



Your guide to Supplier Relationship Management

What is Supplier Relationship Management (SRM)?

Supplier relationship management (SRM) is the systematic approach to evaluating and nurturing the vendors that provide your organisation with goods, materials, and services. For professionals in the public sectors, SRM is about more than just transactions; it's about building partnerships that deliver value, ensure compliance, and support strategic goals. The depth of this relationship should directly correspond to how critical a supplier is to your operations and objectives. For any procurement professional, SRM is a fundamental skill.

Top tips

4 key actions on how to effectively manage a supplier relationship

- **Assess their capability:** Can they consistently meet your contractual requirements and compliance standards?
- **Measure their performance:** How are they performing throughout the contract period against key performance indicators (KPIs)?
- **Collaborate on solutions:** Work together to identify challenges, manage risks, and find ways to improve the partnership for mutual benefit.
- **Maintain strong communication:** Ensure the right points of contact are established to keep the relationship productive and aligned with your organisation's needs.

SRM vs. supplier management

While often used interchangeably, "supplier relationship management" and "supplier management" have distinct meanings. SRM is the art of managing your connections with suppliers. Supplier management is a broader field that includes SRM but also covers supplier information, performance tracking, risk management, and collaborative forecasting.

SRM is a long-standing term, widely used by many small and midsize companies. Today, "supplier management" is the more contemporary term, often associated with advanced, cloud-based tools designed to meet the complex needs of larger and diverse organisations in the public sector.



The SRM process

Effective SRM is a cyclical journey, built on five critical steps designed to enhance visibility and control.

- 1 Supplier segmentation:** The first step is to categorise your supplier base. This process delivers valuable insights, highlights potential risks, uncovers savings opportunities, and sets the stage for stronger relationships. You can segment suppliers based on criteria like risk (using the Kraljic matrix), spend value, or their contribution to social value and sustainability goals - depending on what is deemed as the most value for your organisation.
- 2 Supplier strategy development:** Using the insights from segmentation, you can now develop a tailored strategy for each supplier group. This involves negotiating contracts, improving communication channels, and diversifying your supply chain to minimise dependency and mitigate risk.
- 3 Relationship building:** This stage moves beyond simple transactions. It's about fostering a deeper connection with your suppliers that includes open communication about early notifications of price changes, promotions, and potential shortages. This ensures also your key suppliers understand your operational needs, compliance requirements, and long-term objectives.
- 4 Strategy execution:** Here, you put your plans into action. This step involves executing the tactics identified during strategy development to drive value and achieve your objectives. It covers contract management, order fulfillment, performance management, and proactive collaboration, translating strategic goals into tangible benefits for both you and your suppliers.
- 5 Monitoring and continuous improvement:** Continuous monitoring of supplier performance is crucial. Key metrics include timeliness, quality, cost efficiency, and compliance. This performance data feeds back into the cycle, informing your next round of segmentation and strategy, creating a powerful loop of continuous improvement.

The goals and benefits of SRM

When you strengthen your ability to engage with suppliers, you unlock significant opportunities for success and address common pain points like limited visibility and skills shortages.



Closer supplier relationships:

Building partnerships based on trust and shared objectives provides both you and your suppliers with a clearer understanding of each other's goals, threats, and opportunities.



Lower costs: By understanding your suppliers' operations, you can work together to find cost reductions without sacrificing quality, helping you deliver value for money under tight budget constraints. This can involve better price negotiations, bulk purchasing advantages, and reduced total cost of ownership.



Reduced supplier risk: A well-designed SRM strategy provides greater real-time visibility, helping you identify, assess, and mitigate risks - from compliance failures to supply chain disruptions - with more speed and confidence. As the saying goes: "You don't know what you don't know." Leveraging smart procurement solutions and SRM practices ensures that you are more prepared and confident.



Better supplier responsiveness:

When suppliers feel invested in your success, they are more likely to go the extra mile to meet your needs, which is invaluable in urgent or unexpected situations. The tighter the relationship between buyers and sellers, the greater the responsiveness.



Faster supplier collaboration:

Providing suppliers with digital, real-time methods for collaboration allows you to react faster to disruptions and improve operational agility. Often, this is done on a multi-enterprise supply chain business network – a ‘many-to-many’ B2B collaboration platform where buyers and sellers can connect, transact, and partner on shared processes and information.



Greater visibility and transparency:

Good SRM is transparent. It clearly communicates performance metrics and their importance to all parties. This honest approach encourages suppliers to maintain high standards as part of a genuine partnership.



Optimised value chain: Aligning supplier operations with your business objectives helps create a more streamlined and efficient supply chain, ensuring every link contributes to overall success.



Insight into supplier capabilities: With access to data, you can better understand the strengths and potential within your supply base. This allows you to assess whether current suppliers can meet future needs or if you need to find new partners, enabling you to pivot with greater foresight.





