Supplier Relationship Management
Effective supplier relationship management (SRM) is critical to companies aiming to compete successfully within today’s oil and gas industry. This statement applies to operators and service sector companies alike.

In this briefing paper, Absoft examines the role of SRM in oil and gas and describes how technology can assist in the achievement of strategic SRM goals.
What is SRM?

Supplier relationship management concerns the approach to managing a company’s interactions with its suppliers of goods and services. The goal of SRM is to streamline and make more effective the processes between an enterprise and its suppliers - just as customer relationship management (CRM) is intended to streamline and make more effective the processes between an enterprise and its customers.

The key components of SRM can be described as follows:

• **Category management**
  This represents the due diligence exercise of separating out goods and services into logical groupings and determining an appropriate sourcing strategy for each of those groupings or categories.

• **Strategic sourcing**
  This involves the implementation of appropriate sourcing strategies for each category of goods and services identified by a company. The process covers vendor pre-qualification, qualification and award, as well as the establishment of the infrastructure required to support the selected sourcing method, e.g. contracts, catalogues (internal and external), bidding portals etc.

• **Procurement**
  Procurement represents those processes that cover the operational aspects of requisitioning, sourcing, purchasing and expediting.

• **Receiving**
  Reception of goods and services - including quality and performance assessments of goods and services delivered.

• **Financial settlement**
  Invoice verification, approval and payments. Technology is a key enabler for effective SRM. A wide range of SRM-related applications is available in the marketplace today and it is also possible to extend enterprise resource planning (ERP) systems to include SRM-specific functionality, where this is available. This approach is certainly advantageous, since ERP system users immediately benefit from tight integration and a single source of information, avoiding the pitfalls and high costs of disparate applications and multiple bespoke interfaces.
Why is SRM a key concept for upstream oil and gas companies?

**Perennial challenges**

The challenges facing the corporate procurement officer (CPO) or procurement manager of a company operating in the European upstream oil and gas sector have essentially remained the same over the last decade. They include:

- **Securing and maintaining project delivery/ asset integrity** by ensuring timely delivery and availability of materials and services from a qualified and trusted supplier base.
- **Reducing addressable spend** by establishing and nurturing strategic supplier relationships.
- **Reducing the procurement lifecycle** by minimising the time between demand registration and delivery of the required goods or services.
- **Maximising the visibility and usage of available inventory** by defining and implementing appropriate material stocking and tracking policies.

**Changing context**

What has changed during the last ten years is the context in which these challenges present themselves:

- **Globalisation**
  
  Business activities are now undertaken on a global basis, from Angola to Sakhalin, from Canada to Australia – and everywhere in between. The procurement lifecycle now involves timely sourcing and delivery of materials and specialist services in multi-country, multicurrency environments.

- **Asset ageing and life expansion**
  
  Assets can be anything up to twenty-five years old – and there is often potential/ pressure to double this lifespan. The availability of the right critical spares and services at the right time is imperative to secure asset integrity.

- **Pressure on spend**
  
  Despite recent increases in the oil price, the unavoidable fact of depleting North Sea reserves means there is continuing pressure to cut addressable spend. The higher oil price has resulted in previously uneconomic reserves looking more viable – but effective cost management remains a vital objective.

- **Mergers and acquisitions**
  
  Business acquisitions and mergers and asset disposals have resulted in the aggregation and segregation of stocks to an extent where some organisations are struggling to understand which critical spares they carry and where those spares are located - never mind their value.

- **Business support outsourcing**
  
  Operators are increasingly outsourcing business support functions such as maintenance, procurement and logistics to service providers. This trend allows operators to concentrate on their core function – but does carry potential risks to the integrity of the supply chain, as functions are carved out and given to service providers.

  This also means that the CPO mentioned in this paper is increasingly the CPO of a service provider for whom successfully meeting the challenges described above on behalf of their customers is critical, in a very competitive marketplace.

- **Corporate responsibility**
  
  Finally, the energy sector (perhaps above all others) faces increased scrutiny from its shareholders and governmental authorities seeking comfort that published financial statements accurately represent reality.
The new challenge – collaboration

Due in part to these challenges, a noticeable shift has occurred in the operator/service sector company relationship during the last few years. In general terms, the trend in procurement of goods and services is away from the more conventional tactical, reactive approach to a more strategic, long term approach, with the focus less on price and more on cost and other factors.

The operators and service sector recognise that the challenges of delivering complex global projects and maintaining the integrity of an ageing asset base are best achieved through strategic supplier relationships. The service sector appreciates the need to adapt to its customers’ changing needs and offer appropriate solutions.

In effect, the trend is now towards collaboration. Operators are realising that there are significant benefits in collaborating closely with service sector companies, treating them as a potential source of competitive advantage, rather than a necessary cost.

Fostering this collaboration is the new challenge facing the CPO’s of operators and service sector companies.
How does SRM address the challenges facing upstream CPO?

