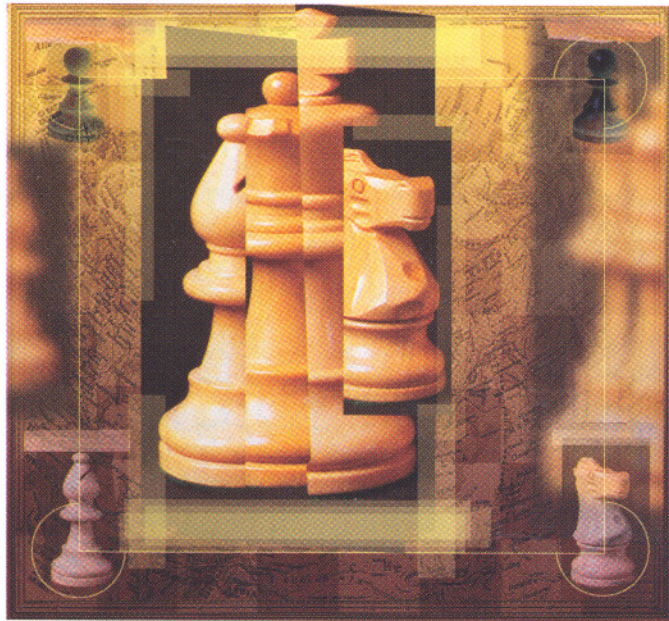


# Competitive Strategy

By addressing customer anxieties, suppliers can better position themselves in the global marketplace.

By Quintus R. Jett,  
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In recent years, many minority and women business owners in the United States have seen significant contracts with their customers fade away. With relentless supplier consolidation and offshoring, contracts to low-cost suppliers abroad have increased, and extensive outsourcing has become a standard way of doing business in many industries. This is unlikely to change in the foreseeable future.



Low-cost suppliers in distant countries provide a competitive alternative, and many of these suppliers are also run by entrepreneurs of color. Yet, corporations that are a major source of contract opportunity for U.S. minority- and woman-owned businesses still seek suppliers that contribute to higher performance, lower costs, and increased profits. So, how can domestically based business owners respond? What approaches can be substituted for resignation or a futile retreat from global competition? We offer one proactive strategy: Minority and women business owners can and should confront the “fear factor” in global supply chains.

What is the fear factor? In many corporations and industries, managers experience significant fear that their supply chains will be disrupted or that supplier quality will degrade. Operational and market performance are very much at stake, such as when an extended delay in supplier delivery results in product shortages or poor service to final customers. This anxiety over supplier performance can extend to financial markets and the public at large, especially when supply failures involve quality issues such as product safety or contamination.

Therefore, the concerns that corporations have about suppliers in distant countries can sometimes be significant. Although managers can experience late deliveries, poor quality, and other difficulties with domestic suppliers, there are more factors to consider when suppliers are based on the other side of the world. For example, we know of one relatively small U.S.-based company that paid more than \$200,000 in air freight when its supplier in Asia gave notice that a delivery would be too late for the prime selling season. Political risk, currency fluctuations,

labor strikes, and other factors can also suddenly increase the cost of sourcing from distant countries.

Because of these added concerns, some procurement managers are bucking the trend and reconsidering shifts back to domestic suppliers. The recent wave of Chinese-made product recalls—affecting everything from dog food to toys to toothpaste—has made product origin a very public issue and created

such as these reveal the full cost of a distant, foreign supplier that might initially go unnoticed.

Although they may see great value in global outsourcing, procurement managers almost always have real concerns about the risks and potential costs involved. By paying close attention to these concerns, a number of minority and women business owners have begun to reconsider the value proposition they

## The Real Concerns About Global Outsourcing

### ✓What is the risk (and cost) of late deliveries due to long-distance transport?

*This concerns every procurement manager we have encountered.*

### ✓What is the risk of poor quality from a distant, low-cost supplier?

*Many procurement managers are concerned about the remedy and costs, when products or services from abroad do not meet their company's standards and expectations.*

### ✓What if there is a major supply disruption caused by an armed conflict, a natural disaster, or a health disaster such as SARS or the avian flu?

*The potential for these disruptions are not far-fetched today, and their scale and severity might be unprecedented. Procurement managers might not always voice it, but they are concerned.*

an opportunity that U.S. minority and women entrepreneurs can, and should, seize.

## Identifying the Fear Factor

Outsourced suppliers abroad can seem very low cost compared to domestic suppliers. However, the total costs—real and potential—of using global suppliers can be quite high. Differences in languages, regulations, business customs, and legal/political structures rarely contribute explicitly to the cost of a contract. And yet the costs of global outsourcing can be exorbitant when things go wrong due to these differences. A late delivery from a distant supplier requires air freight and expedited shipments. The risk of poor quality requires additional inspection. Either problem might cause line shutdowns, lost sales, ill will from customers, and loss of future revenue. Factors

offer to customers. Some are starting to ask, “If it is becoming infeasible to compete as before, due to global outsourcing, what other ways might we more profitably deliver value to our customers?” Identifying the fears of procurement managers and helping them manage the associated risks and costs is emerging as an effective solution.

While the unit cost offered by a U.S.-based minority or woman supplier will often be higher than the unit cost offered by a low-cost supplier from China, a domestic supplier will have some advantages that the distant supplier lacks. For instance, a minority or woman supplier that is regional or local might have more opportunities to gain up-close knowledge of customer preferences.

