The Competitive Potential of Supply Management

By Robert M. Monczka and Kenneth J. Petersen

Supply management can be a powerful competitive weapon—if the strategy driving that activity is closely and continuously aligned with the business strategy. Yet new research suggests that the necessary alignment is often lacking. This article offers a process for identifying and implementing the supply management strategies that hold the best potential for competitive advantage. What’s involved here is a transformational supply management change.

Firms around the world are developing and adapting business strategy in order to meet an ever-changing global marketplace. These changing business strategies are frequently driven by downward price pressure, more complicated global supply chains, increasing global competition, heightened customer value expectations, changing population demographics, increasing demand for environmentally safe products, rapidly changing technology, and growing stakeholder demands.

In this dynamic environment, supply management strategies must align with and support rapidly changing business strategy. In fact, when this alignment is lacking, supply management simply cannot properly support the business. For example, supply management may focus on delivering business value through the negotiation of improved pricing, when the business actually needs insight into suppliers’ process and technology innovation. In this case, the supplier will certainly understand that they are primarily competing on price and then appropriately choose to withhold their valuable insight into process and technology innovation.

For most organizations, the close and continuing alignment of supply management strategies with business strategy represents a transformational supply management change. In this article, we suggest a process to help supply management professionals...
undertake this transformational change in a fast and effective way.

Our discussion is based on the most recent CAPS Research Executive Assessment of Supply (EAS). (For more on this research, see accompanying sidebar.) We describe the current state of supply management, suggest a future state of supply management strategy, point to those opportunities for strategy development and improvement, and then outline a process for achieving the necessary supply management transformation. Our goal is to give forward-looking supply executives a view of where they might most effectively apply resources in order to close gaps—and in so doing

**About the Research**

The CAPS Research Executive Assessment of Supply (EAS) was developed to help firms address the changing world of supply management. This project has been ongoing since 2007, with the most recent survey conducted in 2011. The goal of this research is to determine what importance organizations place on critical supply strategies, their level of implementation, and the performance resulting from these strategies. Data for the most recent study were collected from 119 supply organizations related to 22 supply strategies and performance results. Respondents were primarily from the United States and represented 25 different industries, which we have broadly classified into the broader sectors of discrete manufacturing (33), process manufacturing (42), and service (44).

The 2011 Executive Assessment of Supply is the third in a series; prior study results were published in 2007 and 2009. The 2011 EAS report and complete description of the strategy areas can be found at www.capsresearch.org.
better support business strategy and contribute to their companies’ competitiveness.

**Current State of Supply Strategy**

Supply management executives participating in the EAS study were asked to rate each of 22 supply strategy areas in terms of both their importance and implementation. (These strategy areas are listed in the appendix to this article.) Overall, respondents reported that the importance of these supply strategies was much greater than the implementation of them (see Exhibit 1). The rating of importance was considered to be “high/critical” (that is, operational necessity, required for operational effectiveness, necessary to gain market leadership, achieves competitive viability—a necessary consideration to compete). The rating of strategy implementation, by contrast, ranged from “moderate” to somewhat less than “extensive.” This difference between strategy importance and strategy implementation denotes a substantial gap and a corresponding opportunity for ongoing and focused supply strategy development and implementation.

From Exhibit 1, we can see that the range across the 22 strategy areas is quite large in terms of how extensively the firms have implemented these strategies. Similarly, the difference between average level of strategy importance and strategy implementation is sizable. That gap has existed since our first EAS study in 2007. In fact, the results indicate some, but not dramatic, improvement—and little change since the 2009 study, as shown below:

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<th>2007</th>
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<td>Implementation</td>
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<td>5.7</td>
<td>5.5</td>
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<td>Gap</td>
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Beyond this overall view of supply strategy and implementation, let’s look more deeply into each of the 22 strategy areas examined in this 2011 research. Exhibit 2 shows the five most and five least important strategy areas and the five most and least implemented strategy areas. We can clearly see that the strategies considered to be most important also tend to be the most frequently implemented. However, attention also needs to be paid to the least frequently implemented and important supply strategies, which likely could be of significant importance to the firm’s future competitive success.

