsorship emphasises the importance of partnerships within the organisation while this type of sponsor ensures the alignment with corporate/business objectives, sets the right priorities and can take appropriate decisions. Personal targets are set and linked to a bonus remuneration as incentive.

Figure 18. Example of a governance structure



3. Dedicated governance structure

Building and managing a partnership is like building and managing a new department or business entity. It involves an extra difficulty, however, because it requires dealing with third-party personnel. Partnerships are often not established in a structured way so that reporting lines, roles & responsibilities and communication are unclear. In addition, employees are only involved in partnerships part-time, which results in a lack of focus.

To fully benefit from the SRM value potential, organisations should develop and manage partnerships in a similar way to (new) departments. We recommend a full organisational design approach, including the following elements covered in an alliance charter (not exhaustive):

- Organisational chart of partnership and reporting lines;
- Description of roles & responsibilities
- Definition of objectives and targets
- Indication of required capacity (FTE) and skills & competencies
- Communication structure and planning & control cycle focus on continuous improvement.

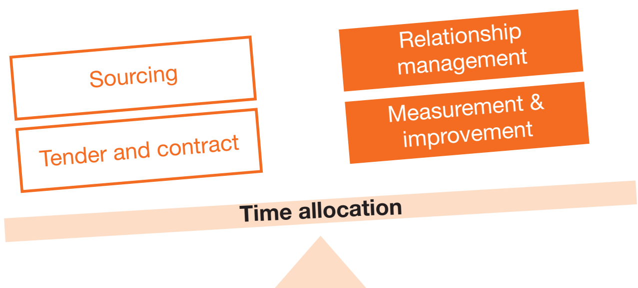
People

	Issue	*Best Practice*
1	*People involved in SRM lack the required competencies*	Develop an SRM competency framework that covers technical, relational and developmental competencies
2	*Organisation does not offer SRM-related training and courses*	Develop a training programme that is fully aligned with the SRM competency framework
3	*The company culture is focused on short-term results: KPI's determine behaviour!*	Show exemplary behaviour and follow a co-creation approach which encourages understanding and commitment

1. Comprehensive competency framework

The traditional buyer is often very strong in functional competencies like supplier market analyses, strategic sourcing, contracting, and cost & risk management. These competencies significantly contribute to spend and cost reduction. SRM also requires relational and developmental capabilities but companies run into difficulties developing these competencies on an individual and company level.

Figure 19. Time allocation of procurement



We distinguish three categories of competencies that need to be balanced: technical/functional, relational and developmental competencies. We are not saying that each individual requires this full set of competencies, but a team does. The three competency groups need to be incorporated into an SRM competency framework and cover (not exhaustive):

1. **Technical/functional:** spend management, category management, supplier and market analyses, sourcing & selection, negotiation & contracting, project management and cost & risk management.

2. **Relational:** communication, influencing, emphatic power, leadership & coaching, change management, team building, mediation, visioning, and personal development.

3. **Developmental:** innovation, corporate social responsibility/sustainability, operational excellence, customer/supplier orientation, and continuous improvement.

2. SRM training programme

In line with what was discussed above, companies primarily develop and train their people in technical/functional skills and competencies. As a result, SRM programmes keep a focus on short-term, cost reduction targets. Companies need to make a shift from traditional buying behaviour towards relationship management and this should be reflected in time allocation and training programmes.

3. Cultural change required

Building and managing partnerships requires a different type of DNA than exploiting suppliers or customers. In the supplier segmentation section we indicated that business fit is a key prerequisite for partnerships. If your organisation's culture is, by nature, focused on hunting rather than farming, we seriously doubt that a partnership can be successful. Neglecting the value opportunity of a partnership by simply doing nothing is not an option for us. This means that a cultural change programme is required, driven by appropriate change leadership and supported by a specific SRM training programme. We recommend starting with a specific partnership and rolling it out as a business-wide concept.

