Strategic Supply Management Alignment:

The Itinerary for Your Next Level Supply Management Journey

A White Paper by Sourcing Innovation

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Introduction

In a previous white paper, which assumed your organization was already on the path to standardization, Sourcing Innovation outlined what was required for "*Taking the First Step on your Next Level Supply Management Journey*" and also discussed some of the activities that your organization would need to take to go beyond operational excellence to true strategic business enablement and shift from a cost-reduction center to a value-generation center. While an organization can often achieve operational excellence with a strong focus on modern technology implementation, tactical process improvement, and aggressive talent acquisition, it will be impossible for the organization to obtain true strategic business enablement without strategic alignment. The three Ts of **t**alent, **t**echnology, and **t**ransition management are necessary prerequisites, but on their own aren't sufficient.

That's why this paper is going to define what strategic Supply Management alignment is, what the essential organizational requirements are to obtain it, and how your Supply Management organization puts together a plan to get aligned.

In addition to talent, technology, and transition management from outdated, inefficient processes to modern, enabling processes, the organization also has to master the art of **t**racery. In the days of yore, tracery was an art practiced by artisans who weaved delicate threads into linen and fancy clothing and cabinetmakers who made fine furniture with complex designs consistent of intertwining lines and curves. Today, tracery is the art of weaving together talent, technology, and transitional processes into a unified tapestry that unites the organization in a collective, strategic, web or network of capability and competence. Once the organization is working as a unified whole to a common goal, only then can it map out the **t**opography of the challenge it is up against and identify the **t**rail that will take it form where it is today to where it needs to be to achieve true strategic business enablement, the destination of it's Supply Management Journey.

This is not always an easy task. Many organizations fail because they believe that the path from A (where they are today) to B (where they want to be) is a relatively easy straight line on a 2-d roadmap that can be accomplished in seven easy steps (as defined by the Big 6 consultancy of their choice). But this is the real-world, and, as we all know, the real world has mountains and active volcanoes, deep valleys, foreboding jungles, forked paths into dark forests, fog, bogs, quicksand, and mountain passes prone to avalanches. You can't always follow a straight path from A to B. Sometimes you have to go around the mountain, and you always have to avoid the quicksand and quagmires. Sometimes you have to choose the dark and foreboding path through the forest. Sometimes you have to take the rickety rope bridge across the chasm. (And one misstep sends you to a rocky death.)

But, with the right approach, and the right mindset, it is an achievable one. The Hackett 8% have done it. Your organization can to. To find out how, keep reading!

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Strategic Alignment

Strategic alignment, which has achieved buzzword status, is the probably the most overused and most misused business term by any consulting organization claiming to sell a strategic solution to your organization. However, it is still critical for your organization to achieve strategic alignment. But what is strategic alignment and how does your organization achieve it?

Strategic alignment, which can be thought of as a holistic measure of organizational congruence, is commonly defined as the process and the result of linking an organization's structure and resources with its strategy and business environment to enable higher performance by optimizing the contributions of people, processes, and inputs to the realization of measurable objectives in a manner that minimizes waste and misdirection of effort and resources. [Wikipedia] In other words, it's a fancy way of saying the organization is operating in harmonious efficiency. It's a reasonable definition, just like Dirk Gently's method of holistic detecting is a reasonable approach, but not an extraordinarily useful one because it doesn't really give one any hints on how to achieve strategic alignment beyond the implementation of Six Sigma and/or Lean processes which are known to minimize waste and redirection of effort, nor is there any guarantee that your organization is going to reach the right spot quickly. (Dirk always solved the case, but usually not before making a number of false steps, which were often quite costly.)

So we need a better definition. Let's start by refining our focus from strategic alignment to strategic supply management alignment because what we are really focused on is the Supply Management organization and progressing it to the point where it delivers true strategic business alignment. So what is strategic supply management alignment?

