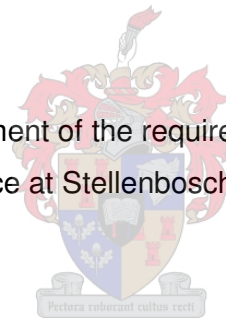


STRATEGIC HIGH PERFORMANCE BUSINESS DEVELOPMENT: SUSTAINABLE  
PROCUREMENT

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Thesis presented in partial fulfilment of the requirements for the degree of Master of  
Commerce at Stellenbosch University



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March 2008

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

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## SUMMARY

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The role of the traditional purchasing department has evolved significantly over the last decade into a competitive value adding procurement function within an organisation's lean supply chain model. It has become a necessity to work with the suppliers to provide flexible, accurate, effective and cost effective goods and/or services (Barla, 2003; Ellram, 2002).

In addition organisations are developing and utilising new business models geared towards improving both the balance sheet and the income statement to respond to external forces and new market opportunities. The change in business model places additional emphasis on leveraging increased innovation from suppliers, thus having a vast impact on supply management to such an extent that organisations are creating strategic relationships (Carter et al., 2007).

In this paper, the supplier relationship management model will be studied under lean philosophy as to address the focal point – sustainable procurement. The paper will consist of three main areas:

- Supplier relationship management – Literature study
- Supplier relationship management – Case study
- Supplier relationship management – Operational tool

Supplier relationship management – Literature study will address the theoretical methodologies, best practices, benefits and advantages, etc.

Supplier relationship management – Case study will showcase a South African multi-national FMCG<sup>1</sup> manufacturer's methodology as well as the benefits of utilising a supplier relationship management approach to procurement.

Supplier relationship management – Operational tool will be a practical tool developed for evaluating and facilitating supplier relationship management in an African context.

The end result of the paper should be a feasible solution to prolonging the impact of procurement, thus increasing sustainability in the maturity stage of procurement's life span in the typical product life cycle model (Canny Buyer, 2007).

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<sup>1</sup> Fast Moving Consumer Goods ("FMCG") are products that have a quick turnover and relatively low cost (Wikipedia, 2007a).

## OPSOMMING

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Die tradisionele rol van die aankope department binne 'n organisasie het oor die laaste dekade merkwaardig verander en word nou bedryf as 'n kompeterende waardetoevoegende skakel binne die organisasie se voorsieningsketting. Terselfdetyd het dit noodsaaklik vir leweransiers en organisasies geword om op 'n geïntegreerde wyse te werk te gaan om meer akkurate en koste-effektiewe goedere en/of dienste te lewer (Barla, 2003; Ellram, 2002).

Organisasies is ook genoodsaak om nuwe innoverende besigheidsmodelle te ontwikkel om ten beste eksterne besigheidsfaktore en nuwe markgeleenthede aan te spreek ten einde beide die balanstaat sowel as die inkomste staat positief te impakteer. Hierdie kardinale veranderinge in die besigheidsmodel van organisasies lei daar toe dat addisionele druk op leweransiers geplaas word om met innovasie navore te kom. Op sy beurt plaas dit verdere druk op die voorsieningsketting, selfs tot so 'n mate dat dit die organisasie noop om na die moontlikhede van strategiese vennootskappe te ondersoek (Carter et al., 2007).

Die skryfstuk gaan leweransiers verhoudingsbestuurmodelle evalueer en bestudeer binne 'n voorsieningsketting om sodoende die vraag na volhoubare verkryging te beantwoord. Die skryfstuk sal uit drie fokusareas bestaan, naamlik:

- Leweransiers Verhoudingsbestuur – Literatuurstudie
- Leweransiers Verhoudingsbestuur – Gevallestudie
- Leweransiers Verhoudingsbestuur – Bedrysmodel

Leweransiers Verhoudingsbestuur – Literatuurstudie sal die teoretiese metodologie, die voor- en nadele van leweransiers verhoudingsbestuur aanspreek.

Leweransiers Verhoudingsbestuur – Gevallestudie sal 'n studie loots binne die verhoudingswerkinge binne 'n Suid-Afrikaanse multi-nasionale maatskapy wat in die vinnige verbruikersgoederemark betrokke is.

Leweransiers Verhoudingsbestuur – Bedrysmodel sal 'n praktiese voorstel vorendag bring om 'n leweransiersverhouding meer doeltreffende te bestuur in Afrika.

Die eindresultaat van die skryfstuk sal dus 'n lewens vatbare oplossing wees om die volhoubare impak van verkryging te verleng in die volwasse stadium van 'n produk se lewensiklus (Canny Buyer, 2007).

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*“The only experience that lifts you out of that position is to deliver strategic value to the company; if you’re not doing that, you’re just performing.” – J. Welch<sup>2</sup>*

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<sup>2</sup> John Francis “Jack” Welch, Jr. was Chairman and CEO of General Electric between 1981 and 2001. During his tenure General Electric increased its market capitalisation by over \$ 400 billion (Wikipedia, 2007b).

## 1 INTRODUCTION

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In the early 1970's purchasing was regarded as a clerical, reactive and non-strategic position – a mere cost centre – within most organisations. Today the exact opposite is true. Procurement has become a strategic, pro-active, value-adding, solution-providing business function, which aids the organisation with complex concerns like profitability, corporate growth and competitive advantage (Accenture, 2007f; Fung, 1999).

A.T. Kearney's most recent ten year supply forecast, by Carter et al., indicates that a great array of forces – including globalisation, changing demographics, shifts in consumer demand, resource scarcity, environmental pressures, technology advances, governmental regulation and activism – are currently reshaping the markets, industries and products. Not to mention the Chinese impact on the world economy (Carter et al., 2007). Organisations are turning to their procurement function for aid during these trying times.

In a typical organisation the procurement function can represent between 50 to 75 percent of an organisation's spending. A recent research study by the Aberdeen Group found that it would take a \$5,00 increase in sales to equal the impact of \$1,00 reduction in procurement costs (Spray, 2007) – In South African terms a R35,05<sup>3</sup> or more increase in sales. In fact a strategic, high performance, innovative procurement business function is often associated with a ten to fifteen percent reduction in spending. As a result thereof it has a positive effect on financial statements – balance sheet, cash flow statement and income statement, as well as on other important financial indicators – shareholder return, return on equity, return on assets, cash flow and return on investments (Accenture, 2007a).

With the aforementioned forces impacting on an organisation it is important for procurement as a function to constantly evolve. The benefit of a procurement function is undeniable; the question however lies in the benefit of the procurement function in the next decade and the activities associated with procurement.

Although the strategic nature of the procurement function has changed completely within an organisation, the core goals and functionality of procurement itself have changed very little. In 1970 as now in 2007, procurement is all about the acquisition of goods and/or services at the best possible total cost of ownership, in the right quantity and quality, at the right time

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<sup>3</sup> Rand/USD indicator at R7,01/\$1,00 on 22 September 2007. (News24.com,2007)

and in the right place for the direct or indirect benefit of use to the organisation (Wikipedia, 2007c; Wight, 2000).

At the end process and potential are what is new about procurement – sourcing categories, sourcing strategies, sourcing teams, technologies applied, bidding tools, insights, partnerships, collaboration, integration, vertical aggregation, horizontal aggregation, exit clauses, penalty clauses, performance clauses, vertical supply chain integration and horizontal supply chain integration applied to the singular objective of acquiring low-cost, high-quality goods/services (Accenture, 2007b; Wright et al., 2007).

To achieve true high performance or strategic business impact in the decade to follow, the support, tools and processes of procurement will rely on supplier relationship management as the life support (Carter et al., 2007).

Effective, constructive and formal supplier relationship management holds the key to create sustainable procurement. It is believed that 50 percent of procurement functions in organisations neglect the supplier relationship management component of the procurement metrics<sup>4</sup> (Accenture, 2006; Brown et al., 2005).

The aim of the study is to place the spotlight back onto the neglected fifth component of the procurement metrics – share of suppliers managed through a formal process – and to provide a tool for true African supplier relationship management.

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<sup>4</sup> The procurement metrics consist of:

- i. Total-cost-of-ownership (TCO) savings;
- ii. Percentage of spend controlled by procurement;
- iii. The ratio between total cost of ownership reduction and procurement operating cost;
- iv. Percentage of new product designs/introductions in which procurement has a material role; and
- v. Share of suppliers managed through a formal process (Accenture, 2007f).

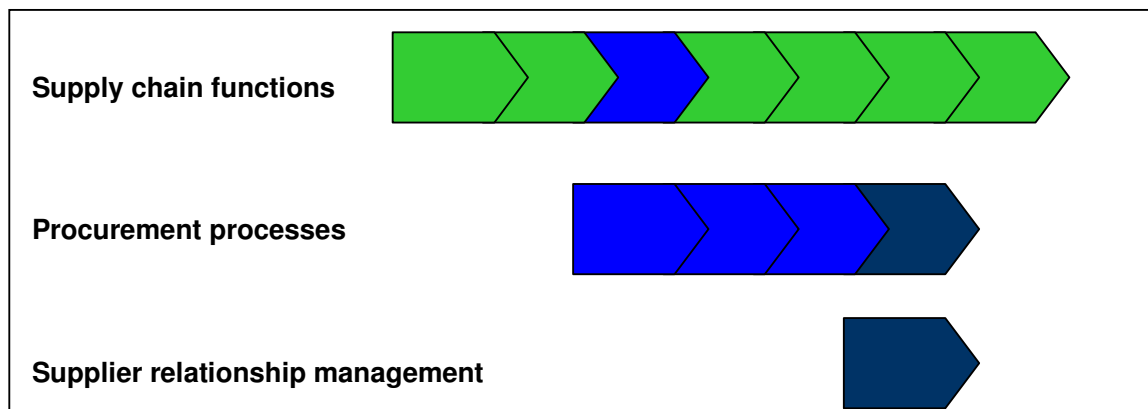
## 2 SUPPLIER RELATIONSHIP MANAGEMENT – LITERATURE STUDY

Supplier relationship management has evolved during the last decade from a cabinet collecting dust to a strategic building block for organisations. It represents the opportunity to build more robust post-contract award capabilities and ensure that the savings promised during the core procurement sourcing processes are achieved and even surpassed (Accenture, 2007e; Centre of Advanced Procurement Studies, 2004a).

Supplier relationship management not only illustrates a cost benefit to the organisation, but signifies additional benefits through utilising a holistic approach to align procurement capabilities, technologies and processes with supplier best value (Accenture, 2007d).

### 2.1 Supplier relationship management in context

It is important to be able to form an objective view and to construct a holistic approach to supplier relationship management. Figure 1 below illustrates the broader view of which supplier relationship management forms a part (European Leaders in Procurement, 2007; Jessop & Marrison, 1994).



**Figure 1: Supplier relationship management in context**

The supply chain function in an organisation typically consists of many functions, one of which is procurement. Procurement too consists of numerous processes, namely:

- Market and spending analysis;
- Supplier contact either via request for information, request for quotation and/or request for proposal (tender);



- Evaluation of supplier contact;
- Negotiation with preferred suppliers;
- Implementation and supplier relationship management.

The impact and importance of the supplier relationship management process within the procurement function will span the life cycle of the product and/or service procured within the organisation (Wikipedia, 2007c).

As seen in figure 1 procurement is merely a function within the supply chain. However procurement is an important function as per the definition of a supply chain. A supply chain is defined as delivering the correct goods and/or services, at the right time, at the right quantity and quantity and at the right price. The immense importance of procurement is undeniably true as per the definition of the supply chain. Moreover purchased parts, components, services and supplies typically represent 40 to 60 percent of an end product's sales value (Ballou, 2004).

Recent studies have found that time and resources spent more adequately by the procurement function on the post sourcing processes – contract implementation and supplier relationship management – can yield up to an additional three to five percent saving (Accenture, 2006). Cumulatively the procurement function of an organisation can, cautiously speaking, yield savings of 17 to 20 percent on visible spending across the supply chain (Accenture, 2007g).

## **2.2 Array of different supplier relationship management styles**

As supply chain relationship management is becoming increasingly important in today's procurement strategy, it is important to differentiate between the array of supplier relationship styles and development opportunities. Organisations faced with supplier delivery performance and deliverables can implement a wide variety of supplier development practices such as supplier evaluation, supplier feedback sessions, supplier recognition and supplier training. These activities require direct supplier relationship management styles from the procurement department as each proposes its own complex implementation phases (Sanchez-Roderiquez et al., 2005).

