



## Knowledge Economy

Is Your Supply Chain Ready?

**Today's economy is a knowledge (driven) economy, "one in which the generation and the exploitation of knowledge has come to play the predominant part in the creation of wealth. It is not simply about pushing back the frontiers of knowledge; it is also about the more effective use and exploitation of all types of knowledge in all manner of economic activity."**

**Very little has changed since the Department of Trade and Industry of Great Britain penned these words in 1998.**

**By Michael Lamoureux**  
Editor, Sourcing Innovation



### Contact Us

217 N. Jefferson St., Suite 400, Chicago, IL 60661

T: +1 312-373-3100

info@BravoSolution.com

[www.bravosolution.com](http://www.bravosolution.com)



# Knowledge Economy

In fact, the importance of knowledge in wealth creation is accelerating by the day now that global trade, information technology, new media, and, in particular, the social web is increasing in innovation, size, and market penetration on an exponential basis. Inversely, the importance of location is decreasing by the day, as is the importance of local laws.



Except for the production of the physical product, which still requires a factory, most work can be done anywhere, at any time, by an appropriately skilled resource. Leading organizations now “follow the sun” and operate core business processes 24/7/365 on a global basis. Product and service pricing are increasingly being driven by value first and cost second and the knowledge required to deliver those products and services is constantly “leaking” to where demand is highest and barriers are lowest. Organizations have to either accept the new economic reality created by the knowledge economy or fall further behind their peers in sales and market size.

From a supply chain vantage point, not only have the last twenty-five years produced an explosion in the application and availability of computing and communications technology in all aspects of life and business, which was only hastened by the wide-spread adoption of the internet, but they have also produced a revolution in supply chain theory and best

practices. In lockstep we’ve gone from MRP to MRP II to ERP to a mix of Best-of-Breed Supply Chain and Global Trade solutions on the technology side to decentralized tactical buys based on hardball price negotiation to centralized global strategic supply negotiations on the process side. These global strategic supply negotiations take into account total cost of operations from acquisition of the raw materials through production and sales to service, returns, and recycling of the product for the valuable raw materials they contain in an integrated end-to-end supply chain function. We’ve gone from internet-based reverse auctions being a gleam in Glen Meakem’s eye and supply management councils (at GE), commodity centralization (at Xerox), and supplier collaboration (at Chrysler) to being state of the art to TCO-focused e-Negotiations based on bid analysis and optimization, taking advantage of decentralized economies of scale (Cessna), inventing new equipment to outpace the competition, and optimizing supply chains on a global scale (like Unilever and P&G).

In today’s fast-paced knowledge economy, only the strong survive, where the strong are those organizations with modern processes and technology and the wherewithal to use them. The question is, does your organization belong to this group?

### The Need for Knowledge

Thirty years ago – where the process of making a major buy was as simple as opening a few catalogs, identifying a supplier, picking up the phone, holding face-to-face price-based negotiations with the first three vendors who could meet the need, cutting a contract with the vendor who bid the lowest, creating a purchase order, verifying the shipment, and then paying the invoice – a buyer did not require much in the way of knowledge, education, and training. Literally, the only skills that were required were the ability to read and write, communicate well, and occasionally use a fax. From a personal perspective, all a buyer needed was a thick skin to deal with whatever the supplier’s best negotiator could throw back at him.

Compare that to the skills required by a buyer at a leading supply management organization today. These days, each buy must be made against a written sourcing plan that is the result of a scenario-based analysis that takes into account total category / commodity spend, should cost models,

### Contact Us

217 N. Jefferson St., Suite 400, Chicago, IL 60661

T: +1 312-373-3100

info@BravoSolution.com

www.bravosolution.com



# Knowledge Economy

market indices, demand patterns, integrated S&OP forecasts, manufacturing needs, and service requirements. Furthermore, the e-Negotiation must be fact-based, driven according to a BATNA (Best Alternative To Negotiated Agreement), make extensive use of e-Negotiation platforms (that integrate RFX, e-Auction, and decision optimization technologies), consist of multiple rounds (acceptance of terms, supplier qualification, initial elimination, and award based on Best-And-Final Offers), and result in a contract with clear terms and conditions that can be tracked and monitored over the effective life of the contract.

