

Enhancing Supplier Relationships: Critical Factors in Procurement Supplier Selection

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ABSTRACT

Effective supplier relationship management mirrors the qualities of a healthy partnership: open communication, transparency, and mutual support. Much like nurturing a strong marriage, maintaining a positive supplier relationship requires deliberate effort from both parties. In today's volatile global supply chain landscape, collaboration among companies is essential for success and growth. The challenges brought about by events like the COVID-19 pandemic underscore the importance of strategic supplier relationships. All industry business portfolios are reevaluating their suppliers and relationships in response to these uncertainties. Procurement serves as a cornerstone function within any business, tasked with procuring the necessary goods and services to sustain operations. Yet, its significance transcends mere transactional exchanges. The efficacy of procurement hinges greatly upon the strength of relationships forged with suppliers. In this article we will describe the importance of (SAP SRM) / Key benefits and its functionalities and its most important components which entails the systematic management of interactions between a company and its suppliers, aimed at fostering mutually beneficial outcomes and also, it's It encompasses the cultivation and sustenance of positive relationships through consistent communication, collaboration, and alignment of goals.

Keywords: SAP SRM, Vendor, Digital supply chain , Purchase order, Work center's

1. Introduction

1.1 History of supplier selection

The significance of purchasing within supply management has garnered increasing attention over time, with its pivotal role in enhancing efficiency and competitiveness becoming more pronounced. However, to fully realize these benefits, it is crucial to carefully select and maintain competent suppliers. Numerous factors influence a firm's ability to choose the most suitable supplier, underscoring the importance of understanding supplier selection criteria.

Trust, commitment, financial stability, product quality, and reliable delivery times are among the key factor's firms consider in supplier selection. Additionally, logistic technological capabilities, materials delivery, cost, communication, and technology play vital roles in the decision-making process. While

empirical evidence and previous literature commonly highlight these criteria, other factors such as ISO certification, reliability, credibility, good references, and product development are also deemed necessary. This shift towards considering qualitative criteria alongside quantitative factors reflects an evolving focus in supplier selection practices.

The complexity of supplier selection decision-making is widely acknowledged by scholars, attributed to multiple factors including the presence of both qualitative and quantitative criteria, conflicting objectives among criteria, numerous available alternatives, and internal and external constraints imposed on the buying process. Developing a successful partnership with suppliers requires substantial effort and patience, given the multifaceted nature of the supplier selection process, which encompasses various functions such as purchasing and quality management within the company.

Ultimately, effective suppliers are those capable of delivering the right materials or services in the correct quantity, at the designated time, and at the appropriate price while maintaining the desired level of quality. Achieving this requires a comprehensive approach that considers a multitude of tangible and intangible factors in a hierarchical manner.



Figure 1: Overview of Supplier life cycle process.

1.2. Supplier Selection Process through SRM

The Supplier Relationship Management (SRM) process encompasses several essential steps that contribute to effective supplier management. While the specific responsibilities and procedures may vary slightly between companies, the following steps are integral components of any robust SRM process.

Segmenting the Supply Base

Supplier segmentation involves categorizing suppliers into meaningful groups to gain insights that facilitate improved supplier relationships. This segmentation allows for a deeper understanding of each group’s specific needs and requirements. For instance, segmenting suppliers based on the items they provide can highlight areas of risk or oversupply, thus optimizing procurement strategies. Additionally, employing frameworks like the Kraljic matrix further refines supplier segmentation by considering factors such as risk and strategic importance to the organization. Leveraging various segmentation methods enables businesses to tailor their supplier management approach effectively.

Developing a Supplier Strategy

Crafting a comprehensive supplier strategy involves defining the ideal supplier scenarios and outlining the necessary actions to align current supplier arrangements with these ideals. This entails identifying areas for improvement in existing supplier relationships and devising actionable plans to address them. For example, addressing issues such as high prices, communication challenges, or reliability concerns requires strategic planning and proactive measures. By aligning supplier strategies with organizational goals, businesses can enhance supplier performance and mitigate risks effectively.

