

The Year of the Supplier

Perspectives on Supplier Management in 2011

May 2011

Constantine G. Limberakis

~ Underwritten, in Part, by ~



hiperos



Supplier Management

ZYCUS

Executive Summary

Business demands today are requiring organizations to place more emphasis on improving supplier relationships, sparking increased interest for promoting areas such as supplier information management, compliance, risk and performance. As the supplier's impact on an organization's potential viability and success is becoming more visible, this research report examines the crucial set of processes that encompass supplier management by exploring the pressures, actions and capabilities of over 150 organizations surveyed globally between February and March 2011.

Best-in-Class Performance

Best-in-Class organizations are noted for their ability to leverage supplier relationships by improving supplier visibility, tracking supplier performance and enhancing the ability to avert supplier risks. Three key performance criteria used to distinguish these top performers include:

- 1% of suppliers duplicated across the enterprise as compared to 27% among Laggards
- 88% of suppliers demonstrate on time delivery/project completion versus only 48% of Laggards
- 2% of suppliers reported catastrophic failure as compared to 5% of Laggards

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics, including:

- 38% more likely to use tools for supplier risk analysis and mitigation than all other organizations (the Industry Average and Laggards combined)
- 31% more likely to monitor and benchmark supplier usage to drive organizational change than all other organizations
- 24% more likely to use supplier analytics and visibility tools used for modeling and predicting supplier costs than all other organizations

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Enhance the process of acquiring and leveraging supplier information
- Diminish and deter supply / value chain disruptions through supplier visibility tools
- Improve supplier benchmarking and / or performance through monitoring tools

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

How Does Your Performance Compare to the Best-in-Class?



- Compare your processes
- Receive a free, personal PDF scorecard
- Benefit from custom recommendations to improve your performance, based on the research

Take the Assessment

Receive Your Free Scorecard

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Chapter One: Benchmarking the Best-in-Class

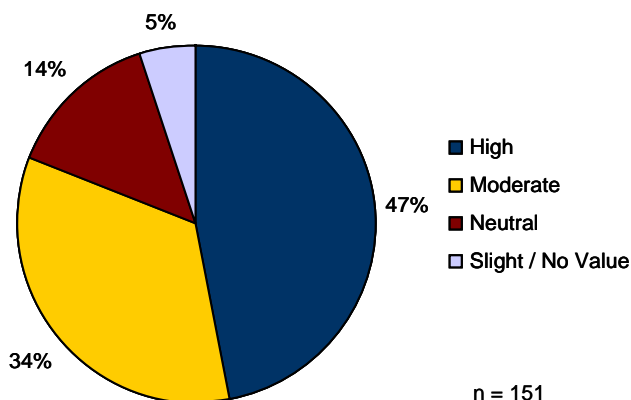
According to the Chinese Zodiac, 2011 is the year of the rabbit, and based on tradition, the rabbit brings a time to catch one's breath and calm one's nerves. Given today's business environment, this sense of calm would be welcomed as an auspicious occasion to improve and promote transparency of supplier relationships. With this in mind, the organizations that can distinguish themselves will be able to leverage strategic supplier management to lower their supplier costs, improve supplier relationships, and ultimately translate benefits into a competitive advantage.

Business Context

Managing supplier relationships today has gone from identifying and buying goods and services based on negotiated pricing (a transaction focused approach) to the strategic ability of recognizing "win-win" opportunities for both buyer and supplier through enhanced supplier management activities. In this regard, effective supplier management can ultimately lead to a variety of benefits, including increased collaboration, savings to the buyer, and alternative or even additional sources of revenue for the suppliers over the long-term.

Considering supplier management challenges faced by organizations in the modern global economy (including all areas from macroeconomic, geopolitical and environmental), it is no wonder that almost half the respondents from this survey placed a high value on supplier management (Figure 1).

Figure 1: Value of Supplier Management



Source: Aberdeen Group, April 2011

While supplier management has always been a critical aspect in doing business, the tools used by organizations to monitor and manage supplier relationships have evolved tremendously over the past decade. Fueled by outside factors such as the need for transparency of suppliers for both

Defining Supplier Management

Supplier Management involves the ongoing management of supplier related areas through process and tools that include supplier information, compliance, performance, and risk.

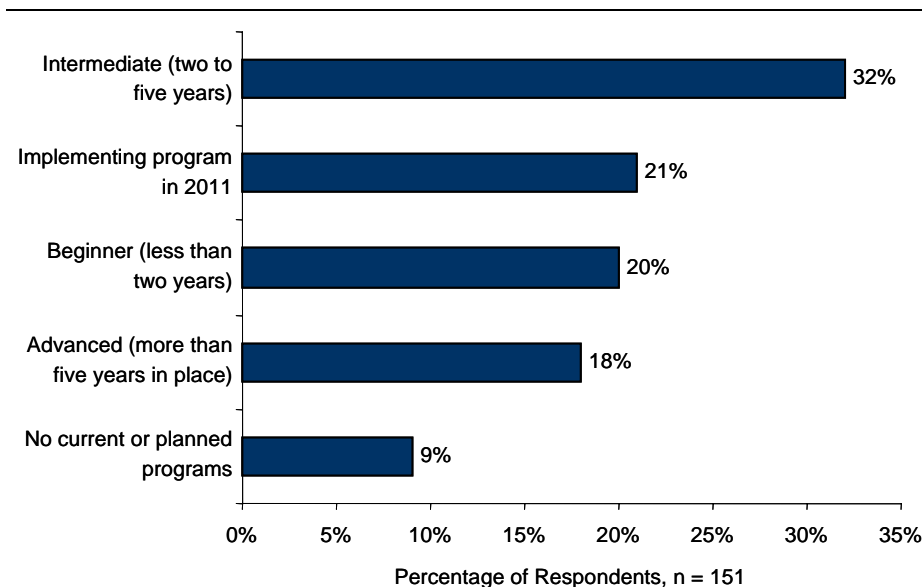
Supplier management includes:

- ✓ Process areas that overlap for both spend and supply chain management as it relates to the affairs and interactions with suppliers
- ✓ All aspects related to supplier communication, business practices, negotiations, methodologies and software that are used to establish, maintain and monitor a relationship with a supplier

direct and indirect supply chains, and increased demands for measuring suppliers against areas such as corporate risk and social responsibility goals, supplier management functions have moved from the "back-office" to the "boardroom."

