

outsourcing

*electronic
commerce*

**FOCUS
STUDY**

total cost

ethics

*supply chain
management*

strategic alliance

global sourcing

*purchasing
consortiums*

*operational
resource management*

minority enterprises

Supply Strategy Implementation: Current State and Future Opportunities 2009

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Supply Chain Strategy Research
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Table of Contents

Acknowledgements	2
Author Biographies	3
Table of Contents	4
Index of Figures and Tables	6
Executive Summary	8
Research Background	8
Key Findings	8
Changes: 2009 vs. 2007	9
Guidance for Senior Management	9
Chapter 1: Introduction and Research Approach	10
Transforming Purchasing/Supply	10
What Will the Next 10 Years Look Like?	11
CAPS Executive Assessment of Supply (EAS): Development and Objectives	11
Supply Strategies Included in EAS	12
EAS and Value-Add to Company Competitiveness	12
Research Approach	12
Respondent Profile	13
Overall Research Framework	14
Report Organization	14
Chapter 2: Supply Strategies: Importance, Implementation and Gaps	17
Introduction	17
Commodity & Supplier Strategy Process	17
Overall EAS Findings	17
Supply Strategy Importance Ratings and Rankings	19
Supply Strategy Implementation Ratings and Rankings	20
Supply Strategy Gap Analysis	21
Overall Importance/Implementation Gap Analysis	22
Comparison Between High and Low Implementation Firms	23
Observations: High and Low Implementation Firms	24
Conclusions: Current State of Supply Strategies	25
Chapter 3: Industry Analysis	27
Introduction	27
Industry Sector Difference Findings	27
Industry Difference Conclusions	27
Average Ratings by Industry Sectors	27
Chapter 4: Strategy Implementation and Supply Performance	43
Introduction	43
Supply Performance	43

Conclusions	43
Industry Performance Differences	45
Correlation Analysis	45
Chapter 5: What Has Changed? 2007 to 2009	47
Introduction	47
Overall Changes: 2007-2009	47
Supply Strategy Changes: Firms Common Between 2009 and 2007	47
Chapter 6: Obstacles to Supply Strategy Implementation	52
Introduction	52
Overall Findings	52
Conclusions	53
Selected Obstacles	53
Chapter 7: Summary and the Path Forward	55
Introduction	55
Summary: Key Findings	55
The Path Forward: Supply Transformation 2010 and Beyond	56
Clear Goals	56
Establish Priorities	56
Resources and Capabilities	57
Supply Transformation Process and EAS Application	57
The “Decade Ahead”: Supply Strategy Implementation	57
Strategy Enhancement	57
Supplier Focused Strategies	58
Supply/Value Chain Integration	60
Concluding Comments	60
Appendix One: Supply Strategy Definitions	62
Appendix Two: Statistical Analysis	68
Appendix Three: Strategy Implementation Obstacles	69

Index of Figures and Tables

Figure 1.1	Sourcing and Supply Chain Maturity Model	10	Table 2.1	Overall Importance Strategy Ratings	20
Figure 1.2	EAS Application	13	Table 2.2	Overall Implementation Strategy Ratings	21
Figure 1.3	Responding Company Profile	13	Table 2.3	Overall Strategy Ratings — Gaps	22
Figure 1.4	EAS Participating Industries	14	Table 2.4	Implementation: Highest 25 Companies vs. Lowest 25 Companies	24
Figure 1.5	Supply Leadership Model	15	Table 2.5	Overall Implementation Ratings for Top/Bottom 25 Firms	25
Figure 2.1	Assessment Example with Rating Scales	18	Table 3.1	Strategy Importance Differences by Industry	28
Figure 2.2	Overall 2009 EAS Findings	19	Table 3.2	Strategy Implementation Differences by Industry	28
Figure 2.3	Strategy Segmentation Analysis: Importance/Gap	23	Table 3.3	Average Ratings by Industry Sector	29
Figure 7.1	Improving Economic Value-Add (EVA)	56	Table 3.4	Implementation Ratings for Top/Bottom Firms by Industry Sector for 23 Strategies	29
Figure 7.2	Building Blocks for Supply Transformation	57	Table 3.5	Top 6 Strategy Gaps by Industry Sector	29
Figure 7.3	Strategic Supply Strategy Priorities & Capabilities Assessment Framework	58	Table 3.6	Discrete Manufacturing Importance Strategy Rankings/Ratings	30
Figure 7.4	Supply Strategy Transformation Process	59	Table 3.7	Discrete Manufacturing Implementation Strategy Rankings/Ratings	31
Figure 7.5	Critical Supply Strategies: 2010 and Beyond	60			

