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Abstract. Supply management means creating and leading our supply chains to ensure continuity of supply, significantly enhanced service, total cost control and more involvement with suppliers or others to provide our customers unexpected results. The key concept is to understand the demands of the future and change the organization to meet those anticipated demands. Certainly, the current trends of globalization, e-commerce, cost management, drive to better productivity, professionalism, better supplier relations and the development of supply chains as competitive weapons will continue without abatement. But how will these and other forces affect supply management. This presentation identifies the organizational, technological, and behavioral changes that we must successfully complete in our supply management processes to best support the strategic logistic and supply needs of the modern firm beyond 2010. We will answer these questions, 1) What is our future after 2010, and 2) What do I need to learn now or in the next few years to best be ready for the future beyond 2010?

Introduction. A 2004 CAPS research on purchasing education and training addressed these specific concerns. (PET II- Giunipero & Handfield) The study identified the top trends for 2010. Certain trends are expected to experience a greater rate of increase than others. For example it is forecasted that inventories will be managed supply chain wide by 2010. Superimposed over these trends will be more agile and adaptable organization structures. Much of this flexibility is driven by technological changes that allow more timely, rapid, and accurate flow of information throughout the organization. Responding effectively to these changing trends will require different skills for the supply management professional. We will discuss some of the resources available to gain these new skills.

Table 1: Top 10 Trends for 2010
- Pressure to reduce costs will increase
- Strategic cost management will increase
- Supplier selection will focus on total cost analysis
- Electronic Commerce applications will replace paper-based systems
- Sourcing will focus more on strategic issues
- Global sourcing will increase
- Strategic sourcing will increase in importance
- Cross-functional teams will coordinate sourcing efforts
- Sourcing management will replace order placement
- The performance of purchasing will be more closely monitored
Similarly, AT Kearney in its “Assessment of Excellence in Procurement 2004” study found that in companies already applying best practices many of these trends are well established. For companies not operating at best practice level, this new knowledge suggests that the need for significant improvement is already imperative. Most existing supply management processes must rapidly get beyond traditional cost and supplier management processes to generate shareholder value through four main activities.

First we need to employ advanced sourcing approaches by fielding a staff trained and motivated to develop and apply advanced sourcing strategies such as demand management or “should cost” analysis. We need to get beyond the application of traditional procurement tools.

Second, we must pursue greater and more in-depth supplier collaboration. Many companies drop the ball after initial supplier collaboration efforts. Our efforts must be ongoing to expand the benefits of collaboration supply chain wide. In the future this effort should include a willingness to make investments of time and resources to improve collaboration.

Third, we must develop the ability to deploy and utilize e-procurement tools more effectively. In many cases, companies fail to achieve the beneficial potential of market analysis, contract management, or life-cycle management because e-systems used by supply management are not integrated end-to-end with other company systems.

Fourth, We need to develop offshore capabilities. Our dramatic increase in global interests has not been matched by corresponding increases in knowledge and understanding of these newly developing world markets. How can we develop meaningful and effective strategies to use these huge new markets when our knowledge and process capability is limited? We risk losing the access to scarce resources along with the competitive edge that they could provide.

Using Relationships to Drive Improvement. In a presentation at the University of San Diego in late 2004 Mr. Nelson focused on collaborative relationships and how they can help create a lean supply chain. Recalling his years of experience with Honda of America, Mr. Nelson said, “I can’t emphasize enough the importance of a truly collaborative approach in supplier alliances. At Honda, we used lean supplier development to excellent advantage. Honda, like its rival Toyota, works in tandem with suppliers to reduce waste, expense, and develop the best possible product at the lowest possible cost. Lean practices helped make all these OEMs, and their suppliers, the most competitive and the most profitable in the industry.”

Nelson’s observation is that over the past few years many American companies have tried to improve supplier relations and even studied the process, but not very many supply management processes have truly changed their culture to build relationships based on the Japanese model which emphasizes mutual trust and collaboration. When he says this, he means it is about getting truly lean, not mean. It’s not just a nice thing to do but also a smart thing to do. It is a lot easier, and it is more effective and long lasting to work as a team to remove waste and inefficiency from the value stream. We have to understand that we are the problem. We don’t understand the business processes in our supply chains. We do not share enough information. Our customers can’t accept the fact that they are part of the problem and we buyers fail that same way with our suppliers. In monetary terms the payoffs for understanding and improving business processes is unlimited. This chart shows the problem. The Producer’s Price Index (PPI) has increased steadily over the time frame shown. Similarly,
material costs for most companies have increased with or above the rate for the PPI. This chart shows two very successful companies from the U.S. Auto industry. The data for Company 1 reflect that initially its costs increased less than the PPI, but at about the same rate. Note that in January 1996, its cost rate stabilized and then began to decrease in relation to the PPI. That is the result of improved cost management. The data for Company 2 show that its costs have actually gone down over the entire timeframe. Even better, its costs have decreased faster than the PPI is increasing. Clearly these two companies are doing it right. However Company 2 is doing it much better and creating cost efficiencies that will prove difficult for Company 1 to match. The gap is actually growing over time.