To illustrate the current adoption of supplier management, the results of this benchmark research also shows that most organizations have taken on some formal supplier management initiative over the past few years (Figure 2).

Figure 2: Adoption of Supplier Management Initiatives



Source: Aberdeen Group, April 2011

Yet despite the adoption rate of supplier management, "supplier initiatives" can vary greatly in their maturity, scope, complexity and interconnectedness within the organization. For instance, supplier management traditionally implied areas of supplier enablement / on-boarding that emphasized capabilities on transaction processing (e.g. purchase orders, invoices). Today, effective supplier management must include a more strategic focus that also considers the impact suppliers make on an organization through the adoption of tools that can measure areas such as supplier risk, compliance and performance.

Moreover, organizations of all sizes and industries are facing an evolving global business environment that has increased the stakes for understanding supplier behavior and the control over the processes and tools used in managing them. Therefore, despite an organization's stated level of supplier management maturity organizations today are finding an increased need to understand current supplier based pressures, and clearly define the necessary actions for improving the effectiveness of their supplier management initiatives.

Supplier Reliance Combined with Supply Chain Disruptions

Today it is difficult to have a relevant discussion on the topic of supplier management without considering supplier disruptions. Particularly due to global events that have occurred in the first quarter of 2011 (including geopolitical challenges in the Middle East raising the price of petroleum and environmental disasters like those Japan impacting multiple macro-economic supply chains), organizations globally have been impacted by these events in one way or other, and as a result are looking for the means to improve and enhance their visibility into their suppliers.

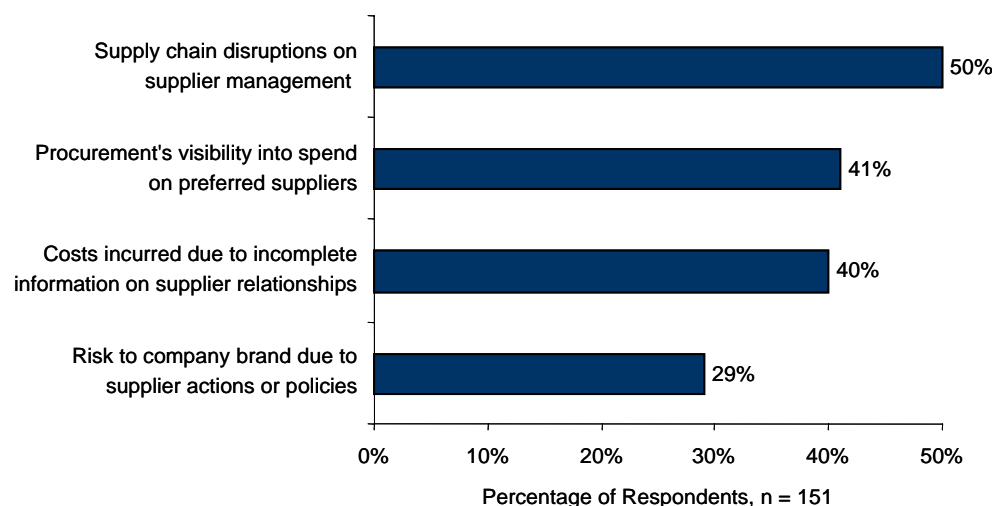
Moreover, the fact that the use of suppliers in an organization typically follows the Pareto principle (commonly known as the 80/20 rule) emphasizes the need to have additional supplier insights, answers to supplier based challenges, the ability to seek alternative supplier sources, and the capability to predict failures. For instance, 34% of respondents demonstrated that 15% of spend comes from 80% of their suppliers, while 22% demonstrated that 25% of spend comes from 80% of their suppliers.

Looking into the pressures driving organizations today, it makes perfect sense that the pressures identified in the survey are focused on the external factors impacting supplier relationships such as supply chain disruptions and potential risks suppliers impose on an organization's brand due to their actions (Figure 3).

"Supplier management has allowed us to consolidate spend, reduce supplier management costs through supplier reduction and consolidation, manage supply chain risks proactively, ensure contract compliance, allow us to leverage consolidated spend data in negotiations and achieve cost savings."

~ Manager, Procurement
Computer Equipment
Manufacturer

Figure 3: Top Pressures Driving Supplier Management



Source: Aberdeen Group, April 2011

However, Figure 3 also illustrates internal pressures over incomplete supplier information due to inefficient supplier management practices or inadequacies of existing supplier management tools for measuring core metrics that could be used to improve supplier management initiatives.

