

# The Supplier Relationship Management Process

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## Overview

The supplier relationship management process provides the structure for how relationships with suppliers are developed and maintained. Close relationships are developed with a small set of key suppliers based on the value that they provide to the organization over time, and more traditional relationships are maintained with the others. In this chapter, detailed descriptions of the strategic and operational sub-processes that comprise supplier relationship management are given. The interfaces that are necessary with the other seven supply chain management processes are identified and guidelines for successful implementation of the process are provided.

## Introduction

The cost of materials as a percentage of sales has been estimated at approximately 53 percent for all types of manufacturing in the United States. These costs range from a low of 27 percent for tobacco products to a high of 83 percent for petroleum and coal products but most industries are in the 45 – 60 percent range.<sup>1</sup> For wholesalers and retailers, the cost of goods sold is higher than the materials costs of manufacturers. These numbers indicate the magnitude of the benefits that are possible through better management of the supplier network.

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Supplier relationship management is the supply chain management process that provides the structure for how relationships with suppliers are developed and maintained. As the name suggests, it is similar to customer relationship management. Just as close relationships need to be developed with key customers, management should forge close cross-functional relationships with a small number of key suppliers, and maintain more traditional buyer and salesperson relationships with the others.<sup>2</sup> Management identifies those suppliers and supplier groups to be targeted as part of the firm's business mission. Supplier relationship management teams work with key suppliers to tailor product and service agreements (PSA) to meet the organization's needs, as well as those of the selected suppliers. Standard PSAs are crafted for segments of other suppliers. Supplier relationship

<sup>1</sup>Stock, James R. and Douglas M. Lambert, *Strategic Logistics Management*, 4th Ed., New York, NY: McGraw Hill/Irwin, 2001.

<sup>2</sup>Dyer, Jeffery H., Dong Sung Cho and Wujin Wu, "Strategic Supplier Segmentation: The Next 'Best Practice' in Supply Chain Management," *California Management Review*, Vol. 40, No. 2 (1998), pp. 57-77.