



Aberdeen *Group*

Supply Risk Increasing While the Market Stands Still

March 2007

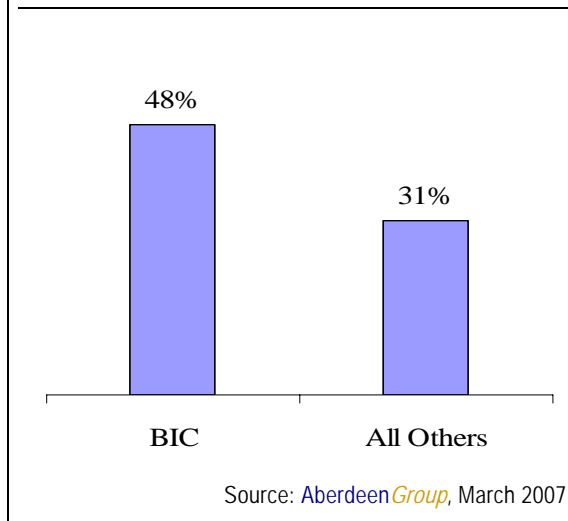
Executive Summary

Key Business Value Findings

From January through March 2007, Aberdeen benchmarked the supply risk measurement and management strategies of over 210 companies. Although 62% of enterprises indicate they expect supply risk to increase in the next 3 years, only 49% of organizations have bothered to implement a supplier performance measurement and risk management program. Many organizations simply do not place a high-enough priority on supply risk management, giving it only moderate attention as a corporate initiative (Figure 1).

While leading CPOs, CFOs and their risk experts realize that there is a tremendous financial impact of unmitigated supply chain risk, they are also faced with significant pressure to insulate customers from the impacts of risk and address increased market tightening and regulatory concerns. They are taking steps to improve supplier performance, identify potential risks, and prepare for or avoid them altogether. Yet they still have not moved their programs beyond traditional supplier performance measurement tools to truly address the impacts of supply risk. The evolution of supplier performance programs is more glacial than nimble. As globalization of supply markets continues, it is critical that programs and tools are better aligned to address the continuous ramp-up of exposure to risk instead of relying on practices, tools, and measurements whose incremental value are decreasing.

Figure 1: Percent of Organizations Identifying Risk as a High Priority



Best in Class Performance

Aberdeen used three key performance criteria to distinguish Best in Class companies. These key performance indicators (KPIs) are: 1) the length of time supplier performance and risk management programs have been in place, 2) percentage of the supply base measured, and 3) effectiveness of current programs across four fundamental measurements: on-time delivery, price competitiveness, quality of goods and services, and service capability and performance. There is a direct correlation between the length of time a supplier performance and risk management program has been in place in an organization, the percentage of supply base measured and the positive results enjoyed by that company. The fundamental measurements measured for effectiveness form the foundation of successful supplier performance and risk management programs and are fundamental to engaging developing more robust risk management activities. Best in Class enterprises:



- Have had programs in place for **more than 3 years**
- Measure **51% or more** of their supply base – **70%** of these organizations engage in supplier performance measurement and risk management at this level
- Achieve positive results on a consistent basis:
 - Quality of goods and services – **92%** effectiveness
 - On-time delivery – **91%** effectiveness
 - Price competitiveness – **87%** effectiveness
 - Service capability and performance – **85%** effectiveness

Required Actions

There are certainly basic benefits associated with simply measuring performance and risk. Maximum advantage, however, only comes with the following specific actions:

- Re-organization of supply risk program management into a cross-functional ownership mode, ensuring that key stakeholders across the organization have input into program goals and visibility into program results
- Realign focus of supplier performance and supply risk management activities to address the pressures exerted by customers and regulatory requirements, in addition to traditional concerns around the financial impacts of supply disruption
- Implement supplier performance and risk management technology layer across all business processes to ensure corrective and mitigating actions identified by program objectives are taken
- Utilize contract-hedging and other “insurance” tools to mitigate supply risk and limit financial impact of disruptions
- Segment your supply base to determine priority based on spend concentration, number of supply sources available per commodity/service, and other criteria; measure the top 50% of suppliers or more for highest program effectiveness

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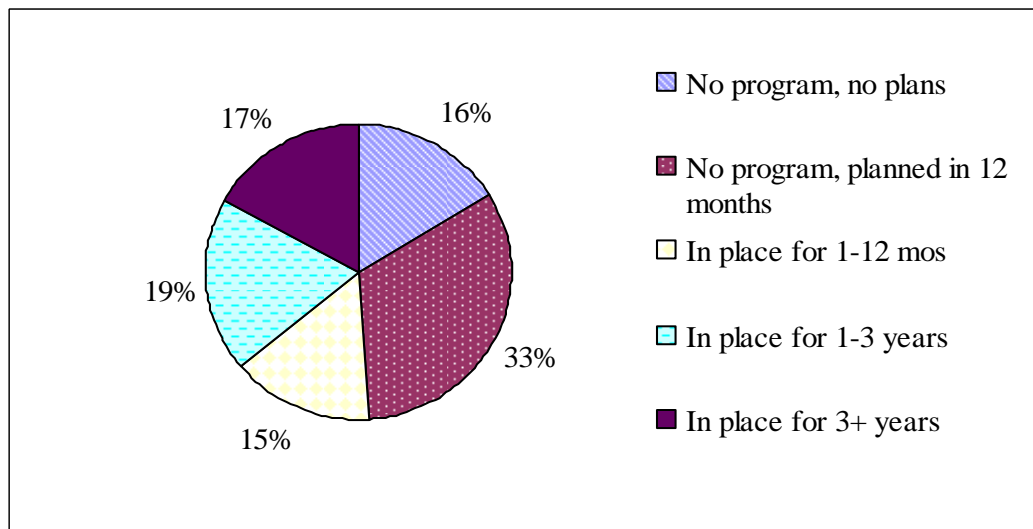
Chapter One: Benchmarking the Best in Class