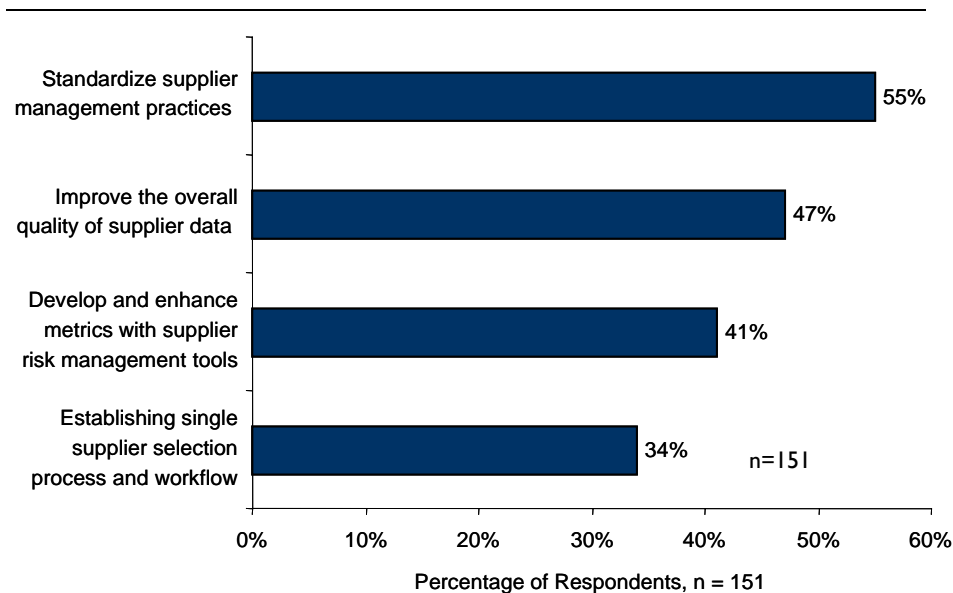
Furthermore, while half of the respondents noted using supplier management for at least two years or more, many organizations today continue to be vulnerable to the impacts of supplier disruptions due to the inadequacies of their supplier management processes and enablers used to manage them. For example, nearly one third of respondents don't know the costs related to supplier management disruptions annually and 28% indicated they do not even measure this.

Actions for Supplier Management

Whether due to supplier data residing in multiple systems or due to systems that are unable to manage the depth of supplier information being demanded, organizations today are looking to standardize processes and improve data quality that may have been un-addressable in the past without effective supplier management.

For instance, one of the top strategies in the Aberdeen study, [*Supplier Enablement: Converging Procurement & Account Payable \(2008\)*](#) revealed supplier information management as a leading action by 52% of respondents. Interestingly enough, the results of this survey indicate improving supplier relationships as an ongoing area interest three years later.

Figure 4: Actions for Improving Supplier Management



Source: Aberdeen Group, April 2011

Fast Facts

Stated benefits from implementing supplier management

- ✓ (67%) Increased supplier visibility and supplier collaboration after implementing a system focused on supplier management
- ✓ (53%) Reduction in issues related to quality and/or errors
- ✓ (47%) Increased spend with suppliers considered strategic or preferred

In this regard, one of the ongoing challenges still facing organizations today is the use of disparate systems for tracking supplier information. In this regard, many organizations have established a foundation in spend management using a number of solutions for storing supplier data such as strategic sourcing (used by 21% of respondents), contract management (40%), procurement solutions (39%), plus other solutions not related to

spend management like ERP (69%), internal data warehouse (49%) and of course ubiquitous spreadsheet (77%).

Due to multiple systems, supplier information is often prevented from providing a holistic picture of a supplier due to a lack of a unified supplier management process. As evidenced by survey respondents, 50% are using between two to three systems that contain supplier information. As a result of this challenge, 40% organizations indicated that they are looking to harmonize data, and implement a common platform of supplier functionality by leading towards implementing systems that are exclusively focused on supplier management.

Moreover based on the results from Figure 4, most organizations are looking to take actions focusing on multi-disciplinary approaches to solving supplier management challenges that require a complete reassessment of current supplier management processes through standardization of supplier management processes, improvements in how supplier data is collected, enhanced usage of supplier metrics, and improving the process of initially selecting suppliers.

The Maturity Class Framework

Understanding supplier management within organizations requires a multi-disciplinary approach that considers understanding many facets of data and processes that can measure and benchmark the value of a supplier relationship. The findings of this benchmark demonstrate a variety of multi-disciplinary capabilities that are necessary for managing and predicting the impact of supplier behavior.

Based on the observations made from the data collected, Aberdeen identified the following three key performance metrics to distinguish the Best-in-Class from Industry Average and Laggard organizations:

- Percentage of suppliers duplicated across the enterprise (factor focusing on technology / data integrity)
- Percentage of suppliers demonstrating on-time delivery / project completion (factor focusing on supplier performance and process workflow)
- Percentage of suppliers that had catastrophic failures (factor focusing on supplier risk and an organization's predictability of supplier quality)

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance of Supplier Management
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 1% Suppliers duplicated across the enterprise ▪ 88% Suppliers demonstrating on time delivery / project completion ▪ 2% Suppliers that had catastrophic failure

Definition of Maturity Class	Mean Class Performance of Supplier Management
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> 12% Suppliers duplicated across the enterprise 73% Suppliers demonstrating on time delivery / project completion 3% Suppliers that had catastrophic failure
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> 27% Suppliers duplicated across the enterprise 48% Suppliers demonstrating on time delivery / project completion 5% Suppliers that had catastrophic failure

Source: Aberdeen Group, April 2011

The Best-in-Class PACE Model

Leveraging a modern supplier management initiative that incorporates these performance metrics describes aspects of supplier management as shown in the PACE Framework in Table 2.

Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> Supply chain disruptions on supplier management 	<ul style="list-style-type: none"> Standardize supplier management practices with supplier management solutions Develop and enhance strategic savings and operational metrics with supplier risk tools Improve overall quality of supplier data in systems containing suppliers 	<ul style="list-style-type: none"> Monitoring and benchmarking of supplier usage to drive organizational change Use of real-time, role-based dashboards for tracking and managing suppliers Access to single "source of truth" for all supplier information - from point of supplier on-boarding through supplier audit Supplier analytics and visibility tools used for modeling and predicting supplier costs 	<ul style="list-style-type: none"> Spend Analysis / Visibility Vendor Management/ Data Cleansing Supplier On-boarding & Enablement Supplier Risk Analysis & Mitigation Supplier Benchmarking & Performance Monitoring Supplier Sustainability & Corporate Responsibility Corporate Supplier Network Community Supplier Portal Supplier Network

Source: Aberdeen Group, April 2011

Best-in-Class Strategies for Supplier Management

Due to their advanced use of supplier management in process and technology being leveraged, Best-in-Class organizations are more focused on refining and optimizing supplier management than their peers, while most other organizations continue to focus on key areas critical for supplier management relative to their maturity.