Collaboration with Suppliers

Recognizing the importance of collaboration in SRM is essential for fostering mutually beneficial relationships with suppliers. Beyond transactional interactions, collaboration entails establishing meaningful connections and partnerships with suppliers to drive innovation and improve operational efficiency. Informal collaboration involves building rapport and sharing insights to anticipate and address potential challenges proactively. Formal collaborations may involve joint product development initiatives or strategic alliances aimed at achieving shared objectives. By fostering collaborative relationships with suppliers, organizations can unlock new opportunities for

innovation and growth.

Executing the Strategy

Effective execution of the supplier strategy requires meticulous planning and adaptability. Following the outlined plan while remaining agile enables businesses to navigate unforeseen challenges and capitalize on emerging opportunities. Strong collaborative relationships with suppliers facilitate smooth execution, allowing for timely adjustments and course corrections as needed.

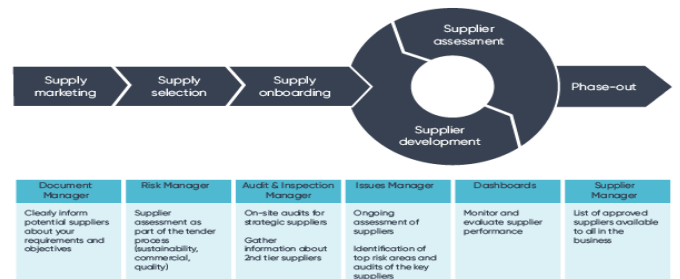


Figure 2: Overview of Supplier selection process.

Improving Supplier Quality

Enhancing supplier quality involves optimizing the timing and nature of supplier interactions to ensure consistent delivery of high-quality products or services. This may involve revisiting supplier arrangements to better align with organizational needs or collaborating directly with suppliers to address quality-related concerns. By actively monitoring supplier performance and fostering open communication, businesses can drive continuous improvement in supplier quality and reliability.

Continually Monitoring and Adjusting

Monitoring supplier performance and market dynamics is crucial for maintaining a competitive edge and adapting to evolving business needs. Regular evaluation of supplier relationships and market trends enables organizations to identify areas for improvement and make informed decisions. Effective data collection and analysis facilitate proactive adjustments to supplier strategies, ensuring alignment with organizational objectives and market conditions.

Reactive vs. Strategic Supplier Relationship Management

Strategic SRM focuses on long-term planning and continuous improvement of supplier relationships to drive value for the organization. It involves proactive measures to enhance supplier performance and mitigate risks. In contrast, reactive SRM involves responding swiftly to unforeseen events or disruptions in the supply chain. While strategic SRM aims to minimize the need for reactive management, it also equips organizations with the agility and resilience to effectively navigate unexpected challenges.

In summary, implementing a comprehensive SRM process is essential for optimizing supplier relationships and driving business success. By prioritizing collaboration, continuous improvement, and strategic planning, organizations can cultivate strong and resilient supplier partnerships that contribute to sustained growth and competitiveness.

Key Benefits and functionalities

SAP SRM allows you to optimize your procurement process to work effectively with suppliers to get long term benefits and also to perform forecasting, procurement cycle and to work with

partners. You can reduce the time span and costing of procurement cycle using innovative methods to manage business processes with key suppliers. SAP SRM supports the full procurement cycle, i.e., starting from source and purchase to pay through complete procurement process with suppliers and effectively managing supplier to build long-term relationship. SAP SRM helps you to emphasize supplier performance management and helps you to streamline the procurement operations, put compliance with contracts and purchasing policies, and improve overall cost management and expenditure. There are various benefits and key functionalities that you can achieve by using SAP SRM product and by integrating with other SAP ERP modules and non-SAP systems for planning and optimization.

Catalog Management

Suppliers can easily manage catalog data and this data can easily be integrated with business processes like accounting, finance and planning.

Procure to Pay Optimization

Using SAP SRP product, you can streamline procure to pay lifecycle and improve communication with supplier and cost management.

Self Service Procurement

End-users can search products using multiple product catalog and helps them to find and purchase product that are compliant with purchase and procurement policy of the company.