Fast Facts

- 49% of study respondents indicated they have no supplier performance measurement and risk management program in place, despite 62% indicating they expect supply risk to increase in the next 3 years.
- Increased risk exposure due to low-cost country sourcing (LCCS) is a primary focus, according to 66% of Best in Class organizations.

Supplier performance and supply risk management programs enable organizations to ensure that they are protected against potential supply disruptions and are thus able to provide the best services and products to their customers. CPOs of leading enterprises recently identified supply-related issues as one of the top three areas of focus in 2007, indicating that they recognize the importance of supply management. However, nearly half (49%) of organizations currently do not have an integrated supplier performance and risk management program in place (Figure 1).

Figure 2: Supplier Performance and Risk Management System Adoption Levels

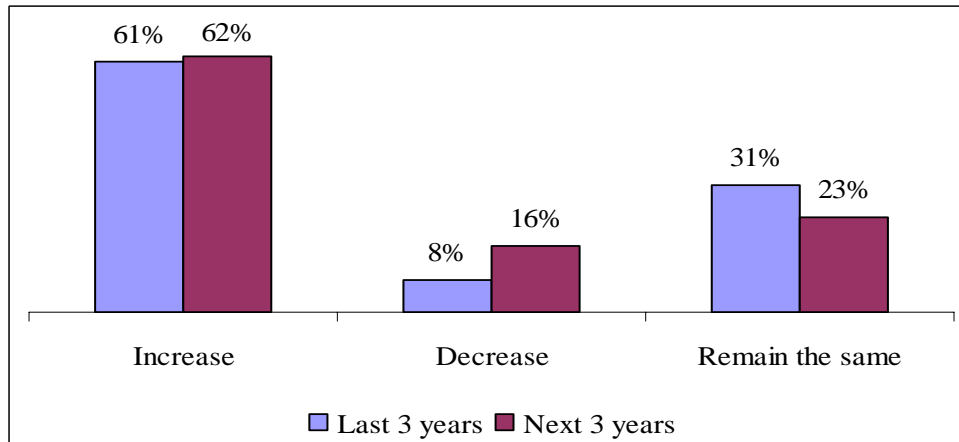


Source: AberdeenGroup, March 2007

It is especially alarming that almost two-thirds of these same companies expect their supply risk to increase over the next three years (Figure 2).



Figure 3: Changes in Supply Risk: Historical and Future



Source: AberdeenGroup, March 2007

However, supplier performance and risk management tools can only be properly leveraged if they are properly aligned to the pressures driving program implementation. This study examines the current supply risk mitigation strategies utilized by organizations. It also provides insight into whether these programs are utilizing the proper tools and key metrics that allow enterprises to effectively address the financial and, perhaps just as importantly, customer impacts of supply disruptions.

Maturity Class Framework

Measurement of supplier performance and management of supply risk ultimately lead to more efficient operation of the procurement function, adding value to the entire organization. Three key performance criteria were used by Aberdeen to identify Best in Class, Industry Average, Laggard companies. These key performance indicators are supplier performance and risk management program longevity, percentage of the supplier base measured, and program effectiveness across four fundamental supplier measurements: on-time delivery, price competitiveness, quality of goods and services, and service capability and performance.

| Competitive Framework Key |
|--|
| The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance: |
| <i>Best in Class (20%)</i> —practices that are the best currently being employed and significantly superior to the industry norm |
| <i>Industry Average (50%)</i> —practices that represent the average or norm |
| <i>Laggards (30%)</i> —practices that are significantly behind the average of the industry |

Table 1 summarizes the performance of Best in Class companies against the criteria selected.

Table 1: Best in Class Company Performance

| Definition of Maturity Class | Mean Class Performance |
|---|--|
| <p>Best in Class: Top 20% of aggregate performance scorers</p> | <ul style="list-style-type: none"> • 68% have programs in place, 32% for 3+ yrs • 70% measure 51% or more of supply base • Demonstrate effectiveness across most common metrics: <ul style="list-style-type: none"> ○ 69% experienced improvement in quality of goods and services ○ 62% experienced improvement in on-time delivery ○ 56% experienced improvement in price competitiveness ○ 56% experienced improvement in service capability and performance |
| <p>Industry Average: Middle 50% of aggregate performance scorers</p> | <ul style="list-style-type: none"> • 60% have programs in place, 20% in place 3+ years • 24% measure 51% or more of supply base • Demonstrate lesser results for most common metrics: <ul style="list-style-type: none"> ○ 50% experienced improvement in quality of goods and services ○ 53% experienced improvement in on-time delivery ○ 44% experienced improvement in price competitiveness ○ 40% experienced improvement in service capability and performance |
| <p>Laggard: Bottom 30% of aggregate performance scorers</p> | <ul style="list-style-type: none"> • 54% have programs in place, 16% in place 3+ years • 5% measure 51% or more of supply base • Demonstrate the worst results for most common metrics: <ul style="list-style-type: none"> ○ 39% experienced improvement in quality of goods and services ○ 45% experienced improvement in on-time delivery ○ 38% experienced improvement in price competitiveness ○ 32% experienced improvement in service capability and performance |

