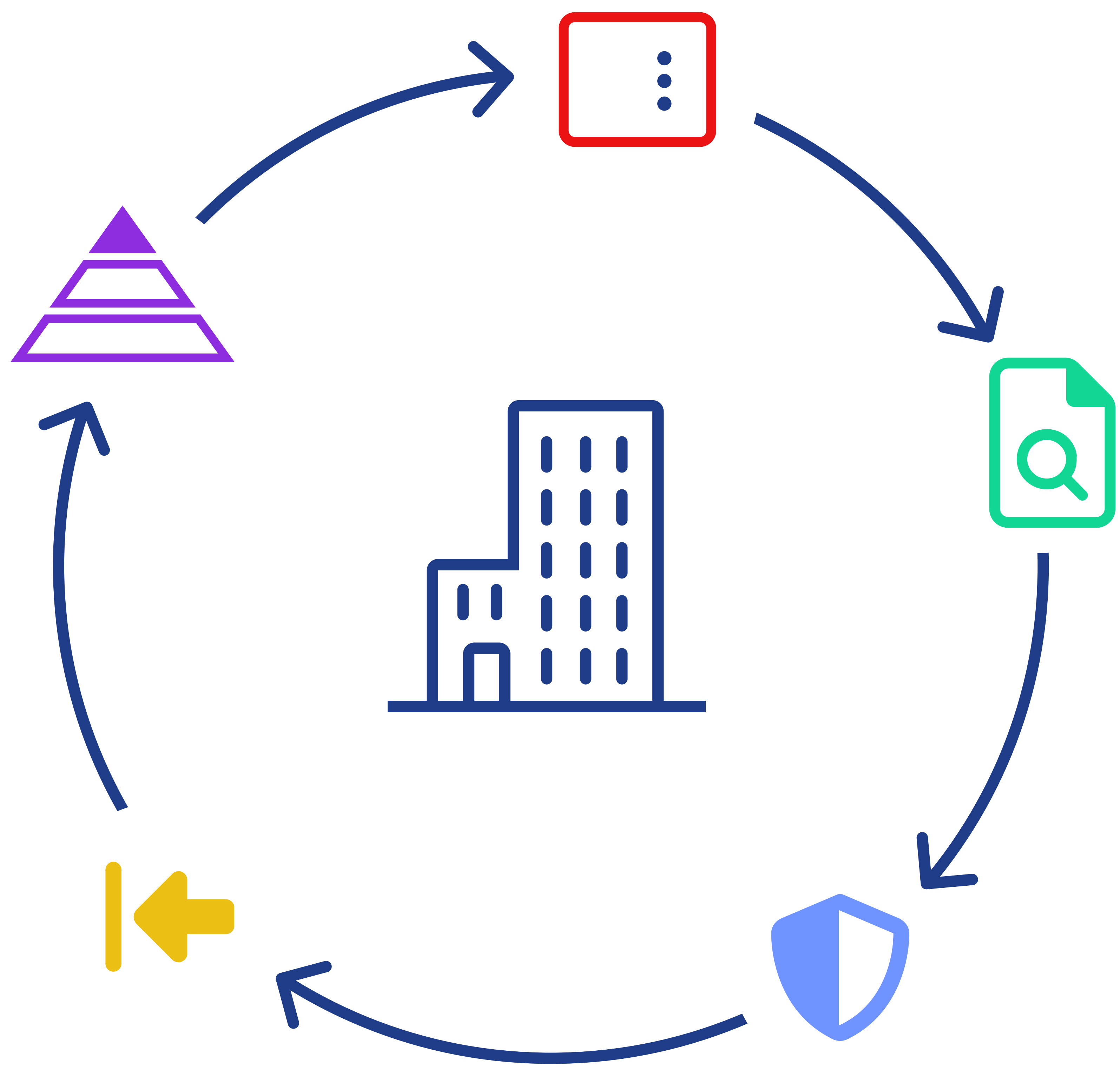
graphite® Connect

Mastering Supplier Lifecycle Management:
A Comprehensive Guide

How to Segment & Maintain Strong Supplier Relationships at Every Touchpoint



You've just onboarded a supplier. Now what? This e-book will guide you through each step of the supplier lifecycle, from segmentation to offboarding.

