Supplier Management for the 21st Century

Topics & Flow

Intro to Michel and his experience

Hello Alex. Thank you for welcoming me to your Visionary Serie. Let me introduce myself briefly for your audience. I'm Belgian, French speaking, as you can hear. I started my career as an engineer in the aerospace industry, working in Oklahoma. Soon I added an MBA, from Kellogg. Already at that time, I was attracted to the culture of the school, emphasizing team work rather than individual performance.

After Kellogg, I joined the consulting firm Booz Allen & Hamilton, in their Chicago office. My first mission was in purchasing, a relatively unknown topic at the end of the 80's. I contributed to a "Viewpoint" on the topic, which got me labelled as an "expert" in the field. The bar was not too high at that time.

So, naturally, when PepsiCo's Frito-Lay hired me a few years later, I moved to a strategic purchasing responsibility, to build the international purchasing organization and structure our alliances with the main US suppliers of key ingredients to benefit from their expertise in Europe, Asia, and Latin American. It is at that time that I discovered the power of collaboration to deliver competitive advantages and barriers to entry, when the focus in purchasing at many other firms was more around applying maximum pressure to suppliers to reduce costs. This does not mean that we were not interested by costs reduction, but we wanted them to come from true productivity improvement, working closely with suppliers to chase wastes, rather than force them to cut corners to meet relentless pressure for productivity.

After 6 years with PepsiCo, I returned to consulting, with McKinsey in Switzerland, as a Purchasing expert. I tried to develop my first model linking purchasing to value creation, what I called the "Supplier Contribution Matrix", and drafted a paper around that topic. But I moved on and joined Scott as Head of Purchasing Europe, where I tried to apply some of the tricks I learned at Frito-Lay, giving some slack on suppliers on pricing in exchange of exclusivity for key ingredients, to give our sales teams a strengthened negotiation position, unchallenged by copycat store brands. The pressure on cost reduction from the top was too strong for those approaches to be appreciated.

After Scotts, I moved to GlaxoSmithKline, as Head of Purchasing for the vaccine division, based in Belgium. I also began discussing with University of Louvain, nearby, about sharing my expertise. They asked me to contribute to a book in one of their collection. I wrote the first two sections of "Collaborative Sourcing", developing a strategic framework around my experience as a purchasing leader. This book opened new opportunities for teaching, at a prestigious business school, HEC in Paris.

I returned to consulting, working in human capital development (training and assessment), and kept working with the top business schools in France. But for some of the professors leading the programs, my stories lacked the rigor of academic research. Eager to prove their validity, I registered for a doctoral program at University of Paris Dauphine. I obtained my DBA "on publications" in 2016, which opened the doors of EDHEC, that I joined the following year as Full Professor in the strategy department, focusing on supply strategies. I'm teaching about the strategic implications of operational decisions and use the intangible asset analogy to help them understand how to build competitive advantages with their supply network. In September, I will become the director of the largest Master program of the School, in Strategy Consulting and Digital Transformation.

Recap on SRM in the past 30 years

Lets now rewind and go back to the end of the last century when the idea of collaboration emerged. We cannot do that without providing a bit of history about the purchasing function. Initially, purchasing was about administration and procedures, making sure that goods were available in due time to feed production lines. Outside production, it was non-existent. When global trade became the norm, Western firms, under cost pressure from Far East competitors, began to use purchasing as a tool to close the cost gap, pushing local suppliers to align to low cost countries prices, typically by forcing them to setup operations in those countries. The SRM concept was viewed as a strong oversight of suppliers, forcing them to open their doors and their books to constrain them to lower their margin to the lowest possible level. The idea of collaboration, to develop "win-win" relations was a good communication buzz word, but hardly a practice in the rank and file purchasing organizations. The norm was to apply pressure by consolidation and standardization to force the suppliers to lower their price. This approach had been proposed by Michael Porter in the early 80's when the 90's executives were obtaining their MBA. The concept of SRM, and the culture of purchasing was much more combative than collaborative.

