

Art of Procurement, in partnership with Ivalua

Achieving the Vision of Holistic Supplier Management



Over the last two years, procurement has had ample opportunities to witness the importance of suppliers in action. And yet, although supply partners are involved at many points along the source to pay continuum, they rarely receive the consideration and support they deserve.

This is partially due to a lack of information and understanding about how integral they are to the business on a daily basis.

If suppliers are to play a more central role in procurement's workflows, companies will need far more visibility into supplier transactions from onboarding to processing to payment. In addition, they must achieve that visibility in a way that improves the supplier experience itself.

This need for more supplier information requires procurement to answer a critical question that has not been raised often enough: why don't we know as much about our suppliers as we know about our customers?

No company would tolerate the same lack of actionable information about their customers that procurement struggles to overcome with suppliers. Platforms are already available to address the challenges of supplier management in much the same way that CRMs manage customer data management. Procurement just has to recognize the need for them and make a clear business case for their implementation and use.

In this paper, we will identify three of the most common hurdles to achieving the vision of holistic supplier management and discuss potential solutions as well as the ROI that may accompany success.

Hurdle 1: Different Roles - Different Relationships

Although procurement is generally considered the primary point of contact with suppliers, others in the enterprise engage directly with them as well. These alternate points of contact can either improve the overall relationship or detract from it, by raising questions about procurement's remit or treating suppliers as expendable rather than essential.

Procurement must clearly communicate how suppliers contribute to enterprise-wide goals and objectives in a way that all stakeholders can relate to.

According to recent research conducted by Forrester and Ivalua, 73 percent of decision makers cited reducing (direct) product costs as procurement's top priority for this year. This finding comes as no surprise given today's challenging economic climate. If we broaden our perspective on this research and consider where companies' emphasis has been since the start of the COVID-19 pandemic, supply chain agility and sustainability are tied at 71 percent as the procurement priorities where emphasis has increased the most.

Savings is designated by procurement as the top priority in the Forrester study, but what about non-procurement executives? What would they say is the top priority?

C-level objectives like sustainability, agility, diversity, competitive advantage, and risk resilience can not be advanced without a mature approach to supplier management.

There are a myriad of objectives that have to be satisfied to secure and maintain a market leading position in any industry. Many of these objectives involve or even rely upon suppliers, procurement's relationship with them, and enterprise information about them.

Holistic supplier management constitutes far more than savings - making it the best-fit approach for maximizing the value of supply partners.

C-level objectives like sustainability, agility, diversity, competitive advantage, and risk resilience can not be advanced without a mature approach to supplier management. Satisfying many of these objectives in addition to cost savings truly requires procurement to take a holistic approach, one that is supported by data and enabling technologies.

The challenges to be overcome are both internal and external:

- Complex IT landscape obscures visibility into transactions and inserts distance between procurement and suppliers
- Suppliers need to be incentivised to share their innovations through trust-based relationships, and procurement needs to develop the ability to assess their performance and capabilities in a way that extends far beyond savings
- Although procurement 'owns' the company's relationships with suppliers, holistic management requires all of the company's objectives to be reflected - not just procurement's.

Hurdle 2: Ensuring Supply Continuity

While news coverage of global supply chains is fixated on the sources and fallout from disruption, dedicated procurement professionals are working hard behind the scenes to reinforce business continuity. This is another effort that requires holistic supplier management. Supplier capabilities and operational efficiency ultimately determine their customers' business continuity.

In many cases, it is not enough for procurement to work with first tier suppliers to ward off disruption. Companies and suppliers must work together to reach deep into the supply chain to identify and assess risks. This joint effort creates the opportunity to spot potential disruption on the horizon, long before it is a foregone conclusion, and decide how to intervene.

Approaches like sub-tier mapping only work if procurement can get visibility into the supply chain. Suppliers are needed to identify the critical commodities and supply partners that should be managed and the second tier and beyond. This facilitated transparency is dependent on pre-existing, trust-based partnerships.

Conventionally managing suppliers is not enough to build the kind of supplier relationships that are required to successfully achieve that level of transparency. Procurement has to invest in information exchanges and joint problem solving - and ensure that routine interactions like submitting invoices or receiving payment reinforce rather than degrade suppliers' perception of the company.

Although the opportunity associated with sub-tier mapping is significant, so is the scale of the effort. Systems are a crucial component here as well, particularly in their ability to facilitate information exchange and increase the visibility of buyers and suppliers in real time.

Procurement's ability to strengthen current supplier relationships may be more beneficial than assuming it is possible to replace them with new sources of supply.

Much like a matrix structure, procurement's emphasis on risk should be multi-directional.

- Assessing the risk of individual suppliers and/or geographical locations
- Determining the risk level associated with specific industries or categories of spend
- Combining the two with an understanding of what the relevant product or service means to the company's top line

Supply chain agility is among procurement's top priorities this year, and no company wants to knowingly take on more risk. While suppliers are businesses in their own right, and face their own supply chain challenges, they currently have a stronger bargaining position than their customers do. In many cases, it is harder to find a new supplier than it is to win a new customer.

As a result, procurement's ability to strengthen current supplier relationships may be more beneficial than assuming it is possible to replace them with new sources of supply. Positioned in that light, holistic supplier management becomes an investment in supply continuity in its own right.

Hurdle 3: Strategic Payments

There is no part of the source to pay process that impacts supplier relationships more than payments, and yet they remain a challenge to manage. Suppliers rightfully expect to be paid on time, and yet, companies are going to increasingly long lengths to protect their cash position.

Executed strategically, optimized payments can create an advantage for companies without damaging their supplier relationships. When a company fails to pay on time, is not transparent, or requires repeat documentation or constant following up, payments can be their own internally-created source of risk.

A perfect example of this is the fallout resulting from expecting to manage all payment transactions through an ERP. It may meet the basic payment needs of the buying company, but it does little to nothing for their suppliers. Instead of building goodwill and strengthening ties between two companies, a poorly managed payment process can lead to friction or worse - increased pricing.

The slow processing and uncertain payment status that frustrate suppliers may be real, but procurement and accounts payable are not causing them on purpose. In many cases, the manual workload associated with duplication checks and protections against fraud lead to regrettable delays that are only tolerated because of the risks they are believed to thwart.

In the context of holistic supplier management, payments are ripe for automation. Not only can accounts payable be freed from transactional work, supplier discounts can be captured through fully integrated early settlement solutions.

Strategic payments have to work for a company and their suppliers. Suppliers can't be paid sooner at the cost of a company's cash position, but suppliers can not be expected to finance their customers' business activity through late payments, either. Information, automation, and access are essential for short term efficiency and long term relationship building.

Conclusion

Holistic supplier management requires procurement to look at the value associated with suppliers from every angle. This includes savings and risk mitigation, of course, but also contributions to competitive advantage, ESG initiatives, and multi-tier visibility.

When companies are successful in cooperation with - as opposed to at the expense of - their suppliers, both parties benefit. Expanding past approaches to supplier management will allow procurement the opportunity to position the whole company to become more competitive, agile, and risk resilient.

About Ivalua

Ivalua is a leading provider of cloud-based Spend Management software. Our complete, unified platform empowers businesses to effectively manage all categories of spend and all suppliers, increasing profitability, improving ESG performance, lowering risk and improving employee productivity. We are trusted by hundreds of the world's most admired brands and recognized as a leader by Gartner and other analysts.

Learn more at www.ivalua.com. Follow us at [@Ivalua](https://twitter.com/Ivalua).

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About Art of Procurement

Art of Procurement was founded in 2015 to empower professionals at all levels to align procurement performance with corporate objectives.

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