

*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 and Future Opportunities 2011

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CAPS Research  
and

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Supply Chain Management  
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University of Tennessee

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# Executive Summary

## Research Background

Over the past 20 years, supply management has evolved from an administrative function to become a strategic contributor to organizational competitiveness. The success or failure of supply management to establish and lead a competitive supply base and work with other functions can drastically impact a firm's success. Supply management positively or negatively affects cost, assets, and revenue generation, all of which are critical to creating company value and to the financial performance of the firm.

Currently, the strategic direction of many firms is being supported by supply strategies. Consider, for example, P&G's "Connect and Develop" open innovation focus; the purchasing function's savings contribution presented to Wall Street analysts by a number of companies; General Mills' "Holistic Margin Management" program that requires significant contribution from supply; globalization of the supply base across industries; increasing collaboration with suppliers; and the dramatic efforts undertaken by firms during and after the recent economic downturn to reduce costs while further globalizing the supply base and reducing risk.

To achieve supply transformations that provide overall value creation, 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 armed with the experience we have gained over the past decade in developing, providing, and conducting supply assessments, CAPS Research executed the 2011 Executive Assessment of Supply (EAS).

The primary objective of the 2011 EAS was to determine what importance organizations on a worldwide basis place on critical supply strategies, their

level of implementation, and the performance resulting from these strategies. Data was collected from 119 supply organizations across 25 industries regarding 22 supply strategies and performance results in order to further develop a baseline for current and future analyses. The 2011 EAS is the third in a series; prior study results were published in 2007 and 2009.

## Key Findings

The 2011 EAS shows that firms are still lagging in implementing supply strategies considered important to the competitive success of their firms. Firms rated the importance of the 22 strategies from between "functionally required" to "an operational necessity to compete." Implementation of the strategies was not complete. For all organizations, the 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 the reported importance of each strategy and its actual 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:

- Engagement by Corporate Executives and Business Unit Leaders
- Vision, Mission and the Strategic Plan
- Commodity & Supplier Strategy Process
- Strategic Cost Management
- Procurement & Supply Organization Structure & Governance
- Human Resource Development

- ❑ Total Cost of Ownership
- ❑ Structuring & Maintaining the Supply Base and Cross-Functional/-Location Teaming
- ❑ Measurement & Evaluation
- ❑ Establishing World-Class Supplier Quality

These strategies focus on the building blocks required to achieve an effective supply organization and strategy as well as the specific supply 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 those strategies considered to be most important, but least implemented, were:

- ❑ Commodity & Supplier Strategy Process
- ❑ Strategic Cost Management
- ❑ Human Resource Development
- ❑ Total Cost of Ownership
- ❑ Supplier Assessment, Measurement & Communications
- ❑ Establishing World-Class Supplier Quality
- ❑ Structuring & Maintaining the Supply Base

These strategies should provide an implementation focus at most firms.

In addition, analysis of the differences among industry sectors showed that they were quite limited. However, the discrete manufacturing 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 3.7 percent on average; transportation and logistics costs were reduced by 2.8 percent, and total cost of ownership reduced by 3.6 percent. Compared to 2009, price improvements were somewhat less (2009 figures were 4.0 percent, 5.1 percent, and 4.3 percent, respectively). Supplier flexibility and responsiveness was also somewhat improved in 2009 and 2011.

### **Changes: 2011 vs. 2009 and 2007**

- The overall “gap” between strategy importance and implementation for 2011 and 2009 were similar, -2.0 vs. -1.9, with both being less than the 2007 gap of -2.4, generally indicating an increased degree of supply strategy implementation since 2007.

- For strategy implementation overall, implementation was slightly less in 2011 (5.50) than 2009 (5.68) but higher than in 2007 (5.27), possibly reflecting the recent economic distress.
- Procurement & Supply Organization Structure & Governance; Cross-Functional/-Location Teaming; Structuring & Maintaining the Supply Base; Strategic Insourcing/Outsourcing; and E-Sourcing & Supply Chain Strategies all, at least minimally, saw increased implementation in 2011 from 2007 and 2009.
- The most significant decreases in strategy implementation between 2009 and 2011 were for Accelerated Change Management; Environmentally Sustainable Supply Chain Management; Human Resource Development; Measurement & Evaluation; and Standardization of Products, Services, Components & Design Specifications — although increasing from 2007.
- For firms participating in the 2007, 2009, and 2011 iterations of the EAS, gap reductions between importance and implementation were achieved for all strategies. Major gap reductions between 2009 and 2011 were for Procurement & Supply Organization Structure & Governance; Total Cost of Ownership; Supplier Assessment, Measurement & Communications; Engagement by Corporate Executives & Business Unit Leaders; Structuring & Maintaining the Supply Base; and Establishing World-Class Supplier Quality.

### **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 those supply strategies that have longer implementation timeframes and require more resources and cross-functional support were not viewed as being most important, nor were they most implemented. However, these more robust strategies, such as standardization of purchases to reduce complexity and cross-functional and cross-enterprise 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 a need to ensure a high level of implementation and effectiveness for core strategies, such as purchase category and supplier strategy development, including risk management, structuring the supply base, total cost

of ownership, strategic cost management, and people acquisition and development. These strategies deliver supply performance today and tomorrow. Second, leading supply organizations and their supply and business unit leaders need to invest in their firms' long-term success by accelerating the transformation of e-systems for supply, integrating suppliers into both new product development and customer order fulfillment, standardizing specifications and purchases to reduce complexity, attaining supplier innovation through effective collaboration, and establishing environmentally sustainable supply chains. These strategies will be necessary to deliver future value and performance improvements.

Overall, this suggests that increasing emphasis on cross-functional and cross-enterprise will be required for supply and supplier networks to become an integral part of customer focused value chains. These value chains will require improved integration between company functions and external customers and suppliers that will be achieved through a strategic value chain vision and leadership, combined with metrics that measure customer satisfaction with value provided and supply and supplier contributions. Supply strategies that can make major contributions to company performance must be implemented worldwide.