Supplier Base Management: 
Managing the Whole, Not Just the Parts

Steven A. Melnyk, Professor of Supply Chain Management 
Michigan State University 
517/432-6410; melnyk@msu.edu

M. Bixby Cooper, Associate Professor of Supply Chain Management 
Michigan State University 
517/432-6413; cooperm@msu.edu

Stanley E. Griffis, Associate Professor of Supply Chain Management 
Michigan State University 
517/432-6420; griffis@bus.msu.edu

Cheryl L.M. Phillips, Director – Purchasing Projects 
Masco Corporation 
313 / 792-6459; Cheryl_Phillips@mascohq.com

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Abstract: This presentation introduces Supplier Base Management (SBM) – a systematic dynamic approach for strategically managing the whole supply base (current suppliers, minor suppliers and potential suppliers). SBM also deals with the transition of suppliers between groups.

Objectives of this Presentation:

- What is Supplier Base Management?
- What are the components of effective Supplier Base Management system?
- How does this system help the firm compete?

The Need to Rethink How We Manage the Supplier Base: It goes without saying that the last ten years has been a period of extreme change and uncertainty. There has been a reversal of fortunes for many leading firms. It has been a period of dramatic shifts in market importance, where managers and researchers are evolving to embrace the supply chain management paradigm. However, as it relates to the management of an organization’s supply base, an analogy to major league baseball comes to mind: How successful in the long term would a baseball team be if the management of the franchise never focused beyond the active roster of major league players sitting in the dugout day-to-day? For most, the answer is obvious – such an approach, while potentially sustainable in the short term, would have a low chance of long-term success. The reasons for this lack of long-term success are many: no replacements for aging, injured or poorly performing players; no method for identifying, training, and developing promising young players; no system for moving players between...
levels (minors to majors and majors out). Without the structure of a minor league system, the
ability to gather talent on a ‘trial’ basis after discovering them from the wider pool of all
potential players, as well as the seasoning and acculturation of those players to the style, rigor,
and level of performance necessary to compete “in the big league” could never occur. As with
baseball, so does the process of discovering, developing, and growing suppliers require more
than simply making ad hoc decisions upon the realization that a new or different supplier is
necessary.

**Baseball’s Lessons for Supply Chain Management:** One way to understand the
importance of and the need for a supplier management system is to view a supplier base
through this analogy of a major league baseball franchise. In major league baseball, the
success of a team is dependent on numerous factors to include, but not inclusive of, the quality
of players playing at the major league level but also on the quality of three other elements: the
minor league system, the scouting system, and the system for developing and moving players
between the levels. These three elements recognize that the players currently playing at the
major league are not “permanent” for several reasons. First, they may leave for one of several
reasons (they are traded, injured or they retire). Second, they are no longer performing at an
acceptable level and consequently the team has to let these players go. Third, the playing style
of the team has changed (e.g., from focusing on home runs to a strategy focusing on speed,
base hits, and maintaining pressure on the opposing team) which requires different players
who possess the skills necessary to implement this new strategy. Finally, there is power of the
“hungry up and comers” playing in the minor leagues – as these players put pressure on the
current players in the majors to play at their best and stimulate the competition, both internally
and externally.

Given these considerations, a major league franchise needs a minor league and a proactive
scouting strategy. The minor league fulfills several important roles: (1) it develops future major
league players; (2) it evaluates the capabilities and talents of these players; (3) it integrates the
players into the major league team by transferring knowledge or passing on to them those
specific values unique or critical to the franchise (i.e., the team’s culture); and, (4) it provides
an inventory of potential capacity.

Feeding the minor league is the scouting system. The scouting process or system must be
proactive, strategic in scope, aligned with the goals of the organization and be able to envision
the potential in young underdeveloped talent. This system fulfills two important roles: (1) it
identifies and signs potential players to contracts for the team; and, (2) it scouts the opposing
teams to see what developments or actions they employ, that may or may not be a deviation
from standard processes, since these actions may signal a change in how teams and players
are managed.

The final element, transition management, is critical as this ensures that the players coming
into the major league team can do so with minor disruptions (i.e., they are ready to play when
they arrive). It also ensures that there is a defined process for transfer of knowledge from
those players who are getting ready to leave the team for reasons already discussed, to those
who are arriving.
What’s involved in SBM? These four elements, majors, minors, scouting and transition management, are not simply components operating in isolation. Rather, they form an integrated system and process designed to ensure that the major league franchise is able to play at and maintain a certain level of performance. These same requirements work not only for a major league franchise; they also apply to the supplier base managed by a firm and its supply chain management functions.

