Abstract. As performance expectations heighten for dynamic supply chains, it is essential for supply professionals to take full advantage of an array of strategic options that offer paths to greater levels of efficiency and effectiveness. This presentation will identify specific offensive and defensive supply strategies useful in charting successful courses in competitively turbulent times.

Introduction. Supply organizations are steadily evolving in strategic sophistication. Corresponding to rapid changes in global marketplace dynamics, supply units have grown and matured in the depth and breadth of strategic initiatives undertaken to address cost-related concerns and value-based decision-making. Some see strategic actions as focusing on either internal resource deployment or adroit exploitation of external market opportunities. Those subscribing primarily to the resource-based view (RBV) of the firm, see strategic competitive positioning chiefly from the angle of resource realignment, while those with a more external focus see competitive positioning from market-based lenses (Hooley, Broderick, Moller [1998], Hooley and Greenley [2005]). In reality, astute supply strategists must balance these competing demands, both internally and externally, to ensure sustained supply success.

Under this complex strategic umbrella, the current paper will address the need for supply professionals to have myriad strategic options from which to draw in formulating bold, workable, and adaptive paths toward long-term effectiveness. More specifically, the paper highlights the advantages and disadvantages of various strategic alternatives, a discussion of the situational contexts amenable to offensive and defensive supply strategies, and examples of organizations employing various supply strategies.

Strategic Options. All strategic alternatives seek to balance resources, needs of the marketplace, and competitive pressures. Within this triumvirate of variables, supply managers must carve out strategies that add value and support those of the broader organization. The types of offensive and defensive strategies undertaken are based on market situations, strengths/weaknesses of the organization, and the position of the firms’ products in its market space.

Offensive Strategies

Ideally, supply chain strategies, and particularly procurement strategies should parallel those in the marketing arena to ensure consistency of effort and response to market demands. Best (2004) contends that offensive marketing strategies are more typically growth-oriented and tend to focus on efforts of the firm to penetrate current markets and to grow new markets.
More specifically he identifies offensive options from a market penetration perspective as (1) increasing market share, (2) increasing the amount customers buy, (3) opening new segments of the market, and (4) enhancing market demand. Additionally, new market entry strategies are considered key components in the offensive strategic arsenal.

What are the implications of offensively-driven market penetration strategies for supply chain-related roles? As the marketing organization focuses on getting current purchasers to buy more, supply functions should support and complement efforts by focusing on strategies related to cost containment, quality enhancements, process improvements, and alternative means of value creation. Each of the above areas is important across all strategic realities, but has a unique significance as market penetration strategies are pursued.

Cost containment, in all of its various aspects, involves specific initiatives to analyze business processes, install activity-based cost systems, and consideration of programs to complement strategic and operational cost management. Formalized, comprehensive cost-containment efforts ensure a systems view of cost and allows for stronger management of cost-related components.

How do improved cost systems impact a market penetration strategy? To the extent that costs are managed and maintained at reasonable levels, the market-driven pricing structure of the organization benefits. Lower costs can conceivably be passed on to buyers, which increases competitiveness in price-driven market structures.

The emphasis on costs in the market penetration phase of strategy is consistent with Rink and Fox (2001) in their delineation of procurement planning strategies across the life cycle of products. Cost considerations are always important, but especially so during the growth stage of the product life cycle. Some key characteristics of the early growth stage include market expansion, more brand consciousness, and greater emphasis on price/cost variables. Supply chain strategies (including procurement, operations, and logistics/distribution) must be consistent with and adapted to overall market-driven strategies at every single level.

At still another level offensively, both marketing and SCM must consider new markets and products/services. Both product development (developing new products/services for the same market sectors) and market development (extending the same products/services to new market sectors) offer avenues of spreading the strategic tentacles into unchartered waters to satisfy marketing opportunity. These are deliberate growth options that offer opportunities to increase market share, lessen the probability of the need to take defensive action prematurely, and allows the firm to absorb some of ups and downs in the marketplace regarding profit/revenue/share performance. SCM-related strategies must parallel/mirror all of these offensive strategies to ensure to some degree of long-term success.

**Defensive Strategies**

Best (2004) suggests that ‘defensive strategic market plans are more likely to occur in the latter stages of a product-market life cycle and are often designed to protect important share positions and be large contributors to short-run sales revenues and profits.’ Turf protection is the key aim of defensive strategies. Given the massive investments that firms make in building and nurturing brands, it is essential to ‘defend’ them with respect to market share, positioning, and profitability. Firms with large market shares in mature, slow-growth markets must pursue
far different strategies, in marketing and supply, in comparison to firms with large shares in fast-growth markets. However, their goal is the same – to defend market turf from competitive encroachment.

Another key element of a defensive strategy is to keep the current base of buyers. How do firms minimize the number of ‘defectors’ from their markets? Given that brand-switching behavior is a key tenet of the maturity stage of the product life cycle, this becomes a critical focal point of both marketing and supply.

How should supply respond to defensive market strategies? Rink and Fox (2001) offer some specific insights regarding procurement in particular. During the maturity and decline stages of the product life cycle where defensive strategies are most prevalent, they suggest continued focus on costs, especially through value analyses, benchmarking, different approaches to negotiation, make or buy initiatives, simplification of component materials, lead time reductions, and re-evaluation of supply sources. Correspondingly, there are other adaptations in logistics and distribution. The fundamental question to be answered is how can all SCM components support marketing and corporate strategies designed to ‘protect’ the market territory they ‘own?’ While various supply organizations may approach the protection issue in varied ways, the core motivation is to craft creative options to secure the investments made in products and services.

Implementing Strategic Choices. The implementation of strategic supply choices is critical to long-term success. While many strategies may not be clearly delineated as offensive or defensive, but rather an amalgam of approaches, astute, systematic review of both internal and external environments ensure that supply units are pursuing the best path to sustained performance. One approach to comprehensively managing the strategic supply choice and implementation is the use of the SCOR Model (www.supply-chain.org). SCOR, which was created by the Supply Chain Council, offers an integrative perspective on the essential components of the supply chain process. More specifically, the SCOR Model’s five components are: Plan, Source, Make, Deliver, and Return. Planning, sourcing, making, delivering, and returning all have strategic components. The nuances of each must be adjusted to accommodate either offensive or defensive strategic postures.

An alternative approach that allows supply strategists to comprehensively manage both defensive and offensive strategic adjustments is to parallel key performance measures used in SCM. As changes are made in supply strategy to accommodate changing competitive environments, assessment indicators offer an integrative way of managing the process. Fawcett, Ellram, and Ogden (2007) identify five categories of frequently used performance measures across sourcing operations, and logistical functions in the supply chain: asset management, cost, customer service, productivity, and quality. Modifications in the performance measures can be made to respond to changing strategic scenarios. One specific example of a strategic response in SCM is that of meeting the demands of a cost-containment strategy. From an offensive perspective, if cost containment is the option chosen by marketing and others in management, an SCM response could range from analyzing raw materials inventory levels and turns to customer service levels across customer groups.

Summary. In very dynamically competitive environments, it is essential for SCM to pull from an array of strategic options in a systematic and methodical manner. As organizations pursue
offensive or defensive strategies at the macro level, SCM must be responsive to these adjustments in a way that supports the broader strategy. Supply chains must have the agility to respond offensively and defensively in rapid fashion to meet marketplace demands adroitly. Supply

References


