

## **Benchmarking Your Supply Organization: The Supply Health Check**

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**Abstract.** The Supply Health Check is a methodology enabling enterprises to assess the status quo of their entire supply management quickly and in a comprehensive and systematic manner. Methodically, it is based on the Supply Management Navigator and pursues the goal to determine the development stage of the purchasing organization investigated systematically and precisely.

The results of the so far largest benchmarking study conducted in the German-speaking countries on purchasing and supply management show that these two areas are increasingly considered to be of high importance for enterprises. Over 180 of the 705 largest enterprises from all industries participated actively in this study. Among others, the following points were the result of this study:

- Purchasing is increasingly turning into a topic for top management,
- Purchasing offers a tremendous leverage for cutting costs and improving results,
- The German-speaking countries are right in the middle of a paradigm shift from clerical purchasing towards supply management.

The pressure on enterprises to take this change into account and to exploit the optimization potentials will further increase in the future due to the continuously decreasing degree of value added. If in the future an enterprise purchases up to 85 % of its products and services externally, it is obvious that purchasing offers the biggest potentials for lowering expenses. Material costs can often be reduced by 15 % to 20 %. However, it is vital that enterprises adapt their structures to the changed requirements and further develop purchasing towards supply management. And exactly this is often the problem as the following common deficits show exemplarily:

- Lack of transparency on the partly decentralized purchasing activities,
- Uncoordinated and inefficient supply processes,
- Inefficient use of synergy potentials between enterprises' business units and/or regional organization structure,
- Inadequate qualification of employees, especially in the areas strategic purchasing and strategic cost management,
- Inappropriate instruments for measuring performance and management of purchasing.

**Use of the Supply Health Check Benchmarking for determining enterprises' purchasing and supply management performances.** A systematic determination of enterprises' purchasing and supply management performances is increasingly becoming an

essential element for their success. The reason for this is that there are often deficits in this area and at the same time potentials to be exploited. Experiences show that frequently there is no transparency on the actual situation in this area. Thus, there is simply a lack of knowledge on where and with which measures a well-aimed improvement can be achieved. Moreover, management often does not pay purchasing the attention it would deserve. A transparent representation of the fields of action and the existing deficits therein may contribute to the indispensable management support necessary to improve the purchasing and supply management performance of an enterprise.

Therefore, the Supply Health Check aims at determining the development stage of the respective supply organization both systematically and precisely. In order to get a meaningful overall picture, the respective enterprise's actual situation is benchmarked with that of other enterprises. With this procedure, potential fields of action can be determined directly through the gaps to the benchmark. Thus, the ideal condition for the development of optimization measures is created.

**Methodology.** The Supply Health Check is strictly orientated to the 15 key fields of action of the Supply Management Navigator (chart 1) and questions the status of purchasing and supply management in the respective enterprise. In this process not only the operational purchasing performance is questioned, but also the development stage in strategic and management-orientated aspects. The following exemplary questions show this clearly:

- Do strategic targets for purchasing and supply management exist and are the supply managers present when corporate strategies are developed?
- How much importance is attributed to purchasing and supply management within the entire value chain?
- What do we know about the internal customers of purchasing and supply management such as manufacturing, marketing or R&D and their respective needs?
- At what stage is purchasing and supply management involved in supply projects/processes?
- How efficiently is purchasing and supply management embedded in the enterprise's organization?
- What is the level of qualification of managers and employees in purchasing and supply management?

**Chart 1: Supply Management Navigator**



The actual qualitative and quantitative data collection is to take place in the framework of a workshop with the respective supply managers. In these workshops the statements on specific topics and questions of supply management are assessed and benchmarked interactively against the supply management database.

The aim of the Supply Health Check is to show supply managers and CPOs in which field of the Supply Management Map the respective enterprise needs to catch up most. This determination of the enterprise's current situation in terms of purchasing and supply management skills in comparison to other enterprises helps to prioritize the necessary measures on the road to the optimization of purchasing and supply management. In the framework of a systematic determination through the Supply Health Check three different analysis methods are distinguished. These methods can either be combined or applied separately, depending on the specific needs.

- Quantitative analysis and external benchmarking
- Qualitative analysis and external benchmarking
- Internal benchmarking

**Quantitative analysis and external benchmarking.** The quantitative part of the Supply Health Check is based on a comparison of the purchasing-specific key performance indicators of the respective enterprise with those of international benchmarking databases. Those key performance indicators that are of relevance for the individual demand can be selected from a set of more than 20 available key performance indicators. Both data on the respective enterprise's own industry and related industries are vital for the representativeness of the results of this quantitative comparison. If the benchmarked enterprise is e.g. active in various fields of business in different industries, a comparison with the data of several industries can be made.

A second important prerequisite for a meaningful benchmarking is the prior clear definition of the key performance indicators. To this end the definitions of the respective enterprise need to be compared with those of the international database.