The supplier relationship management practices have been addressed in several studies. Most studies indicate a linkage, as seen above, between the implementation of supplier evaluation and development and an organisation's financial performance. Empirical research

has found evidence of the relationship between effective supplier communication and an organisation's financial performance. Step-wise regression analysis<sup>5</sup> indicated that control of quality management and supplier development programmes were crucial factors that lead to mutual satisfaction among organisations. It was also found that direct supplier involvement activities – supplier site visits to factories and training – play a critical role in supplier relationship management performance improvement (Sanchez-Roderiquez et al., 2005).

Supplier relationship management refers to any attempt by an organisation (purchasing) to improve the supplier's performance and deliverable to meet the organisation's short, medium and/or long term needs (Choy & Lee, 2003).

Most literature categorises supply relationship management in a number of constructs. During the paper we will focus on three main constructs, basic -, moderate - and advanced supplier relationship management, as defined by Sanchez-Rodriquez, Hemsworth and Martinez-Lorente (2005). The importance of categorising the supplier relationship management on the level of the organisation's involvement and implementation complexity stems from its potential to assist the organisation to better understand the implementation of supplier relationship management activities and their impact on performance. As resources are a constraint for all organisations, categorising the supplier relationship management will aid in the planning for the management of the purchasing function (Sanchez-Roderiquez et al., 2005).

### **2.2.1 Basic supplier relationship management**

The basic supplier relationship management construct refers to the supplier development practices that allude to the most limited involvement and investment from the purchasing organisation's resources i.e. time, capital and personnel. As a result thereof this management style of limited involvement is most likely to be adopted and implemented as an effort to improve supplier performance and achieve the eluding 17 percent saving. (Choy & Lee, 2002)

These supplier relationship management practices include evaluating supplier performance, providing feedback about the result of the evaluation and sourcing from a limited number of suppliers. It can also include standardisation and supplier quality qualification.

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<sup>5</sup> In statistics, stepwise regression includes regression models in which the choice of predictive variables is carried out by an automatic procedure. (Wikipedia, 2007d)

After a hypothetical study to measure the relationship between basic supplier relationship management and improved saving, the coefficients from all indicators were large and significant ( $p < 0,01$ ), providing satisfactory evidence of convergent validity and unidimensionality of basic supplier relationship management.

Based on mean scores, basic supplier relationship management practices were the most widely implemented. The result was expected and indicated that basic supplier relationship management practices are the least complex to implement and facilitate.

The findings also indicated that the path relating to basic supplier relationship management and the procurement function's performance was positive and significant (standardised  $y_1$  coefficient = 0,45; t-value = 4,08;  $p < 0,01$ ) – thus indicating that implementation of basic supplier relationship management practices such as supplier evaluation, supplier feedback, standardisation and qualifying suppliers increased the procurement function's performance (Sanchez-Roderiquez et al., 2005).

### **2.2.2 Moderate supplier relationship management**

The moderate supplier relationship management construct refers to the supplier development practices that allude to more involvement and investment from the purchasing organisation's resources i.e. time, capital and personnel compared to basic supplier relationship management.

These supplier relationship management practices are considered to have moderate levels of involvement and investment. As a result thereof the style of supplier relationship management also has a high complexity of implementation.

The moderate supplier relationship management style includes practices such as visiting the suppliers' plant to assess their processes, reward and recognition of suppliers' achievements in quality improvement and supplier certification. Collaboration with suppliers to create and develop improved new materials and products is also a consideration during this management style.

After a hypothetical study to measure the relationship between moderate supplier relationship management and improved saving, the coefficients from all indicators were large and significant ( $p < 0,01$ ), providing satisfactory evidence of convergent validity and unidimensionality of basic supplier relationship management.

Based on mean scores, moderate supplier relationship management practices were not the most widely implemented. The result was expected and indicated that moderate supplier relationship management practices are more complex to implement and facilitate compared to basic supplier relationship management.

In addition the study also indicated that an organisation with a high adoption of the basic supplier relationship management style also tends to implement high levels of moderate supplier relationship management practices. The correlation between the two constructs was positive and significant (standardised  $\Phi_{1,2}$  coefficient = 0,60; t-value = 8,42;  $p < 0,01$ ).

The findings also indicated that the path relating to moderate supplier relationship management and the procurement function's performance was positive and significant (standardised  $\gamma_2$  coefficient = 0,31; t-value = 3,43;  $p < 0,01$ ). Thus indicating that implementation of moderate supplier relationship management practices like visiting suppliers' plant to assess their processes, reward and recognition of suppliers' achievements in quality improvement and supplier certification increased the procurement function's performance (Sanchez-Roderiquez et al., 2005). It is however important to note that the coefficient and t-value decreased. This would indicate that the two processes are not directly linked.

### **2.2.3 Advanced supplier relationship management**

The advanced supplier relationship management construct refers to the supplier development practices that allude to more involvement and investment from the purchasing organisation's resources i.e. time, capital and personnel compared to moderate supplier relationship management.

These supplier relationship management practices are considered to have advanced levels of involvement and investment. As a result thereof the style of supplier relationship management also has an extremely high complexity of implementation.

The advanced supplier relationship management style includes measurement of training provided to suppliers, suppliers' involvement in the purchasing organisation's new product design process, sharing of accounting information and sharing of cost and quality information. Supplier involvement in the purchasing organisation's new product design

process is also linked to a collaborated atmosphere. The sharing of accounting, cost and quality information also requires a highly complex communication platform.

After a hypothetical study to measure the relationship between advanced supplier relationship management and improved saving, the coefficients from all indicators were large and significant ( $p < 0,01$ ), providing satisfactory evidence of convergent validity and unidimensionality of basic supplier relationship management.

Based on mean scores, advanced supplier relationship management practices were scarcely implemented. The result was expected and indicated that advanced supplier relationship management practices are the more complex to implement and facilitate compared to basic and moderate supplier relationship management.

In addition the study also indicated that an organisation with a high adoption of the moderate supplier relationship management style also tends to implement high levels of advanced supplier relationship management practices. The correlation between the two constructs was positive and significant (standardised  $\Phi_{23}$  coefficient = 0,90; t-value = 22,50;  $p < 0,01$ ).

The findings also indicated that the path relating to advanced supplier relationship management and the procurement function's performance was positive and significant (standardised  $\gamma_3$  coefficient = 0,24; t-value = 2,87;  $p < 0,01$ ). Thus indicating that implementation of advanced supplier relationship management practices like measurement of training provided to suppliers, suppliers' involvement in the purchasing organisation's new product design process, sharing of accounting information and sharing of cost and quality information increased the procurement function's performance (Sanchez-Roderiquez et al., 2005). It is however important to note that the coefficient and t-value decreased significantly compared to basic and moderate supplier relationship management. This would indicate that the two processes are not directly linked.

The three abovementioned supplier relationship management styles included the following supplier relationship practices and/or measures:

- Supplier evaluation;
- Suppliers are informed of their performance (quality, delivery, cost, etc.);
- Maintained relationships with a limited number of suppliers;
- Standardisation;
- Procedures for supplier quality qualification;
- Supplier site visits to assess their facilities;

- Collaboration with supplier in improvement and development activities;
- Supplier recognition and reward for quality improvement;
- Supplier's certification;
- Organisation provides training to the suppliers;
- Suppliers participate in the design of new products;
- Access to internal information – product cost and level of quality;
- External information – accounting information (Sanchez-Roderiquez et al., 2005).

### **2.3 Previous supplier relationship management tools**

In the 1950's the members of the National Association of Purchasing Agents (not the Institute of Supply Management) developed three supplier relationship management tools. The three models ranged from quite simple to very complex. (Kemp, 2002a)

The models were:

- The categorical model;
- The weighted-point model; and
- The cost ratio model.

The categorical model selects critical categories of supplier behaviour and rates the supplier on a simple scale that can be totalled. The scoring process could be a simple yes or no. After evaluating numerous suppliers the comparative score can be utilised to compare the suppliers in a group.

The weighted-point model is more sophisticated. The evaluation team sets fixed weights to the categories before the scoring commences. Thereafter the scoring process follows the same process as described above.

The cost ratio model is the most complex of the three evaluation models. As a result thereof it has not been used widely. The base of the model is to provide a set of numbers that compare suppliers by the total cost of impact on the organisation's operations. A measure based on cost is more accurate than a measure based on factors; however the complexity of the model prohibited the general acceptance of the model.

Since the technological improvement and its advantages to processes, the abovementioned models have been adapted to web-based systems (Kemp, 2002b).

The models however add no value to supplier relationship management although that was the original goal of the National Association of Purchasing. The models are greatly utilised as supplier pre-qualification or supplier evaluations models before goods and/or services are rendered from a supplier.

The two key lessons from the models are however important:

- For a tool to be utilised, it needs to be easy and user-friendly; and
- An accurate and effective tool requires weighting, an understanding of the cost implication and cognisance thereof.

## **2.4 Best practices of supplier relationship management**

Accenture defines supplier relationship management as “the systematic management of supplier relationships to optimise the value delivered through the relationship over their life cycle” (2007). In this consulting company’s latest report the question with regards to supply chain management is not whether it is happening, but how much more value can organisations realise from supplier relationship management (Accenture, 2007h).

As aforementioned and supported by research done by CAPS<sup>6</sup> and Accenture a definite relationship exists between supplier relationship management and superior financial performance (Carter & Narasimhan, 1996; Accenture, 2007f). Organisations with successfully positioned supply chain operations as a strategic business, advances constantly, over-excel and outrun their competitors. They might not be able to predict the future, but they respond quickly and accurately to market change and reach the customers with the right-priced product (Accenture, 2007i; Centre of Advanced Purchasing Studies, 2004b, Centre of Advanced Purchasing Studies, 2006).

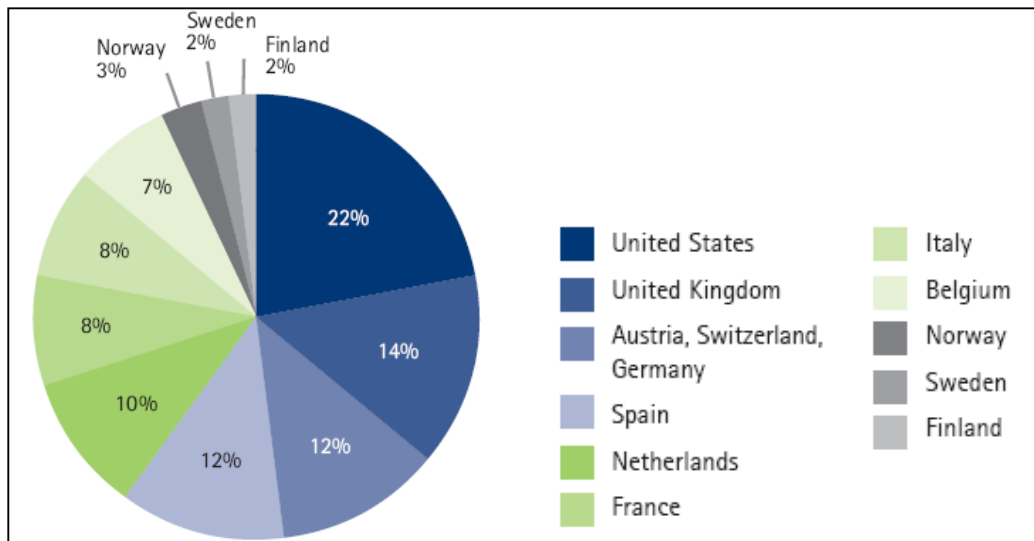
The value of supplier relationship management is undeniable. The procurement world is viewing it as the latest “pot of gold”. Most organisations stretched by the pressure to deliver continuous savings year-on-year, view it as an opportunity to manage the supplier and to “lock in the value”. For the majority of the organisations the 80-20 rule applies when it comes to spending – the top 20 percent of the organisation’s suppliers account for 80 percent of the spending. Supplier relationship management can be employed to deliver and exceed benefits promised by existing suppliers; however the process is more of an evolution than a revolution (Choy et al., 2003).

