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Many companies take a purely tactical approach with their suppliers. Yet in doing so, they miss out on the benefits that come from strategically managing the supply base—an activity that incorporates current, potential, and even past suppliers. For guidance on how to get the process known as Supplier Base Management underway, there is no more instructive place to look than professional baseball.
The concept of supplier base management originated in the “Supply Chain Management 2010 and Beyond Research” Initiative (see accompanying sidebar for a summary). During the course of this research, it became apparent that a significant number of the companies participating in the research were taking steps to proactively manage their supplier base. More importantly, they considered one of their most important challenges to be identifying and securing the best and most appropriate suppliers for their systems—a challenge they perceived as never ending because of the constant changes taking place in their supplier base. Further, they saw the need to develop additional supplier capacity to keep pace with increases in demand while developing new supplier capabilities to respond to changes in supply availability or corporate strategy.

Importantly, these views were broad-based in that they extended beyond the firm’s current major suppliers to include other current suppliers, potential suppliers, and the supply chains of competitors.

These responses prompted us to begin our investigation with a central question: What is the supplier base and why is it important? Our answer was that the supplier base is essentially the upstream portion of the supply chain. This portion consists of all suppliers—first, second, third tier and beyond. The supplier base is critical for several reasons. First, it influences, and can constrain, the firm’s output levels. Second, the supplier base shapes overall supply chain capabilities—that is, the types of specific problems that the supply chain can address. Third, it can shape and influence the ability to respond quickly, both to changes in market demand and to strategic changes being implemented by the firm. However, unlike the internal factory—that part of the business that we directly own and control—we typically do not own or directly control the actions of the supplier base. Yet, firms are heavily dependent on their suppliers in effectively responding to changes and demand fluctuations in marketplace.

Too often the view of the supplier base is both limited and static. This “old” view considers only those suppliers that firms currently deal with and focuses solely on managing these existing relationships. Generally, this view ignores the fact that there are other supply chains, often competing for the same set of resources. Moreover, the actions of those other supply chains can affect the performance of the firm’s supply chains. In addition, their suppliers may be members of their competitors’ supply chains. In contrast, a more strategic view of the supplier base is emerging. The new view takes a more holistic approach to supplier base management. It focuses on a larger set of suppliers—both current and potential. It also recognizes that the supplier base and supplier relationships are dynamic, that the desired outcomes from the supplier base may include multiple competitive

Understanding the Origins of SBM
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dimensions, and that competitive supply chains require close attention. (Exhibit 1 summarizes the differences between the old and new views.)

This shift in perspective raises two critical questions. First, is there a better way of understanding the supplier base and how to best manage it? Second, in looking beyond the existing set of suppliers, is there a framework that provides guidance for this extended view of supplier base management? To help find the answers to those questions, we turn to America’s favorite pastime—baseball.

**Baseball’s Insights for Managing Suppliers**

Let’s start with a simple but important question: “How successful in the long term would a baseball team be if management focused only on its major league players?” The answer is obvious: in the short term, it might be successful but the odds of long-term success are very low. Major league baseball managers have long known that a franchise’s success is not solely dependent on the quality of the players currently playing at the major league level. Rather, sustained success requires the presence and management of three other elements: a minor league system, scouts, and a process for transitioning players from the minors to the big leagues.

Fundamental to this approach is recognizing that current players’ assignment to major league rosters is not “permanent” for several reasons. First, players leave a team for a variety of reasons—for example, they get traded, injured or retire. Second, their performance may dip below accepted standards, leading to their outright dismissal. Third, if the team’s playing style (strategy) changes—say, shifting focus from power to a strategy based upon speed, base hits, and maintaining pressure on the opposing team—players possessing different skills will likely be needed. Finally, young “up and comers” typically place pressure on the current roster of players as they attempt to win a call up to the big leagues.