Source: [AberdeenGroup](#), March 2007



Best in Class PACE Model

Overcoming the key pressure of mitigating supply risk is made possible by a combination of the strategic actions, organizational capabilities and technology enablers summarized below.

Table 2: Supplier Performance and Risk Management PACE Framework

| Pressures | Actions | Capabilities | Enablers |
|---|---|--|--|
| <ul style="list-style-type: none"> Increased supply risk from LCCS (low-cost country sourcing) initiatives | <ul style="list-style-type: none"> Improve the performance of suppliers Reduce frequency and intensity of supply disruptions and supply risk events | <ul style="list-style-type: none"> Standardized, regular reporting on supplier performance and supply risk Ability to predict potential supply disruption occurrences Collaborative environment to continuously manage supplier performance and risk management program | <ul style="list-style-type: none"> Supplier score-carding and reporting, including extensive querying and report customization ability End-user selection and automated calculation of key supplier performance metrics System notification of performance issues and disruption events Integration with spend analysis tools to provide visibility by supplier and/or category Reporting of key supplier operational and/or financial risks Web-based portal for supplier self-registration and maintenance of vital information Hedging and other "insurance" solutions |

Source: [AberdeenGroup](#), March 2007

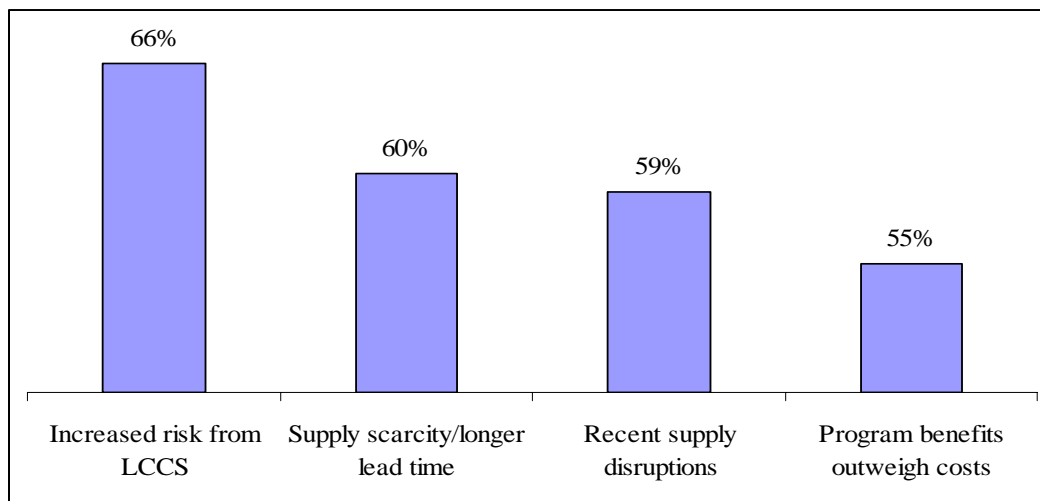
The global transformation of procurement through the advancement of low-cost country sourcing (LCCS) as a viable strategy has exposed the management of supply to more risk. Enterprises engaged as part of an LCCS strategy, by nature of their geographic distance and different business culture, pose performance and relationship management challenges from the outset. Typical business activities such as service level compliance reporting are delayed due to such things as time-zone differences or supplier technical capability. Therefore it is necessary to perform as much due diligence as possible in selection of such partners, but also to establish a continuous

process of monitoring and improvement activity to ensure that their supply disruptions are minimal and have little or no impact on the final product or service delivery. The countries targeted by LCCS are also often unstable politically and/or economically while also lacking the infrastructure to enable visibility into operational and logistical activities. This intensifies the possibility that key inputs for products or services will not be able to be regularly exported.

Best in Class companies are also motivated to address supply risk by supply scarcity and longer lead times, along with experiencing recent supply disruptions in general (Figure 3). As with the potential consequences of LCCS supply disruptions, these impacts will likely be felt by customers. This group is ultimately as critical a target for risk mitigation strategies as protecting the company itself from unnecessary financial and human resource allocations. Customers impact enterprises financially in that they are the revenue source that makes existence possible. They are also, in essence, the keepers of the brand. An inability to obtain a product or service from a particular enterprise due to supply disruptions could potentially damage that company’s reputation beyond repair, ultimately leading to financial woes as well.

A final driver of supply risk management focus among Best in Class organizations is the elevation of supplier performance and risk management over cost as key performance metric for success. The primary concern is no longer the price tag – the value of ensuring that supply is available outweighs the cost of such assurances.