Strategic supply management alignment is the state where the supply management organization operates with the same goals and objectives of the organization at large and does so in a manner that is efficient, aligned with organizational philosophy, and flexible. The right talent and technology is applied to each effort and the organization reacts and adapts appropriately to unexpected events and changes in the process flow in a manner that maintains the organizational philosophy and objectives. In other words, strategic supply management alignment is achieved when the outcomes of supply management processes and efforts are the outcomes desired by the business. And this is achieved through the properly aligned application of talent and technology.

This is a better definition, and gives an organization some hints as to what is needed to achieve it. Furthermore, it gives us some insight into why strategic alignment is needed within a Supply Management organization. Simply put, without alignment, the Supply Management organization is not meeting all of the needs of the business and this is a critical requirement for advancing up the sourcing maturity ladder.

So how does an organization achieve strategic supply management alignment? First it needs talent. Nothing happens without people to make it happen. Then it needs technology. People need the right tools to do their job efficiently and effectively. Then it needs flexible, transitioning, processes that not only take an organization from where it is to where it needs to be but that are adaptable as situations change. But if this was all that was needed, every organization would be aligned.

Presumably, every organization can hire talent, acquire technology, and hire experts in change management to design transitional processes. While these 3 Ts of talent, technology, and transition management are a necessary condition for strategic supply management alignment, they are not a sufficient one. At least one more ingredient is needed. That ingredient, as recently revealed on the Sourcing Innovation blog, is **t**racery.

Talent, technology, and transition management have to be delicately and expertly weaved together as in a tapestry to be effective -- and that is the art of tracery. If your organization masters the T of tracery, then it has all of the building blocks that it needs to get to strategic supply management alignment. However, it will still have to trace the right **t**rail, the 6th T, which is not always a straight line, and navigate its way through the **t**opography, the 5th T, of the situation.

So how does an organization identify the talent, acquire the technology, define the transition, map the topography, trace the trail, and weave the tapestry that binds it all together? That's what we're going to review in this white-paper series and as all the pieces become clear, so does the definition of true strategic supply management alignment and what it takes to get there.

However, in order to make any progress we have to go back to the beginning of Supply Management and return to the Tower of Babel.

Return to The Tower of Babel

In the beginning, when all business was trade, all business was simple and all parties spoke the same language. "*I'll give you this for that*." But then the world complicated, business complicated more, and now people don't even speak the same language across the different units of a business. Just like God, in the Christian myth, confounded the speech of the residents of Babel to prevent them from building a tower so high that nothing would be out of their reach, the nature of business has been confounded over time by many men who would seek to prevent their rivals from reaching the same heights of success that they reached. This has not only led to segmentation of business units with distinct specializations, but to the development of distinct languages within each business unit spoken only by that business unit and no other.

Now we are at the point where people in different departments within the business don't speak the same language and don't understand each other. As long as this is the case, the business will never reach any sort of alignment.

This means that the first step of any alignment exercise is for everyone to come together and learn a common language. All of the parties must return to the Tower of Babel and learn to communicate again, regardless of the differences and distance between them and their language. Until the business (again) speaks one language, no progress can be made on the path to true strategic supply management alignment.

But once the organization begins to speak a common language, strategic supply management alignment can be pursued. The first step is to map the topography.

Mapping the Topography

The foundation of strategic supply management alignment is knowing where your organization is, where your organization needs to be, and how it is going to get there. In other words, just like Dora the Explorer, the organization needs a map. Then, just like Dora, it must use that map to climb the mountain (to verify where it is), find the right path through the forest (and avoid the sly fox trying to lure the organization off of the true path), and cross the chasm (to reach the destination state of alignment and surpass the organization's rivals in the process).

However, unlike Dora, the map isn't going to be there waiting for the alignment team leader to grab it from her backpack. Like the explorers of old, the organization will have to fly into unknown territory where there be monsters, do its own aerial survey, and dispel the myth.

While the terrain that is encountered will often dictate how the organization maps the topography, it will at least need to explore and map out the following:

Supply Management Goals, Strategy, and Philosophy

Before an organization can begin its journey to strategic supply management alignment, it first needs to understand not only where it is on its supply management journey but what it wants to achieve. This requires a firm understanding of the organization's supply management goals, strategy, and philosophy.

