

WALTER L. WALLACE

YUSEN XIA

BARRY RENDER, Consulting Editor

DELIVERING CUSTOMER VALUE THROUGH PROCUREMENT AND STRATEGIC SOURCING

A Professional Guide to
Creating a Sustainable Supply Network



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Creating global brand equity means reaching out to the entire world for the best ideas, best components, best designs, best processes, and best research and development. Each of us has to focus on what we do extremely well and then make sure that we exploit that as much as possible. If we try to hold on to outdated ideas and things we're not the most efficient at, the outcome is never going to be good. Going forward, the companies that ascertain how to do world sourcing most effectively will win. Procurement organizations have to be prepared to leap hurdles imposed by language barriers, borders, and geographic differences and tap into more cost-efficient international sourcing. With technology bridging borders and continents and enabling global commerce, the choice of suppliers is truly worldwide.

Procurement departments are seeking out viable suppliers in low-cost trade regions that can offer comparable quality, better price points, and a more competitive total cost of ownership. Lower-cost labor rates in foreign countries can generate savings in excess of increased logistical costs. Therefore, procurement departments are more frequently adopting suppliers in specific regions such as China, India, Southeast Asia, and Eastern Europe as a means of increasing volume and upgrading resources, capabilities, and processes (RCP sourcing). Boeing, for example, uses global alliance contractors for approximately 60 percent of the components of all its commercial aircraft models.¹⁶

Along with its financial potential, global sourcing also brings challenges and risks. The average procurement organization typically lacks the expertise required to establish and manage contracts, logistics, distribution, transportation, freight (air, sea, ground and rail), freight forwarding, international trade management, and customs brokerage. Partnering with a third party, a supply chain integrator such as UPS Supply Chain Solutions—which has 991 facilities in more than 120 countries, representing 46 million square feet of warehousing¹⁷—can mitigate the challenge and risk of global commerce. The paralyzing fear of global sourcing is unfounded by making use of the appropriate and effective management approaches that exist today. American companies have already tackled many of the anticipated issues in most geographic areas, proving that effective risk mitigation and management approaches exist.

Kenichi Ohmae,¹⁸ a prolific writer on strategic management, has proposed that we live in a borderless world, where buyers and sellers worldwide are aware of the best products and services and expect to acquire them with no concern over their natural origin. Ohmae writes that in his view, all firms compete in an integrated world economy, and to be effective, they must balance the five Cs of strategic planning: customers, competition, company, currency, and country.¹⁹

The integration of new personnel with fresh perspectives and different backgrounds will support the procurement organization's desire to look out beyond the horizon for that innovative solution. Individuals who have lived and traveled in the aforementioned

countries will make good candidates for service in the organization's procurement team, regardless of their formal educational background.

Expand the Depth of the Procurement Talent

Fourth, greater use of outsourcing, more strategic supplier relationships, and expanded sourcing into emerging markets are pushing the personnel skills of procurement to the limit. Faced with complex relationships and sophisticated contracts, procurement organizations often find that they lack the skills needed to manage supplier performance. Procurement departments are scrambling to build enhanced skills and knowledge and change old perspectives throughout the organization. Training staff to improve core procurement skills must be a top priority. In the area of skills building, we should consider communication (verbal and written), project management, technical skill (data mining, analytical, compiling statistics), leadership, financial acuity, business analytics, and value stream mapping. In the area of knowledge building, we should include the development of business strategies, supply markets, transaction-specific investments, and transaction cost economics. The training should be at an accelerated schedule—six to nine months, rather than 12 to 18 months—emphasizing a learning plan that covers professional as well as technical know-how.

Eighty percent of new jobs in the fastest growing industries in America in the twenty-first century will require employees with math and science skills. Many state governments are entering into collaborative programs with local colleges, universities, and corporate business leaders to ensure the right skills are being developed in global logistics, sourcing and procurement, and supply chain management. For example, the Board of Regents for the university system of Georgia, working in collaboration with Georgia Innovation for Logistics and Supply Chain (a non-profit, state-sponsored advocacy group), has initiated a program that brings together corporate America, universities, and technical institutes, along with governmental agencies, for the purpose of fostering awareness of the universal needs of logistics, operations, and supply-chain-trained professionals for Georgia and the greater Southeast.

Currently, the supply side for these skills is not providing adequate numbers to support the demand. A lobbying coalition that included General Electric and Google failed to get Congress to ease immigration limits in 2013 despite arguments that American companies can't find enough tech workers. Following domestic protests, financial hubs such as Singapore and the U.K. are making it harder for companies to hire foreigners. Policies to promote more immigration into the advanced economies are going to be a hard sell until unemployment rates drop. These trends have a direct impact on getting the talent needed for strategic sourcing and advancing economic prosperity through globalization.

It is good to consider using a blended approach of internal expertise as well as expert coaching from outside. Alaris Consulting is an implementation-focused supply chain management-consulting firm that provides consulting services in the areas of procurement, logistics, and manufacturing optimization. Let a third party such as Alaris develop a program to provide tailored education, training, and coaching for your staff and drive learning through a structured schedule.