Thinking about supply management strategies in general, we believe that they may be appropriately organized into three separate groups:

- “Core strategies,” which may be executed nearly entirely within the supply management function.
- “Extended-core strategies,” which require collaboration with other business functions within the firm.
- “Integrative strategies,” which require significant integration both within the firm and with value chain partners (that is, the customer and/or supplier networks).

Interestingly, the five most important and widely implemented strategies tend to focus on both core and extended-core areas. Receiving relatively less attention are the more advanced integrative supply management strategies (for example, integrating suppliers into new product/service development, standardizing environmentally sustainable supply chains, collaborative buyer/supplier development). Further, these integrative strategies are frequently lower rated in terms of both importance and implementation. Notably, this finding does not appear to necessarily align well with overall business strategy, which is increasingly focused on customer segmentation, innovation and risk management, complexity reduction, sustainability, collaboration, customer-focused supply chains, and globalization.

We also looked closely for trends within our broad industry classifications—discrete manufacturing, process manufacturing, and service industries. In the end, the overall findings apply equally well to each of these broad industry classifications.

For those strategies rated most important, where do the greatest implementation opportunities exist? Exhibit 3 attempts to answer this question. As the graphic shows, the biggest gaps or largest opportunities (implementation vs. importance) exist across all of the strategy areas including core, extended-core, and...
integrative. For instance, we can see that strategic cost management, total cost of ownership, measurement and evaluation, supplier assessment and measurement, supply base strategies, human resources, world-class quality and commodity strategies provide the greatest opportunity. Several are relatively more advanced and complex and require significant integration. Some strategies are also more difficult to implement because they generally require cross-functional engagement and support.

At a minimum, firms should consider how they might accelerate their supply transformation efforts in the areas portrayed in Exhibit 3 to achieve key supply strategy goals. The choice of which strategies to transform first will depend on the degree to which each supports business strategy, the current level of implementation, and the resulting opportunity for value creation through deeper implementation.

Comparing Firms on Implementation
When comparing the firms that have the greatest and least degree of implementation across all supply management strategies, we found large differences—both overall and by strategy area. Low levels of overall supply strategy implementation are typically coupled with a lack of a transformation emphasis and too few resources. This could prove costly to firms over time—particularly in light of the reported achievements of the organizations that have achieved the deepest level of implementation across all supply management strategies. In fact, considering this difference, the “most implemented” firm achieved an overall implementation rating (across all 22 supply strategy areas) of 9.6/10, while the “least implemented” firm had an overall implementation rating of 4.3. That’s a gap of 5.3 between the most and least implemented firm. As the findings show, the span between most and least implemented firms is substantial—and represents a
significant opportunity for firms that are lagging in supply strategy implementation.

Importantly, substantial opportunities exist for even the most implemented firms as well. Exhibit 4 shows the six supply strategies that evidenced the largest strategy implementation gaps between the 25 firms with the highest implementation levels and the 25 firms with the lowest. The exhibit reinforces the important point that more mature supply management organizations have had much better success with implementing the more integrated supply management strategies—for example, total cost of ownership and collaborative buyer/seller development. In fact, the difference between the most and least implemented firms is stark in comparison.

Supply strategies that are generally rated as less important also tend to be harder to implement. It’s certainly the case that companies generally focus on relatively easy-to-implement supply management strategies that provide at least some benefits. In addition, some firms’ relative importance rating may be lower for certain strategies because they have already implemented them and are now prioritizing and implementing new and potentially more integrated supply management strategies.

It is these relatively less-implemented strategies that require integration with and collaboration across functions, and often also with supply chain partners such as customers and suppliers. These strategies may offer the greatest contribution to supply value creation over the coming years. For example, e-supply systems are becoming a critical enabler for more effective supply risk management and many other applications and, as such, will require an intensive and ongoing focus. In fact, without appropriate technology-enabled processes to provide important data (for example, predictive analytics) and a means to communicate and collaborate within and across organizations, supply value creation may be limited. Innovation, accelerated change management, and complexity reduction also need to be integral parts of supply transformation efforts. The same holds true for talent enhancement.