The major league franchise’s minor league teams fulfill many vital roles. Specifically, they:

- Develop future major league players by giving them additional experience through repetition/playing.
- Provide for an environment where the franchise can evaluate the capabilities and talents of these players.
- Prepare the players for the major league system by transferring general baseball knowledge and integrating them into the culture of the particular franchise.
- Provide an environment in which new and different skills and capabilities can be developed and tested (important should the franchise decide to change its strategy).
- Finally, the minor league teams provide a reserve capacity of players in the event of short-term or short-notice needs of the major league team.

Supporting both the major and minor leagues is the scouting system. In successful franchises, this system is proactive, strategic in scope, and aligned with the organization’s goals. Scouting fulfills two important roles: (1)
it identifies and signs potential players to be added to the team and (2) it provides a source of intelligence on skills and strategies being emphasized by opposing teams. This competitive intelligence may reveal a change in how teams and players are being managed, which in turn would call for an appropriate response.

The final element, transition management, is critical as this seeks to ensure that players coming into the major league team do so with minor disruptions—put another way, they are ready to contribute on Day 1. Part of the scouting role is to identify those players who provide skills needed and assess their fit with the team’s culture. Transition management goes beyond this by ensuring the transfer of knowledge among all players, even those about to leave the team, for the betterment of the overall organization.

These four elements—majors, minors, scouting, and transition management—form an integrated process designed to ensure that the major league franchise can consistently play at and maintain a high level of performance, and remains positioned to sustain that performance. The franchise is able to grow from within (minors) and without (scouting), while easing the movement of players between the levels of the game (transition). We contend that these same principles apply not only to major league baseball franchises but also to the new view of supplier base management.

**Four Key Components of SBM**

Supplier base management (SBM) is the equivalent of the baseball system for today’s firm and supply chain manager. While it’s based on frameworks and insights drawn from the supplier relationship management (SRM) literature, SBM is broader than SRM. As with the professional baseball system we just discussed, it consists of four major components: (1) managing the major suppliers; (2) managing the minor suppliers; (3) scouting; and, (4) transition management.

**Managing the Major Suppliers.** Both the academic and business literature offer a great deal of information on this area of SBM. The major suppliers are those that are critical to the firm’s processes and operations and have current relationships. This is the one area of SBM in which the existing knowledge base generally is most developed. Many of the activities associated with managing the majors have been identified and are widely practiced. They include, for example, setting performance measurements/metrics, managing risk, structuring the most appropriate relationships, solving problems jointly, and determining the appropriate number of suppliers.

**Managing the Minor Suppliers.** SBM views minor suppliers as potential replacements for current major suppliers. SBM fulfills a number of critical functions for the buying firm regarding its suppliers. Specifically, the approach:

- Facilitates evaluation of these suppliers by identifying capabilities, strengths and weaknesses.
- Allows the buying firm to nurture and develop these suppliers, thereby providing the buying firm a chance to encourage those good suppliers to either fill unmet needs or to challenge current active suppliers for their place in the supply chain.
- Creates an environment for supplier education—teaching the supplier about how the buying firm’s system operates, how suppliers are evaluated, and the buyer’s goals and core values.
- Facilitates integration to smooth the process of integrating the supplier and its systems into the buying organization’s system.
- Allows the firm to develop suppliers with capabilities different from those currently offered by major suppliers and that may be demanded in the future.

This last point deserves additional discussion. A recent article in the *MIT Sloan Management Review* argued that supply chains are outcome driven. That is, they are not simply cost driven; rather, cost is one of six outcomes that can be “blended.” The six outcomes iden-
tified were cost, responsiveness, security, sustainability, resilience, and innovation.

These outcomes, in turn, shape the design of the resulting supply chain. It is important, however, to understand the process by which outcomes influence the supplier base and its dynamic management. One way of thinking about this relationship is shown in Exhibit 2. Changes in the desired outcomes can result in the firm requiring capabilities different from those found within its current system. To understand these requirements, it’s critical to first understand the capabilities of the existing suppliers. That is, our capabilities (what we can and cannot do) are determined by both our internal factories and external factories (the suppliers). So when new or different capabilities are required, managers must realize that they may not exist in the current supply base—and that new suppliers may be needed to provide the necessary capabilities.