But in the 90's a few observers noticed the difference between standard practices in the West and those of Japanese manufacturers, primarily Toyota. The notion of "extended enterprise" also emerged. But this was considered as an academic curiosity rather than an example for the business world. Few noticed that in 1996, the same Michael Porter wrote in the Harvard Business Review that all the strategies developed to increase the efficiency of supply chains delivered lower costs but that did not result in higher benefits for the firms that had implemented them. As all competitors were using the same approaches, hiring the same consultants and recruiting the same managers, their strategies led to a commoditization of their own offer, with only one argument, price, to secure their own sales, so they were not able to retain their margin. A handful of companies, like Toyota, but also Frito-Lay had adopted the extended enterprise concept, defined as a system composed of a client and its suppliers who strongly collaborate in order to maximize the benefits of each partner. For Frito-Lay, all the functions had to focus on beating the competition, rather than looking at the rear-view mirror to improve on historical basis. Indeed, what good does a 3% cost improvement do if the competitors obtain the same, sourcing from the same suppliers, and if our own sales price follows the same trend. This is perfectly illustrated by the PC industry. Their sourcing teams delivered continuous price reductions, but none was able to deliver significant "rent" to use the language of economists, except for Apple, because Apple has pricing power as it does not have to fend off competitors like the other PC makers. At Frito-Lay International, in 1995, the objective of purchasing was "to leverage Purchasing as a significant source of Sustainable Cost Advantage and Proprietary Barrier to Entry, whilst delivering 100 % Consumer preferred specifications to every plant, every day". You see that the focus is on deliver a cost advantage rather than a cost reduction, and to deliver it in a proprietary way to prevent competitor's imitation. Traditional approaches, relying on standardization and volume driven efficiency gain force suppliers to consolidate and increase volume by selling the same solution to all.

The valorisation of purchasing from a competitive point of view emerged at the beginning of this century, with a British academic, John Ramsay, who stated that purchasing was driving itself to strategic irrelevance. The business visibility was limited, like with most academic work. Another scholar, John Henke, in Michigan, created more impact by publishing his annual "Working Relation Index" in the US automotive industry. Every year, new data confirmed on a very factual basis that the Japanese automotive firms established in the USA had a much better relationship with their suppliers than their American counterparts. John Henke also showed that this was driving the R&D budget allocation of the suppliers on projects for their American or Japanese clients, for instance.

After the crisis of 2008, which drove GM to bankruptcy, the American began to see the benefits of this collaborative approach. The gap in WRI performance for Japanese and American automotive OEM narrowed significantly. The merits of a more balanced collaboration were making inroads in the purchasing culture. Progressively the objectives assigned to the purchasing department included more than “Cost Quality and Service” to consider more intangible assets. But old reflexes remain. Surveys of the objectives assigned to purchasing department are still showing “cost reduction” as the primary objective.

Another challenge is to change the perception of value creation. This is the purchasing dilemma: how to balance initiatives that appear to deliver value, transactional, focusing on price indexes but that rarely improve firm’s benefits in the long term, versus competitive moves that have potential to create sustainable advantages, but will not deliver a result easily assignable to the purchasing department, and that will only trickle slowly to the bottom line as products need to be developed and market positions built before the full scale of the benefits appear clearly to all.

View of Procurement on SRM

Today, many firms have adopted sound SRM practices, although there is a constant battle between the strategic perspective with a long-term vision and the financial perspective focusing on quarterly improvements. Even in firms that are known for sound relations with their suppliers does the pressure for short term impact at the expense of long-term effectiveness often prevails. Purchasing is not to blame, but rather the other functions that have failed to understand the true value of a soundly managed supplier network, and not only in time of crisis like the one we are seeing now. I met purchasing managers explaining to me that the financial department was asking them to extract payment term concessions from suppliers even if their cost of capital was significantly lower than their supplier’s. In other interviews, purchasing leaders were telling me how they had to mediate between marketing teams or construction project leaders who had overspend their budgets on projects and wanted purchasing to solve “magically” the problem by negotiating additional concessions from suppliers.