"Supplier management provides us the ability to evaluate supplier performance objectively, build true partnerships resulting in better cost, quality and delivery of product."

~ Director, Logistics Industrial Equipment Manufacturing

For instance Figure 5 illustrates Best-in-Class organizations are closely aligned with their peers on improving the overall quality of supplier data and focus on supplier selection workflow. These areas continue to be a focus area in supplier management for all maturity classes and may be closely aligned with the ongoing changes in the organization related to supplier activity (i.e. mergers and acquisitions) that can have a tremendous impact on the supplier data infrastructure.

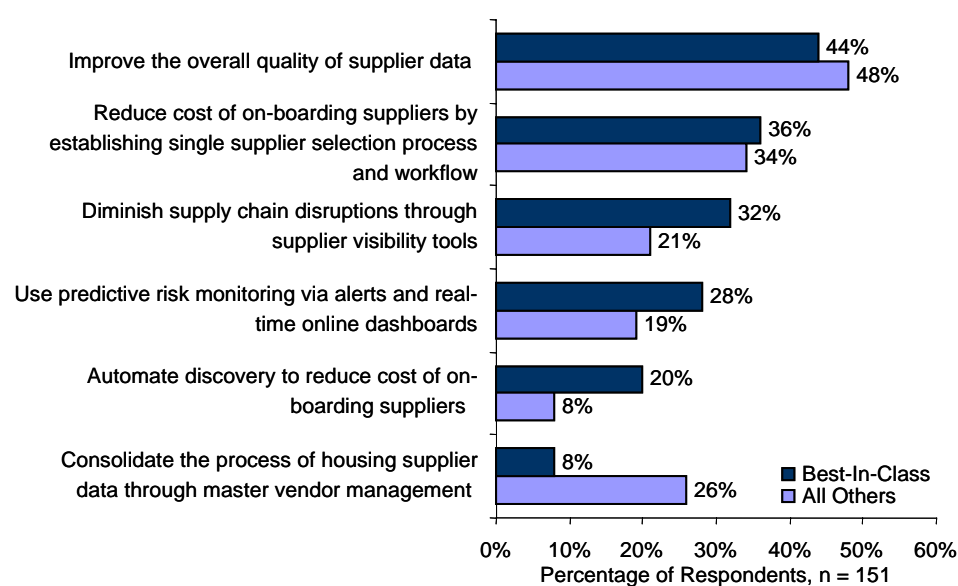
Yet, when looking at consolidating the process of housing supplier data through master data management, Best-in-Class organizations are much less focused in this area, perhaps given their advances in enabling the tools managing these processes. For example, Best-in-Class organizations are 20% more likely than all other to use vendor management / data cleansing their peers.

Best-in-Class organizations also outpace their peers in their focus on automation and predictive risk monitoring, actions that directly relate to the ability of minimizing disruption through the use of supplier visibility tools.

Fast Facts

- ✓ 64% of organizations don't know or don't measure the average cost to manage a supplier annually.
- ✓ 44% of organizations don't know or don't measure the supplier failure costs related to expenses incurred on products or services that were rejected.

Figure 5: The Strategic Actions of the Best-in-Class



Source: Aberdeen Group, April 2011

Aberdeen Insights — Strategy: Hip to be Socially Responsible

With the increased speed of social media and organizations like WikiLeaks, a quickly emerging area for supplier information management is Corporate Social Responsibility (CSR). This term started in the early 1970s, but has been recently revived as part of the extension and popularity of supplier management solutions. One way to consider this concept is by looking at the advertising of organizations (like Starbucks) that are focused on environmental sustainability and the ethical conduct of growing coffee in developing countries.

Today most of us would affiliate this ideal with organizations that promote free trade, focus on diversity issues, or have a corporate affiliation with a recognized charity or cause. Also recognized as corporate citizenship or corporate conscience, this is typically information not directly relevant to financial performance, but has press power and in certain industries becomes an industry imperative for the sake of supplier association during a corporate blunder or times of natural disaster.

Though not formally regulated, CSR is affiliated with adhering to the spirit of law, ethical standards or international norms defined by organizations such as International Organization for Standardization (ISO); the goal of tracking CSR data is for promoting a positive image or impact on an organization's activities in areas such as environment, community and other areas of the public sphere. And unlike other areas of supplier information compliance that are regulated by the federal government managed on standards (Standards on Auditing or (SAS), managing CSR information for the most part is a form self-regulation which can be integrated into the supplier information collection and compliance processes.

As it relates to this survey, only 20% of respondents are tracking corporate social responsibility areas (social, labor, economic, and environmental). However it would appear to be an emerging area of focus with nearly one third of the respondents looking to address or enable some capability within the next 12 months.

Chapter Two: Benchmarking Requirements for Success

Best-in-Class organizations demonstrate an ability to encompass traditional areas of supplier management such as supplier enablement, while leveraging the cutting edge solutions related to monitoring of supplier risk and tracking of supplier performance.

Case Study: General Electric — Advancing Supplier Management

Tom Hattier, Manager of Operations, Sourcing/AP has been involved with the supplier initiative at General Electric (GE) since the beginning and has noted that, "Given the complexities of the many business units within the company, GE is focused on having a supplier management solution to act as the central repository of information for suppliers categorized as indirect, services spend, operations for direct spend and MRO spend, as well as central point for on-boarding all new suppliers."

Back in 2007, GE was looking at improving the process of on-boarding suppliers. At the time GE had 1.5 million suppliers with many of them duplicates due to no clean control of the supplier enablement process nor the management of core supplier management in one repository. Yet, as a result of working with a centralized Supplier Information Management (SIM) platform for the past three years, the SIM system today is able to manage all of GE's supplier hierarchies, certifications, compliance, content, contract repository, spend data, and information environmental health and safety-type activity.

