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Supplier Lifecycle Management:

Best Practices and Technology Tips for Successful Solution Onboarding

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Executive Summary

Along with the technology used, the process of bringing a new supplier into the supply chain has evolved from basic supplier information management to more holistic supplier lifecycle management. In this context, it stands to reason that the first data interactions with a supplier should also set the foundation for future information management opportunities. Technology can enhance the supplier onboarding process by building in appropriate checks and balances while enhancing efficiency. In fact, there are several areas in supplier onboarding that can be significantly improved and enhanced by technology, including:

- Cross-functional collaboration (supplier, accounts payable, treasury, R&D, operations)
- Supply base strategy
- Risk management
- Defining purchase-to-pay channels
- Supporting working capital objectives

Traditionally, the vendor master file, existing in all ERP systems, was used to house supplier payment data. Suppliers were added upon request, compliance documents were submitted by mail, and banking information was confirmed with a phone call and letterhead. The accounts payable department was the primary user of this data source; governance was often narrowly focused with simple ERP-based functionality.

The past five to 10 years have seen the emergence of supplier information management (or "SIM"), with organizations taking a broader and more strategic look at the information they gather on their supply base and how it is managed and accessed. More recently, the concept of supplier lifecycle management (SLM) has taken shape. In SLM, organizations build on top of SIM to include performance and risk details in a single place. Fig. 1 illustrates the evolution of information management capabilities.

FIG. 1 Evolving SIM capabilities

Vendor master file	Supplier information mgmt. (SIM)	Supplier lifecycle mgmt. (SLM)
Focused primarily on ERP/e-Procurement fields needed to place POs, pay invoices, and analyze spend	Organizing and managing all key supplier information more efficiently and effectively	Tying information into knowledge, intelligence, and analytics

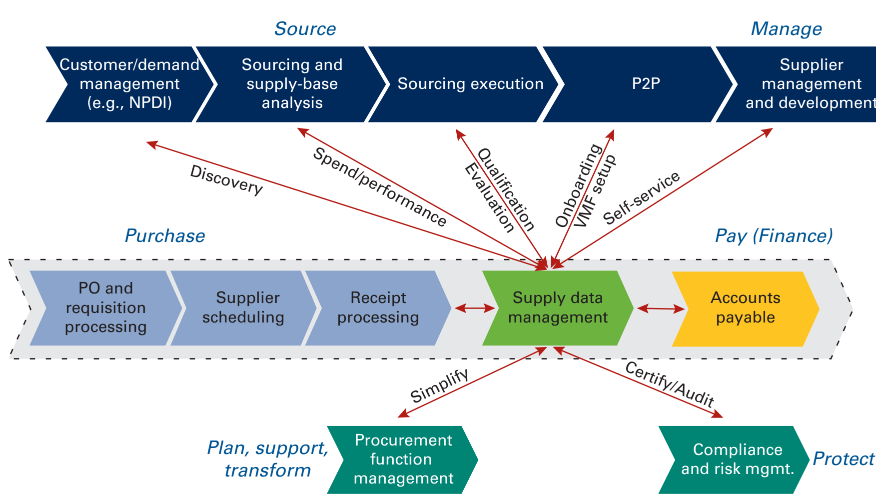
• AP and procurement oeprations-biased
• Data governance ("Who can do what to which fields?")
• Data integration (e.g., across multiple VMFs)
• Data quality for spend analysis
	• "Virtual supplier master"
	• Starts earlier in lifecycle (e.g., pre-registration via supplier portal)
	• Focus on hosted supplier self-service
	• Inclusion of document-based and/or external content
	• SIM application vendors: "SIM platform"
	• Increasing level of bi-directional MDM integration
		• Workflows driven by custom supplier attributes and other rules (process, regulatory) to support:
		  • Supplier perf. Measurement
		  • Regulatory compliance
		  • Supply risk management
		• Intelligence from supplier network
		• Integrating supplier data to analytics (e.g., supply base segmentation analysis)

Source: The Hackett Group

Cross-Functional Collaboration

Procurement and AP must both participate in approving and adding new suppliers. Supplier master data is directly tied to sourcing and supplier management **(Fig. 2)**. As traditional vendor master management evolves into SLM, the cross-functional governance of required data fields is becoming more common. In addition the purchase-to-pay (P2P) process, other corporate entities such as risk management and treasury may need to be involved to ensure compliance with policy; R&D may use systems to support supplier discovery; and operations may provide supplier performance data to manage supplier relationships.