Reporting Functionality

Using SAP Supplier Relationship management, you can create reports related to procurement activities, compliance and contract management, and managing costing in procurement process.

Contract Management

You can manage contracts using secure central repository. This helps to reduce compliance violations and allows end-users to follow business processes during self-service procurement.

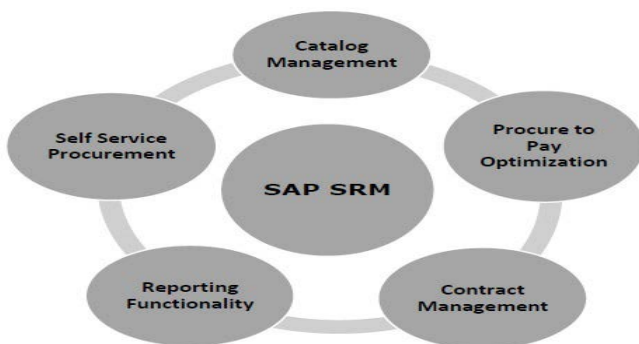
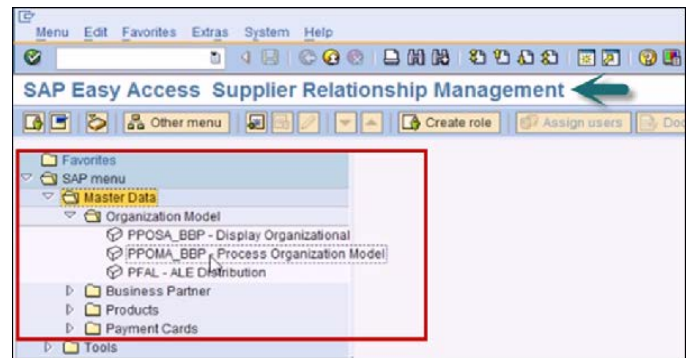


Figure 3: Supplier integration overview.

Following are the technical benefits of SAP SRM –

- Live Auction Cockpit to perform real time monitoring and bidding process in procurement process.
- SAP NetWeaver Business Intelligence to perform data warehousing, analytics and web-based reporting.
- Easy transactions between SAP SRM and online transaction processing system OLTP.
- SAP bidding engine to create quotations and to process them.

To check SAP SRM software navigation, you can login to SRM system using SAP GUI client. Select SRM system and enter the user’s name and password. It will display the SAP Easy Access Supplier Relationship Management screen.

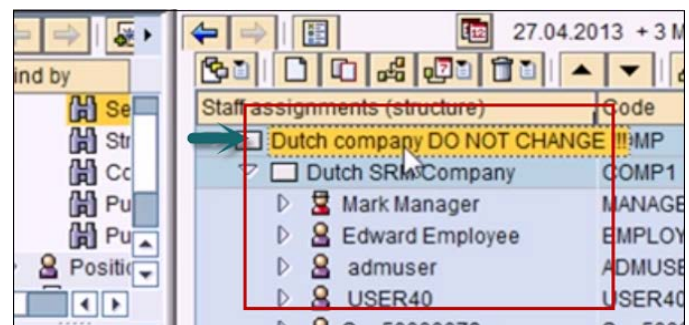


In SAP menu, you have various folders like –

- Master Data
- Business Partner
- Products
- Payment Cards

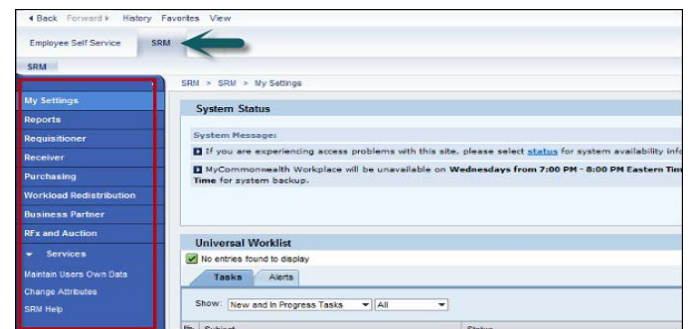
To open Organization model, you can run T-code or go from Master data → Process Organization Model.

