

# MAXIMIZING VALUE BY REDUCING THE SOURCE BASE

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ISM Mastery Model®

Core Competency: **Corporate Social Responsibility (CSR) and Ethics**

Supply management organizations have adopted limited competition as a strategic tool for driving supplier diversity.

The goal of supplier diversity is to generate a pool of suppliers that mirror the customer base. As a result, supplier diversity is a core component of supply management, with a host of strategic tools in place to sustain important business relationships. Limited competition is one of those strategies.

Although there are a variety of methods to increase supplier diversity, not all do so without undue risk. For this reason, many companies have adopted limited-competition methodology to better manage the supplier pool while ensuring diverse participation in key commodities and services. The practice is especially effective amidst underutilization and an abundance of capable diverse sources. It yields significant potential for expanding competitive access for minority, women and veteran suppliers. And it has resulted in a marked increase in their participation.

Procurement Resources, Inc. compiled a list of best practices trending among corporate leaders of supplier diversity and found that limited competition is the second-most prominent for generating success (see Figure 1 on page 11).

## LIMITED COMPETITION DEFINED

Limited competition is a managed supply chain practice, focused on a reduced base of competitive sources. When

used as a routine procurement protocol, its benefits include:

- Providing the framework for maximizing source engagement, with a focus on generating customer value
- Reducing cycle time and overall contract costs by restricting the pool to a manageable size
- Providing a proactive solution that ensures competitive access to a diverse customer base
- Generating opportunity for innovation through closer collaboration with diverse sources
- Reducing redundancy and unnecessary complexity in contract negotiations
- Mitigating risk by ensuring high-performing supplier candidates with the requisite skill sets, capabilities and scale meet contract specifications
- Demonstrating a corporate commitment to supplier diversity.

A widely used, government-approved practice outlined in the Federal Acquisition Regulations (FAR), limited competition is also frequently used in the private sector. The practice — a standard for more than 40 years — offers a unique opportunity to effectively manage procurement initiatives aimed at small businesses, small disadvantaged firms and women-owned businesses. Although many companies in the private sector aren't government contractors, the FAR offers a regulatory roadmap that provides a clear path regarding what is acceptable, and what is not, to ensure competitive access. Moreover, major corporations are finding that limited competition is essential in achieving best value in supply management decision-making.

## FRAMEWORK FOR SUCCESS

Limited competition works best when the marketplace has large numbers of capable diverse suppliers with the requisite capabilities and expertise. Engaging these firms results in high-value contracting opportunities and an expansion of the diverse supplier base.

Companies that effectively use this methodology, such as Procter & Gamble, Johnson Controls and Delta Air Lines, begin with highly transactional, low-risk commodity categories such as MRO and G&A purchases where there is an abundance of capability. They seize upon high-potential, low-hanging fruit opportunities where they can restrict the supplier pool without undue risk. They achieve success with no difference in cost and a range of value-added benefits.

Limited competition focuses on a three-pronged approach to competitive access. Here is how to do it:

- 1) Incorporate this strategy into the mainstream of your supply management practice through commodity analysis that highlights supplier groups identified as underutilized (minority-, women- and veteran-owned small businesses).

**FIGURE 1: BEST SUPPLIER-DIVERSITY PRACTICES**

Strategy	Tactical execution
Leadership engagement	Visible, hands-on engagement by supply management leaders
Supply chain policies, tools and protocols	Strategic sourcing, fail-safe terms and conditions, and limited competition
Performance accountability	Supplier scorecard and supplier-diversity integration into staff performance reviews
Training and awareness	E-learning program for supply management and business units
Tier-2 initiatives	Tier-2 subcontract management
Incremental goal improvement	Quarterly monitoring and reporting on supplier-diversity results
Supplier development and capacity building	Strategic partnerships, joint ventures and mentorship programs

- 2) Define specific operating protocols to ensure consideration of diverse suppliers in the strategic sourcing process. Supplier diversity staff will guide the process, strategically source for candidate firms, and lead an effort to cast a wider net.
- 3) Present a briefing to update internal stakeholders as well as the supply management organization while reassuring the continuing focus on best value under every purchase or contract.

## CREATING VALUE

Limited competition is a useful tool that ensures consideration of highly qualified diverse sources without unnecessary compromise. It offers a solution that ensures against exclusion of diverse talent for routine purchases while expanding the diversity of your business partners.

The goal is to engage high-potential diverse sources that truly add value to your business. At the end of the day, what matters most is having the tools and a clear understanding of the role supplier diversity plays in supporting that strategy. **ISM**

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