FIG. 2 Supplier master data is directly tied to sourcing and supplier management



Source: The Hackett Group

Supplier setup checklists ensure that broader supply management goals are considered

Activity	Stakeholder
Verify all supplier contact information (company name, address, etc.) Provided	AP, purchasing operations
Check that supplier does not already exist in system, check for parent/child companies as suppliers	AP, sourcing
Check if there is an existing/preferred supplier in the system that can provide the product/service	Purchasing operations, sourcing
Identify category codes applicable to supplier	Sourcing
Ensure standard payment terms are established with supplier	Treasury, AP
Perform financial stability/ credit reports on suppliers that are of significant value or strategic importance	Corporate risk, sourcing
Verify certificate of insurance is on file for suppliers with significant onsite representation	Corporate risk, facilities
Expected spend (i.e., strategic sourcing effort warranted?)	Sourcing
Identify that contract or standard terms and conditions are in place with supplier	Sourcing, purchasing operations, AP
Verify W-9 on file before any payments are released	AP
Check for p-card acceptance by supplier to encourage the use of p-card	Purchasing operations, AP
Check supplier and parent/ child companies against restricted party lists	Corporate risk, AP

Source: The Hackett Group

Best practice: The procurement and finance organizations collaborate to define required data fields and documentation for supplier setup. A supplier setup checklist exists to ensure all needs are met. The list may vary by supplier category, geographic scope and anticipated spend commitment, but each question serves a distinct purpose for the buying organization. (See example in sidebar.)

- Best practice: Procurement approves new-supplier additions based on category strategy; AP or a dedicated data management team enters supplier data.
- Technology tip: Supplier lifecycle management platforms organize and manage key supplier information more efficiently and effectively, and then make that information available for further analysis. An automated supplier onboarding workflow allows new-supplier requests to move seamlessly across traditional departmental lines. Information used for payments, external compliance, risk profiling, and performance management can be accessed through a common interface.

Supply Base Strategy

The fewer the suppliers a company has, the greater the opportunities for spend reduction and the lower the P2P process costs. Also, with fewer suppliers, improvements such as automation are easier to implement. Every request for a new supplier to be added should be reviewed to determine whether the new supplier is necessary, and whether there is already a preferred supplier that could meet the need.

- Best practice: Decisions are managed by procurement with input from stakeholders. The number of new suppliers should be limited; requests for addition are vetted before an order is placed. World-class procurement organizations have higher rates of centralization of supplier master data management, better labor productivity in supply data management, and lower cost per master-record update. However, these leaders also have a more supplier master updates. This likely stems from gathering more data and processing it faster.
- Best practice: Set a process for one-time suppliers that involves less bureaucracy while ensuring that basic compliance requirements are met. The process should include monitoring and flags that guide one-time suppliers into the regular onboarding process should their usage grow.
- Technology tip: Supplier management platforms with strong spend analysis capabilities allow greater visibility into the existing supply base to make quicker, more informed decisions about whether adding a new supplier is appropriate. Systems also allow for monitoring one-time suppliers to trigger additional onboarding activities when required.

Risk Management

Supply lifecycle risk management is a proactive and systematic process for cost-effectively identifying and reducing the frequency and severity of events that may have a negative effect on the inbound supply chain. The organization must conduct an initial risk-profile screening of new-supplier additions.

- Best practice: An effective risk-management strategy begins with understanding the risk profile of the buying organization and defining which risk factors must be managed in the supply base. These will determine how suppliers must be assessed. Typical aspects of risk assessment include financial, environmental, human resources, supply chain disruption, performance and relationship. The depth of assessments and resulting mitigation plans typically depends on the strategic importance of the supplier.
- Best practice: Less varying and more immediate is the need for organizations to ensure suppliers meet external compliance requirements. These requirements include screening for placement on restricted party lists as well as meeting documentation requirements such as W-9s and other certifications. As organizations expand their global reach and supply base these requirements become broader and more complex.

- Technology tip: At companies where the supplier onboarding process has been inconsistent, automating it can add a new level of rigor to risk and compliance management. The best platforms for supplier onboarding offer information validation in real time across third-party databases, greatly reducing the need for manual effort on the part of the data management team. Systems that enable supplier self-service make the supplier responsible for inputting needed information. Not only does this shift the workload to the supplier (which would otherwise be providing the information indirectly anyway) but it speeds up the process too, since suppliers have an incentive to complete their submissions quickly in order to be paid. Since risk profiles are not always spend-based, a supplier network that brings on the majority of suppliers is favorable to one that only targets the top tier.

Defining Purchase-to-Pay Channels

World-class organizations are very purposeful about the way they request from, buy from, are invoiced by and pay their suppliers. They define their P2P channels by spend category and guide requisitioners through a well-defined process. To maintain this level of rigor, new suppliers must be set up within the defined channels, which often includes additional enablement activities such as e-catalog onboarding, establishing P-card acceptance, and onboarding into an e-invoicing system.