If you’re doing it right, it means creating relationships that endure and continue to bear fruit and root out inefficiency for years to come. Honda and Toyota, for example, have learned that building relationships with suppliers based on mutual advantage rather than price alone not only allows them to improve quality, improve delivery, improve cost, but it makes them more competitive. Hence, they are winning the head-to-head, dog-eat-dog worldwide auto industry competition.

The Toyota and Honda supply chain approach is not a “soft” approach. Not at all, indeed it is a very demanding and disciplined approach. They have found that if they treat their suppliers with respect and work with them for mutual advantage, the result is real world-class competitiveness and profit. Without strong relationships based on integrity and ethical practices, we will always fall short of any bar that we might set for ourselves.

For most American companies 50-60 percent of the total costs come from their supply base. We also know that for most supply chains a small percentage of the suppliers account for about 80 percent of the buy. Intuitively, this fact suggests that these suppliers are strategic and improvements in our relationships and operations with this group should have significant results. Successful operations at these strategic suppliers are far too important for either side to ignore. Strong, mutually beneficial relationships can and do strengthen the value stream. It’s why no relationship should ever be thrown away casually. And it’s why many of our internal disconnects such as lack of information sharing, inconsistent goals, lack of trust; lack of commitment; employee disempowerment can be fixed by greater collaboration. Indeed greater supply chain collaboration is the linchpin to the Japanese approach to procurement and outsourcing. The next section identifies the strategies for moving to strategic operations.

**Strategies for Change.** Here are five strategies that will transform your supply chain to a strategic process for your company, its suppliers and its customers and stakeholders. First, we must develop strategic suppliers and commodity strategies. Being truly agile and adaptable means that we need fewer suppliers. The key is to select the right ones. Globally, we must reduce the number of relationships to manage. Our core suppliers must exhibit a history of flawless launches, meeting zero defects and zero disruptions and improving first-time quality. They must be willing to work with your company, early in the program design and development phase, to establish cost targets that satisfy cost improvement goals. And, they
must be committed with the right attitude toward continuous waste reduction and lean thinking. Simply stated, having fewer suppliers to work with should lead to stronger trust-based relationships with those remaining suppliers. And they will be positioned to share in your success.

Second, to become a world-class lean enterprise, you must work side-by-side with your suppliers to remove all forms of waste from both your part and their portion of your joint value streams. We must remember two things; 1) all forms of waste are just costs—piles of idle unemployed resources or money just laying around, and 2) that you are doing this because about 50 to 60 percent of your costs come from your supply base. To achieve this we are focused on “total cost,” improving processes, trimming time to market, encouraging a freer flow of ideas through trust and collaboration, and achieving elevated financial performance. To get there, you must implement the best practices that will lead you and your suppliers to leaner more profitable supply chain operations.

Third is to develop and manage cost standards that determine what a part, or service, “should cost,” with real details. Once you really know what something should cost, the entire design and sourcing dynamic changes from a brow beating or pleading negotiation process or “auction mentality” to a joint waste elimination focus. This is a leading-edge approach because many industry business models still tend to push costs down the supply chain rather than remove the waste. You need to identify and establish Best-in-the-World costs standards and use them in everything we design and buy.

Fourth is build lean supplier development engineering. It requires the expertise of lean supplier development engineers, dedicated to enabling suppliers to achieve the best levels of lean manufacturing. Quality at the requisite levels and inside the cost standards must be the paramount driving force in the supply chain. This lean supplier development engineering process ensures the quality standards and generates savings, which will help everyone involved. “Good enough” is a deadly phrase, and it probably is inscribed somewhere on the tombstones of all the once-successful companies that have gone belly-up for not meeting—let alone exceeding—customer expectations. “Good enough” cannot be part of your vocabulary. Remember, this is not about eroding margins; it is about eliminating waste and thereby reducing cost. Just as margins are important to your company, our strategic suppliers also need satisfactory margins to remain the most competitive suppliers in the world.