“Good supplier relationship management is transparent. It clearly communicates performance metrics, their importance to all, and the fact that everyone is subject to scrutiny. This no-nonsense, honest approach gives a good impression and encourages suppliers to maintain high standards as part of their partnership with you, rather than simply out of fear of surveillance.”

Jody Kerner, Procurement Manager, Pfh Scotland

Challenges in SRM

Even with strong SRM processes, you must remain alert to potential risks and challenges, particularly in the public and regulated sectors.

- **Lack of supplier diversity:** While strong relationships with a few suppliers are beneficial, over-reliance on a single vendor creates vulnerability. Modern SRM software can automate many administrative tasks, freeing you to build new relationships and diversify your supplier base, including engaging more SMEs.
- **Misalignment of goals:** Business models and agendas can change, causing a misalignment of terms and prices. It's vital to anticipate these scenarios and develop diplomatic negotiation plans, especially when close relationships are involved.
- **Risk and continuity obstacles:** Global politics, pandemics, and climate events have shown that major disruptions are always possible. Excellent supplier relationships are an essential buffer, but they are not a complete solution. AI-powered technologies are now also crucial for analysing data and creating robust contingency plans.
- **Visibility challenges:** Achieving complete transparency into supplier operations is difficult. A balance of trust combined with technological aids like IoT sensors and blockchain can help maintain a clear line of sight without infringing on a supplier's autonomy.



“Sometimes suppliers can become competitors. Or their agendas and business models can change to where you're no longer aligned on terms and prices the way you once were. This can be awkward when you've built close and friendly relations, so it's essential to anticipate these scenarios and build diplomatic communication and negotiation plans in case this happens.”

Jody Kerner, Procurement Manager, Pfh Scotland

Understanding the Kraljic Matrix

The Kraljic Matrix is a strategic tool used by procurement professionals to identify and minimise supply risks. By classifying products and services based on their importance, the matrix highlights supply chain weaknesses, informs strategy development, and helps prevent disruption.

Positioning suppliers by their risk and profit impact allows you to build the right type of relationships, use your time more efficiently, and mitigate supply risk for your organisation.

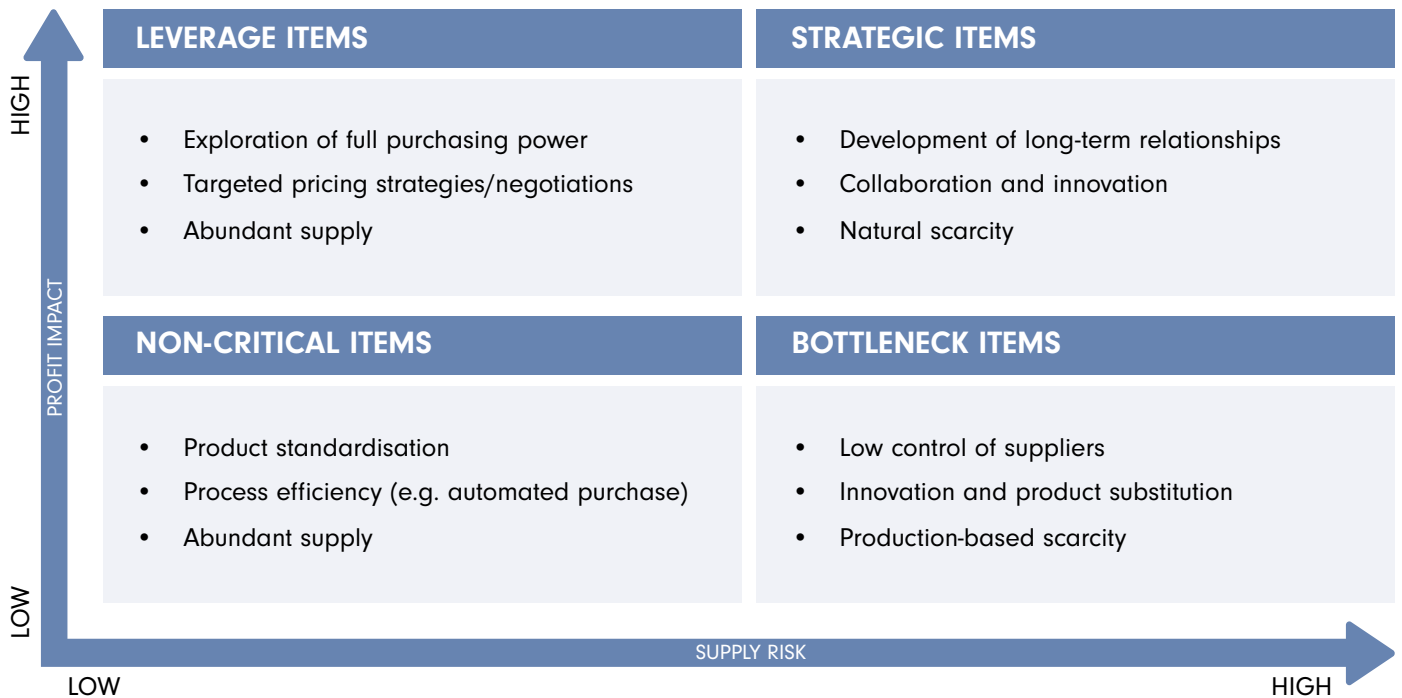
The two key dimensions of the matrix are:

Risk impact: The difficulty associated with sourcing an item and the vulnerability it creates for the organisation.