It is the target of the quantitative benchmarking to make the purchasing performance of the respective enterprise measurable and transparent through a systematic external comparison of specifically selected key performance indicators. The result is presented in the form of a performance profile in which the results of the respective enterprise are compared with those of a selected industry / several industries.

The Supply Management Institute SMI™ mainly uses the world-wide database of its US-American cooperation partner CAPS Research for these quantitative key performance indicator comparisons. If appropriate, the available quantitative data is complemented through further studies and further research.

**Qualitative analysis and external benchmarking.** In the qualitative part of the Supply Health Check a systematic and consequent determination of the capacity of the purchasing organization investigated along the 15 fields of the Supply Management Navigator is conducted. Depending on the aim of the Supply Health Check, a so-called "quick check" (comprising about 50 key questions) or a detailed full check (about 220 questions) can be conducted. Here the enterprise systematically assesses its own performance with the help of the qualitative questions of the 15 modules of the Supply Management Navigator on a scale ranging from 0 to 100. The questions are discussed and answered in the framework of a moderated workshop. The workshop lasts between half a day and two days, depending on the number of the selected questions.

The score achieved per question is compared with the data of the 180 enterprises of the Supply Management Institute SMI™'s empirical survey. In this process a comparison with

the respective best enterprise (best practice), the average of the database (cross industry average) or with an industry-related profile takes place.

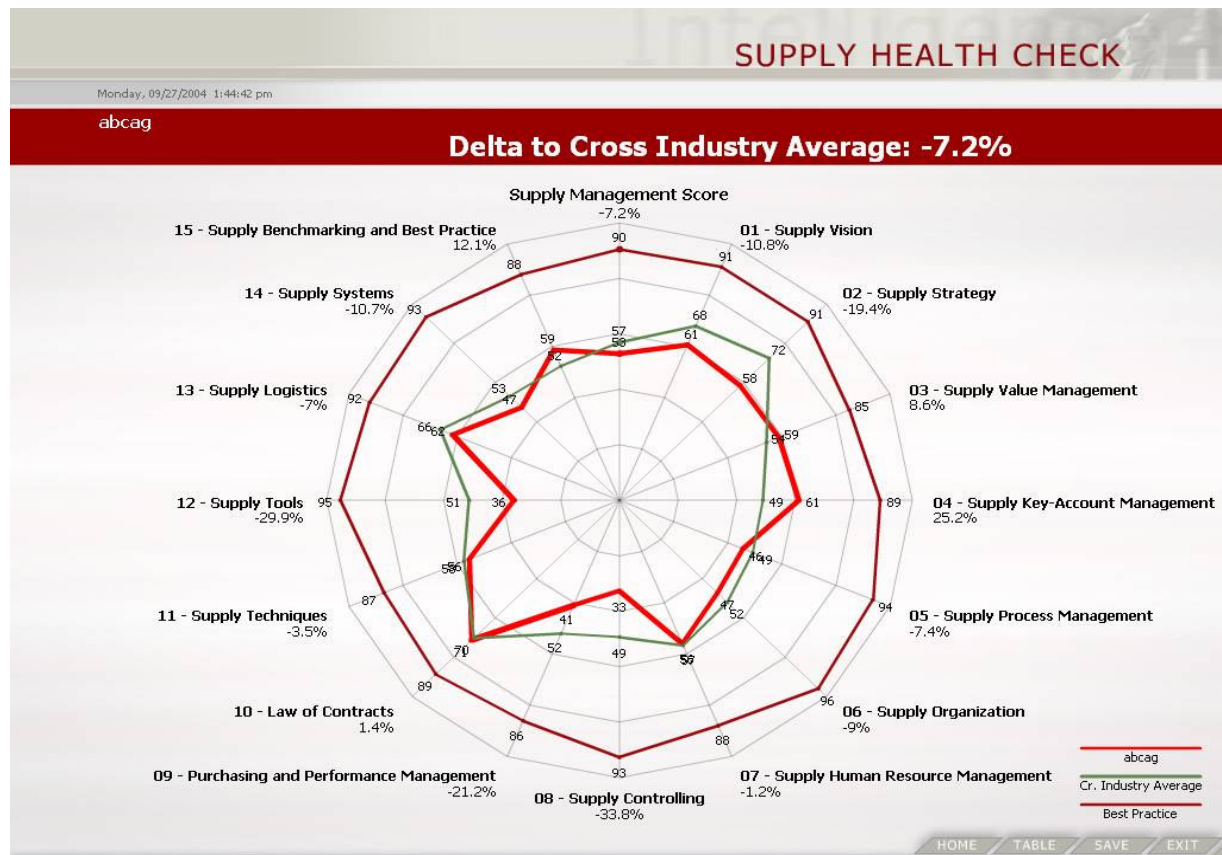
Through this proceeding the deviations (deltas) to the external benchmarks are determined systematically in all fields of purchasing and supply management. As a result the individual strengths and weaknesses of the supply organization investigated are revealed. Afterwards, they can be visualized clearly in the Supply Management Performance Web (chart 2). The chart depicted below exemplarily shows the supply management performance of the enterprise investigated (red line) compared to the cross industry average (green line) and to best practice (brown line).