Figure 4: Best in Class Drivers of Implementation and Improvement



Source: [AberdeenGroup](#), March 2007

Yet despite the emergence of new, less traditional pressures based on sourcing strategies, actual disruptions, and changing attitudes, enterprises have not engaged in sweeping reform of supplier performance and risk management efforts. Programs continue to be focused on measuring supplier performance for goods and service quality, delivery, and price, in addition to lead times and service levels. While addressing these supplier performance issues certainly reduces risk for the



organization, they do not necessarily provide solutions based on a longer-term horizon, directly address risk identification and notification, or ultimately provide the best buffer to protect customers from feeling the impact of supply disruption.

“Unmitigated supply risks impact us in ways more meaningful than simple dollars and cents...patients' lives are on the line.”

– Supply Chain Manager, *U.S. Healthcare company*



Chapter Two: Requirements for Success

Fast Facts

- 70% of Best in Class enterprises measure the performance of at least 51% of their supply base.
- 43% of Best in Class companies have instituted cross-functional teams of key stakeholders to manage supplier performance and risk management programs.

There are common tools and practices that have been leveraged to successfully improve basic supplier performance and risk management capability. These include: length of time a supplier performance and risk management program has been in place, organizational structure, measurement practices, and technology functionality and capability.

Each plays a critical role in the level of program success. However, despite the successes enjoyed by many organizations, continuation of these basic, traditional risk management activities does not align well with the newly recognized pressures felt by supply risk program managers.

Competitive Maturity Assessment

Survey respondents fell into one of three categories – Laggard, Industry Average or Best in Class – based on their characteristics in five key categories: (1) process; (2) organization; (3) knowledge; (4) technology; and (5) performance management.



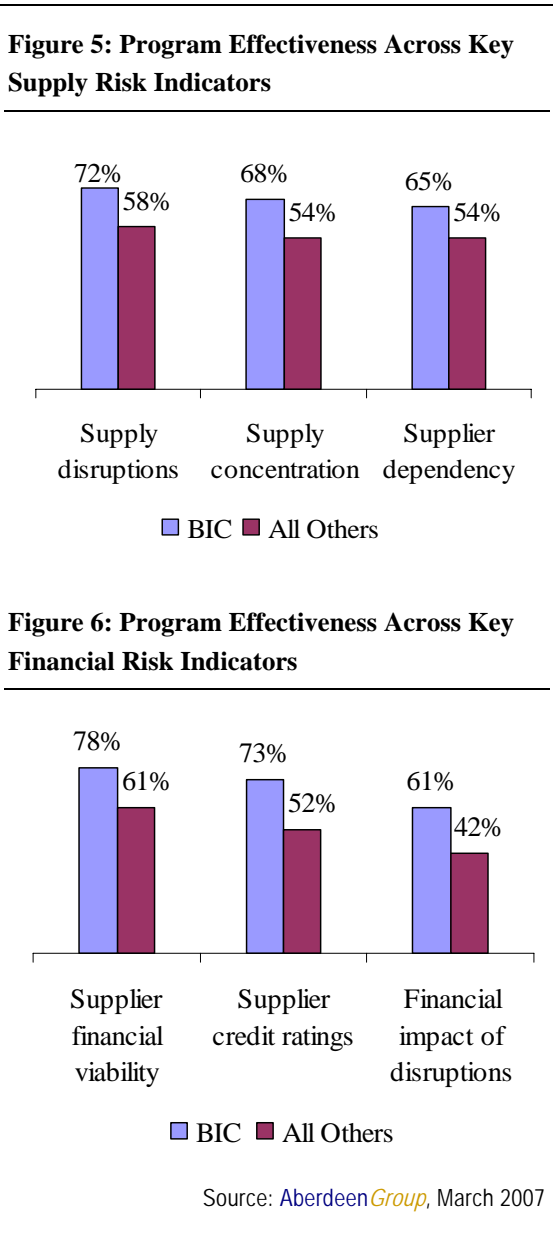
Table 3: Competitive Maturity Framework

| | Laggards | Industry Average | Best in Class |
|---|---|---|--|
| Process | Best in Class enterprises have higher rate of program implementation and program longevity | | |
| | <ul style="list-style-type: none"> 54% have instituted a structured program; 16% of programs have been in place 3+ years | <ul style="list-style-type: none"> 60% have instituted a structured program; 20% of programs have been in place 3+ years | <ul style="list-style-type: none"> 68% have instituted a structured program; 32% of programs have been in place 3+ years |
| Organization | Best in Class enterprises leverage cross functional program management to optimize risk management success, shifting away from procurement/supply chain-only oversight | | |
| | <ul style="list-style-type: none"> 31% use cross-functional teams to manage program 51% have procurement/supply chain oversight | <ul style="list-style-type: none"> 35% use cross-functional teams to manage program 46% have procurement/supply chain oversight | <ul style="list-style-type: none"> 43% use cross-functional teams to manage program 42% have procurement/supply chain oversight |
| Knowledge/ Data Management | Best in Class enterprises measure significantly more of their supplier base | | |
| | <ul style="list-style-type: none"> Data on 50% or more of their supplier base is captured by 5% of companies | <ul style="list-style-type: none"> Data on 50% or more of their supplier base is captured by 24% of companies | <ul style="list-style-type: none"> Data on 50% or more of their supplier base is captured by 70% of companies |
| Technology Usage | Best in Class enterprises utilize more advanced tools for risk measurement and management; homegrown and spreadsheet tools are used by all | | |
| | <ul style="list-style-type: none"> 21% utilize ERP applications 16% utilize specialty supplier performance measurement and risk management tools 10% utilize eSourcing tools | <ul style="list-style-type: none"> 29% utilize ERP applications 15% utilize specialty supplier performance measurement and risk management tools 11% utilize eSourcing tools | <ul style="list-style-type: none"> 39% utilize ERP applications 20% utilize specialty supplier performance measurement and risk management tools 14% Utilized eSourcing tools |