> *"Hard skills are the qualifiers, soft skills the winners"*

Technology

	Issue	Best Practice
1	*IT is seen as the solution and not as an enabler*	Explain the role and contribution of information systems and map current issues
2	*A lack of supplier analytics undermines the power position*	Enhance spend management, contract compliance and performance reporting
3	*The organisation encounters difficulties in sharing information and data*	Define critical information & data requirements and deploy open systems to collaborate

1. IT as enabler

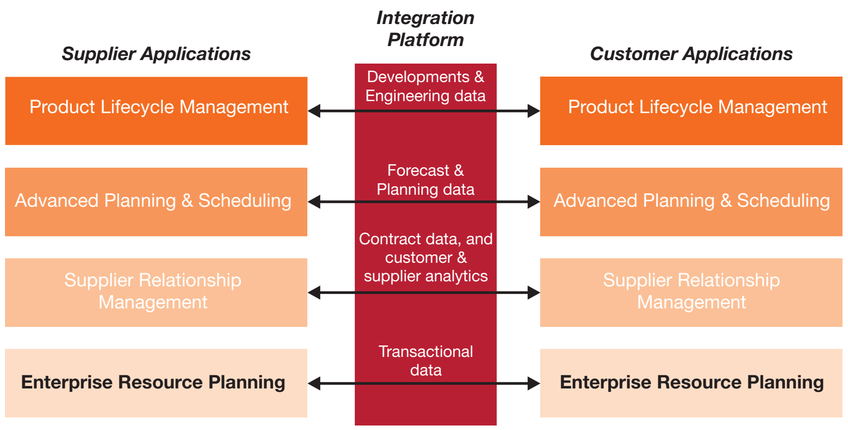
Information technology is often seen as the Holy Grail of supplier-related issues. However, only implementing software, which is already complex by nature, does not add value in complete isolation. As presented in the Procurement Framework of PwC, IT is an important enabler for value creation as it creates transparency and process efficiencies while improving knowledge management. During the introduction and establishment of SRM, it is important to emphasise these benefits and limitations.

2. Enhance functionality

An often-heard complaint from procurement is that suppliers' sales departments have more accurate, advanced and complete customer analytics. This observation is commonly reflected in a higher maturity level of sales functions in general and, accordingly, system support in particular. As a whole, global companies start to implement CRM systems years before implementing so-called eSourcing/ eProcurement applications. As a result, the power position of the buying company deteriorates.

Realising 'performance-to-contract' for the supplier concerned is a key prerequisite to building a partnership. Therefore, enhancing basic functionality related to spend management, contract compliance and operational performance reporting is the first step. Most of the ERP systems are able to deliver this transparency, so investments are rather limited.

Figure 20. IT integration between supplier and customer



3. Open systems for collaboration

Customers and their suppliers want to deploy IT systems that help them collaborate in different ways: from sharing transactional data like purchase orders to online collaboration on developing complex ‘engineer-to-order’ systems. However, companies encounter many difficulties in sharing information and data due to the use of different applications, different coding and different languages.

Now, companies are replacing their EDI solutions and starting to use open systems to share information and data via the web (e.g. XML). Furthermore, software suppliers are offering their solutions in the cloud while business process outsourcing for procurement-related processes is becoming more generally accepted.

“SRM is like a long journey: don’t rush it!”

Performance Management

	Issue	Best Practice
1	*Measure what can be measured: there is a focus on operational measures*	Value mapping drives performance management including indicators that measure the quality of the relationship
2	*The buying company measures/controls the seller*	Develop a joint balanced scorecard that includes (joint) performance indicators for both parties
3	*Creating scorecards is a rather time-consuming and error-prone exercise*	Automate the creation of performance scorecards

1. Balanced scorecard

We often come across situations where companies only measure what is easy to measure. Existing scorecards often cover operational indicators that only focus on logistics, quality and cost-related drivers. This once again emphasises the focus on cost reduction, while organisations lack the value perspective and opportunity to improve beyond cost-cutting initiatives.

We recommend that organisations adopt the balanced scorecard concept, which uses value drivers as a solid foundation for performance management and improvement. The starting point is value mapping, which links strategic direction and execution. We challenge organisations to not just incorporate technical and developmental capabilities but also include performance indicators that measure the quality of the relationship. Subsequently, it is essential to make the balanced scorecard part of the continuous improvement cycle between customer and supplier.

2. Two-way measurement

As the term implies, supplier performance management is often characterised by the fact that the buying company measures and controls the supplier. Such one-way measurements do not stimulate the partnership concept. Interviews with some respondents indicated that this creates an atmosphere of distrust because of its one-way nature.

