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5 Critical Steps to Achieve Best-in-Class Supply Management



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Supply management leaders that can shift their focus beyond the tasks at hand and successfully harness best-in-class practices will find themselves in a unique position at the higher levels of the corporate table.

Imagine a world in which supply management functions – sourcing, procurement, negotiation, and contract management – are viewed not as reactive, paper-pushing, back-office activities, but as vehicles to outperform competitors and achieve goals that reach beyond the bottom line.¹ In this world, supply management would adeptly and proactively harness best-practice methodologies to achieve sustainable savings that derive business goals at the highest levels.

This world isn't a mythical or far-off one; senior executives at progressive companies are now starting to view supply management as a diamond in the rough that can deliver more than just cost savings, and they are leading the charge to become best-in-class.

What does *best-in-class* mean within the context of today's supply management evolution? If it means allowing companies "to outperform their competitors and peers in specific operational areas and deliver more value at less cost,"² then organizations must develop a proven roadmap of supply management strategies and tactics that will help deliver measurable results, including improvements in efficiency and effectiveness across the enterprise. Supply management leaders that can shift their focus beyond the tasks at hand and successfully harness these practices will find themselves in a unique position at the higher levels of the corporate table.

Want to make this new world your reality? Here are five critical best-in-class practices that will help empower your supply management evolution.

1. Link Procurement with Business Drivers

No matter how good your supply management organization is at reacting to the requisition load, providing high-quality customer service, or negotiating contracts, there is still greater value to be gained. The role of supply management today demands more than simply keeping costs down and turning requisitions into purchase orders. Supply management needs to increase its value by connecting to the company's overall strategy and linking its imperatives, at a high level, to the organization's business drivers.

To do this, supply management teams need to assess the opportunities within the organization, develop a sourcing strategy for each category, and prioritize these strategies according to the organization's overall goals. Stakeholders need to give input, evaluate current systems, and prioritize spend with the goal of understanding the status of each category from various levels of the business. For example, if I'm a supply manager, I'll want to meet with the CIO to get a strategic view of the IT team's needs and budget for the coming year and build a solid strategy for cost-effectively meeting their requirements. This may mean finding new sources of supply or working with incumbent suppliers to improve performance or extend their range of offerings.

Depending on a company's maturity, its overarching goals can be wide-ranging – they can encompass everything from creating more organizational efficiencies to aligning new supplier capabilities in order to drive product innovation. Make no mistake: *Supply management can be a key player in achieving these goals.* But only by breaking out into each of your company's categories can the supply management organization evolve from a reactive role to a proactive one and become a venue for improving total enterprise performance.

¹ Throughout this article, the term *supply management* refers to an organization's procurement function. *Supplier relationship management*, in turn, refers to the suite of applications that support supply management practices.

² "Achieving World Class Source to Settle Through Best Practices," The Hackett Group (2003).

To create a foundation for sustainable, long-term results, organizations need to wake up to an awareness that understanding their suppliers and their spend will let them use supply management to drive the business. In order to succeed at this, they must maintain a keen interest in constantly finding and mining new savings opportunities.

2. Put Relationship Back into Supplier Relationship Management

Supply management's focus is no longer on single transactions, but rather on a symbiotic, long-term approach to the entire buyer-supplier experience. Gone are the days of an adversarial buyer-supplier dance that ended in a completed delivery and terms that both parties could only "live with." Today the focus is on *collaborative, win/win supplier relationships*; the imperative is to work together with suppliers for mutual gain and to seize the full innovation potential of your supply base. This requires early involvement of suppliers in the design process, dedication to a continuous dialogue, and an understanding of how to extract the full value of a supplier's offerings.

Here's a perfect example of collaborative supply management: You send out drawings for a part that you need manufactured. The supplier could come back and quote you a per-unit price for your exact specifications. Or he could say, "I've noticed this part includes one small piece that requires special equipment to make. If you change the design to avoid using that piece, I can save you \$300 a unit." *That* is supplier collaboration, and a good example of a supplier that's going to go the distance for you.

