

UNLEASHING THE INNOVATIVE POWER OF SUPPLIERS

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1. SUPPLIERS AS A STRATEGIC SOURCE OF COMPETITIVE ADVANTAGE:

Ask virtually any CEO about their top corporate priorities and invariably growth and innovation are top-of- mind. But few have explored the potentially rich territory of their supply chain to reap innovative rewards. Considering that often 50% or more the corporate budget is expended on suppliers, suppliers represent one of the most impactful means of creating value and competitive advantage. However, because suppliers have traditionally been seen as “vendors,” their potential as innovation partners has been overlook, and thus undervalued.

No longer can companies afford to hold to traditional thinking. Supply management must reckon with the ultimate reality that a company cannot cost-cut its way to long-term prosperity. And worse, in numerous instances, wholesale hacking of suppliers has resulted in a severe diminishment of the supply base, leaving fewer options and alternatives. Further, global competition is forcing companies to recognize that they must double, and even triple their innovation output if they are to remain competitive. More and more, executives are invariably coming to the conclusion that:

“In a fast moving, rapidly changing world, the most sustainable source of competitive advantage is collaborative innovation.”

Innovation is the most effective strategy for combating competitors with low price structures because it gives rise to a wide range of new options, including new technologies, process improvements, new business models, and access to new market opportunities. In short, innovation from the supply base is a strategic initiative that impacts both revenues and profits.

2. THE BATTLE OF VALUE CHAINS

As a strategic issue, supply chain innovation should be an Executive Committee issue, faced directly not just by supply management, but by marketing, operations, and finance. Ultimately, any corporation must deal with the fundamental issue of how to deliver value and create competitive advantage in the marketplace. No company is an isolated element, each is part of a value chain, and, in the larger scope, winning the competitive game is more a question of how to create an entire value chain that is more competitive than that of other rivals. This cannot occur if the relationship with both our suppliers at the sourcing end of the value chain and the customers at the sales end of the chain is adversarial. A collaborative relationship with primary suppliers and customers is essential if innovation is to flow and flourish.

Too many of our current business and economic models are founded on the view that commercial enterprise is based on independent stand-alone organizations. A new order of thinking must be established that carefully and critically examines the premises of our currently accepted wisdom and challenges its presumptions.

Based on our [study of innovation across business boundaries](#), we conclude that the best companies have had a deep rethinking about their core business:

- a. **Internal versus Inter-Organizational Business Models:** The best companies see their business as part of a more interconnected value chain or network and create a strategic system for creating, aligning, and managing the creation of value. This involves a very intensive rethinking of what value means to their businesses and to their customers, and is clearly communicated into the supply chain.
- b. **Strategic Value of Suppliers:** During the last 50 years spending on outside suppliers rose from a paltry 20% of total corporate expenses, to nearly 70% (in some cases more) of expenses. This fundamental shift has made what is now called “supply chain” a major strategic issue that has not been effectively addressed by scholars or businesses. Too many companies still treat suppliers as “vendors,” reflecting our old fashioned mentality. The best companies segment their suppliers into at least two categories – strategic suppliers and commodity supplier, the former receiving special attention for the co-generation of innovation streams.
- c. **Power of Collaborative Innovation:** As innovation becomes more pivotal in business decisions, and suppliers more critical to the generation of value, the best companies create more effective strategies, architectures, and models, for cooperative creativity than what has been relied upon in the past. The best companies recognize that collaborative innovation is one of the most powerful means of creating new ideas that impact revenues as well as expenses. They recognize that *differentials in thinking* are the primary source of innovation, and this can only come from having a broad series of alliances both internally and externally.
- d. **Negotiations & Risk Management:** Current models for cross-corporate negotiations, contract management, and risk management are based on shedding risk, maximizing value for one party while minimizing for the other, and managing relationships tactically/transactionally. These methods have diminished or even negative impact in this millennium’s fast moving, inter-connected world when applied to both primary suppliers and customers. .
- e. **Revenue Impact of Suppliers:** The flow of innovation from suppliers can have major impacts on revenue as well as cost for the modern enterprises. A strategic review of this impact is essential. The best companies look deep into their supply base for new ideas, products, technologies, services, solutions, and business models that could enlarge their top line. Supply management links with R&D and Marketing to explore these possibilities.
- f. **Impact of Critical Drivers of Competitive Advantage:** With the change in the driving forces of competitive advantage, where the traditional drivers based on Size, Positional/Transactional Power, and Financial Clout have been superseded by Speed, Aligned/Collaborative Power, and Innovative Agility, a new model of competitive advantage is essential. (see: [Burt/Lynch Model of World Class Supply Management](#)) Supply Chain Management develops greater skills in value management, organizational integration, and strategic alliances.

Addressing the issue of innovation means creating a much clearer understanding of the nature of innovation than the old adage that *invention is a flower, and innovation is a weed.*” Fundamentally there are [six types of innovation](#), each having its own powerful and intrinsic value. The six variants each have a vital role to play in the supply base (and companies must be aware of their different strategic impacts in creating competitive advantage):

- i. Technology Invention (e.g. patentable)
- ii. Product Improvement/Design
- iii. Systems Solutions/Integration
- iv. Process Improvement
- v. New Business Models
- vi. Market Extensions

What makes this six-dimensional model of innovation attractive is that it empowers non-technical people to engage fully in all but one of the type of innovation.

3. WHY & HOW THE VALUE NETWORK BEATS THE COMPETITION

When Collaborative Innovation Networks are pitted head-to-head with Legacy Supply Chain Models, the value networks win time after time. It is important to understand why. Our research and operational experience has shown there are a number of reasons, the most important of which is collaboration. A cooperative system enables strategic alignment, flow of innovation, mutual interest, and speed of decision-making. These factors eliminate or reduce non-value added friction costs in the business system, thus enabling greater profitability, long-term planning and investment horizons, integration among network entities, and better flow of useful information within the network.

Our research and hands-on implementation experience gives us a rich insight on how these value networks actually operate. Some of the [examples of Value Network power](#) include IBM Global Services & Software Solutions, P&G, Cisco Systems, and many others. In our analysis, we will also be including other examples, such as Toyota, Harley Davidson, and the Rolls Royce Starfish supplier network.

Strong, visionary leadership is required in such a situation, as well as the ability to interact at the senior levels of the members of the value network. But good intentions and eloquent words are insufficient. A powerful system based on best practices in [alliance and innovation architectures](#), along with powerful championing skills will be required to make the mind-set shift, the culture shift, the strategic shift, and the operational systems shift together.