

## Is SRM worth the investment?

I was recently interviewed by Dustin Mattison, Publisher at [TheFutureofSupplyChains.com](http://TheFutureofSupplyChains.com), where you can also hear the recording of the interview.

We talked about Supplier Relationship Management (SRM) and the preliminary results of a recent SRM benchmark study. Below is a transcript of the interview.

### 1. Please give us a brief background about yourself.

I worked for 35 years at Dow Chemical in different areas like Manufacturing, R&D, Sales, Marketing, Finance, Strategic Planning, e-Business, and (the last 12 years in) Purchasing. In 2012, I started a consultant firm called [PM2Consult](#), with a focus in Purchasing. I am also a Senior Consultant at [Vantage Partners](#).

### 2. Where are we now with Supplier Relationship Management?

I think it is a hot topic today, and several leading consultant companies have endorsed the need of SRM.

- A.T. Kearney: *"Leaders use SRM process more consistently than followers."*
- Deloitte Consulting: *"SRM is underinvested due to immediate savings priority."*
- Hackett Group: *"SRM is the hottest area today."*
- IBM: *"Supplier collaboration helps top performers bring the outside in."*

I think I'm able to answer this question with data because we at Vantage Partners just finished a huge benchmark study.

We had over 800 responses from all kinds of sectors like Mining, Arts & Entertainment, Manufacturing, Health Care, Finance, Transportation, etc. This survey reached companies with a total revenue of almost \$5 trillion or 6.8% of world GDP, so I believe we have enough data to talk about it.

- 78% of responses said they have some kind of SRM practice in place. However, only 10% of them said they have reached maturity or highly effective organization in terms of SRM.
- They said that they have reached only 44% of potential value available, so there is a potential to achieve value at 1.5 times what they've got.
- Regarding investment and return, they said they have invested \$3.5B to date. Last year's return reported by all companies reached \$14.3B. So, you see that I'm comparing the investment to date with last year's return, and the reason is that the investment in SRM takes time to realize.
- So, there is no doubt that investment in SRM has yielded excellent returns.



### 3. Why are we where we are?

The data indicates that there is a good correlation of investment made in SRM and results achieved. Each company is in a different level of maturity in terms of SRM, so the investment needed may be in different areas.

- Investments are made in formal SRM governance mechanisms and business processes like joint strategic planning, and performance reviews yield large payoffs.
- Investment is critical in individual skill-building for staff with interactions with suppliers. The benchmark data show that this investment will be one the highest priorities in the next 3-5 years.
- Time devoted for managing critical relationships should be one-third of their time.
- The data also show an excellent correlation between Maturity Level in SRM, Investment, and Returns. Companies classifying themselves as mature or highly effective in SRM had higher investments in SRM and also presented higher returns.
- So, a simple answer is investment priority.

### 4. Where are we going?

Part of our benchmark survey was related to the next 3-5 years.

- 70% of responses said SRM is Very Important for the next 3-5 years, and 26% said Somewhat Important, so the great majority believes SRM is an important area in their organization.
- Most of the companies said they will invest in People, Training, Work Process, and Tools, with People and Training the highest ranked areas.
- In terms of objectives for the next 3-5 years, the majority of responses said they will focus on two areas:
  - Cost savings through joint collaborative efforts with suppliers
  - Reduction in supply chain risk
- In order to achieve the full potential of their relationship with suppliers, 52% of responses said they need a Major Change or Total Transformation, and 32% of responses said a Moderate Change is required.
- So, they see the importance of SRM, they will invest, and most important, they need to change to achieve full value.

### 5. Do you have any recommendations?

- Build stronger relationships and enhanced collaboration with key suppliers in order to realize increased value from joint collaboration, technology innovation, and improvements in service and support.
- Leverage supplier assets and capabilities to generate a competitive advantage (versus only focusing on purchasing goods and services at a lower cost).
- Ensure more structured and focused engagement with key suppliers in order to become a Customer of Choice.
- The benchmark shows that three practices stand out as most likely to yield results:
  - Tracking and measuring the total financial and strategic value delivered by SRM

- Aligning and integrating strategic sourcing, category management, contracting and contract management, and SRM
- Developing multi-year strategic plans with the most important suppliers

I hope you found this summary useful to your work. Feel free to call me with any concerns you have about SRM at your company.

Taking Purchasing to the next level,  
***Paulo Moretti***



Paulo Moretti is a Senior Consultant with Vantage Partners and brings over a decade of international purchasing experience from a Fortune 50 company. His practice, **Sourcing and Supplier Management**, revolves around transforming a global purchasing function from tactical to strategic and moving savings to higher levels than reported by first quartile Purchasing organizations.

Prior to joining Vantage Partners, Mr. Moretti worked 35 years at The Dow Chemical Company, where he developed experience in such diverse areas as Manufacturing, R&D, Sales, Marketing, Finance, Strategic Planning, e-Business, and Purchasing.

Moretti is Principal with PM2 Purchasing Management Consulting, a boutique consulting company focused on excellence in the purchasing function for manufacturing industries.

A native of Brazil now based in the U.S., he holds a Bachelor's degree in Chemistry and Chemical Engineering, with Master's degrees in Industrial Management and in Business, and executive course certifications from Kellogg, Wharton, and MIT Sloan.