Implementing a SIM platform has also helped GE tremendously, noting the identification of two core deficiencies that would have been unmanageable previously, namely: 1) Eliminating multiple business units with duplicate suppliers and 2) Removal of legacy suppliers that needed to be divested. GE has been able to vastly reduce and cleanse the supplier database from the original which stands around 750K from the original 1.5M when the initiative started three years ago, all while being managed in six languages.

Of the many benefits that supplier management has been able to provide is the ability to upload and maintain information on a consistent basis, especially considering the amount of change happening with the supplier base such as acquisition or divestitures within their supplier base. Second, the on-boarding process has been simplified. What once took 30 days to onboard a supplier now can take as little four days. Finally, the SIM platform provides interconnectivity with their ERP platform used for Strategic Sourcing and Financials, which has helped in integrating supplier data into these systems to provide a holistic supplier picture across GE's systems.

Fast Facts

- ✓ 18% of respondents consider their supplier management initiatives advanced (more than five years)
- ✓ 32% of respondents consider their supplier management initiatives intermediate (two to five years)

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of over 150 organizations to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each

class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily sourcing operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing spend data and exposing it to key stakeholders); (4) **performance management** (the ability of the organization to measure its sourcing results to improve its business); and (5) **technology** (the selection of the appropriate sourcing tools and the effective deployment of those tools). These characteristics (identified in Table 2) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

"Supplier management provides us a collaborative and structured process that provides transparency into third party relationships, mitigates risk, improves supplier performance, reduces total cost of ownership and promotes seamless interaction with key suppliers."

~ EVP Purchasing
US Based Financial Services

Table 3: The Competitive Framework

	Best-In-Class	Average	Laggards
Process	Monitoring and Benchmarking of supplier usage to drive organizational change		
	61%	31%	14%
	User-Defined / Purpose-Built configurable workflows and surveys for collaborating with suppliers		
	33%	23%	7%
Organization	Early procurement involvement related to organizational product and service needs		
	74%	61%	37%
	Implementing training for supplier facing employees		
	70%	30%	7%
Knowledge	Use of Third Party Information (Collection/Integration & Validation)		
	52%	45%	29%
	Sharing the benefits of collaboration through supplier incentive programs		
	29%	15%	7%
Technology	Supplier Management technology solutions / tools in place:		
	<ul style="list-style-type: none"> 82% Spend Analysis Visibility 71% Vendor Management / Data Cleansing 70% Supplier Audit & Compliance Management 63% Supplier Benchmarking & Performance Monitoring 61% Supplier Risk Analysis & Mitigation 57% Supplier On-boarding & Enablement 	<ul style="list-style-type: none"> 63% Spend Analysis Visibility 53% Vendor Management / Data Cleansing 40% Supplier Audit & Compliance Management 30% Supplier Benchmarking & Performance Monitoring 29% Supplier Risk Analysis & Mitigation 47% Supplier On-boarding & Enablement 	<ul style="list-style-type: none"> 49% Spend Analysis Visibility 47% Vendor Management / Data Cleansing 20% Supplier Audit & Compliance Management 10% Supplier Benchmarking & Performance Monitoring 12% Supplier Risk Analysis & Mitigation 15% Supplier On-boarding & Enablement

	Best-In-Class	Average	Laggards
Performance	Supplier Management Performance Capabilities		
	<ul style="list-style-type: none"> 70% - Ability to track the progress of corrective actions & improvement plans for suppliers 43% - Benchmarking Supplier Performance against others in the industry 	<ul style="list-style-type: none"> 51% - Ability to track the progress of corrective actions & improvement plans for suppliers 31% - Benchmarking Supplier Performance against others in the industry 	<ul style="list-style-type: none"> 27% - Ability to track the progress of corrective actions & improvement plans for suppliers 5% - Benchmarking Supplier Performance against others in the industry

Source: Aberdeen Group, April 2011

Capabilities and Enablers

Best-in-Class organizations today have demonstrated a strong reliance on specific process, organizational, knowledge management, performance management and technology enablers to effectively improve supplier management initiatives that lead to mutually beneficial supplier relationships.

While the competitive framework provides an overview of Best-in-Class capabilities in a general framework for supplier management, the following also includes a deeper capability analysis as it relates specifically to the four key aspects of supplier management identified as: supplier information, supplier compliance, supplier risk, supplier performance and corporate social responsibility.

Process: It's all about Supplier Collaboration

From a process perspective, Best-in-Class organizations are able to lead their peers in a number of ways that relates to gathering information about them, as well as managing or influencing supplier behaviors. The essential process element advantages for the Best-in-Class appear to be the ability to monitor, track and collaborate with suppliers for the purposes of understanding suppliers outside of the typical buyer-supplier relationship.

As indicated in the competitive framework, Best-in-Class organizations excel in their ability to monitor and benchmark their usage to drive change, where they are 30% more likely than the Industry Average. Looking at process in terms supplier information, the Best-in-Class were 16% more likely than Industry Average and 22% more than Laggards to create customizable surveys for collecting data on their suppliers.

These capabilities were even further exaggerated with regard to process areas related to information supplier risk and performance, where Best-in-Class organizations were almost 30% more likely to use notifications and

Fast Facts

- ✓ 70% of Best-in-Class organizations indicate implement training programs for supplier facing employees versus 30% of the Industry Average and 7% of Laggards
- ✓ 57% of the Best-in-Class have established supplier compliance teams as a central liaison with the supplier community as opposed to only 28% for Industry Average companies, and 10% for Laggards

expiration based emails for monitoring supplier compliance, and 33% more likely to link changes in supplier risk to workflow based mitigation plans.

Organization: Building Supplier Teams and Training

Perhaps more than any other aspect of managing suppliers, organizational factors are culturally driven, and is perhaps what most establishes precedence for how suppliers perceive and engage a buying organization. Organizational advantages also provide suppliers with an ability to recognize how or if their relationships are likely to hold a strategic advantage.