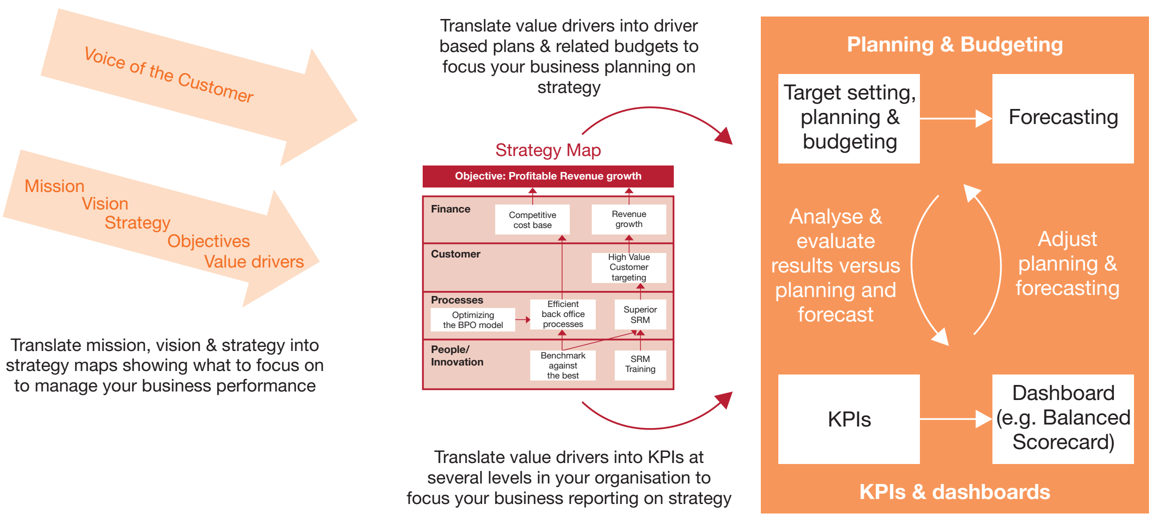
Research has shown that two-way measurement and a corresponding balanced scorecard is much more effective because both parties are committed to the performance indicators. Some performance indicators cannot be assigned to one party only and a shared balanced scorecard makes that possible. In particular, indicators that measure the quality of the relationship require the involvement of both partners.

3. Automated scorecards

In the event that the balanced scorecard contains a comprehensive set of KPIs, the creation of performance scorecards can be rather labour-intensive, time-consuming and error-prone, which is especially relevant if there are many data sources from different applications. Furthermore, discussions on data integrity and accuracy are counterproductive and distractive for the purpose of scorecards, which should be about how to improve performance together.

We recommend developing performance scorecards that can be automatically generated. Business intelligence software can easily extract data from different applications from both partners and solve the issue of varying sources. Data security is a key topic due to confidentiality.

Figure 21. Performance management based on strategy maps and balanced scorecards



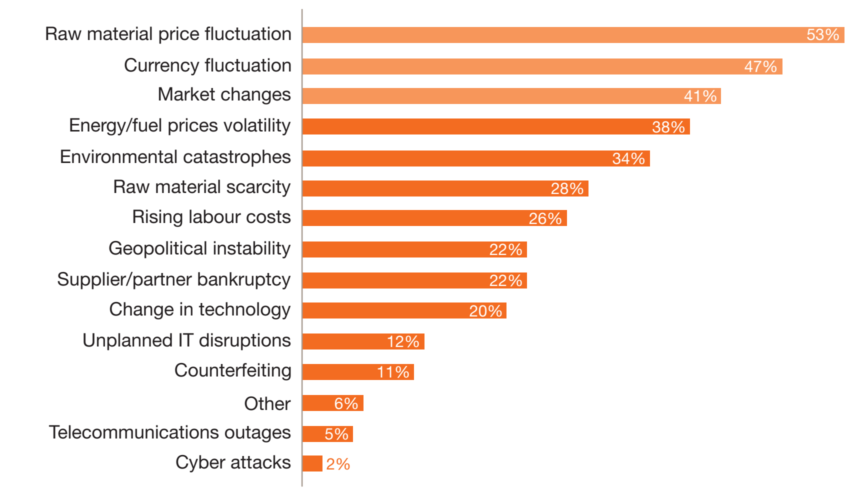
Risk Management

	Issue	*Best Practice*
1	*The organisation does not have a complete overview of all sources of risks*	Perform a joint risk analysis with the business and supplier
2	*Risk management equals fire fighting and solving issues*	Develop a comprehensive risk management approach that is fully incorporated in the planning & control cycle
3	*Risk prioritisation and action mitigation do not take place*	Financially materialise the risks based on (an estimation of) the impact of events

1. Joint risk analysis

Supply chain disruptions have a significant impact on a company's business and financial performance. Many disruptions are supply/supplier-related (see graph). Sources of potentially disrupting events are diverse and can be environmental, geopolitical, business or technological. Our research indicated that many organisations do not have a comprehensive view of all sources of risks.