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<sup>6</sup> CAPS – Center for Advanced Purchasing Studies

Successful supplier relationship management have varied considerably among organisations and industries. There is indeed no panacea – supplier relationship management is greater than effective technologies, watertight contracts or loyalty – in the end it is down to effective people relationship management skills (Hanson & Olson, 2004).

A recent survey, done by Accenture, with 229 respondents representing a wide international community of organisations – 22 percent in the United States of America and 78 percent in the main European regions delivered the following results as best practiced supplier relationship management (2006). The sample drew 23 percent respondents from organisations with more than €10 billion in sales revenue; 59 percent respondents from organisations with at least €1 billion in sales; and 73 percent respondents from organisations with sales revenue of over €500 million. Illustrate by figure 2 below.



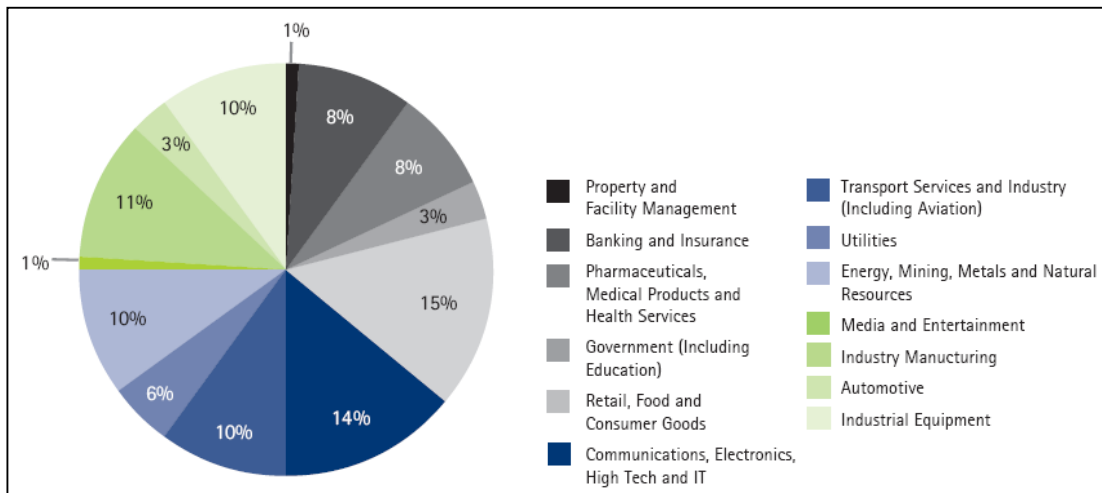
**Figure 2: Survey participants by geographic location (in percent)**

As seen from figure 3 a mixture of both public and private sector industries were utilised during the survey. The FMCG industry was represented by 15 percent; 14 percent were from the communications, electronic and high tech industry; ten percent respectively from transport services and natural resources.

The survey noted that organisations view sourcing as a quick fix, while supplier relationship management is a long term investment. Organisations have a possibility of an additional two percent yield on savings achieved by increasing their focus point on supplier relationship management. Supplier relationship management market leaders have a yield percentage of

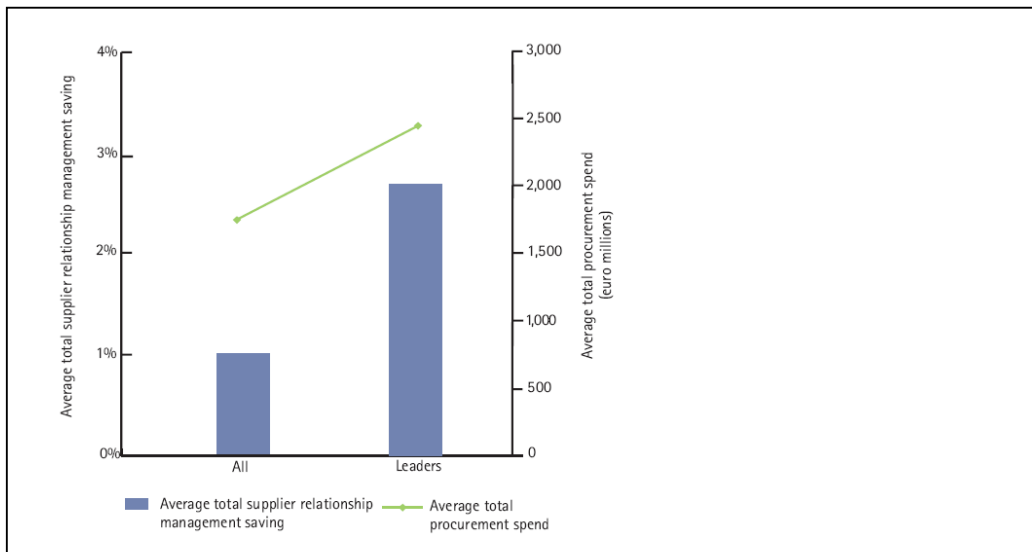


three percent, while all respondents had at least one percent additional savings to yield through supplier relationship management. This translates to a benefit range of €18 million to €67 million.



**Figure 3: Survey participants by industry**

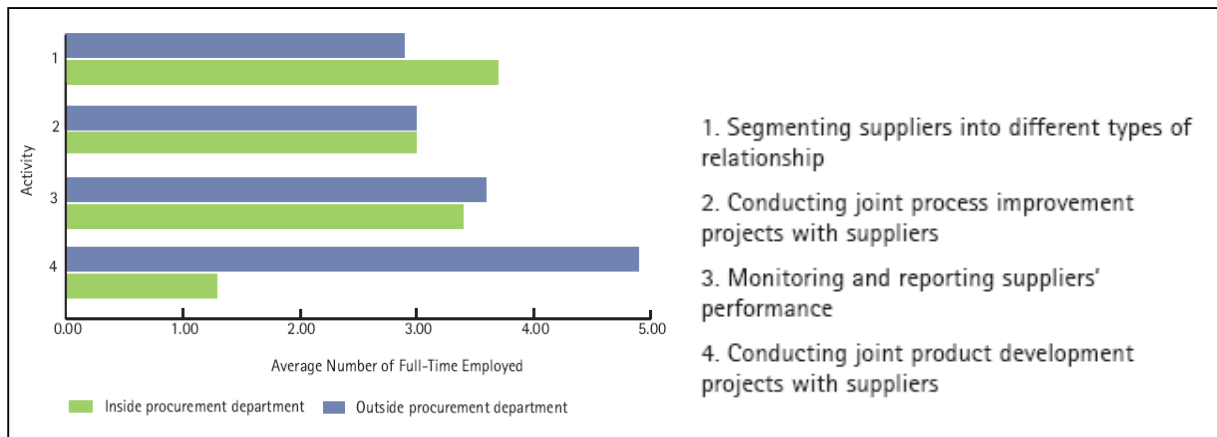
Respondents to the survey have noted that the full benefit of supplier relationship management has not been tapped with their organisation, as the focus point has not been on supplier relationship management but rather on strategic sourcing, and as a result thereof they predict a possible 20 percent savings benefit locked in supplier relationship management.



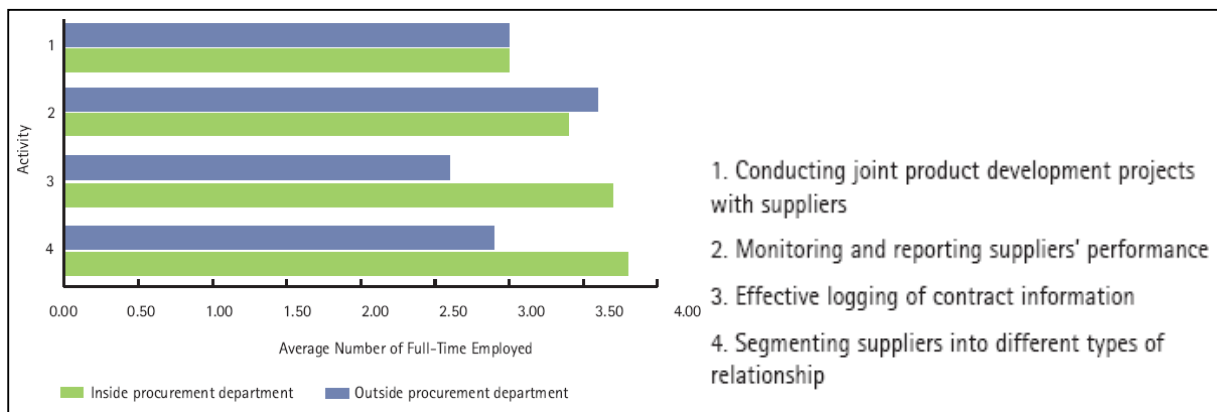
**Figure 4: Percentage savings and overall spend from supplier relationship management activities**

The automotive industry are the leaders when it comes to supplier relationship management activities – according to the survey the automotive industry yield savings of up to 41 percent from post-contractual activities. The lowest yielding sector was the banking and insurance sector with 20 percent.

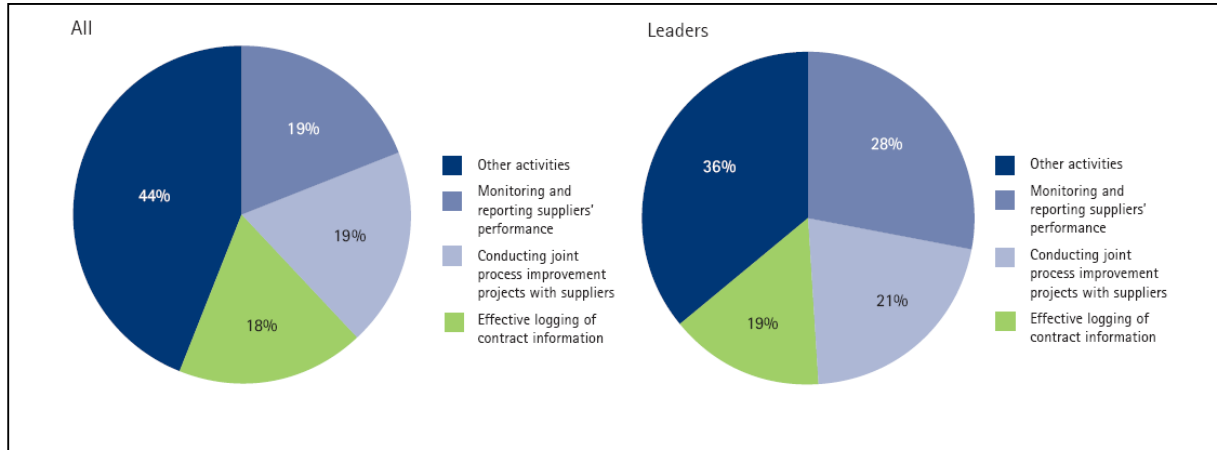
The different yields of savings are not the only distinctive factor within the industries. Different industries prioritise supplier relationship management in different ways. Inside the procurement function, the focus area of supplier relationship management lies with segmenting of suppliers, the effective logging of contract information, managing supplier performance and joint process improvement. While the organisational units outside of the procurement function focus on joint product development and initiatives to deliver mutual benefit. However, independent of the view, most of the employees’ time engaging in supplier relationship management is spent on performance measurement, supplier management, supplier development and joint process improvement. The emphasis on process improvement may be due to the realisation of the value of long term relationships with suppliers.



**Figure 5: Resource allocation – outside of procurement**



**Figure 6: Resource allocation – inside of procurement**

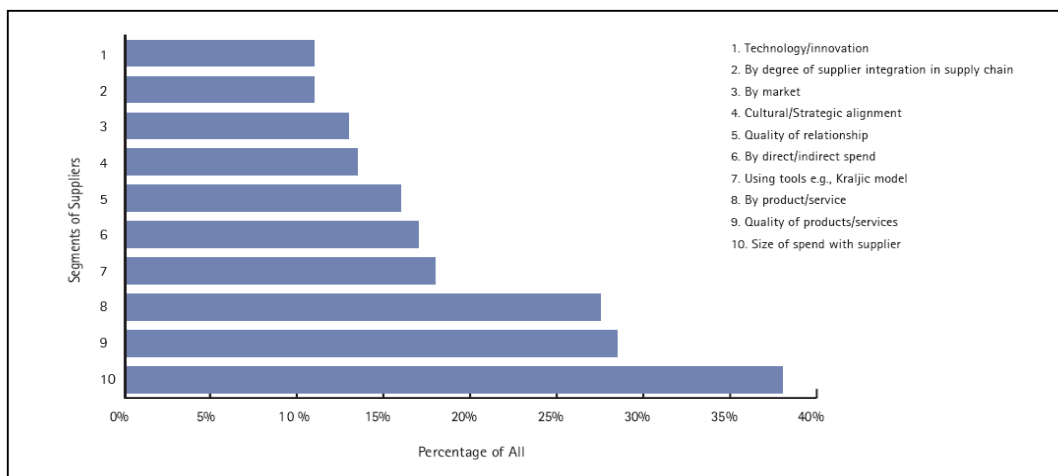


**Figure 7: Importance of supplier relationship management activities**

The most important gap indicated by the survey is the importance of the supplier relationship process – formal or informal.