For instance, one key revelation is the early involvement of procurement in establishing a relationship with the vendor, where Best-in-Class organizations are almost 40% more likely than Laggards in this area. Supplier involvement can also be reflected from a perspective of supplier compliance, where 57% of the Best-in-Class have established supplier compliance teams as a central liaison with the supplier community as opposed to only 28% for Industry Average companies, and 10% for Laggards.

Organizational advantages for the Best-in-Class also point to internal dynamics within an organization, specifically to the ability to train personnel involved in supplier management. Repeated studies indicate training is a pivotal point for organizational success from a knowledge management perspective. And in this regard, implementing training programs for supplier facing employees stood out as a major differentiator with 70% of Best-in-Class organizations indicating having this capability, while 30% of Industry Average and only 7% of Laggards indicated so. This differential may also point to the organizational aspect of the "value" organizations place on people within supplier management functions based on the investments they are willing to make related to training in these areas.

Knowledge Management: Leveraging the Outside

Impacts on supplier information due to corporate events, such as merger and acquisitions, or even outright supplier failure, requires a fundamental and consistent process for collecting and incorporating this information through metrics being gathered about them. Making decisions on suppliers therefore is based on the intrinsic ability to analyze historical supplier data, yet also have the ability to continue to leverage supplier information as the suppliers evolve. Consider organizations that arise out of bankruptcy; organizations with effective supplier knowledge practice would be able to trace the evolution of events and build knowledge to predict or understand how to better manage suppliers facing similar situations.

In this regard, Best-in-Class organizations have the ability to provide this type information to their suppliers by providing a mechanism for their suppliers to understand and learn more about the buying organizations needs. For instance based on this study, nearly 30% of Best-in-Class organizations shared the benefits of collaboration through supplier incentive programs with their suppliers. This type of knowledge transparency

"As a result of implementing supplier management, compliance has reached 100%, quality is much higher due to the use of known suppliers only, and we've established stronger relationships with suppliers that result in lower costs and quicker responses."

~ Director
Petroleum Company

increases a level trust between buyer and sellers, something a supplier management system alone cannot build.

As it relates to building knowledge, Best-in-Class organizations were also 13% more likely than all others to use third party information within their supplier management infrastructures for data collection, integration and validation (37% Best-in-Class / 25% all others). The use of third party solutions suggests that integrating outside data enhances the ability to understand and better use internal supplier data, and provides a basis of validation or vetting of actions taken based on data being collected internally.

Performance Management: Tie Metrics to Tools

Perhaps more than any other area, how organizations are managing supplier performance is determined by the use of supplier management processes and tools. Performance management demonstrates a ROSR factor - or "Return on Supplier Relationship" if you will, that can point to the ability of an organization to reduce issues or errors and maximize the utility of its relationship.

For instance, the Best-in-Class were 12% more likely than Industry Average and 38% more likely than Laggards to benchmark supplier performance against others in the same industry. The Best-in-Class also led in the ability to leverage information in managing performance. Metrics that are considered in this study included percent of suppliers that had on-time delivery and service capability (where 88% of Best-in-Class suppliers demonstrated on-time delivery versus 73% for Industry Average and 48% for Laggards) and supplier service capability also showed similar numbers with 76% of Best-in-Class versus 69% of Industry Average and 42% of Laggards.

Other indicators show the results or impact of performance behavior management, and moreover the predictive risks that can mitigate the impact of underperforming suppliers and the sizable costs for not maintaining them.

For instance, consider one of the leading Best-in-Class indicators - percentage of suppliers that had catastrophic failure. Though solutions may not be able to predict catastrophe, those closely measuring performance may be better able to understand a supplier's capabilities in managing or avoiding one. And in this regard, the Best-in-Class indicated 2% of their suppliers with catastrophic failure versus 5% for all others.

Technology: Performance and Risk Management

In terms of technology enablers related to supplier management, the Best-in-Class exceeded 70% enablement of spend analysis and vendor management/data cleansing solutions. The implementation of these two areas in particular, may overlap into areas such as sourcing, e-procurement and contract management, but nevertheless include aspects of supplier management as part of an existing technology framework.

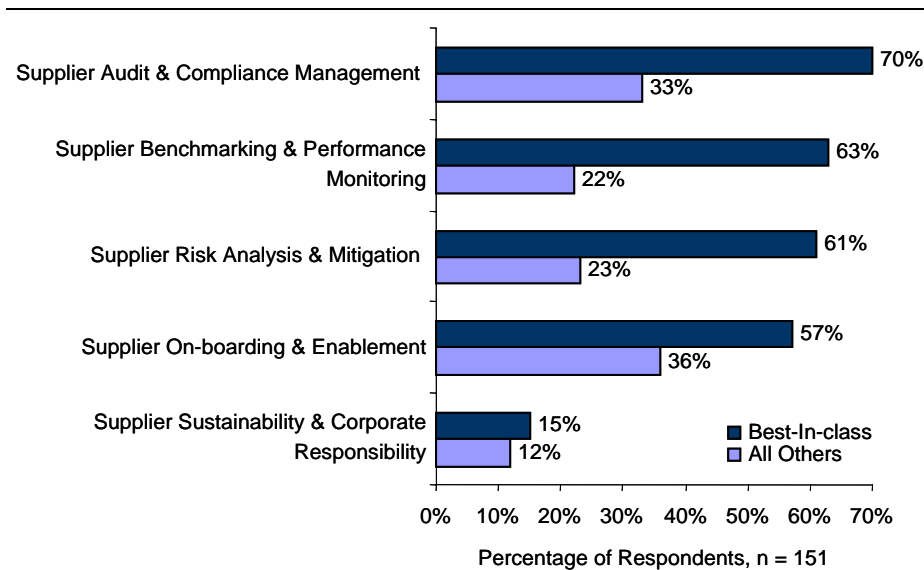
Fast Facts

31% of respondents have between 1 – 10% of their suppliers in Emerging Markets (i.e. outside North America / European Union / Japan)

Fast Facts

- ✓ 34% of respondents demonstrated that 15% of spend comes from 80% of their supplier
- ✓ 22% demonstrated that 25% of spend comes from 80% of their suppliers

Figure 6: Supplier Management Enablers by Maturity Class



Source: Aberdeen Group, April 2011

As it specifically relates to supplier management functions (illustrated in Figure 6), the enablement difference between Best-in-Class and their peers in areas such as supplier risk, supplier audit / compliance, supplier benchmarking / performance management, demonstrates where Best-in-Class have an advantage. For instance, the Best-in-Class lead their peers in the enablement of most supplier management enablers with the exception of supplier sustainability and corporate responsibility.