| | Laggards | Industry Average | Best in Class |
|-------------------------------|--|--|--|
| Performance Management | Best in Class enterprises demonstrate higher program effectiveness for measuring and managing risk-related indicators | | |
| | <ul style="list-style-type: none"> • Over 30% of organizations indicate measurement and management program is effective against top risk indicators: <ul style="list-style-type: none"> ○ Supplier financial viability (54%) ○ Supplier credit ratings (46%) ○ Supply disruptions (52%) ○ Supply concentration (49%) ○ Supplier dependency (49%) ○ Financial impact of disruptions (34%) | <ul style="list-style-type: none"> • Over 45% of organizations indicate measurement and management program is effective against top risk indicators: <ul style="list-style-type: none"> ○ Supplier financial viability (64%) ○ Supplier credit ratings (56%) ○ Supply disruptions (63%) ○ Supply concentration (60%) ○ Supplier dependency (59%) ○ Financial impact of disruptions (46%) | <ul style="list-style-type: none"> • Over 60% of organizations indicate measurement and management program is effective against top risk indicators: <ul style="list-style-type: none"> ○ Supplier financial viability (78%) ○ Supplier credit ratings (73%) ○ Supply disruptions (72%) ○ Supply concentration (68%) ○ Supplier dependency (65%) ○ Financial impact of disruptions (61%) |

Source: [AberdeenGroup](#), March 2007

Overall, Best in Class companies enjoy higher levels of effectiveness with the results of their supplier performance and risk management programs. They are fully aware that the goals of their supply management activities are generally being achieved, but that there is also significant room for improvement. While differences in program effectiveness are not distinct between Best in Class and All Others when the most common, basic supplier performance measurements are considered, there are significant differences when indicators specific to risk measurement and management are compared (Figures 4 and 5).



But what are organizations doing to truly address the increased risk exposure that has resulted from LCCS or respond to disruptions in general and resulting longer lead times? What are they doing to deal with risk issues resulting from regulatory pressures while also protecting customers from the impacts of disruptions? Even in Best in Class companies, the answer is “not enough.”

All enterprises measure supplier performance in basic areas such as product quality, service satisfaction, delivery, and price. However, despite expectations that supply risk will rise in the future most do not measure risk indicators as frequently as they do those for supplier performance. This includes Best in Class companies. It is not because companies are unable to perform such measurement and management activities, but due to a lack of alignment between supply risk program focus and market expectations.

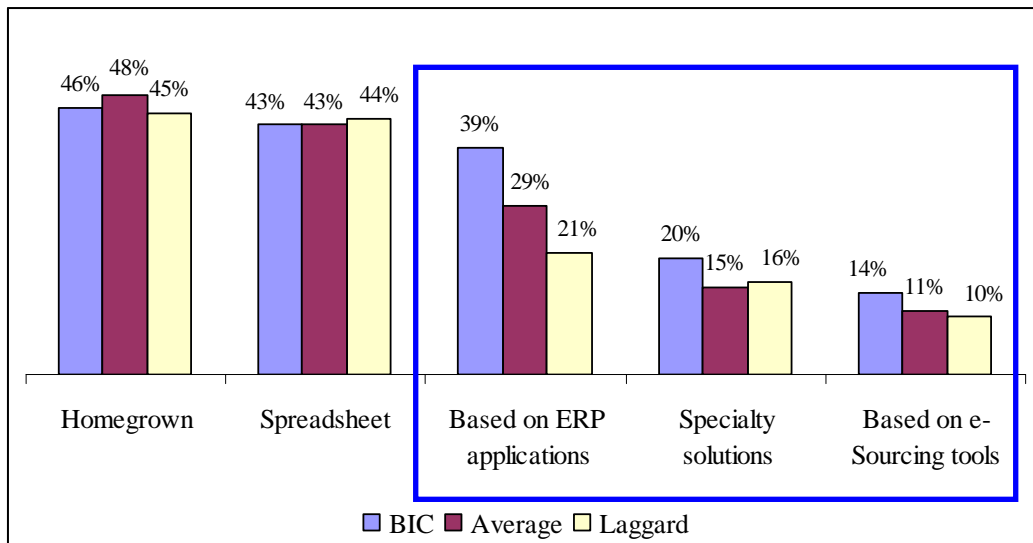
While Best in Class companies address risk more frequently than all other companies, they (expectedly) achieve greater program effectiveness across risk factors than other enterprises as well (Figures 5 and 6). The areas are those that most directly relay information about potential risks and disruptions that can have a considerable effect on the company’s financial well being, both directly and by impacting its customers.

