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R E P O R T

Best Practices in Supplier
Relationship Management and
Their Early Implementation in the
Air Force Materiel Command

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Summary

Background, Purpose, and Approach

As is the case with all military services, the U.S. Air Force (USAF) is under pressure to reduce the costs of its logistics operations while simultaneously improving their performance. In FY 2008, 43 percent of the total Air Force budget went to purchases of goods and services—including all weapon system support costs, base operating support, military housing and construction, services, activities outsourced to suppliers through A-76 competitions, and upgrades managed by system program managers at the air logistics center (ALC) level—from the private sector. Thus, any efforts to generate significant savings must target purchases from the private sector.

Since 2002, as part of its Purchasing and Supply Chain Management (PSCM) initiative, the Air Force has had a program called Supplier Relationship Management (SRM) within the Air Force Materiel Command (AFMC) that has the goal of reducing the cost and improving the quality and performance of purchased goods and services by carefully managing relations with suppliers to the mutual advantage of each. Commercial firms have long had such programs and have garnered large savings from them. However, the scope and pace of the savings generated by the SRM program at AFMC have been less than anticipated by senior leaders. As a result, the Air Force asked PAF to identify steps the Air Force can take to improve the outcomes of its SRM program, particularly for contracts for sustainment spares, repairs, and other depot-level services.

In performing this research, we first reviewed the academic, business, and defense literature on best SRM practices and interviewed representatives of commercial best-in-class firms that have successfully implemented SRM to identify the most effective practices. We then assessed how the Air Force had implemented SRM, to determine whether it was employing the best business practices in its SRM program and to uncover practices or policies that might be making the implementation of SRM less effective than it could be. This step included an analysis of annual spending with key SRM contractors as well as intensive interviews with Air Force personnel. Our final step was to recommend actions that the Air Force could take to improve its implementation of SRM.

Findings

Our review of the literature and our interviews with representatives of commercial firms that have successful SRM programs show that the six practices listed below characterize best SRM practices:

- Manage total business with each supplier (consolidate contracts, tie future business to performance).
- Measure and shape supplier performance (establish performance measurement system, rank suppliers, set targets, reward performance).
- Involve key suppliers early in product design (leverage their design capabilities and knowledge of manufacturability and innovation, reduce complexity).
- Host high-level meetings that promote dialogue with suppliers (demonstrate mutual commitment to the relationship, promote dialogue on expectations and ways to improve, share future plans and technology roadmaps, present awards).
- Recruit skilled personnel (recruit experienced personnel who have the right qualitative and quantitative skills).
- Develop personnel so they have a thorough knowledge of suppliers (educate personnel so they know suppliers' processes, costs, capacities, and capabilities and can work with and help suppliers fix processes to meet current needs and continually improve).

The Air Force is already implementing several of these best practices. Focusing primarily on National Stock Number–level (NSN-level) spending of the eight commodity councils (CCs) in the early days of the SRM initiative,¹ AFMC identified top suppliers by dollars and assigned them to SRM teams where the locus of SRM business took place. Supplier scorecards were developed to show how suppliers were performing overall and in detail. Supplier summits have been held since 2004 that bring together both Air Force and supplier senior leadership to talk about goals and objectives and act as a clearinghouse for solutions to various problems. Joint Improvement Initiatives that are mutually agreed on by the SRM teams and suppliers have formed the basis of developing improvements in processes and outcomes. SRM team members are usually full-time employees who have been selected on the basis of their skills for self-initiation, powers of persuasion, and hard work.

However, several major factors seem to be keeping the Air Force's SRM program from accomplishing more. First, the supplier business base to which SRM has been applied is small and minimizes incentives for the largest SRM suppliers to devote time and resources toward eliminating waste and increasing efficiencies in their processes and organizations. Second, well-defined goals do not appear to be communicated clearly and consistently among SRM teams or within AFMC in general. We conclude that the result of not having well-defined goals is that many SRM staff do not appear to understand their responsibilities clearly, and other internal stakeholders do not appear to understand the purpose of SRM; this can slow the implementation of SRM concepts in new contracts. Third, SRM teams do not appear to have sufficient numbers of personnel to manage the number of suppliers and size of spend at most sites. Fourth, the program lacks sustained senior leader support needed to institutionalize SRM. Finally, the way in which SRM integrates into other AFMC initiatives creates organizational complexity that hinders effective and efficient implementation. The commitment of SRM personnel to their job may erode without strong leadership from the Strategic Supplier Relationship manager (SSRM) who leads the SRM team, evidence of the benefits of SRM, means of bringing in stakeholders early on and gaining their support, and support to reward