And the lack of knowledge is costing supply management organizations dearly. According to a 2009 AMR study and supply management series, 40% of sourcing organizations are giving away 30 cents of every dollar of spend because of misaligned business strategies and the lack of the knowledge required to fix the misaligned business strategies. Even worse, this is adversely affecting the supply management professional. If the supply management professional is working for a modern supply management organization that gives its supply management professionals a bonus based on realized savings, then the supply management professional is missing out on a bonus that could be three times as large. This is because an average sourcing organization is likely only saving 5% to 10% on its buys, when a savings of at least 15% to 25% could be obtained with better knowledge-driven negotiation techniques executed on modern e-Negotiation platforms by knowledgeable supply management professionals.

Over the past three decades, the knowledge required to compete in today's global economy has increased exponentially. Moreover, a supply management professional who invests the time required to gain the knowledge required to advance to the next level in supply management is in a great position. Given the impending global talent shortage that is going to exacerbate over the next five years as the baby boomer generation heads into (overdue) retirement, the supply chain is going to be hit hard – at a time when it needs talent most. Some statistics have the looming talent shortage as a result of the baby boomer retirement at over 10 million in the US alone, with the number projected to increase to a staggering 35 million by 2030. Other countries, like Mexico, Canada, and Japan are projected to be even worse off.

## Contact Us

217 N. Jefferson St., Suite 400, Chicago, IL 60661

T: +1 312-373-3100

info@BravoSolution.com

[www.bravosolution.com](http://www.bravosolution.com)

## Educate

If an organization is going to survive, and thrive, in today's knowledge-based economy where every organization is being forced to do more with less on a daily basis, it needs people who are up to the challenge. In the past, an organization would simply hire these people at the market rate and carry on its merry way. But if there aren't enough people out there to fill the collective need, an organization is left with two options: pay above market rates to lure someone with the right knowledge from a competitor, or give its employees the skills required. And while the first option might work in the short term, at some point it's going to become cost prohibitive as there are only so many dollars for headcount and the organization's richer competitors are going to keep upping the cost as they bid more for top talent. This leaves the second option as the only viable long-term option.

So now that we know the key to not only surviving, but thriving, in today's knowledge-based economy is education, the question is what is the best way to go about educating the supply management workforce in an average organization. Before this question can be answered, the different options need to be examined.

## Training Options

An organization has seven different educational options available to it.

## Academic Degrees

Traditional degrees in business, engineering, operations research, finance, law, mathematics, or (computer) science often make appropriate foundations for supply chain personnel as the better programs teach mathematics, logic, and rigorous thinking – which are all key skills in supply management. However, supply chain requires in-depth knowledge that go well beyond the basics of business and operations typically taught in operations research programs; the basics of financial reports taught in finance; the basics of contracts taught in law; and the basics of information technology systems taught in engineering and computer science. Today's supply management professionals also require detailed knowledge of logistics and impact of financial markets on strategic buys; should cost and total cost models; regulatory compliance and legal interpretations of ownership



# Knowledge Economy

mandated by international law; and detailed knowledge of data analysis and expressive bidding.

To address these shortcomings, a few universities have attempted to create logistics or supply chain focused programs, but even some of these are, as I said in my post on Sourcing Innovation where I asked if we could fix supply chain education, more outdated than bell-bottoms in one or more ways. This is because most of the professors only have expertise in one or two areas, and the rest of the program is still grounded in decades-old operations research theory. Traditional operations research theory, which is often very factory focused, is not a sufficient foundation for an individual to excel in managing today's complex global supply chain environments.



### Industry Focused Academic Programs

Some universities and colleges have recognized that while their programs provide great foundations in critical thinking, they do not necessarily offer everything a modern business requires. As a result, they have partnered with private industry to develop shorter certificate and diploma programs focused on one or more identified needs, which are delivered by industry professionals. Often tailored to managers, directors, and executives, these programs often take the form of short five to fifteen day intensive certificate programs or one-year programs

### Contact Us

217 N. Jefferson St., Suite 400, Chicago, IL 60661

T: +1 312-373-3100

info@BravoSolution.com

[www.bravosolution.com](http://www.bravosolution.com)

every second to fourth weekend (where busy executives get together to study and work on group projects). At the end, the attendees have a greater understanding of some of the issues relevant to them, and some form of certification, but may or may not obtain a solid foundation on which to base future learning and development.