In our examination of strategies for minority suppliers—done for a



white paper sponsored by the U.S. Department of Commerce's **Minority Business Development Agency (MBDA)** titled "Mastering the Supply Chain: A Perspective"—we encountered a California-based supplier called **Intraline, Inc.** Its president and CEO, **Pete Varma**, described to us how his company



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focused on what it could do to "take away the buyer's pain" in the procurement cycle, whether it was through on-demand services, managing logistics, or managing waste. Faced with increasing customer requirements and competition, he created contract opportunities by developing an intimate understanding of the potential buyers' most significant supply concerns. He identified special services his company could perform, when the delivery of value, rather than the lowest price, was the overriding concern.

The general consequence of competing with low-cost suppliers abroad is that U.S.-based minority and women business owners must, more than ever, focus on total value to the customer, not solely on price. This means mastering the fundamentals of supply and procurement operations: flawless execution and performance, short lead times, cost efficiencies, and excellent quality. By

paying attention to the fear factors of procurement managers, minority suppliers can deliver the services that potential customers will most value. Due to global outsourcing, procurement managers are getting value from reduced unit and service costs. However, they are likely taking on additional risks and potential costs in other areas. Minority and women suppliers who help address these tradeoffs can turn the threats of global outsourcing into business opportunities.

### Enhance Your Value Proposition

For many minority and women suppliers, helping customers overcome the fear factors of global outsourcing will involve raising

*"Minority and woman suppliers that help address these tradeoffs can turn the threats of global outsourcing into business opportunities."*

standards. Competing on total value rather than lowest cost has always been important for winning contracts. However, low-cost suppliers from abroad are elevating this game to a new level. Proposing how to increase value to customers and then delivering on that promise is now mandatory for domestic suppliers.

We have seen at least three approaches to enhancing a domestic supplier's value proposition, in order to adapt to the widespread use of low-cost suppliers abroad:

(1) A domestic supplier can develop a profitable niche by providing custom services. For instance, many low-cost foreign suppliers have large minimum order quantities that rely on economies of scale for low-cost transportation over long distances. Conceding low-margin products

and services in this market segment to foreign suppliers, a domestic supplier can focus on specialized deliveries with timing and at a scale optimized for the customer, such as offering frequent delivery or consolidation of vendor shipments.

(2) A domestic supplier can serve as a customer's "domestic insurance," providing a competitive alternative to foreign suppliers. One Native American entrepreneur explained how her company approached potential customers. She told them, in effect, that "We will be your China. We know that you're fearful of the risks of buying from China, and yet you want the low unit costs. We operate on a reservation, and our overhead is very low. But our quality

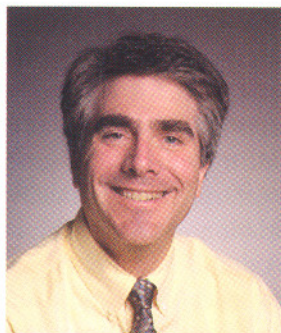
is high, and our lead times are very short. Look at the full cost and risks, and consider us as your low risk, low cost, high quality alternative."

(3) A domestic supplier can



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partner or contract with foreign suppliers who have received outsourcing business from the United States. A different Native American entrepreneur, **Karlene Hunter of Lakota Express** (see page 22) in South Dakota, implemented this approach. Her company took part in a joint venture, in which quality

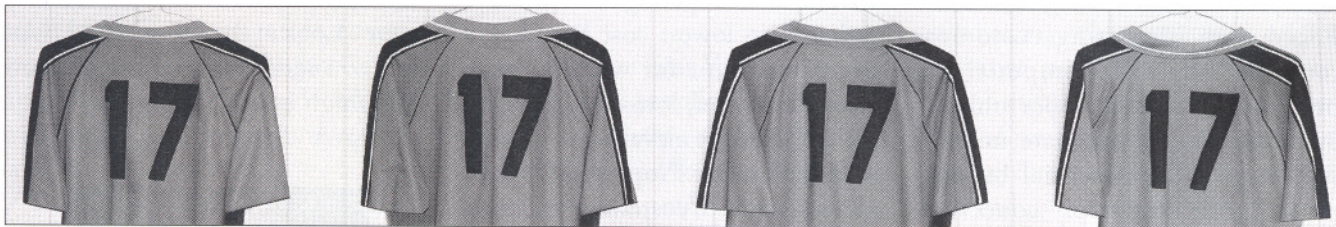
checks were performed on the output of a Chinese supplier. Verifying the work of the Chinese supplier before it was delivered to the final customer in the U.S., her company managed the potential quality risk with the distant supplier and, as a result, the associated fear factors of the final U.S. customer.

How you can productively enhance your company's value proposition in response to global outsourcing will vary. Some minority and women business owners have used their understanding and recognition of customer fears to lead their companies toward the most profitable emerging opportunities. Competing with low-cost suppliers abroad is a challenge that can be used to develop new prospects, if there is fresh thinking about a company's best value proposition and if you have the operational capabilities to execute the strategy.

Customers will always have fears, although the nature and significance of them will differ. While companies rely on suppliers and procurement processes, there will be managers who have reasonable concerns about purchased products or services lacking in quality, being disrupted or late, or becoming too high cost for escalating competition and consumer demands.

Global outsourcing has no doubt changed the game. The increased use of low-cost, foreign suppliers is a major shift in business—one that changes expected performance, associated contracting advantages, and the kind (and significance) of different fear factors affecting procurement managers. Helping buyers overcome the fear factors of outsourcing is an opportunity for value creation that minority and women business owners cannot ignore. ♦

If all the players on a team were exactly alike,



how successful would it be?

Valuing differences in approach, background and expertise of our suppliers has helped Lehman Brothers drive exceptional results in all our business processes, worldwide.

It's why we are committed to supporting the growth of minority business enterprises in all areas of our supply chain.

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