Organizational Capabilities and Technology Enablers

The characteristics of organizations displayed across the five categories identified in Table 3 ultimately lead to the selection of technology that will best overcome the goal of improved supplier performance and reduced risk. Even as the expectation that supply risk will increase over the next three years (56% of Best in Class; 65% of Industry Average; 68% of Laggard) the predominant instruments used are either spreadsheets or home-grown systems for measurement. Best in Class enterprises more heavily integrate higher

level systems and tools to measure and manage supplier performance and risk, which will be critical as more complex pressures continue to emerge (Figure 7).

Figure 7: Support Systems and Tools Utilized

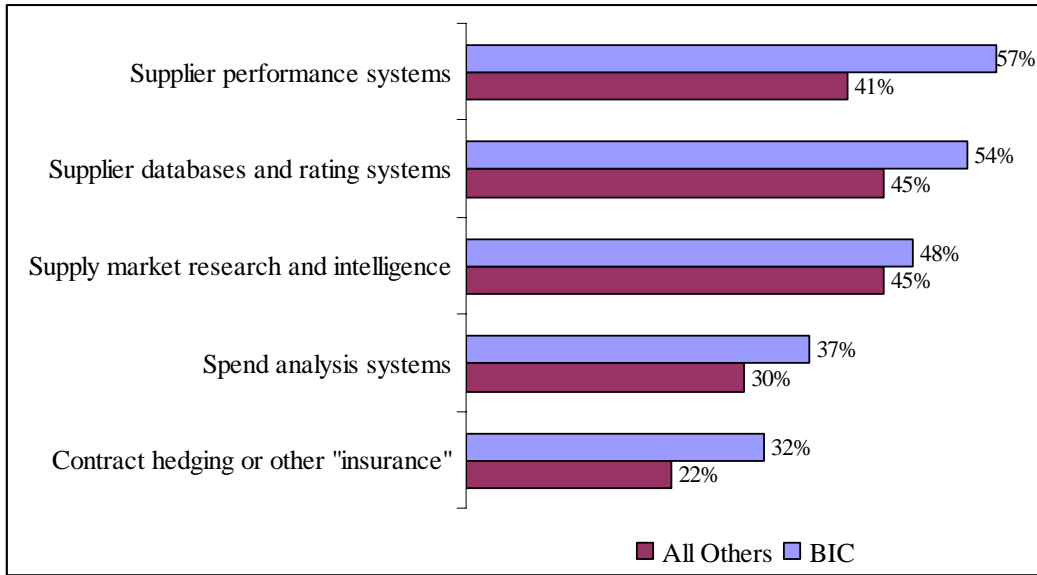


Source: AberdeenGroup, March 2007

As growth continues into the use of more comprehensive solutions for the measurement of supplier performance and risk, the specific functionalities sought become more readily apparent. The key areas of services, information, and technology capability currently in use are:



Figure 8: Solution Functionality Currently in Use



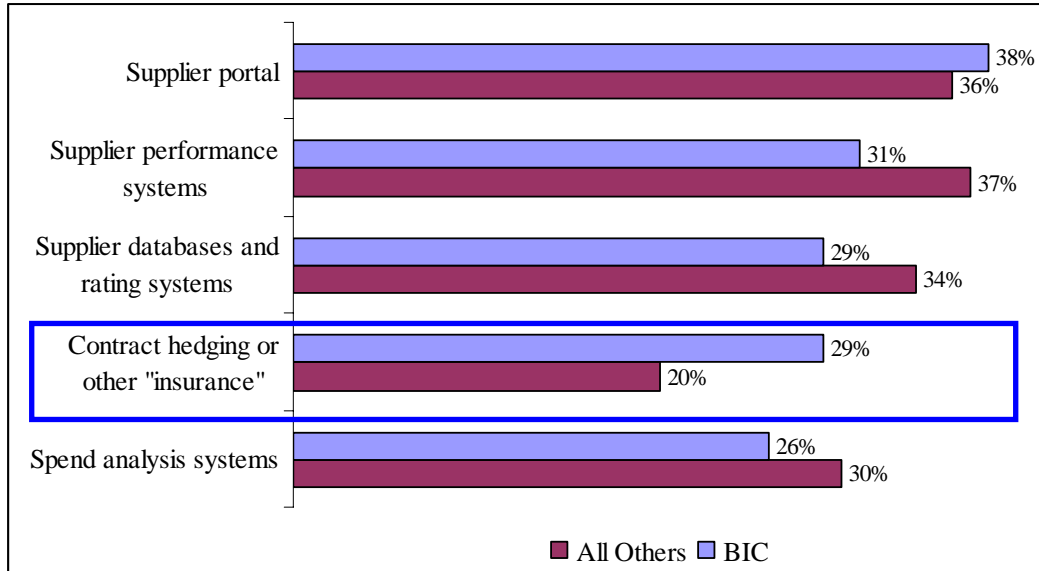
Source: [AberdeenGroup](#), March 2007

These tools and services will remain a focus for many organizations, although Best in Class companies plan on engaging in more complex supply risk mitigation activity – specifically, the use of hedging and other contractual practices that will diminish its exposure to supply risk factors. While all other organizations rush to catch up to Best in Class groups in most of the commonly sought technology capabilities for supplier performance and risk management, they are just as quickly falling behind in the movement toward supply chain finance risk tools (i.e. contract hedging and other “insurance”) as a cutting edge strategy.