### Third-Party Programs/Certifications from Professional Associations

Some of the larger professional organizations will develop and deliver their own training programs, and sometimes even their own nationally (and, in a few cases, internationally) recognized certifications. These training programs (and certifications) will generally be focused on member needs. As a result, these programs typically have the downfall of being developed to serve the lowest common denominator. Given that the development of these programs will typically be led by a steering committee made up of representatives across the member base, and that only 20% of the member base will be leaders and innovators, what inevitably happens as time goes on is that the content gets watered down to the point where it's no better than the basic syllabus of an MBA or operations research program. As we pointed out in our discussion of academic programs, such a focus is usually years, if not decades, out of date. And while the program will provide a basic foundation for anyone looking to get into the field, it's not enough to build a world-class employee of a world-class supply management organization by any stretch of the imagination.

### Private Programs/Certifications from For-Profit Training Businesses

These programs, often (initially) developed by an enigmatic individual with a theory on proper supply management practice and training, take the private training paradigm one step further and provide private courses, often on-demand, to those who want something fast and/or focused. They offer the advantage of now and the convenience of being able to select what the organization wants, when the organization wants it, but, unlike programs from universities and recognized associations, lack any established authority in education. As a result, the quality of the program is often buyer beware. If the founder is a world-famous CPO with a PhD from a prestigious university, chances are that the program will be first rate. However, if the founder



# Knowledge Economy

was just an in-the-trenches buyer from an average supply management organization whose primary responsibility was to buy office supplies and manage third party supply management organizations, the money might be better spent on text-books and donations to a preferred professional society.

### Vendor Programs from Solution Providers

These are a relatively new offering from some of the leading e-Sourcing / e-Procurement / supply management technology vendors. Most focus around best-practice utilization of the tools and technologies provided, but some are expanding to also include modules on processes and supply management organizational structure. One of the plusses of these programs is that they can often be the fastest way for an organization to take its personnel to the next level as they will not only learn new principles and process, but also be able to start applying them right away. On the flip-side, they can often lock the organization into a single platform and way of doing things, as a lack of training and debate on fundamentals will prevent an average Procurement professional from seeing another way a task could be done. Also, by cutting to the chase too fast, the importance of a valuable grip on fundamentals can be lost.

### Customized Programs from Best-Practice Consulting Organizations

Some of the leading supply management consulting organizations, led by former CPOs, are of the opinion that traditional educational avenues are insufficient as every organization has its own needs and challenges. As a result, they develop customized programs for each client based on an assessment of the skills gap, challenges, and organizational needs. An educational program properly designed by seasoned professionals to have maximum impact on your organization can have an ROI of 100 to 1 by giving it the knowledge it needs to quickly become best in class. However, the organization has to take the time to do a proper assessment, has to insure the people it puts through the program are committed, has to insure its people promptly apply the skills they are taught, and has to have a knowledge application and retention program in place to make sure the benefits don't then fade over time. As a result, this approach can be expensive and fail to deliver any returns if the organization does not see it through all the way.

### Mentorship from an Experienced Pro

An organization also has the option of reverting back to the tried-and-true method of apprenticeship. In this case, new supply management professionals are put under the tutelage of a seasoned professional who has decades of experience and knowledge to share. This method has the advantage in that large amount of institutional knowledge are retained, and new supply management professionals quickly learn what works, what doesn't, and what only works in the right situation. However, this method often has the disadvantage in that the supply management professionals are not always exposed to new technology and ideas. As a result, the supply management professional will quickly learn all that has gone before, but will not be prepared to deal with what comes next as the rapid pace of change, especially in technology, requires constant upkeep in skills, knowledge, and experience.