To get the most out of your partnerships, you need to be able to manage your suppliers throughout the entire lifecycle effectively. That's why it's essential to understand each stage and have a standardized process that improves the supplier experience while mitigating risk and reducing costs.

What Is Supplier Lifecycle Management?

Supplier Lifecycle Management (SLM) is an end-to-end approach used to manage suppliers transparent, organized, and integrated way. This process aims to recognize and get the maximum value from supplier relationships. While each stage in SLM may look like a series of separate processes, your business will achieve the most significant returns through an integrated approach.

> **Effective supplier 'management' like all other 'management' starts with clear expectations. There's never a one-size-fits-all approach, but understanding requirements and expectations are the strongest foundation for success. If suppliers are selected based on longer-term expectations, those same expectations can (and should) be used to manage, improve, and grow with that supplier during their lifecycle.**

Conrad Smith
CEO of Graphite Connect

Segmentation

Most organizations depend on multiple suppliers—and some are more crucial to your bottom line than others. You may have several long-term partners, while others might work with you just a few times.

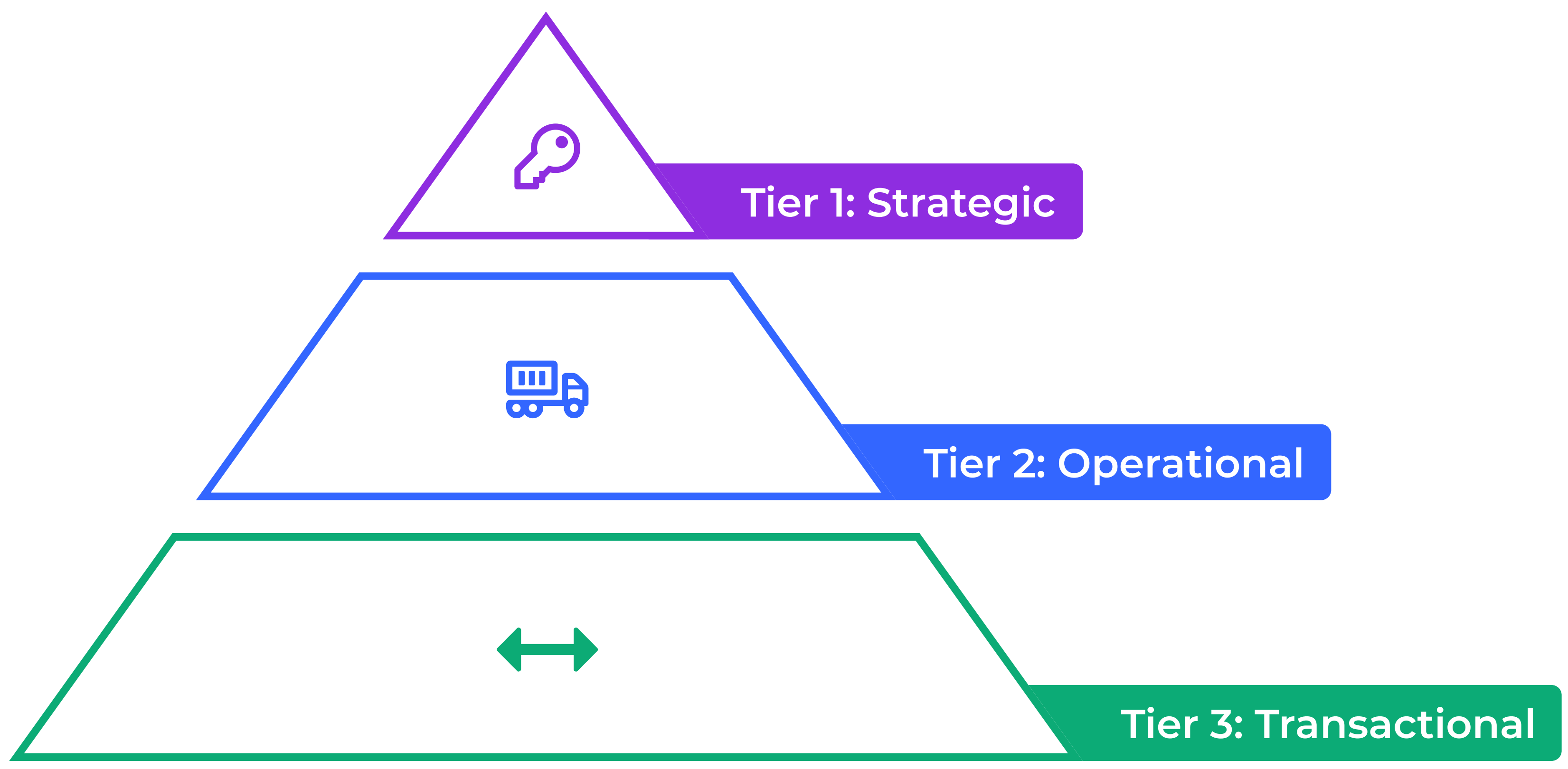
Segmenting suppliers based on their potential impact on your business is the first step in effectively managing the relationship. Segmentation is the process of classifying suppliers into distinct groups so you can dedicate the right level of resources to the partnership. In other words, where does this supplier fit in? How important are they to your supply chain? What risks do they pose? Once you understand this, you can tailor your interactions more efficiently.

