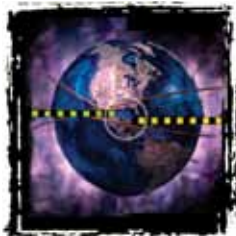


The Evolution of Supply Management

The supply management function—and the professionals working in it—have made steady progress from an administrative afterthought to a strategic driver of business success.

By Carrie Ericson and Simon Rycraft



Over the last 90 years, economic, political, social and technological evolutions have all impacted the operating models, technical skills and leadership styles critical for supply management pro-

professionals to succeed.

As supply management now is sitting comfortably in the boardroom of many leading organizations, a reflection on the history of the function and how it “arrived” at the leadership table may provide guidance on the profession’s next evolution and how best to anticipate and adapt to future changes.

Prior to 1914, supply management, or procurement as it was then called, was a purely clerical function. The first evolution of perceived importance was validated in the academic world in 1917 when Harvard began offering a course in supply management. And then in 1933 Howard T. Lewis authored the first college textbook on the subject. World Wars I and II presented the function with a critical imperative to obtain raw materials, supplies, and services to keep factories in operation. This not only changed supply management’s stature within the organization, but also drove a need for enhanced skills in sourcing, logistics, and supply management.

The evolutionary process continued after the war, driven by the supply chain professions’ increasing involvement in and support of tactical operations. The advent of just-in-time purchasing techniques in the 1980s—with its emphasis

on inventory control and supplier quality, quantity, timing, and dependability—all influenced the introduction of supply management into the company’s overall corporate strategy. This development, in turn, demanded a greater competency in strategic sourcing, competitive tendering, and supplier relationship management. However, this evolution was largely restricted to those companies that manufactured a product. Supply management still had not arrived as a service discipline.

Then along came the 1990s, which brought us supply market globalization on a completely new scale. As India and China began to flex their economic muscles, global competition for resources skyrocketed and raw material prices fluctuated violently. Transportation options became ever more complex, as supply chains were extended. Labor arbitrage became increasingly popular as companies looked for competitive low cost sources of supply. This new focus for supply management increased the profile of the profession not just in the manufacturing sector but in the services sector as well.

E-commerce Spurs Progress

The next step in the evolution of supply management began as the paper-based supply chain organization started giving way to e-based approaches. A key driver of this transition in document exchange and data storage was the emergence of e-commerce platforms such as Freemarkets, eBreviate, Ariba and CommerceOne. ERP giants such as SAP and Oracle quickly revisited their purchase-to-pay (P2P) offerings, although actually developing the new functionality took them

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some time. The end result of the shift to e-commerce was an unprecedented acceleration in the speed at which purchasing transactions could be completed. At the same time, competition could be injected into the deal making process. With an advanced tool set and data availability, supply management now was able to transition to a strategic, proactive function.

Supply management's growing involvement in outsourcing was the next evolution. As the 1990s progressed, most organizations were challenged to deliver year-on-year cost reductions. This target drove them to consider a number of outsourcing opportunities covering functions such as accounting, human resources, data processing, internal mail distribution, security, and plant maintenance as a matter of "good housekeeping." Supply management's involvement in identifying and evaluating outsourcing options required the profession to become proficient in the management of complex third party services. Moreover, it moved the function beyond the traditional buying of products/goods and solidly into the realm of complex services sourcing.

The need to incorporate elements of corporate responsibility and sustainability into an organization's business operations—while holding the line on costs—was the next step in an evolution that continues to challenge supply management professionals today. The definition of social responsibility has now expanded to include not only economic goals, but also social, political and environmental considerations.

By engaging suppliers, R&D, manufacturing, marketing and sales, supply management professionals have taken a leading role in developing sustainable sourcing practices. Such practices, in turn, often result in organization-wide competitive advantage that create additional revenue and/or cost avoidance through better management of supply chain risk.

Supply management professionals now find themselves in the driver's seat, helping to not only identify, but also to integrate, innovation into their company's supply chains. Through supplier relationship and performance management programs (SRM/SPM), now commonplace in leading organizations, supply management can not only track compliance to purchasing policies and contractual commitments, but also open the door to innovation through its strategic suppliers. This advantage often comes via effective relationship management, open innovation and joint process improvement programs. In fact, over 75 percent of procurement leaders identified through A.T. Kearney's 2011 Assessment of Excellence Study cited innovation as a key objective of their SRM programs.

Risk management, which gained particular attention during the global financial troubles of 2008 to 2010, has

been as much an art as a science for supply management. The function has had to ramp up its financial analysis and due diligence in recent years to evaluate and anticipate the likelihood and ultimate impact of supply failure or erratic/unpredictable movements in commodity pricing. The elevation of risk management on the priority list of supply professionals has changed the way contracts are written, sourcing strategies are crafted, suppliers are selected, and contingency plans are documented.

Real-time Opportunities

While the previous evolutions have been based on assigning ever-expanding responsibilities to supply management professionals, we believe the latest evolution is being driven by increased access to and the availability of real-

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time data. Investments in tools, technologies and business intelligence capabilities are finally starting to yield results and enable these professionals to drive proactive and sophisticated scenario analyses for internal stakeholders and influence decision making. For the supply managers who possess the analytical skills to leverage this increased capability, they will see the migration from the old way of doing business with suppliers to a new relationship founded on computational commerce and a buy-sell relationship based on clean, real-time, insightful and meaningful data.

These same business intelligence tools now provide supply management professionals with the data and dashboards to fully measure the impact and value their function delivers to the organization. The availability of this data and associated dashboards enable supply management leaders to drive better performance and more successful engagement with their business stakeholders (internal customers) and the chief financial officer (scorekeepers) communities to communicate the results achieved.

While no one can predict the future, it is helpful to pause from time to time to evaluate where we have been to help us anticipate what lies ahead. Over the past century supply management has transformed itself from a backwater, administrative function to a proactive, strategic function within the enterprise that delivers true competitive advantage. It is clear that the capabilities required within the profession to succeed going forward will not be the same as those that have helped us to get to where we are today.