

Bringing Supplier Management to Transactional Business Environments

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Service level requirements are as important to ensuring quality in the transactional sector as they are in manufacturing – but few transactional companies treat them as such. Why? Typically it's a combination of history, culture, and a simple lack of awareness. Companies that fail to apply disciplined supplier management do so at great risk, as we can see in an example from a mid-sized insurer.

This insurer offered roadside assistance (RA) as an elective feature for its auto insurance customers. The Company fielded the initial call from a stranded motorist and then rolled the service over to a supplier. After a series of complaints, an improvement team was asked to investigate the supplier and discovered deficient metrics, poorly documented service level agreements, a lack of routine reviews, and contracts that did not expire. The Company believed it wasn't large enough to control what its supplier did, so it considered un-branding the service. The insurer failed to recognize that even without the power of size both the Company and its supplier could benefit from applying fundamental Supplier Management practices that are common in other industries.

As with any business relationship, successful supplier relationships are interactive, transparent, and have clearly defined mutual expectations. We recommended that transactional process managers borrow some key principles from long-established supplier management practices in other industries:

Clear Service Level Expectations. First and foremost, process managers must define the service in measurable terms (referred to as Service Level Agreements or SLAs). Without clear, quantifiable expectations there is no way to select and manage the appropriate supplier. Typical SLAs specify target response times, minimum availability, quality, and turnaround times, to name a few. The Insurance Company lacked supplier SLAs for a call transfer success rate and a tow truck response time, among others, making it difficult to manage the quality of service.

Supplier Qualification. A competitive bidding process should evaluate the ability of multiple suppliers to meet the SLA. Management can then choose a supplier based on metrics (i.e., cost, turnaround time, etc.) and actual work examples that best suit the company's needs. The Insurance Company was able to visit the supplier's location, observed work in action and listened to recorded calls.

Standardized Processes. The "end-to-end" value chain should document roles and responsibilities for each step. Performance for each step should be measurable. The Insurance Company received the incoming calls in a "functional silo" and simply transferred the call with no understanding of the supplier's process. After mapping the supplier's process, the Company better understood what information was needed to make the customer experience faster and more consistent. Further, the Insurance Company learned the supplier also had an inbound customer-facing call center and ultimately decided to have all calls handled completely by the supplier, resulting in improved service at a lower operating cost.

Performance Measurement and Reviews. Well-designed supplier management programs use routine reports and performance reviews (monthly, semi-annual, annual) to ensure SLAs are being met and to discuss adjusting SLAs as business conditions shift over time. While the Insurance Company managed customer satisfaction surveys separately from the supplier's surveys, it had few additional metrics. In working with the supplier, customer satisfaction surveys were consolidated. Moreover, the Insurance Company learned that the supplier regularly provided extensive metrics to other customers and participated in routine performance reviews. Most of the supplier's contracts with other customers had a 2-3 year term; the contact with the Insurance Company had no end.

Joint Continuous Improvement Programs. The best supplier relationships benefit from joint continuous improvement initiatives. Effective value chain managers recognize that value must flow efficiently to the customer regardless of who performs which functions in the process. Typical improvement initiatives focus on reducing lead times, increasing customer satisfaction, or reducing errors. The Insurance Company learned that the supplier

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regularly participated in joint improvement projects with other customers, so as a key player in the insurer's RA process, the supplier welcomed involvement with the service improvement project.

Applying the fundamental principles of Supplier Management, the Insurance Company was able to define measurable performance goals and to partner with the supplier to implement an effective process management program for the RA product. They discovered that the supplier was willing – even enthusiastic – to partner in the improvement effort, demonstrating that it greatly valued the relationship even though the Insurance Company was only medium-sized. Furthermore, with a new understanding of how to effectively manage suppliers, the Company identified many other opportunities for improvement – from disaster recovery, commercial auditing and field claims adjustments to purchasing, and call-center operations

The Company confirmed that supplier management is no longer the sole purview of the manufacturing sector; it's a crucial part of any modern transactional company's toolkit, and it has provided this Company with higher-value supplier relationships, better margins, faster response time and happier customers.