Suppliers' definition throughout the survey seems to be segmented by technology/innovation, by degree of supplier integration in the supply chain, by market, cultural/strategic alignment, quality of relationship, by direct or indirect spending, utilising a procurement tool – Kraljic model, by product/service, quality of product/service or size of spending with supplier. The most important segmentation criterion is spending value. 61 percent of the organisations have more than 40 percent of their spending covered by a form of supplier relationship management (Whitehead, 2005).

Maximum quality, delivery and reliability remained the most important attributes for supplier relationship management throughout the survey.



**Figure 8: How companies segment their suppliers**

Throughout the survey organisations indicated that a further gap existed with regards to effective and successful use of technology solutions to manage supplier relationships. Notwithstanding any of the above the benefit of supplier relationship management is in the bottom line. Organisations demonstrate 50 percent of higher savings resulting from post-contractual activities compared to sourcing activities. Many organisations focus on mastering the fundamentals of supplier relationship management before moving to more complex activities like sourcing management and sourcing processes.

The survey indicated that the following three activities always form part of the supplier relationship management discussion:

- Pricing challenges;
- Joint costing reduction; and
- Problems to be resolved.

More than 50 percent indicated that problems to be resolved remain the most important discussion point of the agenda.

The conclusion of the survey by Accenture (2006) was as follows:

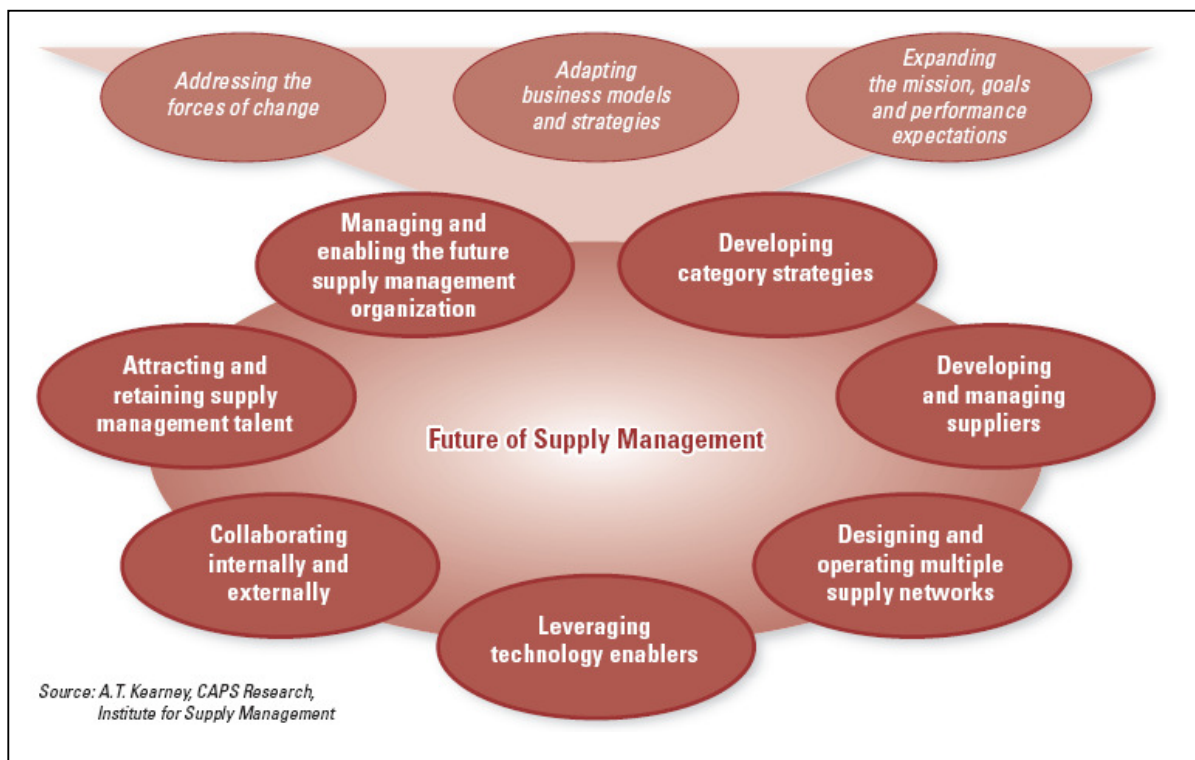
- Organisations can reap rewards by pursuing and successfully implementing supplier relationship management activities;
- Companies need to adopt a holistic approach to supplier relationship management;
- Companies must work collaboratively with those outside of the procurement department;
- Mastering the basics right (e.g. contract management) will have high saving value;
- Shape the business case and framework for supplier integration/collaboration;
- Segment the supplier database;
- Develop specific strategies for each supplier segment;
- Create comprehensive plans and performance monitoring processes to drive and track performance for each segment aligned with the sourcing goals;
- Develop robust supplier relationship management processes to consistently deliver quality outputs;
- Develop the organisation to include supplier relationship management roles performed by skilled professionals;
- Using technology appropriately to enable supplier relationship management processes and performance management; and
- Constantly monitoring, assessing and setting of priorities.

## 2.5 Future of supplier relationship management

The next decade will most certainly see more surprising changes and upheavals than the previous, as suggested by the events taking shape around us daily. While focusing on today's business is a must, peering into the future is crucial and a fruitful exercise for supply chain management, just as it was for Igor Ansoff while applying his strategic diversification idea toward corporate strategy (Heller, 2003).

As discussed, the emphasis on supplier relationship management will increase as the organisations realise the hidden value within procurement, not even to mention the unforeseen value still to be unlocked within supplier relationship management. (Cuartero, 2006)

Furthermore it is predicted that supply management will have an increasing strategic corporate influence, illustrated by figure 9 (Carter et al., 2007).



**Figure 9: Future of supply management research framework**

Due to the increase in global competition, mergers and acquisitions will continue. As a result of the mergers and acquisitions, organisations will require supply management to evaluate opportunities, risks and savings through economy of scale (Accenture, 2007c; Accenture 2007j; Saksena & Steger, 2006).

Supply bases will proceed to consolidate, as seen in the previous decade, which will change the balance of power between the buyers and the sellers. This will facilitate the need to partner with suppliers in order to achieve the best results and market position collaboration (Bolgar, 2007).

Internal and external pressure will be placed on procurement to respond to environmental concerns and avoid compromising the situations around aspects such as pollution and climate change. Green procurement will become a reality and as a result thereof organisations and suppliers will have to work together to insure low cost and quality of products and/or services entering the future. The green procurement model will place more emphasis on joint product development to mitigate the impact of environmental concerns.

Cost reduction will remain a key strategy for organisations as a tool to better the balance sheet and income statement. This will lead to improved costing structures as to enable companies to compete in developing markets and meet the challenges of low-cost countries. However, improved costing structures alone will not do the trick. Organisations will lean heavily on the suppliers' innovation and more strategic relationships. The end result will be a value adding supply chain from the supplier to the end user.

With the globalisation imprint on the supply chain, organisations will be exposed to the risk of supply in continuity, reputation pitfalls, intellectual property theft and additional complexity. This will result in volatility of commodity prices and only through successful supplier relationships will all the abovementioned risks be mitigated.

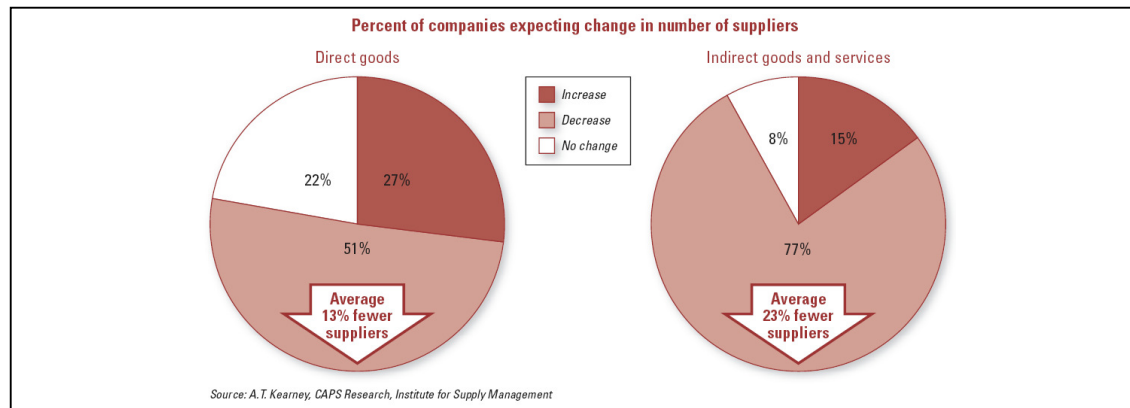
According to an A.T. Kearney study, completed by Carter et al., there will be seven areas critical to future success (2007):

- Developing category strategies;
- Developing and managing suppliers;
- Designing and operating multiple supply networks;
- Leveraging technology enablers;
- Collaborating internally and externally;
- Attracting and retaining supply management talent; and
- Managing and enabling the future supply management organisation.

As seen from the list above, supplier relationship management will be crucial to supply management success in the future. This will be achieved by overall supply base improvement and increasing the value achieved from suppliers' value proposition. Supplier

relationship management will contribute to competitive advantages in cost, quality, delivery and responsiveness, technology and innovation.

Organisations will expect their suppliers to be competitive in all the abovementioned areas. The down-play for the purchasing organisation will be changing the way they reward a supplier's outstanding performance. Cost drivers and total-cost approach will be essential in streamlining the approach.



**Figure 10: Expected net decrease in number of suppliers by 2012.**

A.T. Kearney's study predicts that organisations are on the verge of an era of massive supply chain redesign and restructuring (Carter et al., 2007). In South Africa the same predictions seem to be true. Mike Mitchley, Vice President of Commercial Services at Gold Fields, agrees: "We have moved away from a short-term approach towards longer term partnerships with suppliers. In essence, we've started saying to vendors: 'We want a long-term, mutually beneficial relationship with you. Let's work together to see how we can improve each other's bottom line,'" he said (Accenture, 2006).

As seen from the preceding studies a tangible benefit still awaits the organisations when focussing on supplier relationship management. Most procurement functions within the Fortune 500 organisations have indicated that the importance of supplier relationship management will be essential to their future. Not only does supplier relationship management pose an additional three to five percent saving, it also includes reduced risk, increased speed-to-market and access to new technology and solutions (Pleska & Webster, 2007).

### 3 SUPPLIER RELATIONSHIP MANAGEMENT – CASE STUDY

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For the purpose of the paper a practical case study was completed of a South African multinational Fortune Global 500 company, with a South African manufacturing subsidiary. The case study is based on a period of twelve months.

#### 3.1 Company details

Name: British American Tobacco PLC  
Fortune Global Rank: 404 (2006: 390)  
CEO: Paul Adams  
Employees: 55,145  
Address: 4 Temple Place, London WC2R 2PG  
Website: [www.bat.com](http://www.bat.com)

Revenue: \$ 17,960,600,000.00  
Profit: \$ 3,488,400,000.00  
Assists: \$ 34,790,300,000.00

Industry: Tobacco

(CNN Money, 2007)

#### 3.2 Company background

The case study was based on the South African subsidiary of British American Tobacco PLC – British American Tobacco South Africa (Pty.) Ltd.

British American Tobacco PLC is the world's second largest quoted tobacco group by global market share, with brands sold in more than 180 markets across the globe. In the company portfolio British American Tobacco PLC have over 300 individual brands, this equates to the fact that British American Tobacco PLC makes one in six cigarettes chosen by the world's one billion adult smokers.