Aberdeen Insights — Supplier Management by Deployment Type

Based on the results of the survey, there are three areas emerging within the solution deployment scenarios of supplier management:

1. Supplier management through strategic sourcing. The first and more traditional area of supplier management deployment is within the constructs of strategic sourcing, used by 23% of respondents. This area is emerging as it appears to be a natural extension of a solution set already being leveraged within the organization for areas that often include contract management or spend analytics. The supplier linkage in one tool provides the ability to generate supplier knowledge post sourcing, and increases the potential for improving the quality of suppliers for future events.

continued

Aberdeen Insights — Supplier Management by Deployment Type

2. Supplier management through portals and networks. The second is the emergence of supplier management through supplier portals (21%) and supplier networks (8%). This indicates a trend towards leveraging supplier information focused on transaction based information, or leveraging information being collected by a network generated, that in some cases come from specialized industries or regional geographies that can help meet the context of industry specific requirements.

3. Supplier management as a stand-alone platform. Finally, the third area emerging is using supplier management as a stand-alone platform. With nearly one third (29%) of respondents indicating using this deployment method may point to a wider yet emerging trend where organizations are focusing on supplier management as a unique function outside of spend management altogether.

For instance, the increasing importance of tracking supplier information for tax reporting, legal or compliance requirements outside of the traditional scope of procurement or sourcing demonstrates the need to keep a supplier management functions potentially separate from a sourcing or procurement solution for enabling supplier specific areas such as maximizing supplier audit recoveries, managing against tax legislation or collecting supplier diversity information.

Chapter Three: Required Actions

Whether a company is trying to move its performance in supplier management from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements based on each maturity class:

Laggard Steps to Success

- **Improve supplier on-boarding and enablement.** Laggard organizations need to improve their ability in on-boarding suppliers and understanding supplier capabilities. Improving this process will help prevent under-utilization of suppliers and allow these organizations to focus on those suppliers that will provide the most benefit to the organization. Only 15% of Laggards indicated having a supplier on-boarding and enablement technology as compared to 47% of the Industry Average. To improve this capability, Laggards should also consider capabilities to connect/create a supplier portal (at 19% for Laggards) or supplier network (at 14%), which often provide the tools and the workflows for improving supplier enablement practices.
- **Improve the process of acquiring and leveraging supplier information.** Much of the post-supplier on-boarding capability necessitates the ability to gather supplier information and the ability to continue monitoring this information after the initial on-boarding. For instance, the Industry Average were 27% more likely than Laggards to have the ability to verify the existence of a registered business or organization and 27% more likely to be able to identify company payment patterns by line of business. Adopting tools for assessing supplier performance and measuring compliance will also assist in the ability to continue maintaining and building upon information on suppliers, where the Industry Average were 33% less likely to have implemented a solution as compared to Best-in-Class.
- **Improve the ability to analyze the supplier base.** Industry Average companies are 35% more likely than Laggards to analyze the overall strength and stability of a supplier. Though close to 50% of Laggards noted the use of spend analysis, Laggards need to improve the extraction of supplier information to make use of their internal data from their own enterprises. Moreover, improving this capability will allow Laggards to improve how they use data to for improving their knowledge of how they work with their current suppliers. For instance, only 12% of Laggards utilize supplier trend analysis and comparisons to other suppliers versus 46% of Industry Average companies.

Fast Facts

- ✓ 78% of Best-in-Class organizations indicate the ability to understand supplier risk by supplier relationship (e.g. business units, location) versus 41% of industry average and 21% of Laggards

Industry Average Steps to Success

- **Improve collaboration with suppliers.** Despite being enabled in many areas of supplier management, Industry Average organizations need to improve efforts that promote the collaboration with their suppliers and share how the Best-in-Class are performing within their organizations. For instance, Best-in-Class organizations are 31% more likely to share supplier scorecard results with suppliers than Industry Average companies. Moreover, 28% of Industry Average companies have established supplier compliance teams as a central liaison with the supplier community versus 57% of the Best-in-Class.
- **Improve supplier risk capabilities.** Industry Average organizations also need to improve their capabilities around supplier risk, where they lag behind Best-in-Class in key areas. For instance, Best-in-Class organizations are 37% more likely to have the ability to understand supplier risk by supplier relationship (e.g. business units, location) than the Industry Average. This capability is combined with the day to day processes, where 50% of the Best-in-Class are able to link changes in supplier risk to workflow based mitigation plans compared to 22% of Industry Average.
- **Implement supplier benchmarking and performance monitoring tools.** Industry Average organizations need to improve their ability to understand the performance of current suppliers and improve their ability to understand outside factors through the use of benchmarking. For instance, 43% of the Best-in-Class are benchmarking supplier performance against others in the industry versus 31% for Industry Average. This disadvantage makes sense based on the fact that only 30% of the Industry Average have these solutions implemented versus 63% of the Best-in-Class.

"Supplier management allows us to make fact based decisions about supplier classification and allows us to monitor/enforce negotiated prices and find additional cost savings. It also allows us to partner and innovate with suppliers creating better solutions for our customers."

