



# Value Focused Supply: Linking Supply to Competitive Business Strategies

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**CAPS Research**

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# Forward

The mission of supply management organizations continues to evolve in response to economic conditions, technology advances, company strategies and supply market opportunities. Prior to the 1950s, purchasing organizations were primarily charged with simply ensuring availability of supply. The decades that followed brought ever-increasing attention to obtaining reasonable prices in addition to ensuring availability. The 1990s saw an explosion of “competitive sourcing” — first as a means to apply company leverage to supply markets to obtain improved prices, and later as a way to help drive down total cost of ownership.

Competitive sourcing remains a powerful tool for many categories of spend. However, market conditions require — and senior executives demand — that supply management organizations deliver more than just cost reduction going forward. Finding ways to generate more value from supply markets and supply relationships is becoming supply management’s new mission.

In this report, CAPS Research and A.T. Kearney, Inc., explain how 15 leading companies are already responding to this new mission. The research examines the strategies, approaches and enablers that are in place at these companies and illustrates through case examples the successes they have had.

This research effort is the fourth in a series of joint efforts by CAPS Research and A.T. Kearney that explores executive issues in supply management. The previous studies are:

- *Succeeding in a Dynamic World: Supply Management in the Decade Ahead* (2007)
- *Outsourcing Strategically for Sustainable Competitive Advantage* (2005)
- *The Future of Purchasing and Supply: A Five- and Ten-Year Forecast* (1998)

Copies of the studies are available from the CAPS Research Web site at [www.capsresearch.org](http://www.capsresearch.org). Select “Research” and then “Focus Studies.”

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# Executive Summary

Value Focused Supply (VFS) strategies will provide the next breakthrough opportunity for companies to create and capture value from their most strategic purchases. These VFS strategies go far beyond the price/cost reduction of traditional competitive sourcing. Already, leading companies are clearly demonstrating the power of this more comprehensive approach. Senior executives who lead their companies to be among the first to systematically apply VFS across the supply network will have opportunities to protect and create significant competitive advantages.

Looking back over the past 20 years, it is clear that competitive sourcing created significant value for companies by driving hundreds of billions of dollars in collective cost savings directly to the bottom line. However, the widespread use of competitive sourcing techniques and tools has eroded the major advantage that it gave pioneers in the 1990s. A.T. Kearney's 2008 *Assessment of Excellence in Procurement (AEP)* global research study found that the savings gap between "leader" and "follower" companies had shrunk in half since 2004. For many categories of spend, continued attention to competitive sourcing will remain necessary just to keep up.

However, with tougher global competition in virtually every market, merely saving money on external expenditures will not be enough to survive, let alone thrive, in the years to come. Companies must find and mine additional value from their supply relationships. The supply network needs to contribute holistically to the company through innovation and growth, asset utilization, sustainability, risk management and overall competitiveness as well as cost.

In response to these new challenges for supply management, CAPS Research and A.T. Kearney teamed up to conduct research with 15 leading companies to

discover how they are achieving overall value improvement for strategic purchases. In-depth interviews were conducted with key individuals at these companies to gain insights into selected value-focused purchase categories and overall company and supply strategies.

Specifically, the research addressed the following VFS questions:

- How are companies implementing VFS? What results are being achieved?
- What strategic and operational approaches can be developed to accelerate implementation of VFS with suppliers and supply networks?
- What are the critical issues and inhibitors to implementing VFS? How can they be overcome?
- What is the role of supply management in developing and implementing VFS?

At its core, Value Focused Supply is an approach for creating and implementing longer term strategies for key purchase categories and their suppliers that go far beyond traditional sourcing. By linking supply to competitive business strategies, the goal is to increase the attractiveness and competitiveness of the company's end products and services, thereby increasing value for both customers and the company.

Value creation was found to result in revenue enhancements, cost reduction, asset optimization and achievement of intangibles. This value was achieved by eliminating value leakage, increasing current value, creating tomorrow's value and stretching for added value.

The companies studied employed a wide range of strategies to drive more value from supply. Examples include:

- A company that established a brand new value chain to break an upstream monopoly. Its alternative sources of supply let it slash lead time for customer orders, resulting in major market share gains and dramatically increased revenues while blocking competitors from adopting a similar strategy.
- A company that teamed with a strategic supplier to develop a new technology. Collaborative development brought its product to market well ahead of competing offerings, driving market share growth and revenue/profit increase for both the company and its supplier.
- A company that leveraged its focused volumes with selected suppliers to achieve equity rebates as the selected suppliers grew and their market value increased.

Across the 15 organizations, we found a number of critical enablers that were required to achieve VFS. These included executive engagement, value chain goal alignment and measurement, supply market understanding, collaboration approaches, supplier relationships, information/analytic capabilities, and organization and human resources.

Based on our analysis across the participating companies, a few observations stand out.

First, VFS strategies are based on mapping customer needs and what they most value, then aligning and applying company and supplier resources to create value for customers. These strategies are frequently evaluated in terms of meeting overall business unit and/or product line goals and financial return on investment.

Second, highly capable supply and other functional personnel, including executives, were typically engaged in VFS strategy creation and deployment. The complexity of these strategies required creative and talented people who could influence other key decision-makers to commit resources and support the strategy.

Third, these VFS strategies require a holistic set of measures and incentives to evaluate success that are significantly related to the success of the business versus traditional price improvement measures and typical performance expectations of supply.

Finally, the role of supply varied from strong leader to participant in VFS strategy development and execution. It was obvious that supply could not create and lead all efforts but should play an “appropriate” and influential role based on the situation.

The research also found a need to further develop organization and process approaches to accelerate Value Focused Supply and further connect with stakeholders and senior management. This can be done by establishing stakeholder and supply executive committees to drive and guide VFS. We also believe that Value Focused Supply will become an equal component of company strategy along with marketing, finance, manufacturing and technology over the next five to 10 years.

This research report provides the detail behind our findings and includes:

- Why Value Focused Supply is important
- Key overall findings
- Examples of Value Focused Supply strategies
- A framework for implementing Value Focused Supply
- Enabling Value Focused Supply
- Conclusion