Fifth is professional development for your supply managers and those in your supply chain staff. We are all in a business process together, playing on the same side of the net, and you will be stronger and more effective as a team.

**Future Training and Education Requirements.** Traditionally, in terms of structure for developing and conducting training and professional development the overall training process follows the general supply management structure. Centralized organizations generally have centralized education programs. Conversely, decentralized organizations use decentralized methods. In the 2004 CAPS study, 80 percent of the firms used either the centralized or the hybrid (centralized/decentralized) organizational structure to deliver training. Ultimately, the responsibility for professional development rests with the a high ranking executive leader in the purchasing/supply management organization or in the case of firms using the hybrid approach the individual supply manager at the business unit. In some companies or organizations the ultimate authority is outside supply management in human resources or a training function.
The 2004 CAPS study found that on the average $1,800.00 was spent per supply management employee for training. The respondents expected this average to increase to $3,400.00 in the future. On the average the supply management employees received about nine days of training per year. This level of training was expected to increase to 10 days in the future. Considering that the average supply management buyer according to the CAPS 2003 Cross Industry Benchmark study spent about 19.2 million dollars per year. The ratio of training cost to spend ($1,800 / 19.2 mil) is .009% an extremely small number dedicated to training. The maximum reported of $7000 per employee jumps the percent of spend to .04%.

The 2004 CAPS Study shows that an undergraduate degree is becoming a requirement for entry-level personnel. An undergraduate degree with a major in supply management is rated most desirable but only slightly over an MBA degree. By 2010 15% of the respondents indicated the minimum educational level would be an MBA. An MBA with a technical undergraduate ranked as the third most desirable degree. Obtaining a C.P.M. Certification is also desirable. This chart shows ISM’s membership demographics for 2003. These data were updated in 2004. The data show that the percentage of professionals with a supply management degree has grown to 5.5 percent. Nearly 28 percent said they were a C.P.M. and plan to maintain that status. An additional 13 percent hold lifetime certification status. Forty-five percent plan to acquire the C.P.M. in the future. As a comparison in the sample responding to the PET II CAPS 2004 study 50% had a graduate degree and 48% an undergraduate degree. It appears that there is an emphasis on higher levels of formal education required to make it into the upper levels of the supply management field today. Comparisons with the current state of education suggests that significant work is required to reach the increased expectations by 2010. Our organizational recruiting and motivational systems must provide the education levels and training intensity required for the future.

Our training methods will remain essentially the same, but training emphasis, urgency, gap analysis, level of supervisor involvement and training evaluations must change. The use of web-based formal and informal education will increase. Similarly, the use of self-paced, just-in-time training by video, CD-ROM/DVD/diskettes and even audiocassettes will increase rapidly. More and more training will be available by satellite and even broadcast TV. We will see more universities reaching to broader markets with web-based education aimed specifically to supply management personnel. We will also see larger organizations developing their own training centers (sometimes called universities) to deliver training necessary to keep the “knowledge worker” of the future up to date with the latest techniques. The two important necessities to enhance this system are increased effectiveness of training evaluations and involvement of team members. Our evaluation process must move from being entertained to content orientation—did we learn something needed? Can we apply the subject to our job? Does knowing it enhance our long-term performance? Was it cost-effective training?

Conclusions and Recommendations. We firmly believe that if you revolutionize your internal operations to real teams and openly share with and develop your core suppliers most of you can achieve these five organization/education concepts.
First, you must lead supply management to become a meaningful enterprise-wide team sport.

Second, we must recognize that we have not addressed the real problem. We can all benefit by forming long-term relationships with a few key suppliers, based on mutual trust that share ideas, designs, best practices, and the rewards derived from eliminating waste from our combined processes. This includes the cost reductions as well as the practical knowledge we gain from our efforts.

Third, we can all get stronger, leaner, smarter, more profitable, and more interdependent, to further cement supply chain relationships. It’s certainly easier to develop the necessary trust when you can see tangible results by sharing results. And the best part is that it works!

Fourth, we must identify the gaps from where you are now to where you need to be in the future. This gap analysis should also be used to identify career-long training requirements.

Fifth, our organizational philosophy and motivation must recognize and reward individual involvement and personal investment in the professional development process.

REFERENCES


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