Figure 22. Survey participants' view on the greatest risk to which their supply chain is exposed



Risk management starts with the identification of all potential supply risks. As is the case for performance management, we recommend that risk management is performed in dialogue with strategic suppliers and preferred suppliers with a high risk profile so that no important risks are missed.

2. Risk management approach

Another research study of PwC (Global Supply Chain and Risk Management Survey, 2013) revealed that more than 60% of respondents saw their performance indicators drop by 3% or more in 2012 as a result of supply disruptions. It is concerning that supply risk management remains a rather immature business process that is mainly driven by fire-fighting unexpected events and solving operational issues. Only 41% indicated that they have mature processes, structures and systems in place to effectively address incidents.

To reduce vulnerability and exposure to high-impact supply disruptions, companies need advanced capabilities regarding supply management and risk management. PwC distinguishes six factors that strengthen the supplier risk management approach:

1. Risk governance, including processes, structures and systems;

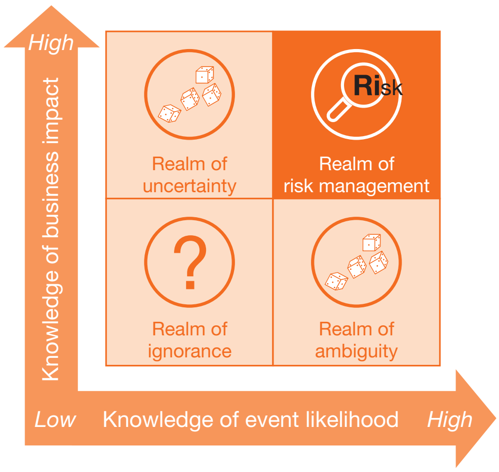
2. Flexibility and redundancy in products and suppliers;
3. Alignment of strategic objectives with suppliers;
4. Upstream integration covering information sharing, visibility and collaboration;
5. Complexity reduction regarding processes and products;
6. Data, models and analytics to identify supply risks.

3. Financial materialisation

Even if every supply risk is known, it is impossible to mitigate them all due to the implied costs compared to the potential benefits. Therefore, segmentation and prioritisation of supply risks is necessary.

For all sources of risk, the likelihood and business impact should be defined. These two aspects jointly determine which risks get priority. We recommend giving priority to estimating the financial impact of risks with a high business impact. In most cases, the likelihood is a given and cannot be influenced, while the business impact determines bottom-line results. For example, in the event of a serious breakdown, what does it cost the company (time and thus money) for the time it takes a supplier to recover its production capacity? This is what impacts a business.

Figure 23. Segmentation and prioritisation of supply risks



“Better working together with our suppliers instead of fighting against them”

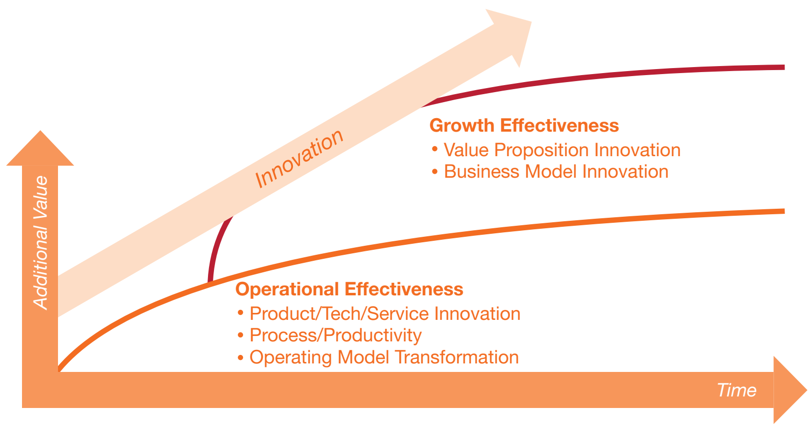
Key value drivers for SRM

We firmly believe that four key capabilities drive SRM value creation, namely innovation, sustainability, leagility and resilience. Both partners must be able to develop and deploy these four capabilities concurrently. Elements like trust, open communication, empathy and a win-win orientation are prerequisites to actually benefitting from these capabilities and, as such, function like grout between the bricks.