A supplier, for example, with cost-reduction excellence gained through the application of lean practices may not be the best supplier to help a buyer compete based upon radical innovation. After all, many of the very practices that the supplier uses to support lean appear to work against the successful implementation of such innovation. For example, to support innovation, excess slack is needed to create the innovation, to allow debugging, to cope with the inevitable failures, and to respond quickly for wildly successful products. Yet, lean views slack as waste. Thus, a lean supplier may be highly appropriate where the desired outcome involves cost. Yet that same supplier might have to be replaced if the desired outcome becomes innovation.

There are several examples of companies that have done an outstanding job of managing the “minor league” system. Home Depot, for one, has instituted an annual Procurement Supplier Partnership Meeting that lays out the company’s expectations for suppliers and also identifies those it considers to be excellent. This meeting also allows Home Depot to communicate to suppliers how their performance is to be measured. Similarly, the Home Care division of Unilever, an early adopter in building world-class supplier management capabilities according to AMR Research, has developed a formal supplier development program. This program succeeds by:

- Assessing the attractiveness of the relationship to both parties.
- Properly aligning suppliers with supply chain strategy (recognizing that all suppliers are not equal).
- Integrating product innovation, which is critical to Unilever’s future business and supply chain success.
- Understanding the difference in supplier capabilities and adjusting Unilever’s planning and execution systems accordingly.

**Scouting.** The scouting process helps to identify potential suppliers that the buying organization can recruit. Rather than waiting for suppliers to approach the buyer, scouting as a proactive approach seeks to identify and recruit the best suppliers for the supply chain, while also possibly keeping them from competitor supply chains. In addition, scouting seeks to enhance the firm’s attractiveness as a potential partner and buyer to these desirable potential suppliers. The U.S. military supply chain exemplifies an organization that is aggressively developing this trait. Recognizing that the pool of qualified defense suppliers was shrinking, the National Defense Industry Association (NDIA) recently embarked on an initiative to better understand what factors affect the attractiveness (and non-attractiveness) of the defense/aerospace industry to qualified small-to medium-sized enterprises.

Scouting also fulfills a competitive intelligence function regarding the supply chains of major competitors. Scouting can identify potential trends, developments, and changes taking place at competitors, thereby better positioning a firm to assess the implications of these changes. While research into competitive intelligence is

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**EXHIBIT 2**

**Linkage Between Desired Outcomes and the Supplier Base**

- Desired Outcomes
- Desired Supply Chain Capabilities
- Supplier Base Management
- Current Supply Chain Capabilities
- Suppliers
- Realized Outcomes

Acts on Capabilities Gap

- Suppliers
well established in the marketing literature, examples of supply chain-focused competitive intelligence are limited. One that does exist involves LGE of South Korea, which is increasingly being recognized as a leading consumer electronics innovator. Samsung is one of its major competitors. As part of its scouting activity, LGE closely monitors Samsung and its supply chain. Any changes to the competitor’s supply chain are studied to understand the motivation and to determine the most appropriate response.

**Transition Management.** The last element in the SBM-baseball connection, transition management, focuses on moving suppliers into and out of the various levels of the supplier base. The objective is to limit problems created during transition. Too often, firms depend on their major suppliers for innovations, developing and maintaining drawings, and recording material and/or product specifications—yet without any plan for transferring knowledge. When a major supplier moves out of the supplier base, the buying organization may have to address such issues as managing intellectual property and any other business-critical knowledge that may reside with the supplier. Ensuring that intellectual property is protected, while dealing with the “invisible factories” the buying firm may not have been aware of, can pose significant challenges during supplier transition. The key is to have a comprehensive plan in place up front to deal with such contingencies.