The enterprise in the below chart clearly has its strengths in the area supply key-account management and supply benchmarking; at the same time its performance in terms of supply strategy, supply controlling, and supply tools are markedly below average. Taking all modules analyzed into account there is a negative deviation relative to the cross industry average of about 7 %.

A main aim of qualitative benchmarking is to show calls for action thus creating a solid basis for the purposeful development of optimization measures in purchasing. A call for action can either result from weak points detected or from existing strengths, which are to be enhanced with the help of concrete measures.

In a second step of qualitative benchmarking a ranking of the 15 modules of the Supply Management Navigator is created on the basis of the total score achieved per module and under consideration of the deltas to the respective benchmark. Through the ranking of the modules and the presentation with colors corresponding to the respective call for action (red: immediate call for action, yellow: acceptable; green: to be enhanced as strengths) the primary calls for action are clearly visible and the discussion of possible measures to be taken is facilitated.

**Chart 2: Supply Management Performance Web**



**Internal benchmarking.** Besides the possibilities of external benchmarking described above there is also the possibility to complement the external benchmarking in the framework of the Supply Health Check with an internal benchmarking. An internal benchmarking is useful if purchasing takes place in different places within an enterprise, e.g. in the case of divisions or business units within a group. An internal benchmarking is also advantageous if an enterprise has offices in various countries. It is the principle of internal benchmarking to carry out the above-mentioned measures of qualitative and / or quantitative benchmarking at the different offices and to compare the results afterwards. The internal benchmarking is designed to create the highest transparency possible on the individual performances of the different supply organizations within an enterprise, thus achieving additional synergy potentials. In this process both low performers and the internal best practice can be determined.

For example, several performance profiles are the result of the evaluation of the quantitative benchmarking. These profiles then get compared in an overview showing all of them. The differences in these profiles of different locations or supply organizations allow research on the reasons for these differences in supply performance.

The results of the qualitative benchmarking can also be used for an internal benchmarking of different supply organizations. One idea would be to compare the scores achieved per module or the total scores (supply management scores) and to elaborate corresponding rankings.

The Supply Management Performance Portfolio is another option for evaluating the internal benchmarking. Here the participating supply organizations are presented in a portfolio in relation to the management scores achieved (modules 1-8) and the performance scores (modules 9-15). This portfolio presentation makes the classification of supply organizations possible; depending on their overall supply performance they are classified as either "Champions", "Intermediates" or "Low Performers".

**Detecting and eliminating weak points, pushing strengths.** The Supply Health Check is a methodology which can be used to get a quick, comprehensive and systematic overview of the situation of the entire purchasing and supply management of an enterprise. Through the combination of external and internal benchmarkings and qualitative and quantitative benchmarkings enterprises can quickly gain transparency about the current status of their purchasing and supply management performances. Strengths and weaknesses in the organization of purchasing processes can be identified objectively, and a basis for the derivation of concrete optimization measures is elaborated. The key findings and benefits of the Supply Health Check for enterprises are summarized again in the following:

- Detailed assessment of the current status of the entire supply organization both at the level of the entire enterprise / entire group and at the individual business unit level,
- Representative comparison of the respective enterprise's purchasing and supply management performance with external benchmarks,
- Identification of enterprises strengths and weaknesses in relation to internal Champions, Intermediates and Low Performers,
- Transparency as to internal best practice solutions and possible internal synergy potentials between supply organizations,
- Derivation of an individual strategic factor of success of purchasing and supply management,
- Development of an individual road map of the primary fields of action in purchasing and supply management,
- Getting management's attention for the potentials and calls for action in purchasing and supply management by communicating the results,

- Initiation of processes aimed at improving the current situation and internal communication.

Experiences show that supply managers are increasingly looking for ways to benchmark their performance in a structured way and on a highly professional level with the performance of many other enterprises. In many cases external and internal benchmarking helps to determine differences in the performance of the supply organizations and to determine best practices.

The existing systematics, available databases as well as the targeted presentation of the workshops lead to the desired transparency within a few days and can be bundled in meaningful results. This is a decisive advantage through which time-consuming analysis phases can partly be eliminated or at least shortened considerably.

The Supply Health Check offers both small and medium-sized enterprises and multinational companies the possibility to quickly get a comprehensive picture of their respective purchasing performance. At the same time it offers enterprises a solid basis for the individual further development of purchasing and supply management.

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