### The Right Choice

It's a given that an organization's employees need more knowledge and skills to compete in today's fast-paced knowledge economy where the pressure to do more with less increases every day. It's also a given that with the impending talent crunch that an organization is going to have to train its own talent if it expects to have world-class employees

### Contact Us

217 N. Jefferson St., Suite 400, Chicago, IL 60661  
T: +1 312-373-3100  
info@BravoSolution.com  
[www.bravosolution.com](http://www.bravosolution.com)



# Knowledge Economy



delivering world-class results. But given the plethora of options available, and the potential disadvantages of each, what path should an organization take? In Sourcing Innovation's view, where an organization starts depends on the answer to the following questions:

### ***Are you already using an e-Negotiation or strategic supply management platform?***

If the organization is using an e-Negotiation or strategic supply management platform, and the vendor offers training courses that go beyond simple utilization of the tool to also discuss best practices, processes, scenario planning, or other theoretical avenues, then the organization should start by maximizing the training offered by the vendor. This brings a number of benefits. It maximizes the value of the platform, as the users will be better trained and equipped to use the platform to its full potential. It also minimizes up-front cost as most vendors will give their customers deep discounts on training, and even throw in a certain amount of training for free on purchase or renewal. At the end, the organization will be in better shape to upgrade its general skills as it has more specific skills to draw upon and immediate success stories to give it some breathing room. Once it has maximized the educational offerings available to it from the vendor, it should bring in a supply chain education consultant to help it determine where to go next.

### **Contact Us**

217 N. Jefferson St., Suite 400, Chicago, IL 60661

T: +1 312-373-3100

info@BravoSolution.com

www.bravosolution.com

### ***Do you have any relationships with leading supply management consultancies?***

If the organization is using a leading consultancy to perform strategic sourcing projects on its behalf, and the consultancy offers pre-packaged training or customized training programs, and the organization does not have any technology vendors that offer training courses in strategic supply management, then the organization should start with what the consultancy has to offer. Not only will this reduce up-front costs, as the pre-existing relationship will allow it to negotiate discounts, but it will increase success on projects led by the consultancy as the organization's employees will have a better understanding of what the consulting organization needs from the supply management personnel to maximize success. Once the organization has maximized what the consulting organization has to offer, it should get a skills assessment from a third party to determine where to go next.

### ***Do you know what your skills gaps are?***

If the organization does not use any supply management vendors that offer strategic supply management training and does not have any relationships with leading consultancies that offer packaged or customized training, then it should bring in a consultancy that specializes in skills assessment to help it understand its gaps and where it needs to start. Only then can the organization determine if it should start with some pre-packaged offerings from consultancies or private institutions, go back to basics and enroll its employees in some academic offerings, or jump right to a supply management program and have its employees learn hands-on with vendor training.

### **Conclusion**

Regardless of the starting point, the next step is to insure that the knowledge is retained and applied, and the best way to do this is to set metrics that measure progress and assign each employee a mentor to follow this progress and help them apply the knowledge they've learned. The reality is that no offering alone will be enough and a leading supply management organization will have to expertly combine multiple approaches to get its people where they need to be. ■





## About BravoSolution



### About BravoSolution

Supply management executives are now, more than ever, under pressure to deliver more savings, develop and manage strategic supplier relationships, accelerate procurement cycles, and maintain process excellence. Confronted with these diverse yet consistent challenges, CPOs and sourcing professionals must seek tailored solutions that deliver rapid ROI to their business.

BravoSolution offers leading software and services to fit the needs of today's sophisticated supply management organizations. Our services organization, one of the world's largest teams of professionals dedicated exclusively to sourcing and procurement consulting, delivers lean, targeted services

to support strategic sourcing and procurement initiatives. Our industry leading software toolkit supports the full supply management lifecycle across myriad industries, geographies and business models.

As of today, over 40,000 procurement professionals in 60 different countries are benefiting from BravoSolution's technology and services, unlocking tangible benefits including of increased process efficiency, decision support, cost reduction, improved process governance, greater quality relationships with vendors and the ability to share, understand and act upon the wealth of sourcing-related data held within their organization.

### Contact Us

217 N. Jefferson St., Suite 400, Chicago, IL 60661

T: +1 312-373-3100

info@BravoSolution.com

[www.bravosolution.com](http://www.bravosolution.com)