“Procurement professionals have always looked at supplier performance, but the current era of risk management we are experiencing requires new data, new skills and new technologies.”

– Executive, *Mid-size Financial Institution*

Figure 9: Solution Functionality Planned for Use



Source: AberdeenGroup, March 2007



Chapter Three: Required Actions

Fast Facts

- Best in Class enterprises adopt supplier performance and risk management strategies that drive program implementation and are organized around cross-functional leadership teams at a rate **21% higher** than their peers.
- Best in Class organizations supplement basic tools with more complex financial risk mitigation strategies at a rate **55% higher** than their peers.

It is clear that measurement of supplier performance and management of risk are readily identified as areas of business that deserve critical attention. Engaging in a supply management program provides an organization with direct benefits and flexibility in a world of procurement that is becoming increasingly complex.

As an organization forges ahead, the following actions are necessary for improving supplier performance and risk management program capabilities:

Required Actions

1. *Leverage current supplier performance management systems and methodologies for risk management.*

Just thinking about and recognizing the necessity of a program is not enough. Best in Class organizations have demonstrated superior acceptance and action, as **72%** of these companies have implemented a formal supplier performance and risk management program. Yet this not nearly sufficient activity headway - formalization of program practices and tools remains for even Best in Class organizations. Establishing a formal program will enable standardization of information collection and classification while also defining the key areas of measurement up front for both the end-users and their suppliers such as:

- Quality of goods and services
- On-time delivery
- Price competitiveness
- Service capability and performance

2. *Establish a program management structure that moves beyond single-department responsibility to a cross-functional functional ownership model.*

Cross-functional teams will include members from different disciplines within the business. The procurement and/or supply chain organization is not the only key stakeholder in the source-to-settle process, as supply risk and performance measurement will effect in the finance, operations and manufacturing, customer service, and IT groups in different ways.



3. *Prioritize key performance metrics utilized to address customer and regulatory impacts of supply disruption.*

The traditional, basic key performance indicators (quality, delivery, price, service) will be continuously measured as part of any supplier performance and risk management program. They merely provide the foundation for more robust capability in managing risks that reach beyond the company walls. Company financial well-being is a key driver of any business activity, but the bottom-line is also affected by secondary sources such as customers and federal regulators. Customers provide the revenue necessary for a company to survive and if an organization does not adhere to regulatory requirements then it will cease to exist as a business. Key metrics that should be included in programs are:

- Financial impact of disruptions
- Supplier dependence (percentage revenue from single supplier)
- Supply concentration (availability of supply from alternate sources)
- Supplier credit ratings
- Supplier financial viability

Measuring and addressing (if necessary) these risk indicators will also assist mitigation efforts that result from new strategic sourcing strategies, particularly low-cost country sourcing (LCCS).

4. *Implement supplier performance and risk management technology layer across all business processes.*

The application of business process management (BPM), business activity monitoring (BAM) and other advanced technologies to supplier performance and risk management represents an emerging opportunity. Strong technologies are no longer out of reach of the hands of business professionals. To ensure that corrective and mitigating actions are taken to address the areas of risk identified, it is critical to have visibility into the business process as a whole to determine if it is effective and producing the desired results. Advanced technologies will allow for more immediate recognition of problems with suppliers and drive quicker resolution of these issues by establishing a collaborative business environment where notices about potential risks are fully automated. This business integration capability will also provide greater visibility around risk and its impacts on other business functions. It is a layer of technology not yet common in standalone risk management applications, but potentially a basis for a robust risk management program.

5. *Utilize contract-hedging and other “insurance” tools to mitigate supply risk.*

Use of more advanced risk management solutions, such as contract-hedging, will position an enterprise at the forefront of supply management. Best in Class organizations are setting the pace – **24%** indicate that they plan on using these types of solutions within the next 12 months. Employing more complex risk management solutions will also prove to be most effective when done concurrently with other solutions that perform or provide the following:

- Supplier performance measurement



- Supplier database and ratings applications
- Supply market research and intelligence information
- Spend analysis tools

These capabilities are what Best in Class enterprises seek out in the solutions they currently use. It will be wise to keep pace with these companies because they have enjoyed the highest levels of effectiveness with and improvement from their supply management tools.

6. *Expand reach of program to include 50% or more of your supply base.*

There is nothing to indicate that the criteria for selecting a supplier for measurement differ across competitive segments. The strategic importance of a product or service is the most highly-used factor for judgment and the remaining measures are ranked in the same order by Best in Class, Industry Average, and Laggard companies. Therefore, the indication is more a matter of initiative than reason. Best in Class companies achieve such status, in part, because they have gathered the most information about their suppliers and the supply risk of its operations. Measuring more of their relationships with the tools available leads to better information on which to base decisions and, eventually, higher performance and less risk.