Goals can be broad or specific. Examples of goals include:

- creating a best in class Supply Management organization

- optimizing application of resources and minimizing tactical work with process automation
- increasing the team's Supply Management skills
- identifying $10 Million in savings this year
- identifying new suppliers
- helping Finance to improve working capital

Strategy is the unifying plan that ties the goals together that details a high-level operational plan designed to help the organization achieve its goals. For example, the strategy could be:

- to identify new suppliers with lower production and operational costs that will help Supply Management take cost out of the supply chain so that savings and value generation targets can more easily be met
- identify and implement new training programs that will elevate the potential of the team who will then be able to conduct better sourcing events, take advantage of Procurement automation, and benchmark their way through continual improvement programs
- merge decentralized Supply Management activities across the different business units to achieve the economies of scale that were predicted by the business when it acquired the other business units

Philosophy defines the operational mentality that the team will employ in their execution of the strategy, defines the operational culture, and determines what direction the team will take. For example, if the philosophy is to focus on sustainability, the team will look for suppliers that use renewable resources, minimize their use of natural resources, and work with the buyer to continually identify new ways to minimize the use of non-renewable resources.

However, if the philosophy is to reduce spending at all costs, the team will look for the cheapest suppliers regardless of supplier operational philosophy, natural resource use, or willingness to collaborate.

Organizational Goals, Strategy, and Philosophy

In order to figure this out, this will require a properly designed survey that is sent to a statistically significant number of representatives of all of the key organizational stakeholders who must be required to respond. One might be tempted to think that Supply Management understands the organizational goals, strategy, and philosophy, because that's what it based its supply management goals, strategy, and philosophy on, but one doesn't know for sure until one's beliefs are validated.

Since the real goals and philosophy of the organization are those goals and philosophy that are being practiced across the organization, only once Supply Management gets the results, analyzes them, and assesses the overall response will it know where there is agreement (alignment) on goals and philosophy, where there is ambivalence (as the disagreements are minor and not worth worrying about at this time), and where there is disagreement (misalignment)

Where Supply Management is truly aligned with the organization, no work needs to be done and the focus can be shifted elsewhere. Where Supply Management is misaligned, action needs to be taken to align Supply Management with the organization. And where the consensus is that Supply Management and the organization is neither aligned nor misaligned, or the issue is deemed not important, then the issue can be ignored for now and re-assessed at a later time once the obvious misalignments are dealt with.

However, it might be the case that the organization itself is not aligned on some issues, in which case Supply Management will have to lead the organization in an alignment exercise in order to define the starting goals and strategy for the organization, which Supply Management will then need to align to.

In order to get a good grip on the gaps, when composing the survey, in addition to asking each stakeholder to specify (their understanding of) the organizational goals; the structure and processes that should be followed, and the proper organizational structure and operations (management) philosophy that should be followed; the supply management organization must also ask the stakeholders their opinions on whether the talent, technology, and suppliers are up to the challenge and whether there is enough financial support, risk management, and innovation to succeed.

Goal, Strategy, and Philosophy Gaps

Where there is misalignment, the gaps are discussed and detailed until they are well understood by all affected parties.

For example, let's say that, after going through the exercise of cataloguing Supply Management's goals and strategy and sending out the surveys to determine the organizational goals and strategy, the situation is the following:

DIMENSION	SUPPLY MANAGEMENT	ORGANIZATION
GOALS	• increase sustainability • identify more sustainable suppliers • increase automation to decrease tactical processing time	• decrease expense at all costs • identify cheaper suppliers • spend less time on low-value tasks

STRATEGY	Focus on Sustainability	Focus on Cost
ORGANIZATION	Center-led	One Supply Management team per organizational unit (Engineering, Marketing, etc.)
PHILOSOPHY	Supplier Improvement	Supplier Replacement
TALENT	Training Required	Sufficient, If Not, Replace *Talent*
TECHNOLOGY	Better Tools for Automation, Strategic Sourcing, & Strategy	Just Need more Automation
FINANCIAL SUPPORT	Need more for Supply Management Initiatives	Need to cut operational budgets by 10% across the board