1. CEOs ranked ***innovation*** as the #1 approach to growth. Increasing competitive pressures and a need to deliver growth means they recognise the need to bring new products and services to the market quickly and efficiently. Innovation-driven organisations can achieve sustainable value creation and profitable growth. This can be driven through both 'back office' operational innovations and 'front office' growth effectiveness capabilities. Open Innovation with external partners is the next step in innovation excellence; companies are aware that they cannot finance all R&D activities completely by themselves.

Figure 24. Key value drivers for SRM

Figure 25. Innovation as the #1 approach for growth

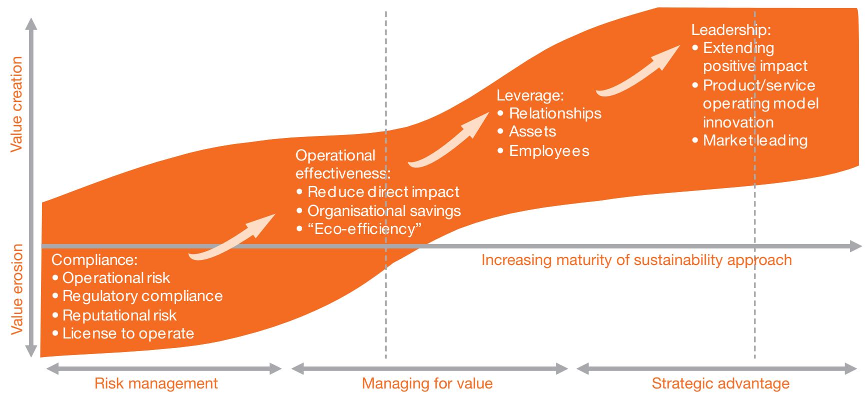


2. Enlightened executives recognise that ***sustainability*** is a key element of strategic planning for the overall growth and well-being of the business in the long run. Industry leaders are integrating bold, decisive and long-range sustainability metrics into overall corporate goals. They are seeking to achieve sustainable, financial and operational performance simultaneously – the economically rational choice. Companies are increasingly seeking to embed sustainability in an innovative way, by linking remuneration to sustainability, publishing environmental profit and loss statements, or integrating financial and non-financial reporting. Considering the fact that procurement represents approximately 50-80% of the total costs, these companies realise that their sustainability footprint is primarily defined by their (key) suppliers too, so collaboration here is key.

3. Supply chain leaders operate more supply chain configurations to achieve a competitive advantage. Instead of deploying a one-size-fits-all approach, many companies use an operating model that constitutes different supply chain configurations. Each supply chain configuration is optimised and differentiated to service-specific business requirements, including the supply side. A configuration can be lean or agile and both configurations can coexist within a company (forming the term ***leagility***). Business functions and suppliers must be fully aligned with the selected configuration.

4. Although more businesses have become aware of risks that can harm their organisation, few are able to implement adequate measures to allow the processes and organisation to cope with these risks. Companies with mature supply and risk management practices are more ***resilient***. They are less vulnerable to disruptions and recover faster. If companies invest in flexibility in their supply chain, they are better able to endure disruptions than companies that fail to do so. Our research indicated that such companies also perform better in all aspects of operational and financial performance.

Figure 26. Sustainability is a key element for growth and well-being of the business in the long run



"Treat your partners as the experts"

3. How to establish SRM

The previous chapter presented typical best practices for an SRM programme and individual partnerships. But how can organisations successfully establish an SRM programme? This chapter presents a generic programme approach that must be tailored to your specific sector and company requirements. In addition, we briefly discuss important change levers that will increase the chances of success.