Author Profiles

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William is responsible for research in the areas of procurement and strategic sourcing, providing fact-based research and actionable recommendations around strategies for technology utilization and best-in-class practices. Prior to joining Aberdeen he was a consultant for CGI Spend Management Solutions (formerly Silver Oak Solutions), a leading Strategic Sourcing and Spend Management consulting firm. At CGI, William led several category sourcing efforts, analyzing over \$200 million of spend and achieving significant client savings, while also performing operations and technology assessments for various clients.

William holds an M.B.A. from the Boston University Graduate School of Management, an EdM from Boston University's School of Education, and a B.S. in biology from the University of California, San Diego.

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Vance Checketts is a recognized expert in the areas of procurement and supply management with a deep background in the application of technology and the underlying business process. Prior to Aberdeen he was at Oracle where he was responsible for the development and sales support of their procurement applications. Prior to Oracle, he held senior roles managing direct and indirect procurement. He has lectured and published with various industry organizations, including IFPSM, ISM, and Haas School of Business at UC Berkeley. He holds an MBA from Brigham Young University. He oversees and contributes across the entire scope of Aberdeen's Global Supply Management research team.

Andrew Bartolini,
Research Director
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Andrew Bartolini is a supply management professional with rich experience in strategic sourcing, business process transformation, and software implementation. He has managed the design and implementation of strategic sourcing and procurement processes for companies across a wide range of industries and has directed strategic sourcing projects exceeding \$500 million in total value. His recent focus has been in identifying and lever-



aging world-class technologies to achieve operational excellence within the procurement and finance functions of Fortune 500 companies. His background also includes extensive transactional and analytical experience while working in management consulting and investment banking. He joins Aberdeen from Ariba, where he was a Senior Manager in its Consulting Practice. He holds a B.A. in Economics from Holy Cross College and an M.B.A in Finance from Indiana University.



Appendix A: Research Methodology

Between January and March 2007, *AberdeenGroup* examined the supplier performance measurement and improvement strategies, processes, and technologies of 209 enterprises in nearly all manufacturing and service industry segments via an online survey.

Responding supply management executives completed an online survey that included questions designed to determine the following:

- If their enterprises have supplier performance measurement programs;
- What types of suppliers are measured;
- What performance measures are tracked;
- Resulting performance increases since the programs were launched;
- Technologies used to capture, store, and share performance data; and
- Key program and system usage factors that affect performance improvement.

Aberdeen supplemented the survey with telephone interviews with select survey respondents, other end users, and technology solution providers.

Responding enterprises included the following:

- **Job title/function:** The research sample included respondents with the following job titles: procurement, supply chain, or logistics manager (68%); operations manager (6%); IT manager or staff (4%); sales and marketing (3%); manufacturing (3%).
- **Industry:** The research sample included respondents from aerospace/defense (10%), high tech (9%), consumer packaged goods (9%), and then broadly distributed across 29 other industries
- **Geography:** The majority of respondents (58%) were from North America. Remaining respondents came from Europe (24%) and the Asia-Pacific region (12%).
- **Company size:** About 45% of respondents were from large enterprises (annual revenues of more than \$1 billion); 36% were from mid-size enterprises (annual revenues between \$50 million and \$1 billion); and 19% from small businesses (\$50 million or less).

Solution providers that sponsored this report were solicited after the fact and had no substantive influence on the direction of the research. Their sponsorship has made it possible for *AberdeenGroup* to make these findings available to readers at no charge.



Table 4: PACE Framework

| PACE Key |
|---|
| <p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate behavior in specific business processes.</p> <p><i>Pressures</i> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences)</p> <p><i>Actions</i> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p><i>Capabilities</i> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</p> <p><i>Enablers</i> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p> |

Source: AberdeenGroup, March 2007

Table 5: Competitive Framework

| Competitive Framework Key |
|---|
| <p>The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of supplier performance and risk management practices and performance:</p> <p><i>Best in class (20%)</i> — Supplier performance and risk management practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance</p> <p><i>Industry norm (50%)</i> — Supplier performance and risk management practices that represent the average or norm, and result in average industry performance</p> <p><i>Laggards (30%)</i> — Supplier performance and risk management practices that are significantly behind the average of the industry, and result in below average performance</p> |

Source: AberdeenGroup, March 2007

Table 6: Relationship Between PACE and Competitive Framework

| PACE and Competitive Framework How They Interact |
|--|
| <p>Aberdeen research indicates that enterprises that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that an enterprise achieves is strongly determined by the PACE choices that they make and how well they execute.</p> |

Source: AberdeenGroup, March 2007



Appendix B: Related Aberdeen Research & Tools

Related Aberdeen research that forms a companion or reference to this report includes:

- [*The CPO's Strategic Agenda: Managing People, Managing Spend*](#), November 2006
- [*Supply Risk Management Benchmark: Assuring Supply and Mitigating Risks in an Uncertain Economy*](#), September 2005
- [*The Supplier Performance Measurement Benchmark Report*](#), September 2005
- [*Hurricane Katrina Underscores Importance of Supply Risk Management*](#), September 2005
- [*The CFO's View of Procurement*](#), September 2005
- [*Low Cost Country Sourcing Success Strategies*](#), June 2005
- [*The CPO's Agenda Strategies for Procurement Transformation*](#), March 2005
- [*The New Value Equation for Supply Management*](#), January 2005
- [*Supplier Performance Management: What Leaders Do Differently*](#), September 2004

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

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