Supplier Base Management (SBM), which is based on frameworks and insights drawn from the Supplier Relationship Management (SRM) (e.g., Moeller, Fassnacht, and Klose, 2007), is a systematic dynamic approach for strategically managing the whole supply base (current suppliers, minor suppliers and potential suppliers). However, SBM is more. SBM can be viewed as consisting of three major components:

- **Elements**: As noted in the baseball analogy, four elements appear germane to SBM: (1) management of major suppliers; (2) management of minor suppliers; (3) scouting; and, (4) transition management.
- **Strategic outcomes**: The outcomes that the supplier base is expected to contribute to. These outcomes are should be aligned with the strategic objectives of the firm.
- **Practices**: These are the routines that suppliers bring with them to address certain problems.

These three components are integrative in that they must “fit” with each other. One of the major objectives of SBM is to develop and maintain this fit in a dynamic environment. More importantly, the development and emergence of SBM reflects certain tenets regarding supply chain management and its supplier base in today’s environment, namely:

- The supplier base is inherently dynamic. The supplier base is dynamic as a result of competitive actions, changes in strategy (both in the firm and in the supplier base), technology, economic changes, and the natural turnover in suppliers (some suppliers can be expected to “die” off).
- There is a need to balance the various forces in a supplier base. In every supplier base, there are several conflicting forces to be balanced. For example, on one hand, there is the attraction offered by having a stable, long-term supplier base. Such a supplier base offers the firm several important advantages – closer cooperation, greater knowledge of and awareness of the needs of the buyers and the sellers, less time and resources spent on searching for new suppliers, and the benefits offered by greater supplier loyalty. Offsetting these benefits are the hidden costs associated with a stable, supplier base – reduced competition, less efficiency, more opportunity for negative opportunism, and the reduced possibility of new ideas or innovations emerging from the existing supplier base. The presence of minor suppliers acts to counter these hidden costs.
- At certain times, supply chains efficiency (low cost) may be paramount; at other times, effectiveness (able to meet certain critical customer requirements) may be most critical. In the past, supply chains were most commonly expected to emphasize efficiency—that is how they were judged and how they were measured. Today, dynamic environments
can cause the demands upon the supply chain to vacillate between efficiency and effectiveness. For example, as a result of Hurricane Katrina, one firm found that all of its customized computers had been damaged. They needed replacements immediately. HP, the firm from which they had initially purchased their computers, informed them in September that the computers would be available by Christmas. The firm took their order to Dell, who informed them that the needed computers could be delivered the following week. Dell got the order because they were responsive (effective).

- No one supplier can be all things to all people. Suppliers are focused around certain skills and capabilities. Consequently, the resulting supply chain challenge is that of maintaining the “right” mix of suppliers for the right requirements over time.

Understanding the Components of SBM: As previously noted, SBM consists of three major components. In this section, we will explore each of these components in detail.

Elements: The purpose of the elements is to manage the life cycle of a supplier in a structured, systematic manner. As previously noted, there are four major elements. First, there is the management of current major or important suppliers. To date, most of the research into suppliers and vendor management has focused almost exclusively on these suppliers. More importantly, it has studied these suppliers and their management from a static perspective.

The second major element is the management of minor suppliers. While this system focuses, in part, on suppliers that are less important (e.g., commodity), it also deals with suppliers that can be viewed as potential replacements for major suppliers. For these suppliers, SBM fulfills a number of critical functions: (1) it evaluates these suppliers (by identifying process capabilities, strengths and weaknesses); (2) supplier development (to develop suppliers where there is a need but where current supplier capacity is lacking); (3) supplier improvement (to work with suppliers in improving those areas or capabilities that are needed but which are not adequately developed); (4) supplier education (to teach the supplier about how the buying system operates, how suppliers are evaluated and the goals and core values of the buying organization); and (5) supplier integration (to work on integrating the supplier and their systems into the buying organization’s system). A critical assumption underlying SBM is that these suppliers are willing to work with the buying organization and to change how their systems operate. During the course of this study, the researchers encountered a situation where a major aircraft component manufacturer tried to implement an SBM system. The reason—management felt that there was a lack of well-qualified suppliers that were locally available. Initially, management was gratified by the response of the target audience. Before long the program was terminated because most of the participating firms were interested only in getting to know the buying organization; they were not, however, willing to change their practices and systems with the goal of improving them and better integrating them with the buying organization’s system. For the buying organization, this system, like its baseball counterpart, is important for several reasons: (1) a pool of replacement suppliers; (2) potential capacity expansion; (3) a source of competitive pressure on existing major suppliers to keep their prices competitive or to maintain/enhance their existing systems; (4) new capabilities; and, (5) risk reduction. For the supplier, this system is potentially important because it represents a
commitment on the part of the buying organization to the supplier and the potential start of a long-term relationship.