The old paradigm, which viewed the “purchasing department” as a staging and training ground for up-and-coming management personnel, must now be reconsidered. The procurement department can no longer be seen as a reactive, internally focused service function: It must be a proactive, externally focused organization, and a strategic component of the organization that contributes to increased shareholder value. Transforming the procurement organization into a competitive advantage will depend on the organization’s success in winning the battle for talent. The talent pool is currently shallow and will remain so for many years. Businesses have to develop expertise among their existing staff. This transformation must be swift and with an appropriate level of resources to ensure success. Individuals who can orchestrate and design end-to-end networks, from the customer on back, based on channel consumption, should be responsible for moving the supply chain forward. Strategic sourcing is broad in scope. When critical and extensive activities are outsourced, such as complete sub-assemblies in the automotive industry or call centers in the service industry, an organization’s future depends on the success of the supply relationship. Outsourcing experts such as Cisco and Sun Microsystems recognize the need for strong management skills that surpass clerical purchasing skills. They employ commodity managers who are nontraditional, typically coming from non-procurement environments and often having general business or technical backgrounds.

Apple, on the other hand, is approaching the lack of supply chain talent by other means. Apple is ramping up its hiring of employees in Asia to speed the development and launch of products. The company is bringing on more supply chain managers in the wake of criticisms on workplace conditions at some of its suppliers (Foxconn). According to the *Wall Street Journal*, Apple is rumored to be wooing workers from rival HTC Corp. and other technology companies and has added hundreds of engineers and operations staff in China over the last two years, reaching a staff there that tops 600 people.²⁰

Talent recruitment is a recent development, specific to U.S. companies currently doing business in Mainland China. A shortage of qualified managers is the fastest-growing area of risk confronting the Chinese operations of U.S. companies, according to a recent survey.²¹ The concern has arisen even though many of the companies say they have been doing profitable business in China. One of the biggest factors in the managerial shortage is China’s air pollution.

The latest survey by the American Chamber of Commerce in China, released on March 19, 2014, shows that the proportion of companies reporting that air quality is an obstacle

to recruiting and retaining senior executives rose to nearly half.²² In its Business Climate Survey, 48 percent of the companies said that poor air quality is an obstacle to recruiting and retaining key personnel for their China operations. The lack of talent represented the most significant rise among all the risk factors in the survey. This leads to an inevitable growth in labor costs, which is not only a major risk to companies operations, but also to the competitiveness of China as a whole.²³

It would be unfair and unwise to throw the burden of supplying tomorrow's procurement and purchasing managers on the educators, colleges, and universities. The ball is now in the practitioners' court. It is up to the people who have built careers of their own in procurement to bring more and better managers into the profession.

Respond to Broader Business Goals; Drop the Buyer Mentality

Fifth, executive management must reposition procurement to identify and respond proactively to broader business goals. To break out of the buyer mindset, procurement organizations must be allowed and willing to focus on a bigger picture. Boeing's use of global alliance contractors is an example of such a strategy. Often the decision to outsource overseas is strategic, based on the company's aim to build business in a particular country or to influence a purchasing decision down the road. Procurement must understand its internal customers' needs and objectives. Corporate strategic goals and initiatives must be translated and have financial impact for the procurement organization. Procurement strategies must be linked and measured against business strategies and tempered with flexibility to adapt to changing economic, environmental, and competitive conditions. Misalignment between sourcing strategies and business needs leads to poor practices, such as maverick spot buying, causing companies to give up the value that procurement worked so hard to deliver. Becoming a business partner causes a mindset shift for procurement from price to value creation, products and services to solutions, and inputs to outcomes. Procurement organizations must serve as the agent for transforming buy-side potential into broad business value contributions.

To accomplish such a paradigm shift, procurement organizations must develop deeper relationship management techniques on the buy side and stronger customer service expertise on the sell side. These initiatives must become an integral part of the future procurement organization's model, and it must be developed quickly. Do the new measurement tools exist currently? If not, they must also be designed. Comprehensive, balanced scorecards are still the exception. Performance measures are heavily weighted toward traditional external results—price, quality, paperwork accuracy, and delivery attributes. How internal customers are being served is largely ignored. Procurement departments have to balance both. They must identify efficiency (largely internal) and downstream effectiveness (largely external) measures that are crucial to their constituency, putting systems in place to track results on a real-time basis.

Procurement organizations must become more strategic over time. The buy-side strategy brings significant opportunities to keep their businesses favorably positioned in today's intensely competitive global marketplace. The winning procurement organization will transform buyers into business partners, integrate suppliers deeper inside their operations, leverage low-cost sourcing options regardless of where they are found, win the ongoing struggle for talent, and take on a broader business focus highlighting value, solutions, and outcomes rather than price, products, and inputs.

The Strategic Sourcing Decision: The Best Value Chain Wins

Managing suppliers in today's highly networked environment is a greater challenge today than in the past. Most companies are outsourcing more of their work, making them more reliant on their suppliers, while also creating more difficult problems with integration. The role of the procurement function in most companies has evolved significantly and, as a result, requires far more participation by senior management. Leadership at the executive level is critical to managing supplier relationships. Ryerson's executive management annually engages in establishing tactical plans for its top strategic sourcing accounts with its procurement group. Executive leadership must signal the importance of the procurement function to the organization. They must act as advocates for the function, be involved in establishing the appropriate supply chain structure, and proactively participate in the design of the supplier management process, thereby ensuring stability, quality, and effectiveness for the whole organization's benefit.

Supplier management also requires management control by way of a strong procurement team, information technology support, and performance measurement. As companies have reduced the number of suppliers they engage and have placed greater responsibility on the remaining suppliers, the status of procurement organizations has changed significantly. Procurement organizations must be able to think strategically when assessing suppliers, develop strong supplier relationships, negotiate contracts and alignment incentive plans, and integrate the supplier base deeper into the company. The active management of the procurement organization, along with the strategic sourcing model that best fits the strategy for the chosen market position, will go a long way in developing the most effective and efficient supply network for the organization.²⁴

Notes

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