The business was founded in 1902 and by 1912 had become one of the world's top dozen companies by market capitalisation. British American Tobacco PLC's subsidiary companies



produce some 689 billion cigarettes through 52 cigarette factories in 44 countries and have four separate factories in four countries manufacturing cigars, roll-your-own and pipe tobacco.

British American Tobacco PLC's workforce is strongly multi-cultural, with each local subsidiary having wide freedom of action and responsibility for its operations. Decisions are made as close as possible to the local subsidiary, within a framework of principles, standards, policies, strategies and delegated authorities. British American Tobacco PLC is the only international tobacco group with a significant interest in tobacco leaf growing (British American Tobacco, 2007).

The local subsidiary British American Tobacco South Africa (Pty.) Ltd. is the leading manufacturer of cigarettes in South Africa. The company enjoys over 90 percent of the total legitimate tobacco market in a country where one out of every four adults chooses to smoke or use tobacco products.

British American Tobacco South Africa (Pty.) Ltd. has nine distribution and trade marketing offices located throughout South Africa, with the head office located in Stellenbosch, Western Cape, and the manufacturing facility located in Heidelberg, Gauteng. The company markets 27 brands in the South African market, including Dunhill, Lucky Strike, Peter Stuyvesant, Rothmans, Benson & Hedges, Kent and Courtleigh Gold Band (British American Tobacco South Africa, 2007).

### **3.3 General overview of procurement within the subsidiary**

Procurement within British American Tobacco South Africa (Pty.) Ltd. falls within the Supply Chain function. The procurement function is split into two operations, namely direct procurement and indirect procurement. As a result of the split, the two operations follow the operational framework of principles, standards, policies, strategies and delegated authorities as prescribed by British American Tobacco PLC as base.

British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd. based their procurement on the 1997 A.T. Kearney model. The procurement function is thus divided into three sections:

- Procurement business management;
- Strategic sourcing;
- Transactional procurement.

The supplier relationship management function resides within the strategic sourcing process. It includes the measure of compliance, conduct of supplier review meetings, reviewing and updating of contracts and monitoring and updating of catalogue content.

The strategy of execution of the abovementioned is however determined by the individual function or as prescribed by the individual function on a global level. The two functions have two completely different methodologies towards supplier relationship management and different maturity levels are associated with supplier relationship management. As a result of the aforementioned the two procurement functions will be acknowledged separately in the paper with regards to supplier relationship management.

### **3.4 Direct procurement: supplier relationship management**

Procurement in British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd., as in most organisations, developed from a purchasing department in direct materials and goods. The end result of the development is a smaller supply base and more formal supplier relationship management processes and procedures.

British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd.'s direct procurement function utilised the Best Enabler Survey Tool ("BEST") for supplier relationship management.

Supplier quality partnership is seen as a driver for relationships and is based on:

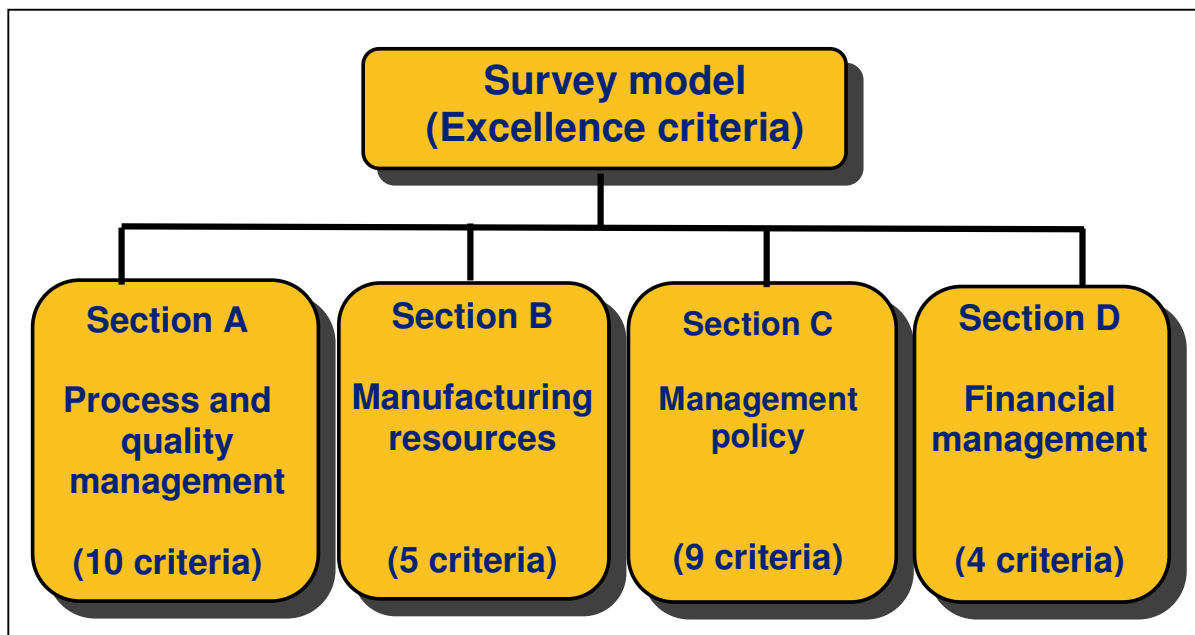
- Mutual benefit
  - Open and transparent communication;
  - Shared responsibility to solve problems;
  - Working together to minimise risk and improve business practices.
  
- Quality at source
  - A joint approach towards improvement through education, training and sharing of good practice to enable you to produce;
  - Quality at point of manufacturing rather than using the customer as additional quality control function.
  
- Responsible product stewardship

- Ensuring legal compliance and product integrity with regard to contamination and health risks.
- Good corporate conduct
  - Ensuring legal compliance and product integrity with regard to contamination and raising awareness to British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd.'s business policies and principles regarding corporate social responsibility, employment principles and EHS standards' encouragement to embrace the same standards;
  - Tools and processes used to communicate and drive and implement these core beliefs are:
    - Material qualification: to embed these policies already at the starting point of new developments and innovations;
    - Specification management: using the WMS platform and ensuring knowledge of the requirements, drive complexity reduction;
    - BEST: overall assessment of business processes and identification of improvement potentials;
    - Contingency plans and risk assessment as specific output of BEST to raise awareness to any contamination risk and ensure best practice;
    - Packaging standards: development of global standards where possible as example for standardisation and complexity reduction;
    - Supplier performance rating tool: to assess actual product quality and delivery service;
    - Statistical process control: a key process to produce quality at source supported by British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd. with training courses on continual improvement offered to the suppliers to ensure common understanding of SPC and CI;
    - Joint continual improvement projects: directed at material and process improvements to ensure benefits of assessments are realised;
    - Corporate social responsibility and EHS standards: to ensure common understanding and application of same business principles.

The BEST tool is a method used to assess the business enablers that a supplier has in place, and which allows British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd. a measure of the level of risk the company or subsidiary is exposed to, together with identifying improvement opportunities, for example organisational structures, quality management, business policies and strategies, financial control tools and effective project management, with regards to product and process quality, contamination and

traceability, security of supply and services, OH&S standards, environmental management and business principle and with a continual focus on improvement of mutual benefit, and on target with minimum variation for all processes and products.

The tool was developed over the last ten years and is continually updated to reflect the latest standards. The aim of the tool is to objectively rate suppliers and position the suppliers against excellence criteria and robust good practices. Furthermore it allows identification of “pressure points” for risk management and it provides direction for supplier quality partnership initiatives.



**Figure 11: BEST survey model screen shot**

As seen from figure 11, the BEST tool is divided into four sections. Each section is divided into subcategories, which is essentially questions – called crib note questions – which help to draw out the information required to evaluate the section.

To enable an objective view of the supplier rather than a subjective view, each category of the subcategory is scored against the following conditions:

- 0: There is no evidence of activity in this area.
- 1: There is some evidence of a plan with the beginning of implementation in this area.
- 2: There is considerable evidence of activity but current implementation falls short of requirements in several areas.
- 3: A program is fully implemented and meets all critical requirements.

Scores of 0 to 2 identify the opportunity for improvement and help set priorities. Different set of weighting factors are also applied to each section:

- 40% to process and quality control;
- 25% to manufacturing resources;
- 25% to management policy;
- 10% to financial management.

Figure 12 represents a completed score card indicating the weighting factors et al.

	SCORE	MAX. SCORE	RATIO	POINTS
A. PROCESS AND QUALITY CONTROL (Value 40 points)	100	41 x 3 = 123	0,81	33
B. MANUFACTURING RESOURCES (Value 25 points)	42	15 x 3 = 45	0,93	23
C. MANAGEMENT POLICY (Value 25 points)	97	36 x 3 = 108	0,92	23
D. FINANCE (Value 10 points)	25	10 x 3 = 30	0,83	8
	NET POINTS			87

Qualification requirements:	Certification requirements:
Minimum ratio 0.65 in each category	Minimum points A-36, B-20, C-22, D-8
Minimum total net points: 70	Minimum total net points: 90
Minimum 2 for A10a, A10f, C7 a-d, C8 a-e, C9 a-f and D1	Score of 3 for A1a, A3a&b, A10a, A10f and B1d,C7 a-d, average score 3 for sections C8 and C9, score of 3 for D1

**Figure 12: A complete BEST scorecard**

After a supplier has completed an evaluation the supplier is graded. There are three levels of grading:

- Approved suppliers
  - Suppliers that are currently being used and have not been evaluated. Approval is given based on the assumption that, since British American Tobacco PLC and/or

British American Tobacco South Africa (Pty.) Ltd. are using them, they must be acceptable.

- Suppliers that have been evaluated but have failed to progress to the next level may be retained as an approved supplier under extenuating circumstances but British American Tobacco PLC and/or British American Tobacco South Africa (Pty.) Ltd. would strive to improve them.
  
- Qualified suppliers
  - Suppliers that have been evaluated and meet the following conditions:
    - Minimum ratio 0,65 in each section.
    - Minimum 70 net points.
    - Minimum 2 points for A10a, A10f, C7a-d, C8a-e, C9a-i and D1.
    - Qualified suppliers will begin the process to the next stage of "certification".
  
- Certified suppliers
  - Qualified suppliers that additionally meet the following conditions:
    - Minimum points in the four sections of A-36 points, B-20 points, C-22 points and D-8 points.
    - Minimum total net points 90.
    - Score of 3 for A1a, A3a&b, A10a & A10f, B1d, C7a-d, average score of 3 for sections C8 and C9 and score of 3 for D1.

More detail can unfortunately not be provided due to intellectual property reasons and data integrity. The measurable benefits of the BEST tool for British American Tobacco PLC and/or British American Tobacco South Africa (Pty.) Ltd. are:

- Quality improvements;
- Reduced incoming material inspection;
- Reduced variability;
- Waste reduction – time and materials;
- Service level improvements;
- Improved logistics;
- Focused innovation and development work;
- Cost reduction.

### **3.5 Indirect Procurement**

Indirect Procurement in British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd. took a different route. They adopted a seamless electronic procure to pay solution from SAP called supplier relationship management (“SRM”).

Before we look at the system utilised by indirect procurement it is important to note the definition of indirect procurement, as the function itself allows for more room and less dependency by the purchasing organisation. Indirect procurement is defined by SAUG as the procurement of any commodity or service that a company buys that does not result in finished goods for example office supplies, printing, advertising, et cetera (Stein & Hawking, 2007). Wikipedia defines indirect procurement as activities concerned with operating resources that a company purchases to enable its operations, with a lot more emphasises on active involvement and importance (Wikipedia, 2007c).

#### **3.5.1 Supplier Relationship Management**

In 2001 British American Tobacco PLC investigated their approach to the procurement of indirect goods and services in order to determine the associated global expenditure. It was found that British American Tobacco PLC had no coherent approach to the procurement of indirect goods and services and the estimated annual spending was in the order of USD 3,1 billion.

With very minor exceptions, control of this expenditure rested with budget holders, with the involvement of the operation subsidiary’s procurement function being either minimal or non-existent. Evidence from within British American Tobacco PLC suggested possible savings potential in the range of 10 to 20 percent. As a result, the indirect goods and services expenditures have been identified as a key driver to contribute to the £200 million global overheads reduction target by 2006.