Securing asset integrity/ project delivery
The category management and strategic sourcing elements of SRM are key to securing and maintaining project delivery/ asset integrity. The development of logical groupings of required materials and services and determining appropriate sourcing strategies for these, is vital to unlocking the potential of SRM and ensuring that materials and services are available when and as required, whether to meet project deadlines or to minimise operational downtime.

Sourcing strategy options are probably greater now than they have ever been: valuated and non-valuated stock, non-stock, vendor consignment, vendor managed inventory, reverse auction, service agreements, spot service PO’s... are just some of the available choices.

Factors such as criticality and lead time of course play into the strategy determination process.

SRM systems support the above by providing strong analytics/ reporting capability to help drive out the categories of materials and services. They also offer a full portfolio of sourcing strategies.

In the upstream sector, strategic sourcing also has to focus on ensuring that a supplier is capable and qualified to perform the required work or supply requested materials. SRM drives supplier qualification processes, which are likely to include due diligence by the contracts/ procurement department with regard to matters such as certifications, accreditations, international footprint and financial stability.

In such a context it becomes ever more critical that the processes of qualifying a supplier and monitoring the on-going operational performance of that supplier are represented and accessible in core IT systems – not in a spreadsheet somewhere on the organisation’s network.

The SRM system should also support the registration and progression of a prospective supplier through application, pre-qualification and eventual qualification as a sanctioned provider of materials and/ or services and should have the capability to work in a global, multi-country and multicurrency context.

The successful application of SRM depends on the definition and alignment of materials and services categories and sourcing strategies. If the operator or service sector company can achieve this and get qualified suppliers onboard – the supply chain will flow.

Reducing addressable spend
As a result of establishing the sourcing strategies described above, spend can be consolidated with strategic, qualified suppliers, thereby supporting future negotiation for better prices and volume rebates. These sourcing agreements are generally represented in an organisation’s service and material catalogues. Requestors can concentrate on ‘shopping’ in the catalogue and leave the underlying SRM system to automatically pick up key information such as the preferred or fixed sourcing, sourcing strategy, price etc.

SRM systems can be highly effective tools for minimising maverick requesting/ buying, e.g. requesting outside of the preferred supplier base or available inventory.

The issue of maintenance personnel externally purchasing items which are readily available in inventory is still a problem – but the adoption of Strategic Sourcing using supporting SRM software can produce significant savings.

Purchases in a strategic sourcing context are generally more amenable to IT automation such as auto-PO and evaluated receipt settlement. Leveraging these functions significantly decreases time and energies spent on transactional buying activity, which can be better utilised in strategic negotiations with suppliers based on longer term framework agreements.
This is also beneficial for key suppliers, since they get a ‘bigger piece of the pie’ and get paid on time.

**Procurement lifecycle**

From the viewpoint of the project or maintenance person, the turnaround time between registration of requirement and the delivery of the goods and services is invariably too long. But the delay need not be excessive – and there are ways to reduce it.

A notable culprit behind procurement cycle delays is the time spent by the Procurement department handling request for quotation (RFQ)/ quotation processing. The preparation and issue of RFQ’s followed by quotation processing, short listing and negotiations can be a lengthy, drawn-out process.

Continual ‘one off’ RFQ processing represents ‘death by a thousand cuts’ for the procurement department and results in considerable delays in delivering what is required to the business. Time spent upfront in forming strategic supplier relationships for core/ critical services and materials and ensuring that the results of these negotiations are represented in the company’s e-catalogues significantly reduces the number of RFQ situations and speeds delivery schedules.

Another perennial problem connected to procurement delay is the time taken for requisition approval. Managers involved in the requisition release are seldom day to day users of operational IT systems – they are likely to be in meetings, using email or both!

Requisitions wait in vain in e-commerce/ ERP systems for the budget holder to sign-on and release them.

In the case of long lead time materials, traceability is key. Visibility of the full supply chain as a critical piece of equipment makes its way, for example, from a Houston supplier to Galveston, for onward delivery to and passage through Luanda customs and eventual arrival at the Soyo warehouse can be crucial. Delay at any stage can have severe implications for a project schedule or continuous operations.

Current SRM toolsets use ‘push’ or alert technologies to address the ‘visibility’ issues described in the two scenarios above. Alerts in the form of e-mails are sent to the appropriate requestors/ releasers advising them of requisitions awaiting their attention/ approval or significant supply chain events such as dispatch by vendor, receipt at freight forwarders etc.

Functionality also exists to support the ‘push’ of critical analytical reporting data from SRM and the back end ERP system into the approver’s mailbox. Report requestors set up a recurring ‘appointment’ in their email system nominating the reports they want delivered to them and at what frequency. The IT backend will dutifully send the requested reports housed in an e-mail alert to the requestor based on the predefined email system schedule. The result for the manager or requestor is that they have the information they need in the IT tool in which they spend most of their time.
Maximising the visibility and usage of available inventory

As a result of recent upstream sector trends, significant challenges are beginning to surface around inventory management. Merger and acquisition activity in recent years has resulted in transfers of stocks between companies – and the visibility and accuracy of stock has suffered during these transfers, as inventory integration and alignment of material stocking policies have never quite happened.

