Available online at www.sciencedirect.com

SCIENCE DIRECT®

Industrial Marketing Management 33 (2004) 717–730

INDUSTRIAL MARKETING MANAGEMENT

Configuring and managing strategic supplier portfolios

Stephan M. Wagner[a,*], Jean L. Johnson[b,1]

[a]Corporate Supply Chain Management, SIG Holding Ltd., Laufengasse 18, 8212 Neuhausen, Switzerland
[b]Department of Marketing, Washington State University, PO Box 644730, Pullman, WA 99164-4730, USA

Received 11 March 2003; received in revised form 17 November 2003; accepted 19 January 2004
Available online 8 May 2004

Abstract

Acknowledging that not all supplier relationships can nor should be close partnerships, this article explores the development of strategic supplier portfolios. The strategic portfolio perspective considers risks, trade-offs, and interdependencies between the firm's array of supplier relationships. Based on over 50 interviews with managers and archival data from 12 multinational companies, a strategic supplier portfolio management framework is developed. The authors explore processes that firms use to plan, implement, and monitor strategic supplier portfolios. This research indicates that by assembling superior supplier bases, developing suppliers and integrating them into product development and manufacturing, strategic supplier portfolios contribute to competitive advantage.

Keywords: Supplier portfolio management; Purchasing; Portfolio; Case study research

1. Introduction

A large and rich body of literature on supplier relationships—often framed as interfirm buyer–seller relationships in business markets—has developed (e.g., Anderson & Narus, 1990; Dwyer et al., 1987; Jap, 1999). Much has been learned about relationship dynamics, processes, and structures. However, some scholars have noted a tendency to atomize the interfirm relationship by focusing on understanding an individual relationship in isolation of other relationships of the firm (Dyer et al., 1998; Wagner & Boutellier, 2002) or a network of firms (Anderson et al., 1994; Madhavan et al., 1998). An enlarged perspective that considers more than an individual relationship may be useful, especially with regard to supplier management issues.

Consistent with such thinking, this paper involves a broadened view of relationship management. It is argued that relationship management consists of more than the management of an individual relationship or even several important individual supplier relationships. Instead, a portfolio perspective is taken, introducing the notion of *strategic supplier portfolio management*, that is, the management of an array of supplier relationships, each having various characteristics and each serving the firm in different ways. The firm manages its supplier relationships not only individually, but as a set, developing a portfolio of supplier relationships that leads to an optimized supplier base for the firm.

While a number of authors have addressed portfolio perspectives in purchasing relationship management (e.g., Bensaou, 1999; Dyer et al., 1998; Gelderman & van Weele, 2002; Nellore & Söderquist, 2000; Olsen & Ellram, 1997), firms now face conditions of highly turbulent environments, rapid technology turnover, market restructuring, and globalization that have made it necessary to rethink extant portfolio perspectives. Specifically, the aim of this paper is to advance and extend portfolio approaches and systematically examine how supplier portfolios can be configured, developed, and managed to contribute to the firm's value creation and competitive advantage. With the classic strategic management process model as a backdrop, this paper explores how firms (1) formulate the strategy content, (2) process or implement the strategy, and (3) control the supplier portfolio management process so that ultimately it will contribute to sustainable competitive advantage (e.g., Srivastava et al., 1998).

* Corresponding author. Tel.: +41-52-674-6888; fax: +41-52-674-6446.

E-mail addresses: stephan.wagner@sig.biz (S.M. Wagner), johnsonjl@wsu.edu (J.L. Johnson).

[1] Tel.: +1-509-335-1877; fax: +1-509-335-3865.

0019-8501/$ – see front matter © 2004 Elsevier Inc. All rights reserved.
doi:10.1016/j.indmarman.2004.01.005

In the contemporary business environment, taking a portfolio perspective in supplier management is important because of the increasingly critical role in a firm's success that is played by suppliers. Strategic supplier portfolios allow a firm to take into account the various interdependencies among relationships with its suppliers, and the tradeoffs in terms of risks, abilities, and other characteristics. Allocating management capacity, administrative manpower, time, and financial funds selectively across the range of relationships in its supplier portfolio allows the firm to conserve and optimize its inevitably limited resources. To realize the potential benefits of strategic supplier portfolios, firms must understand and develop key tools involving supplier evaluation, selection, development, and integration. Through such processes, a portfolio perspective helps the firm differentiate and set priorities in terms of which supplier partnerships should consume a greater share of resources and which should be managed in a manner that demands fewer resources.

