The Future of Purchasing – Responding to the Drivers of Change

By Peter Laurence, Research Director - EIPM

15 years
1991–2006

The EIPM 11th Annual Purchasing Conference
7th – 8th December, Archamps
Purchasing and Supply Chain Management – setting the scene

• Purchasing & Supply and Supply Chain Management are inextricably linked

• The drivers which impact on the value chain will demand similar responses from the Purchasing and Supply Chain communities

• There is an inexorable convergence between Purchasing and Supply Chain worlds
The Future of Purchasing & SCM – Responding to the Drivers of Change

• The Drivers of Change
• The Future of Supply Chain: The Supply Chain of the Future
• Maturity Models: A Roadmap Towards Excellence
• The Future of Purchasing and Supply Chain Management: The way ahead
The Future of Purchasing & SCM – Responding to the Drivers of Change

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Global forces are shaping a radically different competitive environment

... and the frontiers of competition are changing at an ever increasing rate

Competitive Pressures in the Supply Chain

- Ever more demanding customers and consumers
- Changing market boundaries and new channels
- Aggressive global competition
- Industry consolidation and alliances
- Environmental and risk issues
- Stakeholder pressures
- Shortening product life cycles
- Speed of technology change

Hypercompetition + Globalisation

Serving localised customer needs through longer, more complex supply lines
A new customer is emerging …

Customers want buying to be
– easier
– faster
– cheaper
– more fun
… real value

These trends are forced up through the value chain

Source: Prof. Alan Waller
Business are focusing on core competence

Businesses are responding by focusing on core competencies and outsourcing non-core activity creating networked organisations

Driving the need for collaborative processes and technologies

Source: Chatham House Forum
Speed of change - fuelled by technology

All areas of business are challenged

Source: Prof. Alan Waller
Disruptive Change – NOT JUST Technology

The Law of Disruption

Change

Technology Change

Social Change

Business Change

Political Change

Year 2000

Time

Source: Downes and Mui
The 21st century value chain . . .

Retailers
- Global
- Seek solutions
- Increase range

Manufacturers
- Focus on core
- Network/outsourcing
- Agility
- Collaboration
- Mass customisation
- Process driven

Consumers
- Ever more demanding
- Pro-active
- Interactive

Systems
- ERP
- Bolt-ons/APS
- Process driven

Technology
- New channels
- New business
- Low cost

Source: Prof. Alan Waller
New mindsets and management behaviours are required

Key Management Behaviours

- Total Commitment to Customer Service
- End-to-End Supply Chain Mentality
- Anticipate End Customer and Manage Demand Proactively
- Focus on Performance of Extended Enterprise
- Switch from a Stock Push to a Demand Pull Philosophy
- Management of Partnerships

For many this is a major shift away from today’s functional ways of working
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COUNCIL PROGRAMME INITIATED IN 2005:
‘The Future of Supply Chain – The Supply Chain of the Future’

Process

• Topic survey of Council Members to produce a list of drivers of change and key issues
• Discussion of each driver/issue and rationalisation down to 12 major drivers that shape the future needs
• Prioritisation of these top 12 drivers by discussion and debate
• Development of potential supply chain responses to these drivers
• Prioritisation of these responses to create a future Council Programme
# The Future of the Supply Chain – The Key Drivers

<table>
<thead>
<tr>
<th>Driver</th>
<th>Final Ranking</th>
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<tbody>
<tr>
<td>Organisation and people issues</td>
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<td>Corporate and social responsibility</td>
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Source: European Council on Global Supply Chain – 02 June 2005
### The Future of the Supply Chain – The Responses

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<tr>
<th>Driver</th>
<th>Description</th>
<th>Jun 05 Drivers</th>
<th>Oct 05 People</th>
<th>Feb 06 Agility</th>
<th>Jun 06 Business</th>
<th>Oct 06 Innovation</th>
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The Supply Chain of the Future – Organisation and people

The Future of Supply Chain-The Supply Chain of the Future “Organising for Supply Chain” by Denis O’Sullivan, Alan Waller and Peter Laurence

- There is a clear gap between S.C. professionals and HR regarding the needs of the supply chain
- Lack of board level assurance that the supply chain is leveraged for business performance with right processes, KPIs and skill sets
- Business schools are not yet appreciating the growing need for supply chain professionals
- Process management which integrates across functions is not well understood and practiced
- The supply chain manager of the future must have a balance of business breadth and functional depth
The Supply Chain of the Future – Agility