Suppliers need to be invited to become active participants, share risk, and have full knowledge of a company's expectations and supply management

goals. Key performance indicators (KPIs) need to include more than just quality, cost, and reliability. The new tenets of collaborative supplier management must now take into account the day-to-day activities that genuinely demonstrate flexibility, problem solving, visibility, continuous improvement, value-added knowledge and expertise, ease of use, and a can-do attitude.

To this end, it is imperative to have integrated processes and technology that ensure all parties involved in supply management perceive and understand the value of the buyer-supplier relationship (see sidebar below), which extends to the crucial bond that ultimately includes customers. It's all about depending on trusted partners to make the supply base successful.

3. Develop New Practices That Provide Continuous and Sustainable Value Improvement

An emerging trend is forcing companies to change their attitude toward the supply management function: At the executive level, people have woken up to the fact that the money they spend on goods and services is worth scrutinizing. As a result, there is much more attention being given to the supply management function, and supply managers can now exploit this trend by passionately mining new savings opportunities and proving that they can rapidly replicate these business improvements in new arenas.

Transform Corporate Objectives into Executable Strategy with mySAP SRM Category Management

Through mySAP SRM Category Management, SAP provides all parties that touch supply management processes with a technology infrastructure that fosters collaboration. This framework:

- Provides an effective central platform to model best-practice approaches to planning, sourcing, and tracking of specific spend-category programs and initiatives
- Offers a centralized planning and execution platform that strategically aligns sourcing and contract information across disparate systems
- Enables collaboration and knowledge-sharing among stakeholders via a collaboration room
- Provides a highly flexible guidance framework to model a best-practice approach for a given spend category
- Assesses relevant category data with a dashboard and analytic framework
- Enables users to directly manage RFx contracts (such as requests for proposals) and other purchasing documents from a single source

For more information on mySAP SRM Category Management, see www.sap.com/solutions/business-suite/srm/featuresfunctions/sourcing.epx.

Simply automating old, inefficient processes isn't the kind of value supply management should be targeting.

Consider your organization's marketing department. To them, supply management is probably just considered an extension of accounts payable. But there's an opportunity now to approach marketing and demonstrate how the supply management function can support them, not slow them down. Rather than preventing marketing from being creative, hitting deadlines, or even choosing which suppliers to deal with, supply management can provide knowledge tools, which highlight sound supply management practices using current SRM systems, to get better value out of those suppliers and assure marketing that their contracts will be tracked and followed.

As supply managers demonstrate how their plans impact the business's bottom line, tools such as category management, strategic sourcing, e-procurement, and advanced analytics can help bring discipline and create a foundation for long-term results. Together, these systems enable a move toward strategic thinking around procurement and help keep the doors open for new opportunities.

4. See Compliance as a Blessing in Disguise for Supply Management

The intent of new compliance legislation such as Sarbanes-Oxley is pretty simple: to "provide adequate internal control structures and procedures for financial reporting."³ At first blush, supply management saw Sarbanes-Oxley as yet another new regulation that would add layers of complexity to a function already considered too cumbersome ("Just what we need, another reason to have the CFO breathing down our necks!"). Yet, over time, compliance actually presents tremendous opportunity for supply management.

Supply management is one of the few corporate functions that has always needed to justify its existence to the rest of the enterprise. The role of procurement has always been to save the company money, to buy with integrity, to negotiate the best deals, and to extract the best possible value out of suppliers. Now, with the genesis of just 20 lines of text in Sarbanes-Oxley section 404 dictating that companies must protect investors by improving the accuracy and reliability of corporate disclosures, there is a compelling opportunity for supply management to

finally implement difficult policy changes, prove that money is being spent with integrity and an audit trail, and holistically improve old spend-control processes. That means looking at the whole system of spend control, not just trying to fix discrete pieces, such as contracting, ordering, or payment.

For many companies, compliance legislation will be a great catalyst for boosting the visibility of the supply management function. But while legal compliance is certainly a noble goal, the larger benefit will come from obtaining greater effectiveness and efficiency in corporate operating systems, including sourcing and procurement.