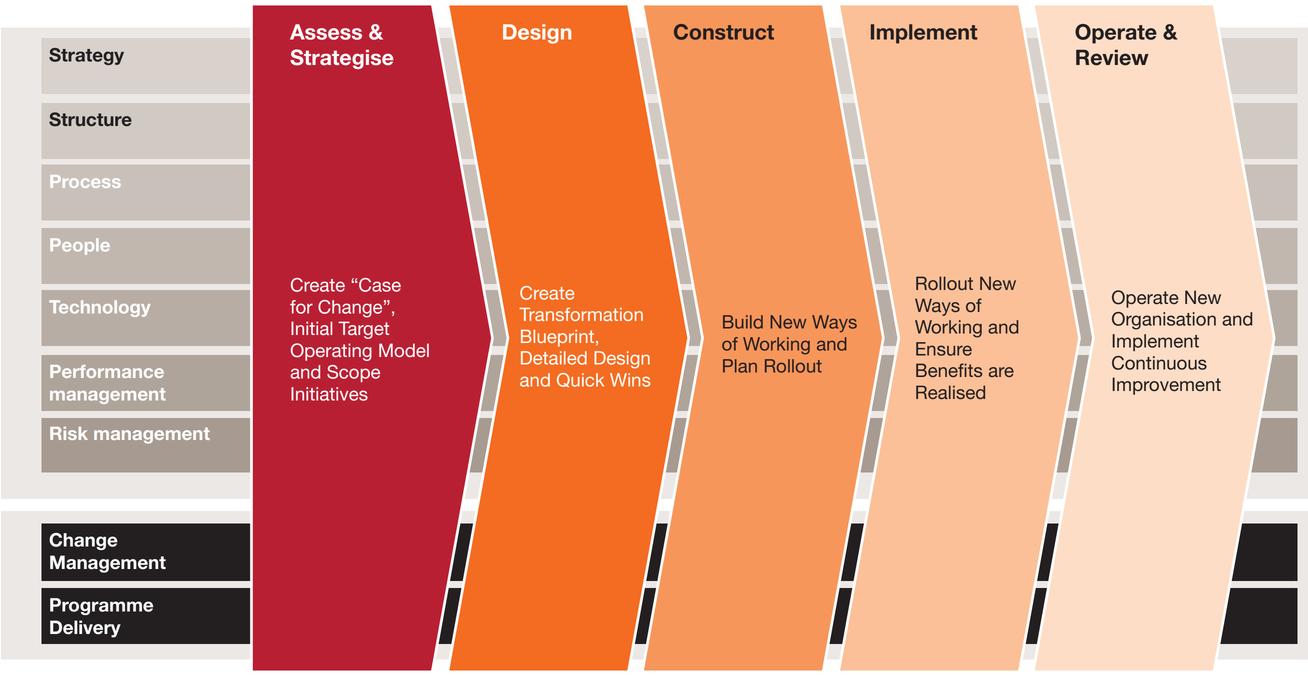
Transformational approach

We suggest following a transformational approach that considers the value potential, complexity, number of stakeholders and organisational impact. Although SRM ultimately becomes a business process, it initially starts out as a programme to establish SRM or a partnership. Our SRM Programme Approach is based on Transform™, which is PwC's integrated approach to business transformation. It contains a full web-enabled suite of methodology descriptions, checklists and ready-to-use templates, tools and trainings. Transform methodology consists of two parallel and integrated domains for ***delivering change*** and ***driving change***. Transform™ focuses on programme and change management, while accelerating the project thanks to a large number of templates and examples. PwC has also developed specific versions for several competencies, including procurement.

We have now developed a dedicated approach to SRM based on Transform™ and experience gained through project assignments and research. The first stage, 'Assess & Strategise' is focused on defining the ambition level, developing a high-level design for SRM, and calculating the business case as a solid foundation for the SRM programme. Typical activities include:

- Mobilising a cross-functional project team;
- Reviewing current supplier management programmes, including

Figure 27. Transform™, PwC's integrated approach to business transformation



strengths and improvement opportunities;
- Defining current maturity level and ambition level;
- Developing a tailored SRM value map that links SRM initiatives to business objectives;
- Formulating SRM strategies, objectives and policies;
- Developing a high-level design considering the seven dimensions;
- Building a supplier segmentation process & tool, and defining specific supplier strategies;
- Conducting a supplier segmentation analysis;
- Creating a business case to calculate/estimate the ROI;
- Selecting a pilot project with a key supplier.

The following stages are executed per partnership and consist of Design, Construct, Implement & Operate and Review. We recommend starting with one or a limited number of pilot projects to develop a standard tool set and to build credibility and trust within the organisation. After establishing the pilot partnership(s), the following strategic suppliers can be adopted in the SRM programme elaborating on available templates and experience.

Change levers for success

As is the case for other business transformations, establishing an SRM programme is a complex exercise. Managing change successfully is the number one prerequisite. Below is a list of the top-10 change levers for SRM:

1. Create a sense of urgency: create awareness of what SRM concerns and why SRM is crucial for the organisation.

2. Develop a clear vision: develop a shared, clear and inspiring vision with understandable and measurable benefits & consequences.

3. Assign executive sponsorship: assign executive sponsorship and ensure its role in the governance structure.

4. Position SRM: present and manage SRM as a business-wide programme supported by cross-functional teams.

5. Ensure business alignment: business objectives direct SRM value mapping and initiatives; procurement can own the SRM programme but the business owns the relationship.