When you build an organization structure, it is created downward. At the top, you have root organization structure and then you have other organization units like subsidiary, business units, etc.



You can also access SAP SRM Portal Desktop using web URL. The portal area is divided into the following parts

- At the top, you have SRM Work Centers.
- To the left, you have Navigation area.
- At the bottom, you have Content area.



As per the SRM user role, the left side navigation area is displayed. If you have access, you can see additional fields in SRM portal. On the left side, you can select work set and Person Object Work list will be displayed on the right side.

The results of selected query are displayed in a table form.

Shopping Cart Number	Shopping Cart Item	Item Name	Status	Quantity	Unit	Net Value	Currency	Total Net Value
11112100	P00446888 01/02/0214 09 37 1	Latex exam 425 powder free 5ml	Saved	50 000	BOX	212.50	USD	772.50
11112100	P00446888 01/02/0214 09 37 2	Latex exam 425 powder free 5ml	Saved	50 000	BOX	231.00	USD	772.50
11112100	P00446888 01/02/0214 09 37 3	Latex exam 425 powder free 5ml	Saved	50 000	BOX	231.00	USD	772.50
11112101	4217 Medical Supplies	ERT ALS Medical Cases	Approved	61162014 13 57 56	EA	75.000 00	USD	295.000 00
11112101	4217 Medical Supplies	Rescue Blanket	Approved	61162014 14 04 04	EA	25.000 00	USD	295.000 00
11112101	4217 Medical Supplies	Emergency Stretcher	Approved	61162014 14 04 04	EA	35.000 00	USD	295.000 00
11112101	4217 Medical Supplies	Emergency Hospital Svc	Approved	61162014 14 04 04	H	125.000 00	USD	295.000 00
11112110	Demn Time Test 1-8-14 CA 1	ERT ALS Medical Cases	Approved	61162014 08 39 09	EA	75.000 00	USD	295.000 00
11112110	Demn Time Test 1-8-14 CA 2	Rescue Blankets	Approved	61162014 08 39 09	EA	25.000 00	USD	295.000 00
11112110	Demn Time Test 1-8-14 CA 3	Emergency Stretcher	Approved	61162014 08 39 09	EA	35.000 00	USD	295.000 00

You can select any of the rows in table and can use the top buttons like display, edit, delete, preview, refresh and export, etc.

In the following screenshot, you can see a table with a three-step approach to add goods to a shopping cart and complete and order.

Item	Description	Quantity	Unit Price
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD
00121000	FAMILY LAW SVCS	1.000	3.00 USD

In the shopping cart, you can add, delete, copy, paste or duplicate an item in shopping cart. Note that you need to create a separate shopping cart for each supplier.

Performing search is easy and user-friendly. It eases the process of creating a Purchase Order for a few materials and some suppliers.

In SAP GUI, you can see the following configuration options under SAP SRM –

- SAP Implementation Guide
 - SAP Web Application Server
 - Cross-Application Components
 - Integration with Other SAP Components
 - SAP Supplier Relationship Management

You can expand SAP SRM to see various settings under SRM system

- Cross-Application Components
- Integration with Other SAP Components
- SAP Supplier Relationship Management
 - SRM Server
 - Activate Business Functions
 - Technical Basic Settings
 - Master Data
 - Cross-Application Basic Settings
 - Cross-Industry Functions
 - Procurement for Public Sector Functions
 - Country-Specific Functions
 - Sourcing
 - RFx
 - Supplier Evaluation
 - Confirmation and Invoice Verification
 - Procurement Card
 - Business Add-Ins
 - Supplier Self-Services
 - Supplier Registration

1.4 The key functions in SAP SRM

Navigation

In SAP SRM, screens are easy to navigate. SRM portal has a user-friendly and easy to manage look.

Searching

In SAP SRM portal, you can easily perform search for different products and suppliers. Search criteria is easy to use, you can also restrict the number of entries in Search.

