

Supply market intelligence - understanding drivers and practices

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Abstract

Capability to develop and sustain superior knowledge of key supply market characteristics, called supply market intelligence (SMI), forms a basis for sound strategic sourcing. SMI may be directed or open-ended, or project-based or continuous in nature. The working paper reports insights from a pre-study, and the results from a workshop with 30-40 PSM professionals. Furthermore, we discuss the research design of a multiple case study which will constitute the core of future data collection. This paper highlights the importance of knowledge as a strategic resource for PSM function. It identifies why and how such intelligence is captured and used in organizations.

Keywords: Supply market intelligence, capability, exploratory research

Submission category: Working paper

Introduction

As the purchasing and supply management (PSM) function aspires for a more strategic role in organizations (McIvor et al., 1997; Zheng et al., 2007), the question rises on what may be the prerequisites of such an elevated status. According to van Weele and van Raaij (2014), capability to develop and sustain superior knowledge of markets and supply chains is needed to increase the strategic relevance of the PSM function. The increasing importance of this particular capability is made salient with the suggestion that PSM practice should be moving towards the broader ideal of managing external resources, which involves for example the finding of right combinations of internal and external resources for capturing business opportunities, and finding the best available external resources (Tanskanen et al., 2014). It is clear that high level of knowledge and understanding of the capabilities and opportunities of both supply market and the buying organization is required in order to achieve these “right combinations” and to develop and maintain a pool of “best” resources for the organization.

The purpose of this study is to investigate firm’s managerial practices for developing their capability to effectively utilize supply markets. This capability is commonly called supply market intelligence (SMI), which has been defined in the literature as follows: “SMI is the ability to develop deep insights into key supply market characteristics, including emerging technologies, price and cost trends, mergers and acquisitions, capacity requirements, quality and delivery performance, and other key supplier capabilities that form the basis for sound strategic sourcing” (Handfield, 2009, 103).

Based on our analysis of the extant PSM literature, there appears to be a knowledge-gap in terms of SMI in general, as well as the practice and contingencies of SMI in particular. This

conclusion has been offered also by van Weele and van Raaij (2014), who suggest that efforts in the area of developing and sustaining superior codified knowledge of markets and supply chains is lacking in contemporary PSM research. The paper therefore addresses the following fundamental research questions: *Why is SMI conducted?* (RQ1), *How is SMI conducted?* (RQ2)

Theoretical framework

In approaching this topic, we draw on several management theories, such as the information processing view (e.g. Galbraith, 1970), which is based on the idea of achieving a fit between the information processing requirements and the information processing capacity in organisations. The high requirements for SMI due to purchasing uncertainty (Trautmann et al., 2009) may be expected to drive the level of capability for SMI related knowledge acquisition and use. SMI capability also relates to absorptive capacity, i.e. the ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990; see also Azadegan 2011). Furthermore, in order to better understand the elements of SMI capability, we draw on the theory of capability microfoundations (Barney & Felin 2013; Felin et al. 2012; see also Teece, 2007).

For data collection and analysis purposes, we also develop a research framework, drawing on the related literatures on technology intelligence and market intelligence. These suggest, for example, that intelligence activities may be directed or open-ended, they may draw on internal or external sources (Mortara et al., 2009), and be project-based or continuous in nature (Tan & Ahmed, 1999). These dimensions in the framework allow us to map the SMI landscape thoroughly in the data collection phase, while we allow additional themes and dimensions to emerge in the analysis phase.

Research methods

Our research approach is inductive, although *a priori* defined constructs and a framework help us focus efforts and provide for better grounded data collection effort (Eisenhardt, 1989). In our research project on SMI, we ultimately aim to draw on multiple types of data collection efforts. First, we have met with PSM professional to openly discuss SMI. These discussions comprise a pre-study which validates the relevance of the topic and provides preliminary understanding of the state of SMI practices in companies. The working paper also reports the results from a topical workshop in which a group of 30-40 PSM professionals were gathered to discuss the *whys* and *hows* of SMI using the World Café method (Brown and Isaacs, 2005). The accumulated insights were recorded, analyzed, and summarized by the research team. Furthermore, we discuss the research design of a multiple case study which constitutes the core of the project's data collection.

Contribution

We contribute to the understanding of the drivers and practices of SMI, and to the understanding of knowledge as a strategic resource for PSM function (cf. Hult et al., 2006) in several ways. First of all, on the basis of a literature review and pre-study we identify SMI as an important yet little researched topic. Second, we compose a research framework which provides structure to diverse SMI approaches which range from focused project-based investigations to comprehensive and continuously maintained intelligence, and address the use of internal and/or external knowledge sources. We also address contingencies, such as environmental dynamism and purchasing uncertainty. Third, we report preliminary findings from the pre-study and the facilitated workshop with PSM professionals. Fourth, we describe a multiple case study research design for taking further steps in this area of research.

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