Then we have the situation where the organization is aligned on the goal of invoice automation and other types of Supply Management automation to decrease processing time on tactical, low-value tasks; partially aligned on the goal of identifying new suppliers, although there is disagreement on what defines a better supplier which may or may not have to be addressed now; and misaligned on the major strategy, and priority, of Supply Management, which Supply Management believes to be long-term sustainability but which the organization as a whole believes to be short-term cost reduction. In addition, there are differing views on the level of talent within the organization and what to do about it, the importance of technology to support strategic endeavors, and the importance of investment in key projects to secure greater operational savings.

Addressing the Gaps

Identifying the right initiatives is not always an easy task because one size does not fit all, even within a vertical, and the initiative must align with where the organization is on its next level supply management journey and the ability of the business to implement it. As a result, the organization can't just go to any Big 6 Consultancy and take a page from their "leaders" playbook and implement it as is. While every consultancy will be able to give the organization ideas, there's no guarantee that any will be capable of even getting the organization on the right trail without significant customization.

When there is more than one initiative that could be undertaken to reach alignment, the organization will have to rate each on effort, expected value, time to value, pre-requisite requirements, and the opportunity risk and classify the opportunities on a value-vs.-effort ranking and choose the best one(s).

Once the organizational goals and strategy are solidified and the gaps between the current state (of Supply Management) and the goal state are identified, Supply Management can begin to identify specific initiatives that be undertaken to close the gaps. For example, based on the gaps above, the Supply Management team may identify the following initiatives:

- educate the organization on the benefits of center-led Supply Management and continue the migration from decentralized Supply Management to center-led Supply Management
- search for new suppliers that can increase sustainability and reduce costs
- define and implement transition plans to migrate production from current suppliers to new suppliers
- focus first on invoice automation and then on move onto to automated market data collection and comparison against off-contract commodities to automatically identify opportunities for sourcing
- create a training program that will not only teach the organization the new processes and platforms being introduced but will elevate the capabilities of everyone involved in Supply Management

Then, recognizing the need for acceptance and adoption of the initiatives for success, the Supply Management team may also identify the need to:

- put together a solid value proposition to make sure that the Supply Management organization gets the increased funding for value-generation efforts
- collaborate with the CFO, CEO, and critical stakeholders to prioritize the goals, define the KPIs, and ensure support for plan adoption
- define and implement a communication and reinforcement strategy to make sure all key participants are aware of the plan, understand what they need to do, and understand that C-suite support is behind the initiative
- document the new processes and the transition management plan(s)

Priority Ranking

Once the initiative(s) for each gap have been identified, they will have to be prioritized with respect to each other because the organization will not have enough resources to attack all of the initiatives right away.

The focus initially should be on high-value low-effort tasks, which are prioritized, primarily according to what is expected to deliver the organization a return in the next 12 to 24 months … and secondarily according to those initiatives that will require the institutionalization of changes before future high-value opportunities that require mid-level to high-level efforts, and that are planned for tier 2 (and if the changes take time, even tier 3).

Low-value opportunities are de-valued until something changes and they become higher value or the identified high-value opportunities are exhausted. The only exception is if a low-value opportunity defines a low-value task that is a pre-requisite for a high-value task that enables a high-value opportunity that is early in the priority plan because it is medium-to-low effort.

For example, given the initiatives outlined in the last section, after examining dependencies and getting input from the stakeholders, Supply Management would likely prioritize the identified tasks in this order:

1. put together a solid value proposition to make sure that the Supply Management organization gets the increased funding for value-generation efforts (as the plan depends on sufficient funding)
2. educate the organization on the benefits of center-led Supply Management and continue the migration from decentralized Supply Management to center-led Supply Management (as the plan depends on a center-led strategy and low resistance from stakeholder business units to this strategy)
3. collaborate with the CFO, CEO, and critical stakeholders to prioritize the goals, define the KPIs, and ensure support for plan adoption (as involvement lowers stakeholder resistance and CXO acceptance can forcibly remove it)
4. define and implement a communication and reinforcement strategy to make sure all key participants are aware of the plan, understand what they need to do, and understand that C-suite support is behind the initiative
5. document the new processes and the transition management plan(s)
6. create a training program that will not only teach the organization the new processes and platforms being introduced but will elevate the capabilities of everyone involved in Supply Management
7. focus first on invoice automation and then on move onto to automated market data collection and comparison against off-contract commodities to automatically identify opportunities for sourcing
8. search for new suppliers that can increase sustainability and reduce costs
9. define and implement transition plans to migrate production from current suppliers to new suppliers

Success of any major endeavor usually depends upon support from the C-Suite to quell and dispel organizational resistance, so one of the first steps will always be collaboration with the C-Suite to agree upon the priority goals, KPIs, and plan components, even though it was only identified as an after-thought when doing the gap analysis. It also depends upon all of the stakeholders and participants in the plan having a firm understanding of what the plan is, what their role is, and what they need to accomplish. So that will need to be the next step. After that, the transition management needs to be defined and communicate so that the new processes can be implemented smoothly and effectively.

Only then can Supply Management focus on the core activities that it needs to undertake to align with the organization and achieve the desired results. In this case, even though the ultimate goal may be the identification of new suppliers that can reduce cost today and, hopefully, work with the organization in a sustainable way to also reduce cost tomorrow, Supply Management would start with invoice automation since identifying and switching to a new supplier could take six months to a year while invoice automation can deliver savings almost immediately. Only then does the search for new suppliers begin and, once they are identified, the transition plans for migrating production are created, distributed, and implemented.

Multi-Year Alignment Plan

Savings identification and value creation is a continuous process. That's why a multi-year plan, which should be reviewed every year, is required. This review must include reviewing the data collection effort, process changes, new technology implementations, etc. required for future efforts and begin working to get those underway before the next phase of the value creation plan.

Once the initiatives to close the initial gaps have been identified and put into an immediate action plan, the Supply Management team continues its analysis in an attempt to identify a goal state that would represent not just an incremental improvement over the current state, but an exponential one. For example, while researching processes and technologies to implement the initial set of initiatives, the Supply Management Team might discover that:

- the C-Suite is being pushed to generate 10M savings a year for the next 3 years, and the large savings target it has been given is multi-year
- the organization doesn't have a good platform for disseminating information or for enabling collaboration
- there is no software in place for benchmarking organizational performance or progress
- historical market data from past sourcing projects is not maintained in a central data store
- the organization does not have any subscriptions to market intelligence platforms that can be used to identify suppliers and their financial health
- there is no holistic view of supplier performance

As a result, the team would identify the need for a multi-year plan that is likely to generate savings over multiple years. The team might start by identifying the need for additional savings strategies such as the acquisition of proper spend analysis and should-cost modeling tools. Then the team might identify the need for a sourcing or procurement suite that included a platform for collaboration on Supply Management projects as well as for benchmarking current performance.

Finally, the team might identify the need to integrate the sourcing tools with their ERP program so market data can be persisted for historical analysis as well as the need to integrate a subscription with a market intelligence platform so that market and supplier health can be analyzed.

The team may then put together the following plans for years two and three, creating a multi-year plan:

Year 2:

- define a progress report template, implement the ability to populate it quarterly or monthly, and communicate the report(s) to key stakeholders
- implement a collaboration platform where the key stakeholders can review the progress reports, input ideas, ask questions, get answers, and find out where to get training
- implement holistic supplier performance monitoring for all suppliers, including scorecards and alert monitoring
- implement spend analysis
- identify indirect and second tier categories for sourcing
- store results and benchmark against the market

Year 3:

- gather and share the benchmarks on a quarterly basis
- implement a sourcing platform which supports complex lotting and expressive bidding
- integrate a feed from a market intelligence provider
- compare current and potential suppliers and identify suppliers who could outperform the market on indirect and second tier spend categories

Prepare the Team: ADKAR

Before the plan is implemented, it's important to make sure the team is on-board, ready, and raring to go. No transition management happens without the support of all parties involved.