Why Is Supplier Segmentation Important?

Suppliers you can identify as key to your business require more engagement than others. By segmenting them into groups based on your specific criteria, you can determine the type and level of attention needed and identify your risk exposure level.

Common Key Supplier Classifications

Suppliers can generally be grouped into the following tiers:



Strategic

These partners are critical to your business functioning and meeting its core objectives. This level goes beyond cost savings and adds value to your business over the long term. Ask yourself: If this supplier went out of business today, would your organization be able to continue doing business? Strategic suppliers are the most difficult to replace.

Operational

Although not as critical to your organization's functioning, these core suppliers are required to sustain daily production or business needs, but there are alternatives. Examples could include project management tools or talent acquisition firms. If these suppliers were to go out of business, it would likely be inconvenient for you, but you wouldn't necessarily need to panic.

Transactional

These suppliers deal with short-term needs or one-off procurement of goods or services. Generally, you have plenty of options with limited impact on your supply chain. For instance, a transactional supplier may be someone you use for a one-time engagement, such as an event venue with many options and negligible transition costs.

Emerging

Suppliers that have the potential to have a critical impact on your business but still find themselves in a pilot or testing period may fit best into this tier as they wait to move to a more permanent segment.

You can identify your key suppliers by answering questions like these:

1. Which product depends on this particular supplier's components?
2. How many vendors can supply the same services or products?
3. What costs are associated with sourcing products from other vendors?

Once you understand the characteristics of your various suppliers, you can begin assigning them to specific categories.

No One-Size-Fits-All Approach

Keep in mind that there is no single preferred approach to segmentation— choose the one that best fits your business. For instance, you can classify a supplier based on any number of quantitative metrics such as lifecycle cost, quality, time, availability, transaction volume, dependency, cost of maintenance and support, compliance, or qualitative metrics such as strategic alignment, industry knowledge, anticipated future engagement, and much more. Your industry will influence your approach as well.

It's essential to be flexible when working with each supplier, tailoring your relationship based on their needs and communication styles. Still, having some processes in place for those different kinds of strategic suppliers will strengthen your relationship and your work output.

Proper Segmentation = Better Reporting

When you take the time to classify your suppliers into the appropriate tiers, your reporting will become far more robust and meaningful where it matters most– with your most critical suppliers. You gain greater visibility into your supply chain by seeing how your Tier 1 strategic suppliers perform on specific metrics, such as quality, response time, or availability. This deeper transparency allows you to pivot quickly and make necessary changes when issues arise.

Contract Management

Too often, supplier contracts fall through the cracks because they're filed away in drawers or indexed and forgotten on a spreadsheet. If there's no system for proper management, no one is likely aware of when they're expiring. Or an evergreen contract may automatically renew when your organization wants to renegotiate or stop doing business with that supplier.

That's why it's ideal to have a central location for securely storing your contracts and supplier information. For one, having a secure online database for contracts and other important documents offers stakeholders from legal to procurement complete visibility of supplier performance and compliance. And you'll know exactly when a contract is up for renewal so you can renegotiate or terminate as needed. Plus, your organization will be able to more easily identify business-critical suppliers, ensure the necessary certifications are in place, and that KPIs agreed upon at the start of the contract are being met.