**Sixteen Companies: How Implementation Has Changed Over Time**

Recall that this Executive Assessment of Supply was conducted in 2007, 2009, and most recently in 2011. Over this period, we have tracked the performance of the 16 companies that have participated in all three iterations. We did so in order to determine the validity of our assumption that firms that were regularly participating in the EAS research might be on a steeper implementation path than the average company.

While the performance of these 16 firms suggests that there is still room for improvement when it comes to implementing the supply strategies critical to their overall competitiveness, they have achieved considerable progress since 2007.

As an example, and undoubtedly the result of a diligent focus on business strategy-aligned transformational change, these 16 firms significantly closed the implementation/importance gap in the nine strategies listed below (the numbers in parenthesis represent the gap closure between strategy importance and strategy implementation from 2007):

- Procurement & Supply Organization Structure & Governance (1.21)
- Total Cost of Ownership (.82)
- Supplier Assessment, Measurement & Communications (.76)
- Engagement by Corporate Executives & Business Unit Leaders (.65)
- Structuring and Maintaining the Supply Base (.60)
- Establishing World-Class Supplier Quality (.57)
- Vision, Mission and the Strategic Plan (.55)
- Strategic Supplier Alliances (.54)
- Supplier Integration into New Product/Process/Service Development (.51)

Leadership from company and supply management executives, coupled with a cross-functional and cross-enterprise value chain focus, were required to close these gaps. These strategies are generally more complex to implement and require significant leadership and investment; however, their implementation may position the firm for greatly improved return on investment.

For all 22 supply strategies, the 16 firms consistently
increased implementation between 2007 and 2011, with some dips in 2009, presumably due to the severe recession. Importance of the strategies also increased, but less consistently. Supplier Integration into Customer Order Fulfillment; Cross-Functional/Location Teaming; Standardization of Products, Services, Components & Design Specifications; and e-Sourcing and Supply Chain Strategies saw minor decreases in their importance rating, which likely reflects the 2009 recession-related cost cutting.

Overall, both strategy implementation and importance increased for those 16 firms between 2007 and 2011. On average, implementation increased by .93 and importance by .28. In addition, the overall gap between Supply Strategy Importance and Implementation dropped from 2.41 in 2007 to 1.66 in 2011—a significant improvement of .75 at these 16 companies. This reduction almost doubled the average gap reduction of .4 across all firms. The message is clear: a closer alignment of supply management strategies with business strategies must be an ongoing effort if true supply management transformation is to be achieved.

**Supply Strategy Focus Looking Forward**

In completing the survey, participants were asked to identify three emerging supply strategies that would be most critical to improving their firm’s competitive performance over the next three to five years. We also asked each firm to describe the major drivers of these emerging strategies.

Analysis of their responses showed not only a clear focus on the core and extended-core supply strategies, but also definite movement toward the more integrative and complex supply strategies. The following represent some of the more interesting emerging leadership and cross-functional, cross-enterprise integrative strategies described by the respondents. (Industry of respondent shown in parentheses.)

**Executive Supply Management Leadership** (Diversified Food and Beverage). “As a company, we have to do a significantly better job of defining what we need in our executives and executive team, and develop a rigorous process of recruiting and retaining true world-class executives to lead and manage this company. ‘All Stars’ at each position is an absolute necessity as well as collaborative teamwork in the best sense of the term. We are currently not where we need to be for the long haul.”

**Supply Chain Talent** (Industrial Manufacturing). “Establishing reliable talent pipelines, especially in emerging market regions, and moving talent across businesses to create leaders with a broader view of the company. This is important because we are constantly being asked to do more with less and rapid business growth is creating the need for a deeper bench of talent.”

**Supply Strategy For New Market Development** (Automotive Manufacturing). “Our market growth, and thus the manufacturing footprint associated, is going to be coming a lot from China and India; thus, the need to develop a local competitive supply base to serve those markets. This base will also be used for other markets if the total landed cost shows a benefit for that. For this strategic driver, we will rely heavily on one of our main assets—a team of supplier quality and development specialists with a heavy presence in China and India whose task is to participate in the screening of new suppliers and develop them.”