¹ The purchasing of spares and depot-level contract repairs has been centralized to eight CCs located at the three ALCs. The eight CCs are Aircraft Accessories, Aircraft Engines, Aircraft Structural, Communications-Electronics, Instruments, Landing Gear, Secondary Power Systems, and Support Equipment.

and maintain SRM team members' career field development. Addressing these factors could energize SRM efforts by giving them greater influence and direction.

Recommendations

Our analysis suggests the following recommendations for the Air Force to pursue to better realize the goals of SRM:

- Expand the business base.
- Institutionalize SRM.
- Develop analytic capabilities.

Expand the Business Base

The current business base of SRM at AFMC is primarily restricted to weapon system spares and repair purchases. These represent at most 10 percent of the Air Force's direct spending budget and only a fraction of the business base that some of the largest SRM suppliers have with the Air Force. Successful commercial firms integrate SRM concepts across their business units to include all of the business that a supplier has with the company. The relatively small portion of the business base currently considered within SRM in the Air Force significantly limits the scope of the savings that could be achieved.

Expanding SRM to include a greater portion of Air Force spending with suppliers can increase their incentives to improve. Such an expansion would include all spending within the ALCs and spending at the product centers, where new weapon systems are acquired. One means of linking the sustainment business base (the little "a") to the acquisition business base (the big "A") would be to develop an integrated supplier scorecard for the whole of AFMC. Another means might be for the product centers to develop their own SRM initiative to operate above the program level—according to whatever the law permits—and act as a clearinghouse for identifying common issues that, if addressed by the supplier in one program, could benefit those in others. Still another means might be to establish a joint product center–ALC SRM program where the total business base of key suppliers is included, with both types of businesses (big "A" and little "a") represented.

Institutionalize SRM

Institutionalizing SRM to make it an integral part of managing key suppliers would provide it more influence and direction. Steps toward institutionalizing SRM include the following:

- sustained support from top management, which would communicate that top management values SRM and intends to cascade those values throughout the enterprise and supply chain
- formal SRM policies and guidance that clarify objectives, roles, and responsibilities of SRM teams and key stakeholders
- processes, official recognition, and assignment of the duties of the SSRMs
- career incentives and development programs for SRM team members
- formal training programs
- cross-functional support available to SRM teams

- process changes that facilitate implementation of SRM initiatives across organizations and locations
- methods of measuring and sharing metrics of supplier performance improvements across the enterprise.

Unless such steps are taken and unless SRM can demonstrate real improvements, SRM risks becoming marginalized and losing resources, importance, and, inevitably, influence. Institutionalizing SRM provides a means for AFMC to work directly with its key suppliers across the total Air Force business base to improve those things on the customer and supplier sides that unnecessarily keep costs high and affect quality and performance.

Develop Analytic Capabilities

AFMC should continue to grow an analytic capability that can develop and refine supplier scorecards; identify and justify targets of opportunity for improvements; and develop business cases needed to secure support from top Air Force management, various stakeholders, suppliers, and Defense Logistics Agency and organic maintenance. Implementation of such an analytic capability for SRM should benefit directly from the Air Force's new enterprise resource planning system, the Expeditionary Combat Support System (ECSS), which should facilitate the collection of data needed for SRM-related analyses.

SRM teams will also need to keep pace with best practices. The companies we interviewed have made this capability organic to the team. This capability becomes especially important to the SRM team's ability to demonstrate the benefits of SRM to key players, most notably the supply chain managers.

Conclusion

SRM has grown in importance in the private sector over recent years. AFMC's experience with SRM suggests that while it has tried to implement many of the best practices, some obstacles prevent it from reaping real benefits from the initiative. If these obstacles are addressed, SRM could become a significant strategic tool for AFMC in seeking real cost and performance improvements with its key suppliers.