Penalize for Failing to Meet Agreement

Although it may not work for everyone, you may see great improvement if you can enforce penalties implemented during the contract process.

For example, if you're working with a furniture supplier who doesn't meet its SLA, you could set up a financial penalty around lead times. If you're anticipating a 90-day lead time, and they miss by "X" percent, there could be some kind of penalty that comes back on the next purchase order you place. This would escalate as the average lead times increase. You could put different types of penalties in place based on lead times.

Building the appropriate penalties into a contract at the beginning of the partnership helps protect everyone upfront in case issues pop up. When you don't have these penalties built into your contracts and things start going poorly, you have no grounds to penalize anyone other than threatening to cut off business. Depending on the criticality of the vendor, this may be very painful.

Go Out to RFP

If the relationship isn't working, it may be time to assess offboarding that supplier. If your contract allows for termination and you decide to go out to RFP to consider other partners, we recommend including the underperforming supplier. This allows the supplier to reevaluate and return to the negotiating table.

Price Increases Trigger a Bid Process

Often, especially in the current economy, you have a high-performing supplier who presents price increases. What should you do?

While inflation is happening and prices are rising, it may be advantageous to let suppliers know that you will accept price increase proposals but that your first move will be to take it out to bid to ensure the higher prices are accurate and can't be beaten somewhere else. Doing so allows you to be fair with your suppliers while still protecting your organization.

The supplier may come back immediately saying that it's ok, the material did increase by X percent. Or their response may be to hold off on the price increase.

Remember, you need to be fair with your suppliers, but you also need them to understand that you will not blindly accept price increases.

Performance Management

Performance management is the process of analyzing and measuring a supplier's performance throughout the contract period to spot weaknesses and curb risks. Once you've worked with a supplier long enough and have enough data, you'll want to meet with them every quarter to ensure everything is running smoothly.

Quarterly check-ins will help ensure your suppliers meet Key Performance Indicators (KPIs) as outlined in their contracts and Statements of Work (SOW).

Key Performance Indicators

Depending on your type of business, there are many different KPIs. Examples include:

- **Costs:** labor and materials
- **Operational:** Productivity, average cycle time, quality, and safety
- **Environmental:** Carbon emissions, water usage, and waste generation
- **Social:** Community involvement, and social responsibility
- **Technology:** Uptime, downtime, and on-time delivery
- **Support:** Response times, global support availability, and average time-to-resolve

Factors to Consider When Choosing KPIs

When selecting which KPIs to monitor, consider the following:

- KPIs should be easy to collect and analyze.
- They should be relevant to your business and directly impact your bottom line.
- KPIs should not be too broad or too specific.
- KPIs must be measurable.
- Choose KPIs that align with your overall strategic objectives.

Meeting with Suppliers

Crucial to effective relationship management is regular meetings with suppliers to address account health, performance reviews, potential issues, and anything else relevant to the relationship. These meetings can happen on whatever cadence best fits your business and should always have a predetermined agenda.

Questions to Ask in a Performance Review

Once you've determined the KPIs you'll use to track and measure your supplier's performance, you can prepare for a performance review as the focus of one of your regular meetings. Whatever your performance review process looks like, it's essential that you develop a consistent and repeatable approach. Doing so will make sure that all of your vendors are graded consistently against each other and through time. To ensure you're getting the most out of the engagement, try asking the supplier to self-rate in different areas with questions like,

- How is your account management?
- How is your product or service?
- How is your technology?
- How do you think you're performing?
- What ideas do you have to make this relationship more prosperous?

And just as importantly, ask the reverse, "Are we being a good customer to you?"

Accountability for All

Ultimately, it's not only about holding your suppliers accountable but holding your organization responsible as well.

"One of the things I'm very passionate about is accountability for all. I don't beat up suppliers," says Danielle Salyers, Director of Strategic Sourcing at Allied Solutions. "That's just not a methodology for success. I hold my suppliers accountable, no exception, but I also hold my business just as accountable."

When suppliers see that, they'll want to work with you because they know you're an excellent customer to partner with.