**Early Supplier Involvement in New Product Development** (Industrial Manufacturing). “Involving suppliers early in the new product development process is critical and driven by a need for innovation and speed to innovation. It is also driven by customer expectations about concept-customer cycle time (reduction) and delivered product price.”

**Integrated Supply Strategy** (Industrial Manufacturing). “Opportunity to reduce supply risk for key raw materials, and improve economics through strategic sourcing arrangements such as licensing technology, JVs, M&A, and capital projects, in addition to cross-functional purchasing approaches for qualifying new sources.”

**Supplier Relationship/Performance Management** (Pharmaceutical). “Increased focus on supplier relationship management and supplier performance measurement driven by revenue and profit erosion due to generic competition, pipeline challenges, political environment, worldwide demographics, etc., and resultant focus on cost reductions, supplier innovation and total value. We will partner with suppliers who successfully collaborate to deliver against all facets of AQSCI (assurance of supply, quality, service, cost, innovation), year-on-year cost reductions and total value.”

**Environmental and Social Sustainability and Governance** (Semiconductor Manufacturing). “We need improved focus on environmental and social sustainability as driven by governmental, social and non-governmental pressures that challenge the preservation of our brand name. Further, regulatory compliance
requires process, systems and behavioral changes across the corporation, requiring investment and time. Finally, we need to separate these two areas (brand/image vs. regulatory compliance) so that we change our sourcing and procurement strategies such that they address both brand and image, and not just regulatory compliance.”

**Innovation through Supplier Relationship Management** (Chemical). “Improving our ability to draw innovation from our supply base and improving the gains achieved through effective supplier relationship management.”

**Simplification and Standardization** (Diversified Foods and Beverages). “Our company developed over time through many acquisitions, each with their own variations on product offerings to their customers. The result is that we have too many variations, which drives inefficiencies in our plants and with transportation and delivery. We must reduce our complexity by a factor of 10 in the next few years and standardize.”

**Supply Base Diversification and Competitiveness** (Metals and Mining). “We will focus on diversifying our supply base to include suppliers from different countries and regions, while at the same time restricting sole sourcing. This will minimize our risk, and we will have a wider supply base to utilize moving forward.”

**Collaboration** (Semiconductor Manufacturing). “Supplier collaboration on product technology—increased advanced technology content in products, leading to increased leverage of suppliers’ advanced technology and capability.”

**Recommendations for Future Success**

A very important finding of this study is that supply management professionals have worked hard to implement core and extended-core supply management strategies, but have not focused to the same degree on implementing the integrated strategies that are likely to drive fundamental business value moving forward.

Although supply management is becoming more strategic at companies worldwide, implementation of critical supply strategies that are closely connected to enterprise-level strategic importance is still lagging. In fact, it is considerably short of the maximum potential. Companies need to continue to further enhance and ensure a high level of implementation and effectiveness of such core strategies as purchase category/supplier strategy development, structuring and maintaining the supply base, procurement and supply organizational structure and governance, strategic cost management, and talent acquisition and development.

Our research suggests that greater emphasis needs to be placed on the extended core and integrative supply strategies required for supply and supplier networks to become an integral part of customer-focused value chains. Some of these supply strategies include:

- **Collaborative buyer/supplier development and continuous improvement**—for innovation, proactive risk management and customer solutions development.
- **Standardization of products, services, components, and design specifications.**
- **Accelerated change management.**
- **Environmentally sustainable supply chain management.**
- **Supplier integration into new product/service development for innovation and customer order fulfillment.**
- **Total cost of ownership.**

Customer-focused value chains will require tighter integration between a company’s functions and its external customers and suppliers. This integration will be achieved through a clearly articulated vision of value chain strategy and leadership, in combination with performance metrics that properly assess customer satisfaction with value provided and supply and supplier contributions. Supply management strategies that can make major contributions to company performance must be implemented on a worldwide basis, not just close to primary U.S. and European markets.