Decreasing visibility and/ or trust in inventory levels results in an increasing tendency to externally procure materials when stocks of a material are actually available.

As mentioned earlier in this paper, the implementation of catalogue management serves to separate shopping from sourcing processes. The requestor places a shopping request, determining the relevant materials or services, and the appropriate sourcing strategy is determined by preconfigured settings in the supporting SRM system.

Bar coding and, more recently, radio frequency identification (RFID) technologies can also play an important supporting role in keeping inventories accurate. Ever lower pricing for RFID tagging provides significant reason for optimism that the recording of material receipts and issues can be automated.

The ability to separate and differentiate categories of stocks has also become a ‘hot topic’ in the upstream sector. It has always been important to differentiate between stocks with different customs status, quality inspection stock, own stock/ non-owned stock, but issues are increasingly surfacing around the separation of project stocks from standard inventory, treatment of surplus materials and material condition coding (new, used etc.).

SRM can go some way towards addressing the issues above by automatically determining appropriate sourcing strategies using catalogues, but it is also important in this case that the SRM system can communicate and integrate with a back end system that has the capability to handle the separation of stocks described above.
Enabling customer/supplier collaboration

Compare the two process landscapes below for the scenario of a service engineer required offshore to perform maintenance activity. Circa 2000, the process would largely have been the responsibility of the operator. Today, service providers are performing maintenance and operations, and purchasing and logistics functions on behalf of operators.

The attractions of the model on the right are obvious for all parties involved. The onus on the operator is reduced to approving supply activity at the key release points. The service providers assume the burden of the transactional work and provide cross industry knowledge and expertise to carry out the functions of sourcing and procurement. The supplier provides direct input at critical parts of the supply chain, improving data quality – and generally will get paid quicker as a result.

The diagram shows only one of many SRM collaboration models.

![Diagram showing Traditional Supply Chain circa 2000 and Supply Chain Using SRM Today](image-url)
Supplier Relationship Management

Summary

With SRM, oil and gas sector companies have an excellent opportunity to improve the accuracy and speed of buyer-supplier transactions, achieve significant cost savings across the supply chain and improve collaborative working practices for the benefit of all parties.

Those who benefit most will recognise the strategic importance of the procurement function and put in place the tools and technology required to deliver effective SRM strategies.

The IT toolsets which support the SRM approach have moved on from ‘stationery and pencil sharpener’ procurement solutions to cover core upstream processes, commodities and services. They also now offer the infrastructure to establish customer/service provider/supplier collaboration models that will be required to meet the challenges facing the upstream sector in the coming decade.

To restate the value proposition of SRM for each main industry grouping:

**For operators:**
SRM can help ensure that the correct materials/services are in the right place at the right time to secure project delivery and production operations. Strategic sourcing can also reduce addressable spend.

**For service sector companies:**
The delivery of the correct materials/services from suppliers to their operator customers is equally critical. For those service sector companies that provide outsourced service management functions to operators, the adoption of SRM techniques and tools is likely to become an increasingly relevant competitive differentiator.

**For suppliers:**
SRM means collaboration with customers and more active involvement in supply chain processes. This results in longer term strategic relationships and in prompt billing and payment.
Absoft Briefing Paper

Case study: Leading companies choose mySAP™ SRM

Absoft is an SAP® consultancy specialising in the oil and gas sector. The company is an accredited Services Partner of SAP UK and offers the full range of SAP advisory, implementation, development, upgrade and support services.

The SRM related tools and technologies described in this briefing paper are drawn from the mySAP SRM solution. The case study excerpt below describes how Pemex Gas in Mexico is using mySAP SRM to achieve substantial business benefits.

To access the full case study and read in more detail about this mySAP SRM project, please visit our SAP knowledge section on: www.absoft.co.uk

Pemex Gas is the exclusive provider of natural gas to consumers and businesses in Mexico, but the government will soon open the market to other companies. To position itself better to face competition, Pemex Gas took action to improve the effectiveness of its sourcing and procurement processes for the acquisition of high value direct and indirect materials and services.

Using mySAP SRM, the company achieved the following results:

- Reduced prices on one year contracts by 6% on average
- Lowered cycle times covering release-order decision to order placement by 72%
- Reduced release-order placement process costs by 20% and improved productivity by eliminating 64% of activities and automating 60% of manual processes
- Lowered bidding process costs by 13% through electronic collaboration
- Reduced inventory of purchased items by 25% and maintenance inventory costs by 9%
- Contributed to benefits for suppliers, such as a 70% reduction in cycle time for the sales process and a 50% reduction in workforce necessary to develop products

“We chose mySAP SRM because it’s oriented to direct and indirect material procurement and we could manage content by using integrated electronic catalogues.”

Claudia Peralta,
Purchasing Manager and Project Manager, Pemex Gas
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