6. Enable dedicated resources: assign full-time relationship managers and empower people.

7. Follow co-creation approach: involve people during the development process to embed change in the organisation.

8. Start small: start with one or a limited number of pilot project(s) to build trust and confidence.

9. Train, train & train: train stakeholders in relational and developmental competencies as well as technical/functional competencies.

10. Track & communicate progress: inform stakeholders about the realisation of initial targets and materialise them financially.

We hope this report provides your organisation with pragmatic guidelines and best practices to successfully implement SRM. Don't hesitate to contact us if you would like to benchmark your organisation using our online benchmarking tool, with no obligation. PwC wishes you all the best with your journey towards world-class SRM. We look forward to meeting you for an interactive discussion on your SRM experiences.

"KPIs determine behaviour: selecting appropriate KPIs is key"

Acknowledgements

The research team would like to express its deep and sincere gratitude to all the respondents for taking the time to complete the online survey and for sharing their knowledge and insights. A special thanks goes to the organisations that invited PwC to conduct interviews and discuss SRM objectives, challenges, success factors and approaches. This report could not have been written without their contribution and enthusiasm:

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- Royal FrieslandCampina N.V.
- Vanderlande Industries B.V.

Finally, we would like to thank all the PwC colleagues who contributed to this research study by sharing their competency expertise and network.

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Appendices

Appendix 1: Population profile of the online questionnaire

A panel of 30 respondents completed the online survey.

Figure 28. Revenue

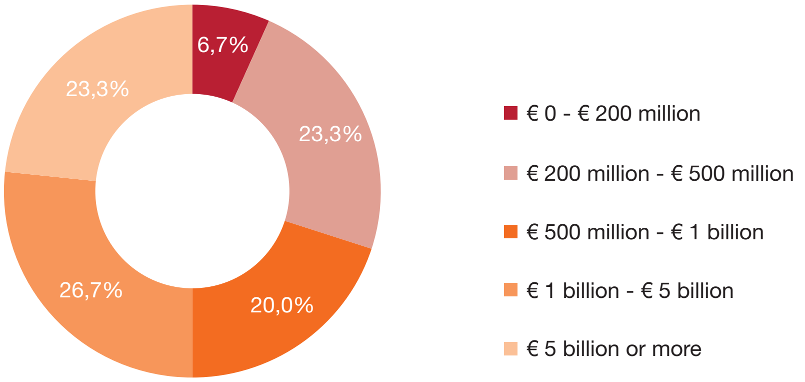


Figure 29. Spend

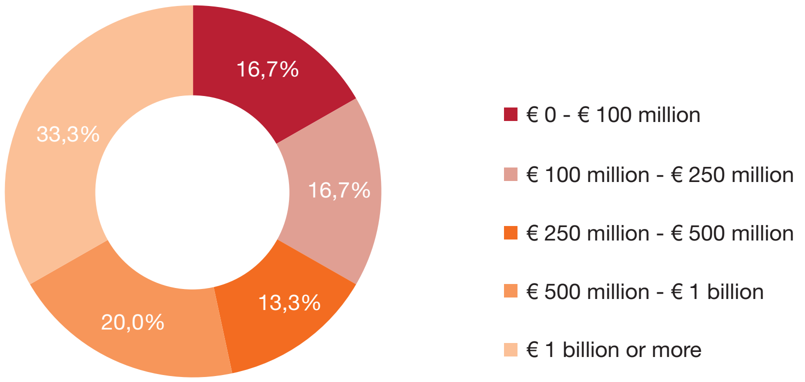
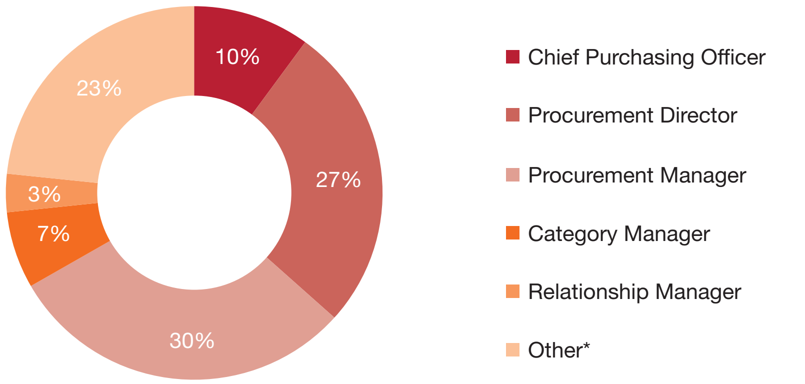