- Best practice: Even organizations without defined channels can still set up new suppliers wisely by encouraging the use of the most efficient channels wherever possible. Driving suppliers to best practices such as e-catalogs, two-way match, e-invoicing and ACH instead of accepting traditional manual methods of interacting can lead to a better P2P process.
- Technology tip: Efficiency is often enabled by technology and tools that tie together buy-pay channels more efficiently across the entire P2P process. One example is onboarding suppliers into both e-procurement (electronic requisitioning) and e-invoicing (electronic billing) at the same time. A supplier lifecycle management platform should enable more than one form of interaction with the supplier network and be flexible enough to support multiple buying, invoicing and payment channels.

Support for Working Capital Objectives

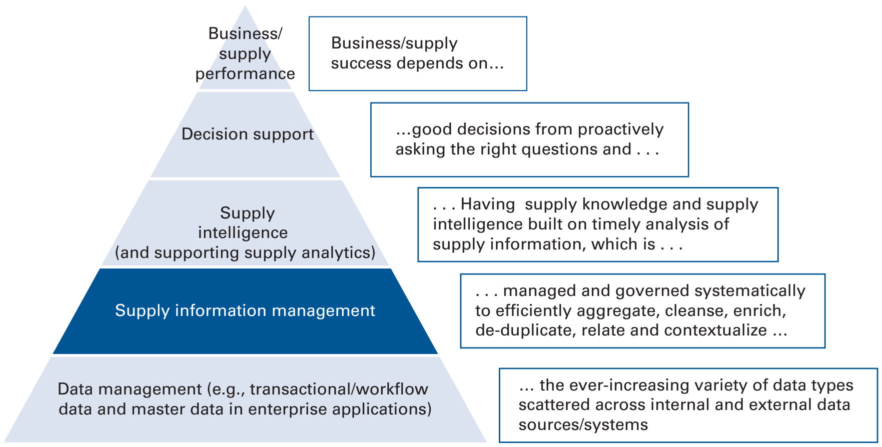
There are numerous ways the P2P process can contribute to working capital performance. Many of these can be addressed during onboarding. For example, standard payment terms can be negotiated and set up to match the organization's working capital strategy. P-card usage may be established, and dynamic discounting may offered to certain suppliers.

- Best practice: Top procurement organizations are aware of their company's working capital objectives and develop a payment strategy to support them. This strategy is worked into the onboarding process to ensure that every supplier is brought on in a way that consistent with working capital goals. Collaboration between the sourcing and AP departments is needed to ensure that the right terms and enablement requirements are negotiated into agreements up front.
- Technology tip: The best supplier lifecycle management platforms provide the information and the flexibility needed to shape supplier relationships in relation to payment strategy. An automated process means a more efficient process, one that gives AP organizations more control over when they pay suppliers. Better visibility into supplier terms, performance and payment history can arm sourcing specialists with information that will help them drive better payment term arrangements with suppliers. In fact, some cash management tactics require automation: offering dynamic discounting on paper invoices, for example, would be too unwieldy to be feasible.

Conclusion

As the complexity of supplier information increases, so does the need for better decision support **(Fig. 3)**. Technology is evolving to support the end-to-end flow of information and, ultimately, buyer-supplier collaboration. To stay competitive, it is essential to take a hard look at the supplier onboarding process and the technology used to support it.

FIG. 3 Supply lifecycle management: Foundational to supply analytics and intelligence



Source: The Hackett Group

Related Hackett Research

"Five Myths Stifling Adoption of Supplier Self-Service Tools for Invoice Automation," April 2015

"Defining a Source-to-Pay Channel Strategy that Balances Risk, Control and Efficiency," November 2014

"P2P: Improvements Targeting Effectiveness Have 12 to 14 Times Higher Savings Potential Than Efficiency Improvements," May 2012

About the Advisors

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Ms. Fong has 18 years of experience in industry and consulting with a focus on procurement, supply chain and organizational effectiveness. She has considerable experience in P2P process improvement, managing complex global supply chain partnerships, sourcing, supplier performance and relationship management, outsourcing evaluation and implementation, and cost improvement. She has worked with numerous major companies in North America, Asia and the South Pacific.

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Mr. Connaughton leads the development of The Hackett Group's intellectual property in the areas of strategic sourcing and procurement. He has over 15 years of experience in supply chain and procurement research and advisory roles. He has published groundbreaking research in areas like spend analysis, contract life cycle management, supplier risk assessments and services procurement. Prior to joining Hackett, he was principal analyst at Forrester Research, where he focused primarily on helping executives mitigate risk through more effective supplier relationship management. Previously, Mr. Connaughton was a consulting manager at Manhattan Associates and Accenture.

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