Table 3.8	Discrete Manufacturing Strategy Gap Rankings/Ratings	32	Table 4.4	Performance Improvement: Overall and by Industry Sector	46
Table 3.9	Implementation: Highest 10 Discrete Manufacturing Companies vs. Lowest 10 Discrete Manufacturing Companies	33	Table 5.1	Comparison of 2007/2009 Implementation/Importance Gaps	48
Table 3.10	Discrete Manufacturing: Implementation Ratings for Top/Bottom 10 Firms	34	Table 5.2	Differences in Overall Implementation Between 2007 and 2009	49
Table 3.11	Process Manufacturing Importance Strategy Rankings/Ratings.	34	Table 5.3	Difference in Overall Importance Between 2007 and 2009.	50
Table 3.12	Process Manufacturing Implementation Strategy Rankings/Ratings	35	Table 5.4	Importance, Implementation & Gap Strategy Ratings for Companies Participating in <i>BOTH 2007 & 2009</i>	51
Table 3.13	Process Manufacturing Strategy Gap Rankings/Ratings	36	Table 6.1	Summary of “Obstacle” Responses by Supply Strategy	54
Table 3.14	Implementation: Highest 10 Process Manufacturing Companies vs. Lowest 10 Process Manufacturing Companies	37			
Table 3.15	Process Manufacturing Implementation Rankings/Ratings for Top/Bottom 10 Firms	38			
Table 3.16	Service Importance Strategy Rankings/Ratings	38			
Table 3.17	Service Implementation Strategy Rankings/Ratings	39			
Table 3.18	Service Strategy Gap Rankings/Ratings	40			
Table 3.19	Implementation: Highest 10 Service Companies vs. Lowest 10 Service Companies	41			
Table 3.20	Service Implementation Ranking/Ratings for Top/Bottom 10 Firms	42			
Table 4.1	Supply Performance Results (2007, 2009)	43			
Table 4.2	Performance Ratings (2007 and 2009)	44			
Table 4.3	Actual Performance: Overall and by Industry Sector.	45			

Executive Summary

Research Background

Supply management has been undergoing transformation from an administrative function to a strategic contributor to organizational competitiveness over the past 20 plus years. The success or failure of supply to establish and lead a competitive supply base and work with other functions can drastically impact a firm's success. In addition, supply positively or negatively affects cost, assets, and revenue generation, all critical to the financial performance of the firm.

Currently, the strategic direction of many firms is being supported by supply strategies. For example, P&G's "click and connect" open innovation focus, purchasing's savings contribution presented to Wall Street analysts by various companies, General Mills "holistic margin management" requiring significant contribution from supply, globalization of the supply base across industries, increasing collaboration with suppliers and dramatic efforts by firms during the economic downturn to cut costs and gain back raw material price increases.

To continue positive supply transformations, firms' worldwide need to regularly assess the degree of implementation of supply strategies they consider most important to the success of their organization. With this in mind and with the experience gained over the past 10 years in developing, providing and conducting supply assessments, CAPS Research executed the Executive Assessment of Supply (EAS).

The primary objective of the 2009 EAS was to determine the importance organizations worldwide place on critical supply strategies, their level of implementation and performance results from these strategies. Data about 23 supply strategies and performance results were collected from 130 supply

organizations across 26 industries to further develop a baseline for current and future analyses, which was initialized with the 2007 EAS.