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Director of Strategic Sourcing at Allied Solutions

Track and Measure Performance with Scorecards

Use analytics and reporting to ensure everything runs smoothly. For example, supplier scorecards are a valuable tool to help you track and measure performance. When used consistently, scorecards allow you to objectively identify and resolve issues, control costs and strengthen relationships with your suppliers—particularly those that are strategic to your business.

Benefits of Scorecards:
Scorecards can help you align your expectations and generate more value from your suppliers. They offer an objective lens for assessing performance by allowing you to:

- Identify performance criteria most important to you
- Share expectations with your suppliers
- Evaluate suppliers on their ability to consistently deliver value

5 Core Performance Criteria

Although there’s no one right way to build a scorecard, consider these five core criteria that every scorecard should include:

1. **Level of service**

   Many contracts include service-level agreements (SLAs). You can use the scorecard to measure your supplier’s performance against these SLAs. How well did your supplier meet pre-established service levels in areas such as quality, delivery, and support?

2. **Cost control**

   Evaluate your suppliers on how well they help you manage costs in two areas. First, does the supplier hold to the pricing you both agreed to in the contract? Secondly, does the supplier give you new ideas on reducing costs moving forward through alternative products, better use of technology, or improved inventory management?

3. **Ease of doing business**

   How efficient are your suppliers in their processes and systems? Those who are difficult to work with cost your business time and money. Talk to the business stakeholders who use that product or service or interact with the supplier the most. Get their feedback and build that into your scoring.

4. **Regulatory compliance**

   You likely rely on suppliers to meet an increasing number of third-party compliance mandates. Require suppliers to track and report on their compliance with these requirements; be sure to include these in your scorecard.

5. **Innovation**

   Your most strategic suppliers should regularly bring you new ideas for improving business operations. Include these criteria on your scorecard, focusing on process rather than quantity.

To get the most from your supplier scorecards, keep these three things in mind:

- **Make it simple:** Don't use more than one or two measures per criterion.
- **Focus on key suppliers:** Focus on your top 15-20 critical suppliers.
- **Create a consistent process:** Integrate the scorecard into a regular review process to track performance over time and make better data-driven decisions.

Stellar Performance? Keep Going!

Good performance leads to ongoing collaboration and innovation. Seek suppliers you can have an ongoing partnership with rather than someone who is simply providing you with a product or service.

"I'm looking for suppliers who want to partner with my organization and improve us. I want them to be as invested in our success as our employees are," says Salyers. "A partnership mindset leads [a procurement team] to be most successful."

You can continue building on the partnership when things are going well. Salyers adds, "For someone who's performing well compared to other suppliers on scorecards, we're more willing to cooperate when contract negotiations come around."

Poor Performance? Now What?

But what happens when a supplier is not performing to your standards? You have to be able to swiftly identify poor performance and step in to mitigate any associated risks. Consider the following to guide you:

Increase the Frequency of Performance Reviews

For an underperforming supplier, you may want to turn up the frequency of performance reviews, but make sure that you allow enough time between reviews for the supplier to make required changes. Performance reviews keep you informed about your supplier's performance and let the supplier know you're watching closely.

Create a Remediation Plan

Include hard metrics to measure against so you can specify exactly which areas need improvement, whether meeting SLAs, reducing response time, or improving customer support—and how much improvement is necessary before terminating the contract. When a supplier is underperforming, remediation plans should be built into your regular meeting schedule.

Risk Management

Supplier risk management is the process of spotting, analyzing, and mitigating risks in your organization's supplier base. It's essential to have the ability to actively monitor new and existing suppliers and to have a contingency plan in place to prevent supply chain backlashes.

It's important to understand that if you're willing to sever a relationship based on whatever risk topics you monitor, ensure those are included in the initial supplier contract. The contract will be difficult to break if you didn't specify those risks upfront.

Furthermore, ongoing communication amongst your business units so everyone is on the same page and understands the implications of terminating a supplier relationship is extremely important. Before taking action, be sure to have all stakeholders in the room for that conversation.

"It's important to understand the evolution of risk as the relationship grows over time. As you layer different levels of products and services or engagement, you have to expand the scope as it applies," says Conrad Smith. "This includes new services or completely offboarding a supplier you no longer work with."

