Selecting a supplier of goods and services can be a complicated and costly process, which should be carefully prepared and executed in order to engage the most appropriate provider. It is however, only part of the story. Once the contract has been awarded or the order placed, it is essential to establish a mutually beneficial working relationship between the supplier and customer, in order to successfully deliver the service or goods.

This Guidance Note outlines the key aspects for successful supply chain relationship management and why it is important. It will cover:

- Terminology and definitions
- Why supply chain relationship management is necessary
- The key components of good supply chain relationship management
- The benefits to both supplier and customer

**Terminology and Definitions**

When discussing supply management there are two main terms used: Supply Chain Management (SCM) and Supplier Relationship Management (SRM). The differences between the two are outlined below.

1. ***SCM***

SCM is described by the Chartered Institute of Procurement and Supply (CIPS) as the mechanics of the supply chain itself, defining how the goods and services are produced or delivered. The emphasis is on the management of relationships and the flow of the goods and services. Value is created within this area through the formation of a competitive workspace, with a drive to maximise supply and demand. Performance measurement is a part of SCM.

2. ***SRM***

SRM is concerned with the management of the supplier relationship. CIPS explains that this “involves managing the interfaces between organisations supplying goods and/or services to an organisation in order to maximise their value”. It is about building relationships that work towards supporting an “effective, financially beneficial environment”.

SRM is part of SCM, which is illustrated on the following page.

![Figure 1: Relationship between SCM and SRM](image-url)
Within SRM there are several types of relationships observed. These are often classified as:

- **Transactional**
- **Contractual**
- **Value Added**
- **Collaborative**
- **Partnership**

A brief summary of the characteristics of these relationships is provided below.

**Transactional**

A transactional relationship is based on the exchange of services or products within a prescribed timescale for an agreed price. A sustained transactional relationship is one which has existed over a long period of time, which demonstrates commitment however there is little trust between supplier and customer.

**Contractual**

A contractual relationship is very similar to a transactional approach but it is a relationship which is built around delivering the terms of the contract. The supplier will deliver no more or less than the contract and the customer will use the contract to manage the supplier. Again there is little trust between the two parties.

**Value Added**

A value added relationship is usually adopted by suppliers when they move to a retention strategy and therefore they develop customised solutions to meet the customer's needs.

**Collaborative**

A collaborative relationship can be described as close working between the supplier and customer, which delivers value and benefit to both organisations. There is a defined commitment between each party outlining the nature of the relationship and its goals. There is also a structure of shared responsibility, accountability, resources and rewards.

**Partnership**

Partnership based relationships have many similarities to collaborative SRM styles in that both parties derive mutually beneficial value from the relationship. The intention with a partnership approach is that the association will be over a long period of time with both parties looking to develop a two way rapport. The relationships are seen as strategic alliances, where skills and resources are shared to achieve mutual benefits which cannot be achieved working individually (Slack and Lewis 2008). The characteristics of a partnership relationship are also consistent with a collaborative exchange relationship therefore these two styles are often interchangeable.

The term 'partnership' is also used as a business model for structuring the legal ownership and management of organisations. This is particularly prevalent within the professional services sector. As a result the term 'partnering' is often preferred when discussing supplier relationship management.
Why Supply Chain Relationship Management is Necessary

Purchasing the goods or services is just the start of a procurement process, which in many cases receives the majority of the focus. The success of the process however can only be judged by how well the service or goods meets the requirements of the stakeholders.

The following diagram provides a simple illustration of how the procurement process should work.

![Diagram of the procurement process](source: Van Weele (2005) referenced by Van der Valk and Rozemeijer (2009))

Good practice suggests that building a strong working relationship between the supplier and customer ensures that over the life span of the contract, the delivery of the goods or services will be superior to those where relationships are not managed. As with any relationship, the more effort involved with communicating and developing mutual understanding, the better the outcome.

A continuous process on award of contract should be to clarify expectations, which will assist with developing the service or products. Agreeing Service Level Agreements (SLAs) and Key Performance Indicators (KPIs) between the two parties is part of SCM however establishing the nature of the relationship may be an important part of this.

Establishing clear and robust terms and conditions of contract are a key element of SCM, which will have a bearing on the management of the supplier relationship. The contract between supplier and customer should specify how the relationship will be managed. For example; dispute resolution procedures, exit strategies and ownership of intellectual property rights, should be explained. Further information on this subject can be found in the Guidance Note: Essentials of Creating a Contract.

The Key Components of Good Supply Chain Relationship Management

Initially a decision needs to be made by the customer as to the nature of the relationship required. This may be determined by the organisation or the person accountable for the delivery of the goods or service. For example, if it is a one off purchase, with little chance of repeat business, then there is little merit in creating a supplier relationship strategy. If however, the goods or services are an integral part of the customer’s organisation, which can positively or negatively impact on its performance, it is essential to invest in a close working relationship.
In most cases within FM services, a collaborative or partnering style of relationship is desirable therefore the following areas must be built into the relationship management strategy.

![Figure 3: Key Components of Good Relationship Management](image)

1. **Two Way Information Flow**

   **Customer Responsibilities**

   The customer must ensure that the supplier has all of the information necessary for delivering the service or goods. SLAs and KPIs partially fulfil this requirement but it is also important that details that could impact on the supplier are communicated in a clear and timely fashion, for example; headcount alterations or planned change of use for premises.

   If the supplier has a good understanding of the customer’s organisation, it will be better able to adapt and create innovative solutions for potential problems.

   **Supplier Responsibilities**

   The supplier must inform the customer of any internal issues that could affect the supply of goods and services. This could be related to resources or materials but it is important that the customer is aware of any potential risks to the delivery of goods or services in advance. Rather than damaging the relationship this will enable contingency plans to be put in place to avoid disruptions or inconsistencies.