In order to achieve this target, in July 2003 British American Tobacco PLC launched the Global Indirect Procurement Programme with the aim of standardising procurement processes across the end markets. To support the change in business processes British American Tobacco PLC selected SAP SRM as it is one of the leading applications in the procurement area and is a strategic fit with British American Tobacco PLC’s existing systems. The aim of this technology solution is to be the enabler for indirect procurement globally.

SRM is a suite of tools from SAP which will integrate the indirect procurement process for the end markets with procurement processes. SRM is a user-friendly web based application used to generate, approve and dispatch requests for the supply of goods and services to British American Tobacco.

The application has several modules, including:

- Enterprise Buyer where users can create requests (“shopping carts”) and browse online catalogues. This module also encompasses the approval workflow which determines where a shopping cart is sent once it has been created;
- Sourcing Cockpit is where the procurement department is able to manage purchase orders, online auctions and contracts; and
- BW (“Business Warehouse”) is the SRM reporting tool.

The high level benefits from SRM are:

- Significant opportunity to save money and improve service;
- Progressively involving procurement in indirect spending;
- Using a common procure to pay process;
- Rationalising the supplier base;
- Report, analyse and negotiate better deals globally;
- Consolidation of spending to achieve maximum benefits;
- Reduced paper trail;
- All spending tracked on SRM system;
- Electronic approval process;
- PO numbers sent to suppliers automatically, no manual fax or e-mail;
- Easy delegation of approval if approver is unavailable.

Due to data integrity reasons and client intellectual property concerns, no more can be disclosed with regards to SRM in the British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd. environment. It is however evident from the abovementioned that supplier relationship management itself, except for in the product name, is not evident.

No formal supplier relationship management exists within the indirect procurement function of British American Tobacco South Africa (Pty.) Ltd. and as a result thereof the calculation below indicates the value being lost by British American Tobacco South Africa (Pty.) Ltd.



### 3.5.2 Cost of a sourcing exercise

The numerical value is fictional, yet the percentages are accurate, and any assumptions are made from historical experience and not necessarily pertaining to British American Tobacco South Africa (Pty.) Ltd.

- Sourcing period: Three and a half months
- Sourcing team:
  - One sourcing manager
  - One procurement commodity specialist
  - One procurement commodity coordinator
  - Two internal stakeholders – middle management or higher
  - Project administrator
- Change management: One month
- Workshops associated: Two
- Current commodity value: ZAR 5,000,000.00

Cost associated with each of the abovementioned elements:

- Sourcing manager : ZAR 380,000.00
- Procurement commodity specialist : ZAR 420,000.00
- Procurement commodity coordinator : ZAR 200,000.00
- Middle management or higher in a multinational organisation : ZAR 460,000.00
- Project administrator : ZAR 220,000.00
- Change management consultant : ZAR 680,000.00
- Workshop : ZAR 10,000.00

The cost of the sourcing exercise:

	<b>Cost element</b>	<b>Cost associated</b>		<b>Total cost</b>
<b>Resources required and time allocated</b>	Sourcing manager	380,000.00	3,5 months, at 50%	55,416.67
	Procurement commodity specialist	420,000.00	1,5 months, at 100%	52,500.00
	Procurement commodity coordinator	200,000.00	3,5 months, 100%	58,333.33
	Middle management or higher in a multinational organisation	460,000.00	3,5 months, at 35%	46,958.33
	Project administrator	220,000.00	3,5 months, at 70%	45,325.00
	Change management consultant	980,000.00	0,5 months, at 100%	40,833.33
	workshop	10,000.00	2	20,000.00
<b>Other</b>	Contingency Spend (10%, excluding Legal Cost)			31,936.67
	Legal cost			200,000.00
			<b>Total cost of a sourcing exercise</b>	<b>551,303.33</b>

In light of the above calculation the sourcing exercise must yield more than 11,03% savings for British American Tobacco South Africa (Pty.) Ltd. to break even. As mentioned before, the market average for saving is between 10-20% on a commodity, this figure however decreases as the commodity reaches maturity. The end result of the above is a three and a half month exercise with the possibility of a maximum saving of 8,97%.

If supplier relationship management was in place at British American Tobacco South Africa (Pty.) Ltd. the situation might have been completely different.

The cost depicted in the table on the following page would have been associated with evaluating the current supplier, communicating risks and pitfalls, benchmarking, negotiations and reinstating the current supplier.

The cost of supplier relationship management:

	<b>Cost element</b>	<b>Cost associated</b>		<b>Total cost</b>
<b>Resources required and time allocated</b>	Sourcing manager	380,000.00	Two weeks, 50%	7,307.69
	Procurement commodity specialist	420,000.00	One week, at 100%	8,076.92
	Procurement commodity coordinator	200,000.00	1 months, 100%	16,666.67
	Middle management or higher in a multinational organisation	460,000.00	Two weeks, at 35%	3,096.15
	Project administrator	220,000.00	1 months, at 70%	9,712.50
	Change management consultant	n/a	n/a	n/a
	Workshop	n/a	n/a	n/a
<b>Other</b>	Contingency Spend (10%, excluding Legal Cost)			4,485.99
	Legal cost			65,000.00
			<b>Total cost of a sourcing exercise</b>	<b>114,345.92</b>

In light of the above calculation the supplier relationship exercise must only yield more than 2,29% savings for British American Tobacco South Africa (Pty.) Ltd. to break even. As mentioned before, the market average for saving on supplier relationship management is between 3-10% on a commodity, this figure however can increase as the commodity reaches maturity. The end result of the above is a one month exercise with the possibility of a maximum saving of 7,71%.

The above calculation does not indicate a greater saving by utilising supplier relationship management in year one. However there are two additional factors to consider.

The factor for consideration is time spent. The sourcing exercise can yield up to 8,97% saving after a three and a half month period. This would mean a 30,75% saving in total per

annum. On the other hand, the supplier relationship management exercise will yield up to 7,71% saving after a one month period. This would mean a 92,52% saving in total per annum.

The other factor to consider is the possibility of year on year growth with the supplier relationship management exercise.

### **3.6 Case study summary**

In summary the two different options utilised by British American Tobacco PLC and British American Tobacco South Africa (Pty.) Ltd. yield the saving and the controls as intended. However as the indirect procurement function matures, the drive to a formal and more cost effective solution to supply relationship management will be inevitable.

Furthermore the case study supports the academic findings that supplier relationship management as a stand alone do not yield savings. Supplier relationship management has to be utilised in conjunction with sourcing strategies and exercises. It is also apparent from the case study that the emphasis on time and resources spent on supplier relationship management varies from commodity to commodity depending on the importance of the commodity to the organisation.

(British American Tobacco, 2007; British American Tobacco South Africa, 2007)

#### **4 SUPPLIER RELATIONSHIP MANAGEMENT – OPERATIONAL TOOL**

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A supplier relationship management tool is merely a formal process to facilitate a relationship between the procurement function, the internal organisational stakeholder and the supplier. The supplier relationship management tool will not bring forth the additional saving of three percent. It will however aid in the process of retrieving the three percent (Archer & Yuan, 2000).

The supplier relationship management tool is developed with the following assumptions in mind:

- Procurement involvement;
- Formal documentation which pertains to the service level agreement, i.e. a communicated contract or agreement between the organisation and the supplier;
- Configuration management;
- Ease of use; and
- Effective and functional results.

As to insure that the tool is easily accessible, it was written in Microsoft Excel. This however does constitute a gap in the programming as the programming is easily accessible and can be changed by an individual with knowledgeable Microsoft Excel skills with regards to hardwired and/or password protected cells. The flipside of the coin is however the benefit thereof. As it is easily accessible and amendable, it is flexible and can be tailored for the individual's need.

The tool consists of five Microsoft Excel worksheets in one Microsoft Excel workbook of which only three is applicable to the end-user. The three Microsoft Excel worksheets applicable to the user will be discussed in detail; the remaining two Microsoft Excel worksheets act as a databases support sheet and a formulations sheet respectively. The effect of the two sheets will be discussed within the detailed discussions of the three end-user sheets.

The tool tried to take into consideration some of the academic aspects aforementioned in the paper, if new concepts are introduced it will be explained as part of the detailed discussions.

The three end-user Microsoft Excel worksheets are:

- Supplier relationship management – Procurement input sheet;

- Supplier relationship management – Stakeholder and supplier review sheet; and
- Supplier relationship management – Supplier review report.

#### 4.1 Supplier relationship management – Procurement input sheet

The procurement input sheet prompts the user within the procurement function for data. The data will be captured under six headings by completing the cells shaded in light blue. Figure 13 below is a screenshot of the procurement input sheet.

SUPPLIER RELATIONSHIP MANAGEMENT - PROCUREMENT INPUT SHEET	
<b>Procurement Data</b>	
Sourcing Manager:	<input type="text"/>
Sourcing Manager Contact Number:	<input type="text"/>
Sourcing Manager Email Address:	<input type="text"/>
Commodity Manager:	<input type="text"/>
Commodity Manager Contact Number:	<input type="text"/>
Commodity Manager Email Address:	<input type="text"/>
<b>Commodity Data</b>	
Commodity Name:	<input type="text"/>
Commodity Classification by UNSPC Code:	<input type="text"/>
Commodity Annual Estimated Spend:	<input type="text"/>
Commodity Risk Factor:	<input type="text"/>
Commodity Kraljic Categorisation:	<input type="text"/>
<b>Supplier Data</b>	
Supplier Name:	<input type="text"/>
Supplier DUNS Code:	<input type="text"/>
Supplier by Category Type:	<input type="text"/>
Contractual Period:	<input type="text"/>
Contract Number:	<input type="text"/>
<b>Internal Stakeholder Data</b>	
Stakeholder Name:	<input type="text"/>
Stakeholder Designation:	<input type="text"/>
Stakeholder Influence:	<input type="text"/>
Stakeholder Contact Number:	<input type="text"/>
Stakeholder Email Address:	<input type="text"/>
<b>Commodity Strategy</b>	
<input type="text"/>	
<b>Additional Notes</b>	
<input type="text"/>	

**Figure 13: A screen shot of the procurement input sheet from the supplier relationship management tool**

The six headings are:

- Procurement data;
- Commodity data;
- Supplier data;
- Internal stakeholder data;
- Commodity strategy; and
- Additional notes.

The procurement input sheet needs to be captured prior to the evaluation and review of the supplier. It serves as a backbone for the other two sheets and without it fully completed the supplier relationship management tool will not operate at its full potential.

Procurement data has six fields to capture – sourcing manager, sourcing manager contact number, sourcing manager e-mail address, commodity manager, commodity manager contract number and commodity manager e-mail address. The purposes of the fields are to create data integrity and data ownership. Once the section is completed the user proceeds to the commodity data field.

The commodity data field requires the user to complete five fields of more in-depth knowledge pertaining to the specific commodity. It starts by requesting the commodity name. This name is non-generic and can be the commodity name as utilised by the organisation.

The next field requests the UNSPC Classification Code<sup>7</sup>. By entering the code the tool instantaneously become a global supplier relationship management tool. The UNSPC code is a generic classification code developed by the United Nations to standardise product and/or services across the globe. The code can however not be entered, but the user is requested to select the code from a list. By limiting the user to the recognised UNSPC classification list, the data integrity is assured.