Business Partner: [Dropdown]

Name 1 last name: [Text: ROBINSON]

Name 2/First name: [Text]

Search term 1: [Text]

Search term 2: [Text]

User Name: [Text]

E-Mail Address: [Text]

Org. Unit Name: [Text]

BP Org. Unit: [Text]

Restrict Number of Value List Entries To: [Text: 500]

Start Search | Reset

To see the details, select the object and click the OK button.

Function	Number
Requester	326419
Vendor	100012
Service Agent	
Goods Recipient	326419
Ship-To Address	300001
Location	90

Purchase Orders

You can create purchase orders for a few of the material type. POs are also automatically created for some materials and suppliers.

Account Assignment

A user can also define default account preferences. Cost assignments can be defined as per quantity, percentage or value of the material. You can also search G/L codes online using search option.

Workflow

In SAP SRM, the approval process for Purchase Orders is very easy. This allows organization to perform goods requisition in an easy and simple manner.

Copying and Deleting

A user can use copying option to copy the items in the shopping cart. Edit option can be easily used to edit the address, cost distribution, etc. Deletion is also easy in shopping cart as you can easily select a good in cart and delete it.

1.5. SAP SRM - software components

Line Number	Item Type	Product ID	Description	Product Category	Product Category Description	Quantity	Unit	Net Price / Unit	Currency	Option Type	Per	Order Type	Delivery Date	Notes	Attachments
*	Underhead Item Type	00121000	FAMILY LAW SVCS	72112000	FNAC CONG SVC	12.000	MOH	625.00	USD		1		42101014		
*	Underhead Item Type	00121000	FAMILY LAW SVCS			1.000		3.00	USD		1		42101014		
*	Underhead Item Type	00121000	FAMILY LAW SVCS			1.000		3.00	USD		1		42101014		
*	Underhead Item Type	00121000	FAMILY LAW SVCS			1.000		3.00	USD		1		42101014		

There are various application and technology components that are a part of SAP Supplier Relationship Management product. Application components include components that are required to create RFx and submit bids, for financial management, BI needs, Enterprise portal for application interaction and other various components to perform different functions.

Technology component consists of NetWeaver Process Integration to integrate with SAP and non-SAP external systems, SAP GUI for configuration, and R/3 plugin for Master Data.

SAP Supplier Relationship Management Server

SAP SRM server includes SAP SRM server and SAP Bidding engine. SAP SRM is based on SAP NetWeaver application server and is available for different platforms and database. You can check all the releases of SAP SRM on SAP Market place under Product Availability Matrix (PAM).

SAP SRM Bidding Engine

SAP SRM Bidding Engine can be used to create and process requests for bids; bidders can submit bids and other functions in RFx.

Bidding engine defines the rules for bidding and bidders can use it to submit bids in the system.

SAP NetWeaver BI

In SAP SRM spend analysis, BI is primarily used and requires Application server ABAP on the same system. It may also require Java Application server and SAP Enterprise portal.

SAP NetWeaver Enterprise Portal

This is used as an entry point for users to manage applications and information related to SRM. It provides role-based and secure access to applications and services.

Online Transaction Processing System

Various systems can be used for backend transaction processing to manage material and financial queries. SAP ERP system can be used and data exchange occurs between SAP SRM and SAP ERP system.

2. Conclusion

Establishing a durable partnership between suppliers and buyers fosters an environment conducive to open communication and collaboration, enabling the exchange of feedback and innovative ideas. This ongoing dialogue cultivates a more efficient and responsive supply chain ecosystem, with potential benefits spanning cost reduction and enhanced customer service. By aligning efforts in areas such as product development, implementing innovative ordering processes, and optimizing inventory management, both parties can leverage their collective expertise to drive mutual financial and operational gains.

An indispensable element within many Enterprise Resource Planning (ERP) software suites, particularly SAP Supplier Relationship Management (SRM), facilitates this collaborative approach. By integrating closely with suppliers, companies can tailor their supply chain operations to suit their unique requirements. This strategic alignment enables process consolidation, cost optimization, and product enhancement, ultimately delivering superior outcomes for end consumers. Through a combination of cost savings and operational efficiencies, businesses can fortify their financial performance, even in challenging market conditions within their respective sectors.

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