~ Director

Software Telecommunications

Best-in-Class Steps to Success

- **Implement corporate social responsibility solutions.** As mentioned in previous chapters, this is an area that most are not leveraging at the moment and would make sense to be a final frontier for organizations to consider. Only 15% of the Best-in-Class are using corporate social responsibility based solutions however, 24% are able to identify and monitor risk related to corporate social responsibility. In terms of capability, 19% of Best-in-Class are able to collect Corporate Social Responsibility (CSR) related data in their current environments, and 12% have implemented CSR programs through formal supplier relationship teams / supplier boards. Also the Best-in-Class may have already taken CSR more seriously with 39% planning to implement in the next 12 months
- **Improve areas of supplier compliance.** Outside of CSR, Best-in-Class organizations can also improve their use of automation to improve compliance with their suppliers. Only a quarter have

automated the process of monitoring standards compliance, and 24% are using authentication of suppliers by third party or regulatory bodies. Increasing the automation of compliance areas will save time from manual processes that authenticate or validate compliance and will allow Best-in-Class organizations to focus on enhancing other areas of supplier management.

Aberdeen Insights — Summary

Supplier management is an area that has evolved over the past decade. And as global commerce expands, organizations will increasingly need to focus on supplier relationship management and the functions that are described within it.

Furthermore Pareto's principle "law of the vital few" indicates a reliance on a core of suppliers and sets the stage for getting a more complete view of those suppliers being heavily leveraged within an organization. Therefore the importance of managing supplier relationships, particularly those that are considered preferred, demonstrates the cause for potential concern over "supplier vulnerability." Put another way, the potential over-reliance on a few key suppliers makes supplier management an even more important factor.

Moreover, supplier management seems to be evolving into a unique area outside of traditional areas often considered a part of it such as finance, supply chain or procurement. As this change continues, solution providers will continue to enhance their capabilities by increasing the integration and types of information being captured about suppliers. This will inevitably be driven from Internet based processes as well as through mobile computing mechanisms that will provide instant access to supplier information and metrics for making decisions related to the aforementioned business areas.

In conclusion, as a result of the stated benefits from supplier management presented in this benchmark, organizations that have not embarked on a supplier management strategy are missing opportunities for identifying cost savings, while perhaps more importantly, ignoring opportunities for benefiting from the intangible benefits such as positive brand equity and being exposed to unrecognized and unmeasured risks without a supplier management solution.

Appendix A: Research Methodology

In February and March 2011, Aberdeen examined the use, the experiences, and the intentions of 151 enterprises using supplier management in a diverse set of industries. Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: CEO / President / Chairman (3%); EVP / SVP / VP (7%); Director (32%); Manager (38%); Consultant (7%); and other (3%).
- *Department / function:* The research sample included respondents from the following departments or functions: Procurement / Purchasing (59%), Logistics/Supply Chain (12%), Quality Management (4%), Operations (4%), or logistics manager, Finance/Administration (3%).
- *Industry:* The research sample included respondents 24 various industries which included Aerospace, Automotive, Chemicals, Computer Equipment, Construction, Consumer Packaged Goods, Education, Financial Services, Food/Beverage, Government, Health (Medical & Dental), Industrial Equipment, IT Consulting, Metals, Oil/Gas .
- *Geography:* The majority of respondents (60%) were from North America. Remaining respondents were from Europe (22%) and Asia-Pacific region (11%) and Middle East & Africa (3%), and other (4%).
- *Company size:* 44% of respondents were from large enterprises (annual revenues US \$1 billion or above); 29% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 27% of respondents were from small businesses (annual revenues of \$50 million or less).
- *Headcount:* 61% of respondents were from large enterprises (headcount greater than 1,000 employees); 24% were from midsize enterprises (headcount between 100 and 999 employees); and 15% of respondents were from small businesses (headcount between 1 and 99 employees).

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- ✓ The evolution of supplier management and increasing importance within the context of emerging areas
- ✓ The structure and effectiveness of supplier management deployments
- ✓ Current and planned use of supplier management functions and technology

The study aimed to identify current state of supplier management as well as discuss emerging best practices for readers to understand and apply within their supplier management initiatives.

Table 4: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, April 2011

Table 5: The Competitive Framework Key

Overview
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>
<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, April 2011

Table 6: PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, April 2011

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [The State of Strategic Sourcing](#); Benchmark. March 2011
- [Bridging the eProcurement Gap through Contract Management](#); Research Brief. March 2011
- [Effective eProcurement: Assessing Options for the New "Economic Normal"](#); Benchmark. November 2010
- [From Preservation to Prosperity: The CPO's Agenda for a New Decade](#); Benchmark. September 2010
- [Spend Analysis: Visibility for Intelligent Decision-making](#); Benchmark. July 2010
- [Supplier Networks: Bridging the Procurement Gap](#); Research Brief. December 2008
- [Supplier Enablement: Converging Procurement and Accounts Payable](#); Benchmark. April 2008

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

Author: Constantine G. Limberakis, Senior Research Analyst, Global Supply Management, (constantine.limberakis@aberdeen.com)

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For additional information on Aravo:

Robert Shecterle
450 Sansome Street, 13th Floor
San Francisco, CA 94111
Telephone: 415.835.7615
www.aravo.com
info@aravo.com



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For additional information on HICX Solutions:

HICX Solutions Ltd.
2nd Floor
145-157 St. Johns Street
London EC1V 4PY
United Kingdom
Telephone 1: (+44) 203.008.8726
Telephone 2: (+44) 79.66.66.0930
www.hicxsolutions.com
info@hicxsolutions.com

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For additional information on Hiperos:

David Furth
304 Turnpike Road
Southborough, MA 01772
Telephone: 508.460.7013
www.hiperos.com
furth@hiperos.com



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For additional information on Zycus:

Vrushali Bhanushali
103 Carnegie Center, Suite 117
Princeton, NJ 08540
Telephone 1: 609.799.5664
Telephone 2: +91 9870327018
www.zycus.com
vrushali.b@zycus.com