Figure 30. Function of participants



**Other functions are: Director Supply Chain Management, Director Strategic Partnerships, Operations Director, Section Manager SCM, Manager Logistics.*

Appendix 2: Detailed SRM maturity model

	1. No SRM	2. Exploring	3. Established	4. World-Class
Strategy & Governance	• Focus on 'performance to contract' • No alignment between business and procurement and • No company-wide SRM strategy and objectives • No SRM policies and guidelines	• Focus on TCO reduction • Business and procurement have initial discussion on value • SRM strategy & objectives formulated but poorly understood • SRM guidelines & policies are documented	• Partial focus on value creation • Value mapping as input for SRM strategy • SRM strategy & objectives known and fully understood • SRM policies and guidelines are communicated and fully understood	• Full focus on value creation • SRM fully aligned with corporate/business strategies • SRM strategy and objectives are frequently challenged and updated • SRM policies and guidelines are frequently challenged and updated
Process	• No specific SRM process in place • All suppliers are treated the same • Supply base is primarily managed by contracts and growing • No defined supplier development/improvement programmee	• Documented SRM process with basic process toolkit • Different views on relationships but little differentiation • Basic supplier strategies, stable supply base • Regular review meetings with suppliers to identify improvement opportunities	• SRM process known and fully understood and advanced toolkit • Supplier segmentation drives supplier differentiation • Advanced supplier strategies, supply base is decreasing • Multi-functional teams meet to discuss issues & opportunities with suppliers on a regular basis	• SRM process is frequently challenged and updated • Same value drivers are applied during entire supplier lifecycle • Partnership strategy jointly developed and managed • Proactive supplier development, Supplier is proactive in seeking out improvement opportunities
Structure	• Procurement not recognized as process owner • Divisions, functions and business units run autonomously • Unclear roles & responsibilities, no partnerships or alliances	• Procurement is taking the lead, limited business recognition • Business stakeholder involvement has not been formalized • Roles & responsibilities are formalized and partially applied for pilot projects but on an ad-hoc basis	• Procurement seen to be owner of process and is involved in the majority of key relationships • Executive sponsorship of individual strategic relationships • Roles & responsibilities are consistently applied at partnerships and centrally coordinated	• Procurement seen to be owner of process and facilitator. Fully involved in all key relationships • Senior executive sponsorship of individual strategic relationships • All partnership are organized according to standard structure and centrally managed
People	• Procurement staff low skilled in SRM, focus on technical/functional skills • No training in SRM • No knowledge management	• Basic SRM skills are developed, attention for relational/developmental competencies • Training requirements known, limited number of SRM courses • Internal knowledge management process & system developed	• Advanced SRM skills are developed, relational/developmental competencies elaborated • SRM training curriculum extended • External knowledge management initiated	• Procurement staff has broad skills, focus on technical, relational and developmental competencies • Comprehensive range of training programme linked to procurement and business needs • Joint knowledge management
Technology	• ERP is available to support supplier management • Supplier integration to share transactional data only • No online collaboration and decision-making	• Basic eProcurement/APS/PLM technology are available/used • Contract, performance and planning data are shared • Limited online collaboration and decision-making	• Advanced eProcurement/APS/PLM technology are available/used • Contract, performance, planning and engineering data are shared • Partially online collaboration and decision-making	• Full process scope is supported by appropriate technology • Operational, tactical and strategic data and information are shared on a real-time basis • Full online collaboration and decision-making
Performance management	• Focus on operational performance measures • Buying company measures and assess suppliers • Initiatives driven by issues	• Focus on tactical/strategic performance measures • Initial discussions on joint KPI's • Basic continuous improvement cycle, manual scorecards	• Performance measures partially driven by value mapping • Joint discussion on KPI setting and targets • Joint continuous improvement cycle with basic reward system, semi-automated scorecards	• Performance management fully driven by value mapping • Joint balanced scorecard measures partnership performance • System with full sharing of investments, risks and benefits, based on fully automated scorecards
Risk management	• No visibility on risks • Ad-hoc risk management • No planning of disruptional events	• Moderate visibility on main risks • Basic risk management process, mainly qualitative • Mitigation plans for most severe risks	• Partner resilience monitoring • Full risk management process with quantitative measurement • Joint business continuity plans	• Full and online visibility on joint supply risks • Supplier risk segmentation strategy and approaches • Joint investments to create flexibility

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