The third field under this section is an annual estimated spending entry field. As to standardise the approach to the supplier relationship management tool the user can simply choose a spending amount from a list. The list contains the following ten spending break down categories:

- < R100,000.00;

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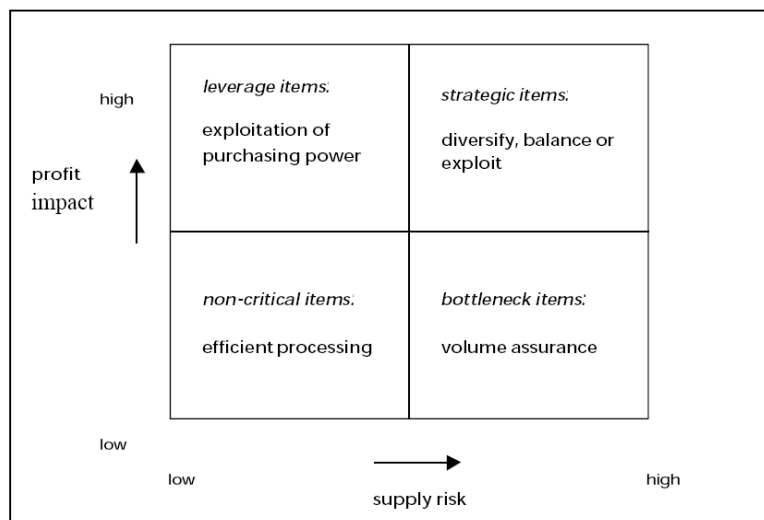
<sup>7</sup> UNSPC - United Nations Standard Product and Services Classification

- Between R100,000.00 and R250,000.00;
- Between R250,000.00 and R500,000.00;
- Between R500,000.00 and R750,000.00;
- Between R750,000.00 and R1,000,000.00;
- Between R1,000,000.00 and R1,500,000.00;
- Between R1,500,000.00 and R2,000,000.00;
- Between R2,000,000.00 and R5,000,000.00;
- Between R5,000,000.00 and R10,000,000.00; and
- > R10,000,000.00.

The estimated annual spending amount acts as an indication of importance and measuring factor when developing the required services level standard and the frequency of the reviews.

The next field to complete under this section is the commodity risk factor. The user can select one of three options from a drop-down menu – low, medium or high. The risk factor refers to the importance of the commodity within the organisation. The selection of the risk associated with the commodity will have an impact on the required services level standard as measured by the tool.

The last field to complete under this section is the Kraljic categorisation of the commodity. The user can select one of the four categories – leverage item, strategic item, bottleneck item or non-strategic item. The Kraljic categorisation is a comprehensive purchasing portfolio matrix that classifies an organisation's spending into four categories on the basis of their profit impact and supply chain risk – as illustrated by figure 14. It is seen as the operational standard in the field of purchasing (Gelderman & Van Weele, 2005).



**Figure 14: Kraljic matrix**



This field is extremely important to the model as the field contains the impact, the risk and importance of the commodity being assessed. The data completed in this field will be utilised to determine the number of reviews, the supplier performance indicator and the supplier achievement indicator.

The third section concentrates on general information with regards to the supplier. The five fields that are required to be completed are:

- Supplier name;
- Supplier DUNS code<sup>8</sup>;
- Supplier category type;
- Contractual period; and
- Contract number.

The third section is an administrative data collection function. It verifies the supplier's name, the DUNS code, the supplier category (Type A, Type B or Type C within the organisation), the contractual period and the contract number for reference. By allocating the DUNS code the supplier relationship management tool elevates itself to global standards.

The fourth section, like the third section, is also an administrative data collection function to safeguard data integrity. However, where section three focused on the supplier, section four focuses on the internal stakeholder. The five fields to be completed are:

- Stakeholder name;
- Stakeholder designation;
- Stakeholder influence;
- Stakeholder contact number; and
- Stakeholder e-mail address.

The most important field in section four is the stakeholder influence field. The user has a selection of low, medium or high. If the procurement function has a suspicion or a reason to believe that the supplier is receiving privileged information or unfair advantages due to stakeholder influence, the user can very discreetly note it here. In the review results, if the bottom line and the end result do not correlate, the user can investigate the influence of the stakeholder. In many South African organisations, as within Africa, the stakeholders might have divested interests in suppliers' review results.

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<sup>8</sup> The D&B D-U-N-S Number is D&B's distinctive nine-digit identification sequence, which links you to a wealth of quality information products and services originating exclusively from D&B. The D&B D-U-N-S Number is an internationally recognised common company identifier in EDI and global electronic commerce transactions (*Dun & Bradstreet, 2007*).

The last two sections of the procurement input sheet are for administrative purposes within the procurement function – they are commodity strategy and additional notes.

As per figure 13, the data fields to be completed are indicated in light blue. Once all the data fields are completed, the user can forward the stakeholder and supplier review to the stakeholder for completion.

#### 4.2 Supplier relationship management – Stakeholder and supplier review sheet

Once the second sheet is opened it is important to note that some of the data fields are already completed. This is a result of an automatic update and population between the procurement input sheet and the stakeholder and supplier review sheet. However as per figure 15 and the aforementioned process the stakeholder and the supplier now need to complete the review sheet by filling in the light blue shaded fields.

SUPPLIER RELATIONSHIP MANAGEMENT - STAKEHOLDER and SUPPLIER REVIEW		
<b>Section I Stakeholder Information</b>		
1.1	Stakeholder Name:	<input type="text" value="Louise Gerber"/>
1.2	Stakeholder Designation:	<input type="text" value="Fleet Manager"/>
1.3	Stakeholder Contact Number:	<input type="text" value="021 888 3410"/>
1.4	Stakeholder Email Address:	<input type="text" value="louise_gerber@bat.com"/>
1.5	Date of evaluation:	<input type="text"/>
1.6	Review Number	<input type="text"/>
<b>Section II Supplier Profile Update</b>		
2.1	Full Company Name	<input type="text" value="Barloworld Fleet Marketing"/>
2.2	Physical Address	<input type="text"/>
2.3	Postal Address	<input type="text"/>
2.4	Account Manager	<input type="text"/>
2.5	Contact Details:	
2.5.1	Telephone	<input type="text"/>
2.5.2	Fax	<input type="text"/>
2.5.3	E-mail	<input type="text"/>
2.6	Financial Stability:	
2.6.1	Company Turnover in the last 2 years	<input type="text"/>
2.6.2	% of Income generated by current account	<input type="text"/>
2.7	Broad Based Black Economic Empowerment:	
2.7.1	Please supply your most recent BBBEE rating	<input type="text"/>
2.8	Staff Complement on the current account"	
2.8.1	Permanent Staff	<input type="text"/>
2.8.2	Temporary Staff	<input type="text"/>

**Figure 15: Screenshot of the stakeholder and supplier review sheet – Section I and II**

Section I and II of the stakeholder and supplier review sheet consist of administrative questions as to insure data integrity and a sound information base for the future. The fields to be completed are:

- Date of evaluation;
- Review number;
- Physical address;
- Postal address;
- Account manager;
- Contact details – Telephone number, fax and e-mail address;
- Financial stability – Company turnover in the last two years and percentage of Income generated from the current account;
- Broad based black economic empowerment – Supply latest BBBEE rating; and
- Staff complement on the current account – Permanent and temporary staff.

Although the two sections are deemed as administrative, there are a number of important supplier relationship management questions within the sections. It is important in a South African context to consistently evaluate the BBBEE accreditation of your suppliers. As all organisations operating in South Africa are measured and rated on seven pillars of BBBEE contribution – it is essential to ensure that the procurement function contributes to the BBBEE rating of an organisation where possible. One of the seven pillars of BBBEE contribution is discretionary procurement. Therefore it is important to measure the supplier's turnover to see if the supplier is to be rated for BBBEE or not. If the supplier's turnover is more than R5,000,000.00 per annum the supplier has to be BBBEE accredited by February 2008. For the suppliers with a turnover of more than R5,000,000.00 per annum it is imperative to be in possession of their latest BBBEE accreditation.

For collaboration and joint ventures it is important to know upfront what the supplier's employee capabilities are. The number of employees also adds additional cost to the supplier's direct cost of delivering the goods and/or services.

Sections III to V of the review consist of the supplier evaluation based on actual performance. The stakeholder evaluates the supplier by completing the "current" field within the worksheet. After completing the "current" field in the worksheet the stakeholder and the supplier agree on a goal for the next period.

The stakeholder and the supplier complete the sheet as indicated in figure 16 by selecting a rating from the drop-down menu between 0 and 5.



- Reasonable/explained cost increases.

Section IV evaluates the supplier’s financial competence by reviewing the seven main indicators:

- Accuracy of invoice against delivery;
- Invoice received correctly;
- Invoice issued with statement as agreed with the supplier;
- Invoice resolved and escalated as and when it is necessary;
- Rebate/discount structure in place;
- Fixed pricing;
- Payment terms within 30 days.

Section V	Service Level / Supplier Specific	Current	Required	Goal
5.1			2	
5.2			2	
5.3			2	
5.4			2	
5.5			2	
5.6			2	
5.7			2	
5.8			2	
5.9			2	
5.10			2	

**Figure 17: Screenshot of the stakeholder and supplier review sheet – Section V**

Section V of the supplier relationship management tool adds flexibility and robustness to the model. This section is left blank for the stakeholder to complete. Best practice would be to complete the agreed service level agreement into section V and to measure it at each review session.

This section of the model is unrestricted and the user can fill in as many measurable indicators as required. It is however advisable to limit the measurable items to the most important 20 otherwise the model becomes too cumbersome and less user-friendly. This is however a judgement call to be made by the relevant stakeholder and supplier.

After completing the evaluation review the stakeholder can execute the report by clicking on the “Click here to generate supplier relationship management report”. Once the button has been clicked the supplier relationship management tool will automatically evaluate the results and create a printable supplier relationship management review report. This report can be found on the final end-user sheet of the workbook.

### 4.3 Supplier relationship management – Supplier review report

At the end of the process a supplier relationship management – supplier review report is generated. The report is divided into two sections:

- General information;
- Supplier review.

The general information (see figure 18) includes replica information of the supplier, the stakeholder and the procurement function. It is top level information generally associated with the management report.

SUPPLIER RELATIONSHIP MANAGEMENT - SUPPLIER REVIEW REPORT SHEET			
Supplier Evaluation Date:	22 September 2007	Review Number:	2/3
<b>General Information</b>			
Supplier Name:	Barloworld Fleet Marketing	Stakeholder Name:	Louise Gerber
Supplier Account Manager:	Patricia van Ass	Stakeholder Designation:	Fleet Manager
Supplier Contact Details:		Stakeholder Contact Details:	
Telephone	021 914 1000	Telephone	021 888 3410
Fax Number	021 914 1111	Email Address	louise_gerber@bat.com
Email Address	patricia_van_ass@bwfm.co.za	Sourcing Manager:	Carel Aucamp
Supplier Postal Address:	P.O. Box 2123 Cape Town 8000	Sourcing Manager Contact Details:	
Supplier DUNS Code:	n/a	Telephone	021 888 3916
Commodity Name:	Fleet Vehicles	Email Address	caucamp@volition.co.za
Commodity Classification by UNSPC Code:	Vehicles and Vehicle Accessories	Commodity Manager:	Brandon Barnes
Contractual Period:	2 years	Commodity Manager Contact Details:	
Estimated Annual Spend:	Between R 2,000,000.00 and R 5,000,000.00	Telephone	021 888 3500
		Email Address	brandon_barnes@bat.com

**Figure 18: Screenshot of the supplier review report sheet – General information**

The second section of the supplier relationship management – supplier review report consists of the evaluation data. The report indicates the supplier’s BBEE accreditation, as to facilitate a discussion if the accreditation is not up to the required standard. Furthermore the report consists of the percentage required by the organisation from a supplier delivering the goods and/or service and the percentage achieved by the supplier during the evaluation on a holistic view. In addition it also drills down to the percentage required and achieved per section to the review and per element within the section.

The stakeholder and the supplier can now evaluate the goods and/or services rendered; discuss the quality, future benefits and initiative, et cetera. There is also a section for comments and/or actions if the supplier did not meet the required standard (See figure 19).

