Holding up the mirror: The impact of strategic procurement practices on account management (by Lynette J. Ryals and Beth Rogers, Business Horizons, January-February 2006)

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Introduction

Procurement becomes a strategic business function that increasingly recognizes the importance of strategic supply chain relationships. Customer adoption of strategic procurement encloses an impact on the profession and practice of account management. New techniques are emerging, including the use of psychological contracts and co-measurement. Even perceived fairness will also have an extensive impact on the customer’s view of their suppliers.

Strategic procurement: big business

In many companies, strategic procurement is now seen as vital to competitiveness; this has a positive effect on the firm’s financial performance. Traditional purchasing is driven by the desire to cut costs of purchase and improve short-term profit. It historically results in supplier proliferation, transactional rather than relationship behavior, and an emphasis on price reduction. In contrast, strategic procurement focuses on how the purchasing of goods and services, including outsourcing of entire processes, can deliver better long-term shareholder value. This involves reducing the supplier base, cooperative negotiation with suppliers, quality interaction with suppliers and developing long-term relationships with the best suppliers. These behaviors are linked to better company performance.

Procurement managers face two issues in moving toward strategic procurement:

- how to measure the supplier performance,
- the risk of increasing their dependence upon a smaller number of suppliers.

The co-measurement and discussion of performance, including the development of fairness, is essential to the sustainability of mutual benefit from the relationship. Supplier selection is as strategic to purchasing as customer portfolio analysis is to sales management.

How strategic procurement managers measure supplier performance

Core transactional measures

The core of any Strategic Procurement Measurement (SPM) system focuses on three key elements of “value for money”: price, quality conformance, and delivery reliability, all of which can be easily measured per transaction. Unfortunately, even at this apparently objective level of measurement, misunderstanding can arise. For example, suppliers might assume a partial delivery made on-time conforms to customer’s requirements, whereas the customer actually considers the order unfulfilled until complete. One of the developments in strategic approaches to procurement is the use by some sophisticated customers of multi-objective programming decision support systems to work out the balance they want to achieve. However, suppliers should note that quality perceptions are also affected by relative performance compared to competitors, the level of customer involvement in or knowledge of the product/service type, and changing expectations of
“standard” quality over time. Increasingly, customers are demanding not just core transaction excellence, but also service excellence from their suppliers.

**Service**
Responsiveness is one of the main areas in which customer satisfaction can be enhanced by account managers, who are often seen as a single point of contact for key buying decision-makers. In fact, companies rated response flexibility more highly than price. Service also encompasses the realm of technical support. The past ten years has seen a shift toward solution selling; this shift, in turn, has created an emphasis on customer problem resolution.

**Process-based**
Buying decision-makers are increasingly looking for process innovation from suppliers, either through offering turnkey services such as flexible logistics or vendor-managed inventory (the supplier takes responsibility for the customer’s stock management), problem-solving, or trouble-shooting cross-boundary processes to reduce errors, to identify efficiency improvements and cost savings.

**Company-based**
Although primarily considered at the supplier selection stage, buying decision-makers know they must stay abreast of the corporate health of their suppliers. Ellram’s research suggests that cultural compatibility, long-term plans, financial stability, and technological capability should be periodically checked.

**Communications**
A profusion of communication is absolutely critical. As with key account management, purchasing academics note the need for a parallel relationship structure; in other words, communication between firms at all points of contact. Communication can be evaluated and measured at many levels, the quality of transacting information, which may include layout of invoices, is one. Interorganizational systems that exchange and integrate information to support decision-making can reduce costs and enhance market responsiveness.

**Relationship**
Relationship quality is correlated with customer retention; good customer relationships do pay off. A customer needs to be confident that the supplier will not act opportunistically. Suppliers can demonstrate their commitment to a customer by offering additional services that will contribute to the development of a mutually beneficial partnership. Customers now expect suppliers not only to identify with their goals, but also to anticipate their future requirements, as well.

**Investment**
The most valuable form of cooperation is the early involvement of suppliers in new product design and development, which has been shown to deliver significant quality improvements that feed throughout the supply chain to the end-consumer. This allows suppliers to influence architecture and analyze the impact of new product concepts on their own costs.
Implications for account managers

For decades, suppliers measured self-performance and client satisfaction in terms of sales volume, bigger was better. Most companies aim to employ some measure of customer satisfaction. Special efforts need to be made, though, to assess customer satisfaction objectively, as salesperson or account manager feedback is a particularly flawed indicator because customers tend to give overly flattering reports of their suppliers.

Ultimately, customer perception is the only accurate indicator of success and repurchase. This being the case, smart account managers will discuss with their key customers what it is they measure regarding supplier performance. Fortunately, strategic purchasers seem willing to openly share their views and data on which they are based.

Emerging evaluation techniques in key relationships

A model for co-monitoring strategic relationships

<table>
<thead>
<tr>
<th>Type of relationship</th>
<th>Likely number of relationships of this type</th>
<th>Needs of parties to relationship</th>
<th>Likely strategic procurement approach</th>
<th>Measurement focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdependent</td>
<td>Few (&lt;30)</td>
<td>Confidence in relationship, stable and high evaluation by both sides, low risk.</td>
<td>Cooperative negotiations with suppliers/ emerging long-term relationships.</td>
<td>Process improvement, company attributes/policies, relationship quality</td>
</tr>
<tr>
<td>Cooperative</td>
<td>Many (30-100)</td>
<td>Reduction of risk, ability to forecast</td>
<td>Reduce the supplier base, improve quality of interaction with remaining suppliers.</td>
<td>Service, responsiveness, technical support, communications.</td>
</tr>
<tr>
<td>Basic</td>
<td>Numerous (&gt;100)</td>
<td>Operational, efficient transactions, sometimes cost reductions</td>
<td>Reduce the supplier base</td>
<td>Price, delivery, quality</td>
</tr>
</tbody>
</table>
A critical aspect of supplier/customer trust is that both parties are discussing and agreeing upon the nature of their relationship and whether there is potential for further development. In the table, the hierarchy of supplier/customer relationships is used to set a framework for analyzing current position, potential, and co-monitoring of relevant performance categories. It is designed to facilitate initial dialogue between suppliers and customers, who may design their own checklists and agendas for regular and ongoing dialogue, or may use industry standards.

*Psychological contracts and perceptions of fairness*

Psychological contracts are much different from normal written contracts. Perceptions are not always accurate. Psychological contracts can be violated due to changing expectations or expectations not met often without the violator even realizing the violation has occurred; in fact, blatant violation is rare. Violations may be caused by misunderstandings or a disruption precipitated by an external event. Both parties must be prepared to share their perceptions frequently, both formally and informally. Suppliers will perceive fairness if buyers have a process and procedure to resolve disputes that is consistent, accurate, and ethical. Fairness encourages companies to behave well. It involves the assessing and exchanging of information by both parties, sharing benefits, a degree of personal sensitivity, and maintaining a belief in the ongoing relationship.

**Conclusion**

Nowadays, different measures of the relationship are becoming appropriate, and more sophisticated systems can be instrumental in tracking the benefits of supplier/customer partnerships. Continuous tracking and continuous improvement are now vital.

To avoid supplier delusion (the belief that a supplier thinks it is performing better than it really is, in the customer's view) and to be truly successful at relationship management and customer retention, account managers must take supplier performance measurement extremely seriously.