2. Conceptual background

2.1. Supplier relationships

A major factor in supplier management involves the type of relationship the firm develops and maintains with its suppliers. Relationships have been portrayed as ranging from markets to hierarchies (e.g., Thorelli, 1986) or from arm's length to partner-style collaborative relationships (e.g., Dwyer et al., 1987). The latter type of relationship has also been termed quasi-hierarchy or strategic partnership because of the investments necessary and the high levels of interdependence. As a refinement on this, supplier relationships can also be described as durable arm's length or quasi-market relationships where there is little interdependence and asset specificity but yet the relationships are long term and involve large volumes of business (Dyer et al., 1998).

Recent research provides a rich treatment on the factors that determine the form of supplier relationships. Among these are, for example, extent of idiosyncratic investment made and required (e.g., Williamson, 1996), as well as the type of governance mechanisms in place (e.g., Heide, 1994; Williamson, 1996). Cannon and Perreault (1999) suggest that supplier relationships can vary according to information exchange, operational linkages, legal bonds, cooperative norms, and buyer/seller adaptations. In information exchange, a mutual sharing of important information characterized the relationship. Operational linkage involves the functional integration of the firms in the relationship in terms of their systems, procedures, routines, and technologies. Cooperative norms describe the extent to which there is an expected pattern of working together toward joint and individual goals. Relationship specific adaptations involve the extent of idiosyncratic investment in accommodating the processes, products, capabilities, and procedures of the partner (Cannon & Perreault, 1999). Two fundamental issues underlie these works. First is the duality of simultaneously optimizing on relationship factors while minimizing transaction costs (e.g., Dahlstrom & Nygaard, 1999; Heide & Stump, 1995). Second is the increased creation and role of relational (i.e., social) capital in interfirm relational management (e.g., Dwyer et al., 1987; Dyer & Singh, 1998). In conjunction with these two issues, a third is emerging in the literature, which is the increase in the strategic role of interfirm relationships (e.g., Dyer & Singh, 1998; Johnson, 1999; Jap, 2001).

Other important factors that affect buyer–seller relationships can be grouped into local and macro influences. Local influences consist of product-related factors, buying structures and practices, and firm-level factors. First, product-related factors include the buying class, that is, modified rebuy versus straight rebuy, degree of standardization, product requirements, product life cycle, product complexity, and frequency of purchase, for example (e.g., Anderson & Narus, 1990). Second, the firm's buying practices and procedures influence the relationships. These include buying center structures in terms of who participates in the process and how, buying procedures in terms of the role of bidding and preferred vendors, and the location, level, and number of managers engaged in boundary spanning, for example (e.g., Dwyer & Tanner, 1999; Venkatesh et al., 1995). Third is firm level characteristics such as the firm's strategic aggressiveness and its tendencies toward relational proclivity (e.g., Johnson & Sohi, 2001). Also included here are interfunctional relationships and individual factors, such as buyers' or boundary spanners' competencies, ethical positions, interpersonal communication and social skills, influence on supplier relationship management (e.g., Hult et al., 2000).

In addition to the local influences, macrolevel factors also represent a major influence on supplier relationships. Primarily, environmental influences include the characteristics of the buyers' and sellers' industry as well as the general environment (e.g., Achrol, 1991; Madhavan et al., 1998). Industry characteristics as described in Porter's (1980) five forces model, that is, rivalry among established firms, risk of entry by potential competitors, bargaining power of buyers, bargaining power of suppliers, and threat of substitute products determine supplier management to a great extent. Within the general environment macroeconomic factors, country risks, resource availability, the political, legal, and regulatory environment, and technological change are influential.

2.2. Portfolio models

Portfolio theory in general addresses the view of tradeoffs in expected returns relative to risk characteristics of investments (Markowitz, 1952). Portfolio ideas have been incorporated early into strategic management and market-