In implementing these far-reaching strategies, companies truly embark on a supply transformational journey—one that can be long and fraught with interruptions. However, our ongoing research and prior experience suggests that it can be successful if certain key elements are in place, including:

- **Clearly articulated goals that are important to the business.**
- **Transformation priorities.**
- **The resources and capabilities to implement significant change.**
- **A focused transformation process.**
- **Leadership action to drive supply transformation.**

Below we elaborate on these five elements that we believe are critical to the success of the supply management transformation journey.

**Establish Clearly Articulated Goals**

It is important to identify and clearly articulate the value to be gained—i.e., the goals—from a supply transformation realized through implementation of the supply management initiatives. Those goals may vary. They could, for example, focus on various ways to achieve cost reduction—through negotiations, price reductions based on raw material price decreases, cost reduction ideas from suppliers, cost modeling, best country sourcing, and so forth. Some firms may set a longer term objective of obtaining innovations from their key suppliers. Another
longer-term goal would be to achieve integration among supply chain members.

In implementing any of these initiatives, capital, people and time investments may be required. Increasingly, firms are requiring that the return on investment from such initiatives be comprehensively and accurately measured. For any transformation effort to succeed, the goals must be clearly articulated, expertly implemented, and closely measured. And importantly, information around these activities must be effectively communicated throughout the organization.

**Set Transformation Priorities**

Each of the 22 strategy areas described in this article should be carefully evaluated in terms of their business priority, which can differ greatly from firm to firm. Priorities will be established based on an organization’s current state and potential short- and long-term benefits from executing the strategy.

Even though many firms are engaged in improving some or all of these strategies, our findings suggest that there are still substantial opportunities for implementation improvements. Each of the 22 strategies described in the Appendix should be prioritized for possible implementation focus based on anticipated results in light of costs and complexity to implement. Note that we previously described a set of strategies with very large implementation-importance gaps. Companies experiencing such gaps should consider these strategy areas as a top priority.

**Ensure Resources and Capabilities**

Firms undertaking supply transformations must ensure that they have the resources and capabilities to execute the initiative over time. Two major considerations here are the complexity of the strategy and the firm’s implementation capability. Executive support is critical to ensure that the appropriate capabilities and resources are in place to support the future vision. Also required is a full and detailed project management approach in which objectives, responsibilities, timing, investment, and returns are shown.

**Establish a Focused Transformation Process**

Supply transformations will sometimes fail. To minimize this possibility and position the supply management initiatives for success, we recommend a process that centers on implementing a very targeted set of supply strategies on a limited basis. Our experience with firms is that attempting to implement multiple strategies all at once with grandiose promises will lead to failure. Focus is critical.

**Leadership Action to Drive Supply Transformation**

Supply management strategy is critical to the success of business competitiveness. Firms are being forced to change their business models and strategies in ways that require significant supply strategy transformations. Currently, we believe that these transformations are occurring too slowly. In response to this challenge, supply and executive leaders must commit to answering the following questions in a clear and concise manner—and taking appropriate action:

- What will be the role of your firm’s supply management function and what supply strategies (core, extended-core, and integrative) will be required for your business to compete over the next few years?
- How will your firm’s transformational process support effective and quick change?
- How can your firm ensure that its process for supply transformational change is continuous, a part of company culture, and is not a short-term effort with limited long-term value creation potential?

**Appendix**

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<th>Strategy Areas Measured</th>
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<td><strong>Core Strategies</strong></td>
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<td>Commodity &amp; Supplier Strategy Process</td>
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<td>Establishing World-Class Supplier Quality</td>
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<td>Human Resource Development</td>
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<td>Measurement and Evaluation</td>
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<td>Procurement &amp; Supply Organization Structure &amp; Governance</td>
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<td><strong>Extended Core Strategies</strong></td>
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<td>Cross-Functional/-Location Teaming</td>
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<td>Engagement by Corporate Executives &amp; Business Unit Leaders</td>
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<td>E-Sourcing &amp; Supply Chain Strategies</td>
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<td>Global Sourcing &amp; Supply Strategy</td>
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<td>Strategic Insourcing/Outsourcing</td>
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