Scouting, the third element, identifies potential suppliers that the buying organization can work at recruiting for itself. Rather than waiting for suppliers to approach the buying organization, this is a proactive approach that seeks to identify and recruit the best suppliers for the firm. Scouting also carries out competitive intelligence analysis on the supply chains of major competitors. The goal of this scouting is to identify potential trends, developments or changes taking place at one’s competitors and to assess the implications of these changes. It is interesting to note that while research into competitive intelligence is well established in the marketing literature, there are only four articles that focus on competitive intelligence and the supply chain.

The final element, transition management, focuses on moving suppliers in and out of the major system. The intent is to reduce any problems (real or potential) created by the transition. For example, when moving a major supplier out of the major system, the buying organization may have to address such issues as the management of the resulting intellectual property or any knowledge that is critical to the buying organization but that resides with the supplier. As an example of what can happen when this element is not in place, a major national firm replaced one supplier with another when the initial supplier was no longer cost competitive. When the initial supplier left, that supplier took with them a great deal of knowledge that the buying organization needed to ensure product quality – knowledge that the initial supplier was not willing to share.

**Strategic Outcomes:** The supply chain of today is predominantly Cost-outcome focused. But this essentially one-dimensional focus (cost primarily, with delivery and quality as qualifiers) is inadequate for meeting tomorrow’s demands. Supply chains must be designed and managed to deliver a broader range of solutions (Melnyk, Davis, Spekman and Sandor, 2010):

- **Cost** – reducing price (initially) and cost (ultimately) is the key focus. Delivery and quality, while important, are secondary considerations.
- **Responsiveness** – The ability to change quickly in terms of volume, mix or location in response to changing conditions. Typically, responsiveness warrants a higher price.
- **Security** – This involves supply chains that are safe and protected from external disruptions. Security is a relatively new requirement but has gained a great deal of attention recently, with cases of tainted food products from China and generic drugs from India.
- **Sustainability** – This outcome is different from security; it involves “Green” supply chains that are environmentally responsible.
- **Resilience** – This refers to supply chains that can deal with unexpected disruptive conditions or threats to supply.
- **Innovation** – In recent years, many firms have increasingly relied on their supply chain as a source of product and process innovation. For example, IKEA long ago generated a competitive advantage by changing how products were delivered. More recently, Proctor and Gamble involved both suppliers and customers in its highly successful new “connect and develop” innovation process.
When the strategic outcomes being pursued by the buying organization change it can be expected that this will have a significant impact on SBM – on the types of suppliers that we want, the capabilities that we are looking for in suppliers and the number of suppliers needed.

**Practices:** SBM involves the extensive usage of practices – undifferentiated (i.e., generic) highly structured routines that can be readily transferred across organizations and industries to help the personnel in those organizations address specific problems. Practices bring with them several important but yet unresolved challenges. First, it is not clear to what extent certain supplier base management practices are applicable to certain outcomes (e.g., efficiency or innovation) or whether they should be applied irrespective of the specific outcomes being pursued (such practices can be viewed as foundations). Second, assuming that certain practices are correlated with certain outcomes (e.g., efficiency, responsiveness, sustainability, security, resilience, and innovation), there is the challenge of determining what practices are correlated with which outcomes. Third, it is not known whether certain practices can be used together to improve overall impact (in past research, such sets of practices that positively work together were referred to as practice bundles or sets). Finally, there is the challenge of determining if there are certain practices that should not be used together because of the negative interactions. Recent research has shown that certain Lean practices (standardization, reduction of slack, reduction of variance) have a negative impact on performance when the goal is to compete through innovation. This last challenge focuses on identifying the negative impact practices bundles. In this third component of SBM, the buying organization is seeking to ensure a fit between the strategic outcomes being pursued, the practices deemed necessary to achieve these outcomes, and the suppliers that possess those practices and that are capable of delivering them.

**Current State of the Research:** As of the time that this document was prepared, the authors were in the process of carrying out a series of detailed case studies into SBM. The results of these studies will be reported at the ISM conference.

**Objectives:** In today’s turbulent environment, it is not enough to simply respond to the changes taking place. It is more important that the buying organization develop and implement a dynamic and systematic approach for dealing with and managing its suppliers. Our objective is to introduce SBM as one approach that we are increasingly seeing implemented by leading edge firms. It is a systematic approach that seeks to maintain a fit between the needs of the buying organization and the capabilities of the suppliers in an ever-changing environment. It strives to ensure that this fit is present by intent rather than by accident.

**REFERENCES**