This is where the ADKAR methodology comes in. Short for **A**wareness, **D**esire, **K**nowledge, **A**bility, **R**einforcement, this goal-oriented change management model allows change management teams to focus activities on the achievement of specific business results.

The five-step methodology states that

- First the team has to be made **A**ware of the need for change.
- Then they need to have the **D**esire.
- Then they have to be provided with the **K**nowledge they will need.
- Then they need to be provided with the tools they need to use that knowledge to hone the **A**bility to change.
- Then they need to be rewarded and provided with positive **R**einforcement.

Since this methodology is designed with (self)assessment and alignment in mind, it is perfect for preparing an organization for its strategic supply management alignment journey.

It is important to note that without a desire to really put the effort in, an organization is probably not going to go deep into alignment or what is required to really get there.

With respect to our plan, the process might work as follows:

- Get approval from the C-suite to offer small bonuses and rewards for new process adoption and to increase bonuses for anyone who exceeds their savings or throughput targets
- Tackle ***awareness*** by holding a kick-off meeting to explain the current situation, which will probably be along the lines of dwindling margins, rising costs, and the need to take 30M out of the operational expense, and that the situation is only going to get worse without action
- Instill the ***desire*** for change by noting that the C-Suite has committed to the board that spending will be reduced by 10 Million a year, and that if the cost can't be taken out of the Supply Chain, the C-Suite will reduce headcount instead; Plus, if certain elements of the plan are implemented properly, not only will jobs be secure, but the automation will make everyone's jobs easier
- Overview the technology implementation plan and when the different modules that will help them with their jobs will be available
- Announce pre-scheduled training sessions and online learning options that will be made available on a regular schedule to help them with the implementation of the plan and the transition to new, and better, processes so that the team has the ***knowledge***
- Implement the new processes and technologies and offer the training for these as per the pre-announced schedule so the team has the ***ability***
- Reward those users who are the first to reach certain milestones or targets with recognition and small bonuses to provide positive **reinforcement**.

And now that your organization knows what strategic supply management is and has the beginnings of a plan to get there, it has to put the plan into action and transition to a better Supply Management organization. How will it do that? Stay tuned for Part II or our series.

Summary

This paper defined what strategic Supply Management alignment is, what the essential organizational requirements are to obtain it, and how your Supply Management organization puts together a plan to get aligned.

It talked about the 6 Ts that your organization needs to master to reach strategic business enablement, which is the third, and final, phase of your next level supply management journey, and how you use these capabilities to put together a plan of action to get started on your journey.

An organization has to start by making a proper topographical map of the current situation, where it is along each strategic dimension of interest, and refining that map until the organization reaches consensus. Even the map-making will be difficult because, in an average organization, most of the key stakeholders won't be aligned on all of the key goals, strategy, and philosophy of the organization. Until these are pinned down and accepted, the organization cannot even begin to start defining the technologies, processes, and skills it is going to need to move forward in its supply management journey.

Only once it has nailed down the philosophy, strategy, and goals, in consultation with the C-Suite, can Supply Management put together an initial plan to close the gaps and align the organization on a common philosophy, strategy and goal set. It starts by identifying the key gaps between where it is today and where it needs to be, identifying actions that can close the gaps, ranking them on priority, and partitioning them into those actions that will be tackled this year, and those actions that will be tackled later on.

Then, before it starts to detail the plan and implement the plan, Supply Management has to make sure all of the key stakeholders are on board. It uses the ADKAR methodology and defines a process to communicate the key elements of the plan, the tools and knowledge required to implement, and the expected benefits, including those benefits to each key stakeholder. Only once a critical mass of acceptance is reached can the organization progress.

And what does it do once the high-level plan is accepted and ready to be detailed and implemented? That will be addressed in Part II of this series. Stay tuned because, with the right approach, and the right mindset, the organization can reach a new Supply Management plateau and become a value-generation organization instead of just another cost center.