The is also a perception that SRM should focus on suppliers deemed strategic? SRM can be applied to help a supplier target its development efforts on the priorities of a client, creating a better alignment and strengthening the relation between the two parties.

- Without entering in a debate on what is a strategic supplier, a loose definition with many variations according to corporate culture, we can say that more SRM efforts will apply on suppliers that contribute to the competitive differentiation of the firm’s offer. We can label this “strategic SRM”, that will have primarily a long-term impact on the bottom line.
- SRM can bring benefits to the relation with a much broader set of suppliers. Any relation creates somewhat hidden cost, either on the vendor side or on its client. SRM allows for an intelligent approach to addressing those hidden costs associated with administration, production lot size, shipping, and many other points deemed tactical. This is the sound “tactical SRM”. Tactical does not mean of lower priority. Nimble, creative companies that excel at this level of SRM can create sustainable advantages as they seize faster and better opportunities to improve they extended enterprise incrementally and stay ahead of their competitors. This can have a short term impact on the bottom line.
- Finally, SRM can be of great help to solve burning issues like quality problems or cash flow crises. While blaming the supplier can be cultural in some organizations, switching suppliers also represent hidden costs. SRM can be used to solve a supplier issue with resources from

its client. This is the “firefighting SRM” to help a supplier solve critical issues, adapt instead of perish.

SRM Today

As we have seen, SRM allows the firm to meet a broad set of objectives. What we have not discussed yet are the resources necessary to deliver on the objectives of SRM.

- Infrastructure resources: this is the lubricant of SRM. Good SRM needs transparency. It also needs insights. Initially SRM infrastructures were enhancing communication, providing a common vision of the network, the projects, etc.
- Human resources: entry level staff and corporate leaders must master technical skills associated to their function and possess a superior level of organizational intelligence to deliver on initiatives that change habits, break rigidities, go again deeply entrenched reflexes.

Developing those resources is essential to deliver results that can capture the potential of the intangible value of suppliers and fend off the intangible risks associated with complex, segmented long supply chains. It can only happen with a clear mandate from the CEO and the C-Suite. Otherwise, internal divergences between functional objectives, risk aversion to experimentation, or to a more open attitude towards supplier will reduce the impact of SRM to only its most basic potential.

Future of SRM

Procurement leaders, and corporate leaders, the two must be aligned, need to understand the change in paradigm that the information age brings upon us: the move to a firm centric business model to a platform centric one. Successful corporations will more and more rely on collaborations outside their core assets, their core expertise. So, projects across firm boundaries will become the norm. This will require changes in the way infrastructures are managed, from monolithic firm systems to independently managed, cloud based, polymorphic systems that can be tailored to answer the specific requirements of projects that can take many shapes.

It will also require a change in the governance and the culture. Governance will include policies and objectives, monitoring and feedback, understanding of diverging interest and mechanism to reconciliate them, clarification of roles and responsibilities for initiative success and long-term sustainability and transparency of deployment and accountability. The traditional governance of forms is pyramidal, with the interests of the shareholders at the top, and the internal constituencies, such as labour at the bottom. The platform governance differs significantly as it is linking communities without the traditional capitalistic allegiances of traditional corporations. Corporate culture, shared and promoted within the firm’s environment, includes the beliefs, norms and values widely shared and strongly held in the organization. It will condition the way stakeholders interact to cope with problems of external adaptation and internal integration.

Implementing extended enterprise and platform linked networks management tools require significant efforts. Many digital change initiatives, loosely coordinated, insufficiently considering the governance and culture change will fail to deliver on all their promises. Successful transition relies on a step by step approach.