Key Findings

The 2009 EAS shows that firms are lagging in implementing supply strategies that they consider important to the competitive success of their firms. Firms rated the importance of the 23 strategies between being "functionally required" to "an operational necessity to compete." Implementation of the strategies was not complete. For all organizations, supply strategies were implemented at a "limited number of supply locations and were being accepted as best practice with initial positive results."

In addition, there was a large gap between strategy importance and implementation. There was also a large implementation difference between those firms where supply strategies were most and least implemented.

The 10 most important and implemented supply strategies were:

- Vision, Mission and the Strategic Plan
- Commodity & Supplier Strategy Process
- Strategic Cost Management
- Engagement by Corporate Executives and Business Unit Leaders
- Human Resource Development
- Procurement & Supply Organization Structure & Governance
- Measurement & Evaluation
- Total Cost of Ownership
- Functional & Business Processes, Practices & Systems

- Structuring & Maintaining the Supply Base and Cross-Functional/Location Teaming

These strategies focus on both the building blocks required to achieve an effective supply organization and strategy, and those specific purchase category and supplier strategies critical to achieving year-over-year supply performance improvement. However, implementation of these strategies also lags behind their strategic importance.

Overall, the largest gaps between supply strategy importance and implementation were found for commodity/supplier strategy development, strategic cost management, human resource development, structuring/maintaining a world-class supply base, measurement and evaluation, total cost of ownership, world-class quality, accelerated change management, and supplier assessment, measurement and communication. These strategies should provide an implementation focus at most firms.

Industry sector differences were quite limited. However, the discrete industry sector had a somewhat higher degree of implementation overall than the process and service sectors.

Supply performance, on average, showed improvement for key performance areas. Purchase prices were reduced by 4 percent on average; transportation and logistics costs were reduced by 5.1 percent and total cost of ownership reduced by 4.3 percent. Compared to 2007, price improvements were similar but transportation and logistics and total cost of ownership improved somewhat. Supplier flexibility and responsiveness was also somewhat improved in 2009.

Changes: 2009 vs. 2007

- There was a significant reduction in the overall “gap” between strategy importance and implementation, generally indicating a higher degree of implementation since 2007.
- The most significant increases in strategy implementation between 2007 and 2009 were for strategic cost management; strategic supplier alliances; total cost of ownership; procurement and supply organization structure and governance; engagement by corporate executives and business unit leaders; innovation and accelerated change management; and structuring and maintaining the supply base.

- For firms participating in both the 2009 and 2007 EAS, major gap reductions were for strategic supplier alliances; supplier integration into customer order fulfillment; e-sourcing and supply chain strategies; collaborative buyer/supplier development and continuous improvement; supplier integration into new product development; and innovation and accelerated change management.

The two most significant obstacles to implementation were executive engagement and support with resources and alignment and integration of business; and manufacturing/operations, technology and supply strategies.

Guidance for Senior Management

Although supply is becoming more strategic at firms worldwide, implementation of critical supply strategies is still lagging. We also found that strategies that may take longer to implement and require more resources and cross-functional support were not viewed as being most important, nor were they the most implemented. However, more robust strategies such as standardization of purchases to reduce complexity and collaboration will likely be very important to the future success of many organizations.

Based on this research, we believe that firms should be working “two supply buckets” concurrently. First, there is need to ensure high implementation and effectiveness for core strategies such as category and supplier strategy development (with risk management), structuring the supply base, total cost of ownership, strategic cost management, and people acquisition and development. These strategies deliver supply performance today.

Second, leading supply organizations and their supply and business unit leaders need to invest in the long-term success of the firms by accelerating transformation of e-systems for supply, supplier integration into both new product development and customer order fulfillment, standardization of specifications and purchases to reduce complexity, supplier innovation through effective collaboration, and environmentally sustainable supply chains. These strategies will be necessary to deliver future performance improvements.