Exiting suppliers may not always be willing to provide this information to the buying firm or to the replacement supplier, depending on the reason why they are exiting. In some cases, departing suppliers may even hold the firm’s assets “hostage”—something that Epic Kayaks learned when it attempted to terminate its relationship with one of its key suppliers in China. (The accompanying sidebar has the story.)

**The Benefits of SBM**
The benefits of supplier base management include, but are not limited to, a more cost-effective and efficient transition to alternate suppliers with minor disruptions to the firm. A SBM approach also yields greater competitive intelligence, realized by working with a more diverse set of suppliers. Greater diversity mitigates risk, too. Lower product development costs associated with a more diverse supplier base and greater continuity of supply help reduce total cost while pursuing optimum performance, quality, and service. SBM also leads to a more flexible, responsive supply base that can support changing strategic needs of the buyer—a particularly important advantage in an increasingly turbulent business climate. This last benefit is important because SBM works to ensure a fit between what the supplier base can do and the outcomes corporate strategy requires.

How close is your organization to embarking on a SBM program and realizing the kinds of benefits just...
enumerated above? To help you assess your readiness, you can review and answer the implementation questions presented in Exhibit 3.

**A “Call to Action” on SBM**
The “Call to Action” for supplier base management begins by identifying your strategic suppliers. These partners are critical for their ability to provide goods and services that are essential to your organization’s business. These are the suppliers upon whom you depend for sourcing on an ongoing basis. In most cases, your strategic suppliers are few in number (less than 15 percent of the total supply base). Yet their impact far exceeds their number. At the same time, these suppliers represent potential disruption points. That is, a disruption at, of, or by these suppliers—a strike, a fire, a bankruptcy, a stoppage of input materials to the supplier—can cause significant and negative long-term impacts to supply chain performance and the ability to serve customers.

Once you have identified the strategic suppliers and prioritized risk, the next step is to formulate an SBM program that—through the scouting and transition management processes detailed above—identifies, evaluates, develops, educates and integrates potential alternative suppliers into the supply chain to mitigate risk. Identifying the potential major and minor suppliers will require due diligence and competitive intelligence of the supply base. The aim is to understand who the players are, their capacities and capabilities, and who their other customers may be. Additionally, fit needs to be assessed to increase the likelihood that any transition will go smoothly. For suppliers that will be transitioning from the minors to the majors, careful nurturing and preparation is mandatory. You need to make certain that they have the requisite capability and knowledge in place so that they are called up to the big leagues as a major supplier, they are ready to perform.

As supply chains transition from being strategically decoupled, price-driven to strategically coupled, value-driven, the tools and systems used by the supply chain professional need to move from tactical to strategic; from static to dynamic; and from narrowly focused to broad system oriented. Supplier base management enables and supports that transition.

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### Exhibit 3

**Should You Be Practicing Supplier Base Management?**

- What percentage of your time is spent on:
  - Managing the major suppliers?
  - Managing the minor (but promising) suppliers?
  - Scouting?
  - Transition management?
- Is top management aware of your supplier development programs?
- Do you have formal systems in place for identifying and developing potential suppliers?
- How long would it take your supply chain to recover should a major supplier drop out?
- Do you have systems and procedures in place to identify “at risk” suppliers (suppliers who have a higher than average probability of exiting the market due to financial or strategic factors)?
- How long would it take for your supply chain to respond to a significant change in corporate strategy—say, moving from cost leadership and lean to responsiveness and innovation?
- How have you made your firm and your supply chain attractive to potential suppliers?
- If a critical competitor were to change its supply chain strategy, then:
  - How long would it take for you to identify and assess this change?
  - How would you respond?
  - Would your response be reactive or proactive (pre-planned)?

If your answer to the questions regarding minor suppliers, scouting or transition management is “None” or “Very little”, you need to consider a formal SBM program. If the answer to any of the remaining questions is “No”, “Don’t know”, Not Sure”, or any similar response, you also need to consider a formal SBM program.

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**End notes:**

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