Profit impact: The extent to which an item contributes to profitability or value, either through lower costs or more efficient buying methods.

Using the Kraljic Matrix helps align your operational activity with your procurement strategy. It optimises costs and resources by distinguishing between items with high value potential and those that carry risk. Determining the right supplier relationship type based on this positioning helps you build effective partnerships, use your team's time wisely, and mitigate supply chain risk.

The Kraljic Matrix



The four quadrants of the Kraljic Matrix

The matrix categorises items into four distinct quadrants:

- 1 **Critical (Strategic):** These are high-risk, high-value items that also have a high profit impact and are often dependent on a few suppliers (e.g., major IT systems, specialised construction components). The ideal strategy is to create performance-based partnerships that balance power between your organisation and the supplier.
- 2 **Leverage:** This is a buyer-dominated segment where risk is low due to many alternative suppliers (e.g., standard construction materials). This position allows your organisation to use its full purchasing power through competitive tendering, target pricing and product substitution.
- 3 **Bottleneck:** These are low-value items that carry high risk due to a limited number of suppliers (e.g., specialised repair parts). The priority here is to secure supply and actively seek alternative suppliers to reduce dependency.
- 4 **Routine (Non-critical):** This low-risk category includes items with many alternative suppliers and is well-suited for efficient e-procurement systems (e.g., office supplies, basic maintenance, repair, operations (MRO) items and consumables). These products need efficient processing, product standardisation, order volume and inventory. The focus should be on streamlining processes and minimising administrative effort.

How the Kraljic Matrix determines risk and profit potential

Understanding how risk and profit potential are determined is key to making smarter procurement decisions. The Kraljic Matrix helps you turn strategic thinking into practical scoring - so you can focus your time and resources where they'll deliver the most value.

Risk is made up of supply and technical factors. It reflects how likely it is that a product or service won't be available when needed - and the impact that could have. Common indicators include:

- **Experience with the product**
- **Supply/demand balance**
- **Supply chain complexity**
- **Financial exposure and risk**
- **Safety and environmental concerns**
- **Design maturity**
- **Manufacturing complexity**

Profit potential shows how a product or service could contribute to your organisation's bottom line. This might be through cost savings or more efficient procurement. Key factors include:

- **Market structure**
- **Value of spend**
- **Supply/demand balance**
- **Procurement process efficiency**
- **Procurement process maturity**

Applying the Kraljic Matrix: a seven-step method

To categorise your products or services effectively, you can follow a structured seven-step approach:

- 1 **Identify** relevant risk and profit potential factors for the product or service.
- 2 **Weight** the factors if some are more important than others.
- 3 **Define** a scale to assess each factor. Consider that the higher end of the scale should correspond to high risk or profit potential and the lower end to low risk or procurement potential.
- 4 **Calculate** the maximum score to determine the matrix dimensions.
- 5 **Assess** each risk and profitability factor using your defined scale.
- 6 **Calculate** the total weighted scores for risk and profit potential.
- 7 **Position** the item on the Kraljic matrix using the two total scores.

This method gives you a clear, data-driven way to segment your supply base and tailor your procurement strategy accordingly.

Advantages and disadvantages of the Kraljic Matrix

While the Kraljic Matrix is widely used across procurement teams, it's not without its challenges. The table below outlines its key strengths and limitations - so you can understand where it adds value and where it may need support from other tools or approaches.

Advantages

- It is one of the most well-known and utilised tools in procurement strategy.
- It can help reduce dependency on specific suppliers by showing how to shift items to different quadrants.
- It offers a clear, visual way to classify purchases and prioritise management efforts.

Disadvantages

- It doesn't consider the supplier's perspective.
- It offers no guidance on moving items within a quadrant.
- Allocating items to a quadrant can sometimes be complex and subjective.



Ready to take the next step?

If you'd like to discuss your supplier relationship management strategy, get practical support, or access further resources, get in touch with our team today. We're here to help you strengthen your procurement approach and unlock greater value for your organisation.

Get in touch!



[0800 031 5405](tel:08000315405)



info@pfhscotland.co.uk



www.pfhscotland.co.uk