2. **Mutual Tolerance**

   Both customer and supplier must agree to how the services or goods will be delivered and when. Both parties need to be tolerant of any changes that may be necessary to the initial agreement and be prepared to adapt in order to fulfil the contract. There should be a shared interest and benefit although in most cases the customer will be driving the service requirements.

   If supplier and customer are both mutually supportive of the occasional problem then there is likely to be a better outcome in the long term. For example, it is not uncommon for a supplier to be asked to exceed their contractual obligations from within the customer’s organisation.
without the correct authorisation. This often has a knock on effect to the delivery of the services or goods, either from a cost or resources point of view therefore a tolerant approach from both parties will enable a mutually acceptable solution to be found.

3. Transparency and Trust

Sharing information in a clear and open way enables trust to build between the supplier and customer however this can take some time to develop and can be a fragile part of a relationship.

This element is the hardest to develop and maintain and is usually the main reason why business relationships break down. Each party has to be convinced that the relationship will be beneficial to both, without any guarantees of success.

There are three stages of trust within this context.

- **Calculative**
  - Basic level
  - Belief that there is more to gain from trusting than not trusting

- **Cognitive**
  - Greater level of understanding and knowledge
  - Able to anticipate behaviour and responses therefore no surprises

- **Bonding**
  - Shared values, moral codes and ethics
  - Emotional connection

![Figure 4: Three Stages of Trust](source: Lane, C and Backman, R (1998))

4. Multiple Points of Contact

A multi-tiered approach is desirable for creating a close working relationship. Multiple points of contact between the supplier’s and customer’s organisation will facilitate open dialogue at different levels, which binds the two organisations together.

The nature of the communication may vary between each person to person relationship, combining formal and informal approaches. This produces a more holistic view of the delivery of the services or goods removing any bias or personality clashes.

5. Joint Problem Solving and Learning

Relationships rarely run smoothly however resolving difficulties or problems can often strengthen relationships rather than weaken them. Working together to find solutions provides an opportunity to earn respect and build trust as long as the process is entered into on an equal footing.

The supplier and customer should be able to share their views on the problem and put forward suggestions for remedying in an honest and non judgemental way. This builds
cognitive trust and encourages risk taking and innovation. Learning from mistakes is a valuable way of creating service improvements and both organisations should work together to do this.

A joint approach to learning about the services or goods will further strengthen the relationship. Although the customer has no need to understand the technical details (hence the reason for procuring the services or goods), having an appreciation of what is involved will enable them to take part in any joint problem solving. Taking an interest in what the supplier is doing and showing appreciation will encourage a positive response from the supplier who will be motivated to exceed expectations. This ultimately benefits both organisations.

6. Sharing Success

It is important that both suppliers and customers believe they will be more successful working together rather than separately. Removing the need for opportunistic behaviour, with one party exploiting the other to gain an advantage is necessary to create the environment described in the previous points.

A mechanism for sharing success should be agreed in advance, which will encourage co-operation and supports transparency and trust. A fair and open system for assessing the success of the delivery will need to be established in order to agree a risk and reward structure. If both parties share an equal responsibility and desire to make the relationship successful then this will be evident in the service or product being delivered.

The Benefits to Suppliers and Customers of Good Supply Chain Relationship Management

The effort involved with supporting and maintaining a strong relationship between supplier and customer, takes time and money, so why is it worth doing?

The following table illustrates some of the benefits to both parties for adopting a collaborative or partnering approach when implementing a supply chain relationship management strategy.

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear decision making route, enabling faster implementation of ideas or solutions to problems</td>
<td>Feel valued because they are important to the supplier’s business</td>
</tr>
<tr>
<td>Greater understanding of customer requirements, leading to cost savings through efficiencies within supplier’s organisation</td>
<td>Implementation of efficiencies and cost saving as customer organisational objectives are understood by the supplier</td>
</tr>
<tr>
<td>Reduces the frequency of tender processes therefore saving time, resources and money</td>
<td>Reduces the frequency of tender processes therefore saving time, resources and money</td>
</tr>
<tr>
<td>Creates an innovative environment, generating new ideas for use elsewhere in the business</td>
<td>Transparency creates a greater understanding of how the service or goods are delivered</td>
</tr>
<tr>
<td>Provides opportunities for references and case studies, which assists with gaining new business</td>
<td>Opportunity to share the investment costs for operating the service or creating the goods</td>
</tr>
<tr>
<td>Builds the reputation of the organisation</td>
<td>Enables a tailored or customised delivery to be provided</td>
</tr>
<tr>
<td>Produces a longer term contract, which leads to more profit</td>
<td>Generates a proactive approach, ensuring services or goods remain fresh and appropriate</td>
</tr>
</tbody>
</table>

Table 1: Supplier and Customer Benefits
This document was produced by the British Institute of Facilities Management (BIFM) alongside the BIFM Procurement Special Interest Group (SIG).

BIFM would like to thank the Procurement SIG for their contribution in producing these guidance notes.

Further information on the Procurement Special Interest Group (SIG) can be found at: 
www.bifm.org.uk/procurement

If you have found this Guidance Note helpful or you wish to comment please contact the Procurement SIG at: www.bifm.org.uk/procurement

Additional information on this topic may be found on the Chartered Institute of Procurement and Supply website.

About BIFM

The British Institute of Facilities Management (BIFM) is the professional body for facilities management (FM). Founded in 1993, we promote excellence in facilities management for the benefit of practitioners, the economy and society. Supporting and representing over 15,000 members around the world, both individual FM professionals and organisations, and thousands more through qualifications and training.

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