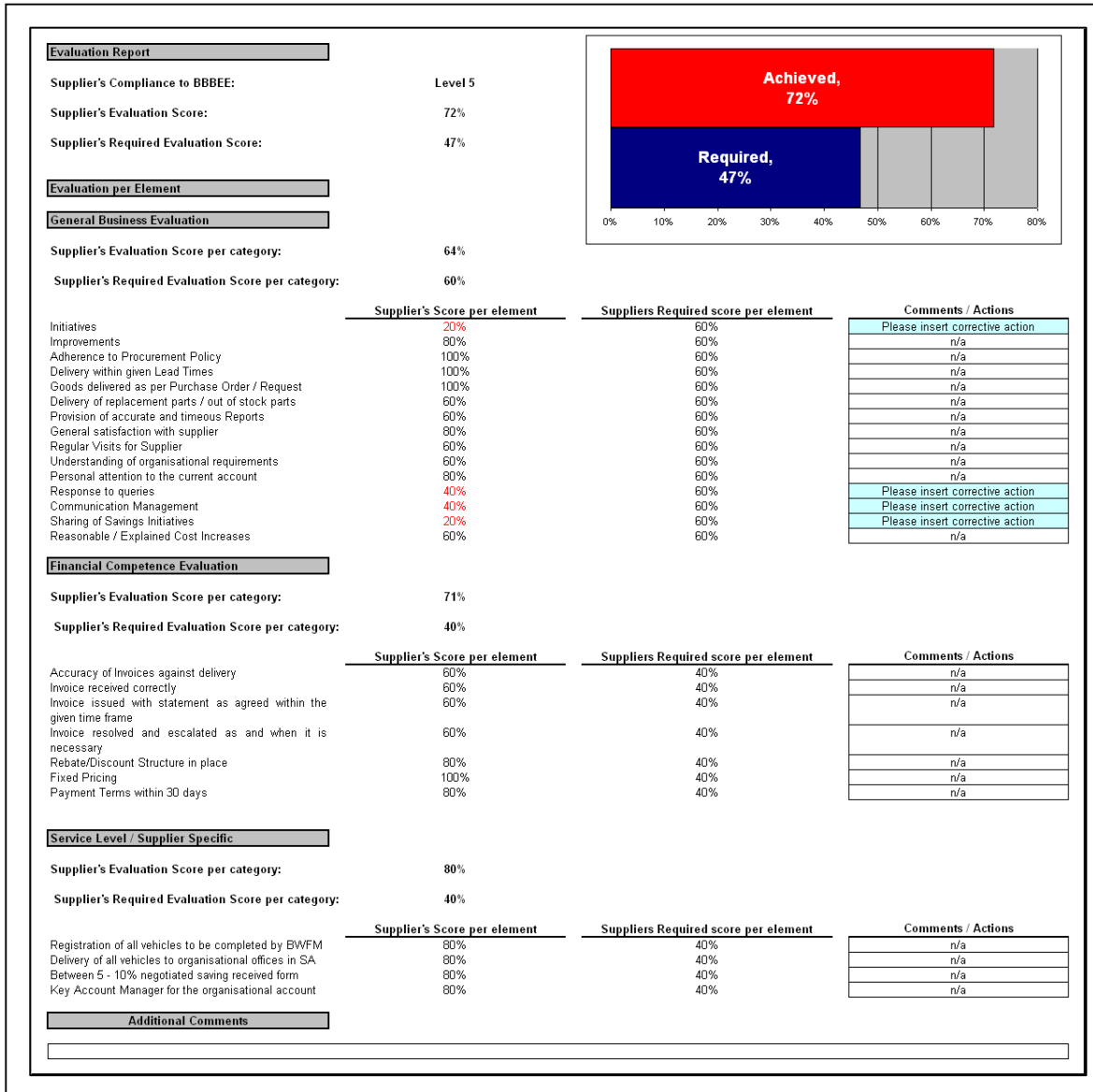


Figure 19: Screenshot of the supplier review report sheet – Evaluation report

As mentioned above the fields highlighted in light blue can be amended as to complete the report. The “Comments/Actions” fields are only required if the supplier achieved an evaluation mark of less than the required minimum score as indicated. No other sections of the report can be altered or amended.

The supplier required score per element, per section and the holistic score are calculated based on the input data retrieved from the procurement input sheet. It is generated automatically as to ensure that an objective opinion is formed without human intervention based purely on the facts at hand.

Once the report has been discussed it can be saved and printed for managerial reporting purposes. Configuration management is extremely important at this stage of the process as the report needs to be stored in a safe place for future reference and comparative reviews.

#### **4.4 The calculations behind the supplier review report**

The table below illustrates the input data required, the importance of the data, the use thereof and the end result of the data utilised. It is important to note that four input elements had an effect on the supplier required evaluation score – therefore distributing the importance of each element to the highest level.

The following methodology was utilised to calculate the BBBEE rating during the review:

- Evaluate the annual turnover. If the annual turnover is less than R5,000,000.00 the supplier automatically qualifies the spending as discretionary procurement.
- If the annual turnover exceeds R5,000,000.00 evaluate the accredited rating provided by the supplier.

The following methodology was utilised to calculate the general business requirement of the supplier:

- The estimated annual spending, the risk factor, the Kraljic categorisation and the category type were utilised to determine a weighted average rating per element, dependent on the amount of spending, the risk factor level indicated, the category selected from the Kraljic matrix and the category type.

The following methodology was utilised to calculate the financial competence requirement of the supplier:

- The estimated annual spending and the risk factor were utilised to determine a weighted average rating per element, dependent on the amount of spending and the risk factor level indicated.

The following methodology was utilised to calculate the service level/supplier specific requirement of the supplier:

- The estimated annual spending, the risk factor and the Kraljic were utilised to determine a weighted average rating per element, dependent on the amount of spending, the risk factor level indicated and the category selected from the Kraljic matrix.



Table 1: Data captured, calculated and end result

INPUT ELEMENT	DATA DISTINCTION	CALCULATION UTILISED	END RESULT AFFECTED	IMPORTANCE
<b>UNSPC Code</b>	Global UNSPC code list utilised	n/a	n/a	Global elevation of the supply management tool
<b>DUNS Code</b>	Global DUNS code list utilised	n/a	n/a	Global elevation of the supply management tool
<b>Annual estimated spending</b>	Ten elements	<ol style="list-style-type: none"> <li>1) Supplier required evaluation score</li> <li>2) General business evaluation required score</li> <li>3) Financial competence evaluation required score</li> <li>4) Service level/supplier specific evaluation score</li> <li>5) Number of supplier reviews</li> </ol>	Review report Outcome	Weighted mathematical methodology to calculating supplier required evaluation scores per element of review per commodity
<b>Risk factor</b>	Three elements	<ol style="list-style-type: none"> <li>1) Supplier required evaluation score</li> <li>2) General business evaluation required score</li> <li>3) Financial competence evaluation required score</li> <li>4) Service level/supplier specific evaluation score</li> </ol>	Review report Outcome	Weighted mathematical methodology to calculating supplier required evaluation scores per element of review per commodity
<b>Kraljic categorisation</b>	Four elements	<ol style="list-style-type: none"> <li>1) Supplier required evaluation score</li> <li>2) General business evaluation required score</li> <li>3) Service level/supplier specific evaluation score</li> <li>1) 4) Number of supplier reviews</li> </ol>	Review report Outcome	Weighted mathematical methodology to calculating supplier required evaluation scores per element of review per commodity
<b>Category type</b>	Three elements	<ol style="list-style-type: none"> <li>1) Supplier required evaluation score</li> <li>2) 2) General business evaluation required score</li> </ol>	Review report Outcome	Weighted mathematical methodology to calculating supplier required evaluation scores per element of review per commodity
<b>Annual turnover</b>	One element	Supplier contribution to the organisations discretionary procurement	Review report Outcome	Indication of the supplier's contribution to the organisation's discretionary procurement
<b>BBBEE rating</b>	One element	Supplier contribution to the organisations discretionary procurement	Review report Outcome	Indication of the supplier's contribution to the organisation's discretionary procurement

The average of the three elements were utilised to evaluate the holistic supplier requirement. Figure 20 below elaborates on the calculation steps.

General Business Evaluation	Kraljic, Spend, Type, Risk				
		<b>Supplier</b>	<b>Total</b>		<b>Weight Factor</b>
	Kraljic Score:	4	4		100%
	Spend:	7	10		70%
	Type:	2	3		67%
	Risk:	2	3		67%
					<b>76%</b>
	<b>3</b>				
Financial Competence Evaluation	Spend, Risk				
		<b>Supplier</b>	<b>Total</b>		<b>Weight Factor</b>
	Spend:	7	10		70%
	Risk:	2	3		67%
					<b>68%</b>
	<b>3</b>				
Service Level / Supplier Specific	Kraljic, Spend, Risk				
		<b>Supplier</b>	<b>Total</b>		<b>Weight Factor</b>
	Kraljic Score:	4	4		100%
	Spend:	7	10		70%
	Risk:	2	3		67%
					<b>79%</b>
	<b>3</b>				

**Figure 20: Example of the calculation steps followed**

The number of reviews was determined by an average weight distribution methodology utilising the input data from the estimated amount of spending per annum and the Kraljic categorisation.

The end result of the operational tool is an effective, easy to use, African supplier relationship management model. It is suggested that the tool is utilised for the top 20 percent of the organisations supplier base based on the value of spend and strategic importance. The tool can easily be elaborated on for future development. See attached CD for a live demo of the tool.

(Anderson et al., 2003; Carter & Narasimhan, 1996; Cronje et al., 2001; Dumond, 1996; El-Haram & Horner, 2002; Lambert, 2004; Tassabehji, 2006; Wade, 2003)

## 5 CONCLUSION

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In Lewis Carroll's Alice's adventures in Wonderland, Alice stopped and asked the Cat, "Would you tell me, please, which way I ought to go from here?" "That depends a good deal on where you want to get to," said the Cat. "I don't much care where –" said Alice. "Then it doesn't matter which way you go," said the Cat. "– so long as I get somewhere." Alice added as an explanation. "Oh, you're sure to do that," said the Cat, "if you only walk long enough" (Carroll, 1960).

With all the new forces impacting the supply chain – globalisation, changing demographics, shifts in consumer demand, resource scarcity, environmental pressures, technology advances, governmental regulation and activism – it is important to know the strategic direction of the organisation and the supply chain (Carter et al., 2007). If not, supply chain executives will end up like Alice, directing the ship anywhere as long as they get there.

As seen from the research more emphasis is placed on organisations to successfully impact the bottom line. Furthermore quality, flexibility and quick response have become important measures for manufacturers in regard to customer satisfaction in today's competitive environment. In order to fulfil the promise to customers; it is required of manufacturers to turn to a lean supply. Lean supply expresses the objectives of improved purchasing efficiency, improved quality and delivery performance from suppliers and to remove unnecessary cost factors that influence the cost of materials (Barla, 2003).

As purchasing matures in time from a clerical role to a strategic business function, it is apparent throughout the study that the importance of the function might have changed, but the core of the function's activities have remained the same. Organisations are preparing for the future with new innovative ideas and models – including collaboration, aggregation and joint purchasing ventures. However it is apparent that throughout the change and introduction of new innovations the core activities remain mastered (McGinnis & Mc Carty, 1998).

The core activities include supplier relationship management. As indicated supplier relationship management is not a revolution in procurement, rather an evolution – a re-emphasis of the importance and the benefits of the supplier relationship management process. The question surely occurs, if the Fortune 500 organisations can yield an additional

saving of three percent from supplier relationship management, what can the developing markets yield (Spray, 2007)?

While supplier relationship management focuses on the leveraging and mutual beneficial interactions with the suppliers to ensure maximised customer satisfaction, it also ensures return on investment and enhanced profitability (Choy et al., 2003).

Strategic sourcing involves building in the capabilities and the discipline essential to create strategic relationships with key suppliers and increase efficiencies through the procurement process. Utilising the sourcing process to the full, 64 percent of the Fortune 500 organisations believe more benefit is to be retrieved by developing, maintaining and managing current preferred suppliers (Tang et al., 2007).

As seen by the empirical study the correlation between supplier relationship management and return on investment is significant (Sanchez-Roderiquez et al., 2005). As a result thereof organisations continue to yield savings of six percent year-on-year. These year-on-year savings are undoubtedly due to supplier relationship management (Atkinson, 2007).

The case study also supported the empirical findings that supplier relationship management as a stand alone do not yield savings. Supplier relationship management has to be utilised in conjunction with sourcing strategies and exercises. It was also apparent from the case study that emphasis, time and resources spent on supplier relationship management varies from commodity to commodity depending on the importance of the commodity to the organisation.

The supplier relationship management evaluation tool developed during the course of the paper serves as a basis on which to build more elaborate and efficient models. However the importance of the tool – is the start of the process. The tool is easy to access, easy to use and easy to amend and adjust to any organisation. The true value yet lies in the reengineering of the thought process behind procurement and supplier relationship management.

As the world knocks on our doors, more often than not in Chinese, let them know the procurement function is in order and the procurement base and processes are defined. Let's welcome the world and build superior supplier relationships to the mutual benefit of all, before we end up taking a long road to get there – wherever "there" might be (Accenture, 2007k; Timmermans, 2007).

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