There are several key areas where supplier relationship management technology can help drive compliance and minimize risk. These include automating the bidding process and creating highly transparent records, providing clear audit trails for transactions, implementing tighter controls for valuing assets, and documenting all spend clearly. Many enterprises are already using compliance legislation as a reason to implement processes and controls that the supply management organization has advocated all along, including a centralized spend database, e-procurement, contract management, and spend analysis tools, along with processes that help ensure transactions are made by the right people for the right amount and reason.

This compliance legislation may have come at just the right time, too. Supply management finally has the tools to address these areas. Had the legislation come much sooner, it could have been a much bigger problem (see sidebar).⁴

5. Avoid Pouring Technology into Inefficient Processes: Recognize What Doesn't Add Value – and Eliminate It

The new role of technology is to empower and innovate rather than merely to accelerate old, pedantic processes. It is imperative for supply management to shift the focus away from handling individual transactions and toward strategically managing the supply base. This takes a focused effort to challenge every process and eliminate ineffective, inconsistent practices that no longer contribute to accelerated innovation that's in line with business demands.

³ See www.sec.gov/about/laws/soa2002.pdf for the full text of the Sarbanes-Oxley Act of 2002.

⁴ For more on the relationship between procurement and compliance, see "Does Procurement Play a Starring Role in Your Compliance Strategy? It Should!" by Don MacLennan in this issue of *SAP Insider* (www.SAPinsideronline.com).

Compliance – Then and Now

How SRM Systems and Audit Trails Go Hand in Hand

With the prevalence of supplier relationship management (SRM) systems today, visibility and compliance are relatively easy to demonstrate. But before such systems existed, companies had no clear way to prove their compliance.

Say, for example, that I'm using an e-procurement solution to buy a computer. Just the fact that a particular item is in the online catalog I'm viewing means that this supplier has a contract in place with my company and is a trusted partner. When I submit a requisition, it's automatically sent to my manager and IT for approval before the computer is ordered and shipped. Now there's an audit trail that shows the order was received, matches an invoice to the requisition receipt, and matches the invoice to a purchase order.

Five years ago – and even for some companies not using SRM systems today – this entire process was paper-based. You had forms clipped together and routed manually around the company with missing dates and approvals, flying completely in the face of what compliance is all about. Now, with mySAP SRM, you have the tools you need to demonstrate a neat, tight audit trail from source to settle.

To reiterate: *Simply automating old, inefficient processes isn't the kind of value supply management should be targeting.* Instead of simply valuing an SRM system for its automation potential, it is incumbent on supply management professionals to develop a new perspective on the use of SRM technology. An SRM system should be viewed as the enabler of new paradigms of how supply management can be organized, and it is essential to recognize the ways SRM allows breakthrough new processes (see **Figure 1**).

The Transformation Starts Now

Supply management teams need to position themselves to make changes within their organization that boost savings and provide transaction transparency while ensuring high-quality supply. It's time for supply management to take itself seriously as a strategic part of the business, starting with some general best practices that any organization must follow:

- Weed out any process that does not add value to the business
- Nurture a culture that guards against complexity
- Look for performance indicators that truly matter
- Make the source-to-settle process seamless for all parties involved
- Measure for increased value instead of transaction counts

mySAP SRM function	Breakthrough process benefit
Supplier management	Optimize supplier relationships and seize the full innovation potential of the supply base
Spend analytics	Connect to corporate business drivers and provide spend visibility
Strategic sourcing	Mine new savings opportunities through new supply sources
Contract management	Create a disciplined approach for positive, long-term results
Operational procurement	Remove complexity, create organizational efficiencies, and provide seamless processes with clear visibility

- Make sure you can support performance measurements with appropriate systems

If you do these things, you'll have a substantial head start on getting that ever-elusive organizational buy-in from key stakeholders. Remember, the supply management process is iterative and therefore is never over! ■

FIGURE 1 ▲ mySAP SRM functionality enables innovative, collaborative procurement processes

Additional Resources

- www.sap.com/solutions/business-suite/srm/index.epx