Offboarding

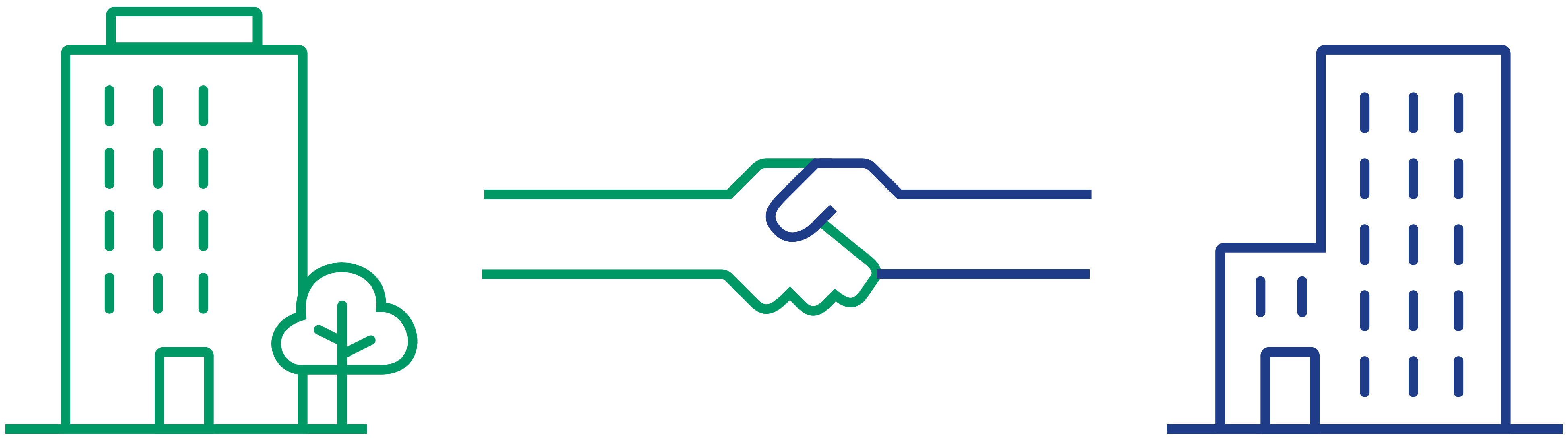
Perhaps you run a report and see your company hasn't used a particular supplier in two years. It's time to deactivate the account. Supplier offboarding removes access to your systems, data, and infrastructure when terminating a contract.

Today, most companies don't offboard suppliers with whom they no longer engage. But this makes your company vulnerable by leaving suppliers with access to sensitive information that can result in data breaches, compliance violations, and more.

By creating a documented process that you can apply uniformly across your business, you ensure that suppliers you no longer use are properly offboarded. Use this checklist to help you take the right steps to secure and close the relationship:

Offboarding Checklist

- [ ] **Perform a final contract review** — Go over the contract to make sure the supplier provided all products and services.
- [ ] **Settle outstanding invoices** — Once you've reviewed the contract to confirm that the supplier (and your company) lived up to contractual obligations, check with finance to ensure any outstanding invoices are paid.
- [ ] **Revoke on-site access** — Remove access to physical buildings to reduce risk of insider threats and data breaches.
- [ ] **Review data privacy and information security compliance requirements** — Depending on your business, you may be bound by several data privacy and information security compliance requirements. Review your compliance requirements to be sure that your supplier termination process is in alignment with your legal obligations.
- [ ] **Update your supplier management database** — Deactivate the account in your supplier management system so you don't accidentally pay them. Having a record of all communication, documents, and the termination steps you've taken gives you a point of reference in case any issues come up in the future.
- [ ] **Return property** — If either you or your supplier has possession of each other's property, access to intellectual property, access to data systems, or any other form of property, return it to the rightful owner.



Build stronger relationships with key suppliers

By setting the right parameters in place and properly segmenting your suppliers, you will better understand who your most important partners are. That way you can spend more time building and maintaining relationships with those who add the most value to your business. When you take the time to understand each stage in your supplier lifecycle and create a standard process to manage each phase, not only will you build stronger relationships with your key suppliers, you'll also mitigate risk and reduce costs.

Ready to advance your procurement team to the next level?

Explore how Graphite can help you more efficiently manage your supplier base throughout the entire lifecycle.

Schedule a demo