- The agile organisation is best suited to address many of the challenges of the supply chain of the future
  - Responsiveness, customer focus, hypercompetitivity
- Lean thinking and agility are not mutually exclusive programmes.
- The customer order decoupling point, separating market pull from supply push, is a key enabler of agility
- Postponement of the customisation decision will deliver fast market response in a lean environment
- Roadmap to agility is a valuable output from the February meeting
# The Supply Chain of the Future – Roadmap to agility

**Characteristics**
- Enterprise facing erosions of margins
- Stagnation or low growth environment
- Facing external shock or pressure
- Segmented view of markets and customers
- Customer value perspective in the design of offering – products, services, solutions
- Shared agenda for change

**Prerequisites**
- Enterprise realisation of state
- Will to act
- Ability to break down silos
- Recognition of the total network scope
- Decide the road to take can be “evolution or revolution”
- Define route to market channels
- Quantify size of opportunity
- Testing & validation
- Objectives translated into concrete business goals (profit, cost)
- Form between efficiency & effectiveness
- Correct balance between push & pull techniques in channel

**Capabilities**
- Strong forensics
- Relevant diagnostic tools
- Recognition of the “art of the possible”
- Able to align agility principles to enterprise strategic vision
- Consumer (customer) insight
- Development of modularisation options
- Assessment of decoupling options
- Configuration of the channel
- Customer feedback loops
- Forecast for capacity, execute against demand principle
- Postponement capability – inventory held in generic forms
- 6 sigma accuracy in execution – mutual dependency

**Enablers**
- Opening of minds
- Relevant measures to size the opportunity
- Ability to challenge and gain release from legacy network constraints
- Data visibility & alignment
- Platform standards
- Management focus across extended supply chain
- Standard data & metrics with trading partners
- Granularity of data
- Insight at unique item, customer, event level
- Mature contracting relationships
- Equitable risk & reward share

**Potential Barriers**
- Lack of credible business case
- Arrogance & satisfaction with status quo
- No culture of innovation
- One size fits all mentality
- Initiative fatigue
- Too much emphasis on technology components
- Adversarial trading stance
- Appropriate people & relationship skills

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**Scope**
- Enterprise level
- Network level
- Value Chain

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**EXAMPLE**
- Agility embedded into business as usual processes
- Agile management structures
- Emotional intelligence about consumer behaviour
- Principles of CSR embedded within all trading partners
- Development focused on what the consumer values & willing to pay for
- Avoid complacency – what’s next mindset
- Capacity & investment choices being made on total value chain revenue & profit potential
- Shared learning culture
- Mature collaboration relationships
The Supply Chain of the Future – The wider business impact

- Business benefits linked back to the value drivers (revenue growth, cost containment, FA utilisation and WC reduction)
- Top line growth strongly influenced by the supply chain
  - Strategic selection and management of channels to market
  - Understanding and steering the pricing models
  - Securing customer loyalty
  - The product may benefit from a complementary service bundle
- Savings from the elimination of waste converted into opportunities
- Fixed asset utilisation and working capital reduction retain their place as important improvement opportunities
- Tax and treasury management remain underexploited
The Supply Chain of the Future – Developing themes

- The role of innovation within and around the supply chain
  - Product lifecycle management to optimise the return on the product portfolio
  - The role of supply chain in New Product Introduction

- The mechanics of hypercompetition and the impact on the supply chain

- Does technology offer new opportunities to drive value into the business?

- Is the supply chain exploiting the possibilities for off-shoring, outsourcing and global sourcing?

- Should we be concerned with risk and the resilience of our supply chains to unpredictable and catastrophic events?
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Delivering Superior Customer Value is a Well Established Strategic Goal

Evolution through stages of strategic management

<table>
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<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
<th>Stage 5</th>
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</thead>
<tbody>
<tr>
<td>Basic financial planning</td>
<td>Forecast-based planning</td>
<td>Externally oriented planning</td>
<td>Strategic management</td>
<td>Knowledge access and execution</td>
</tr>
<tr>
<td>Concept of strategy</td>
<td>Better price on the next buy</td>
<td>Maintain favorable price/cost variance</td>
<td>Support line of business</td>
<td>Entrepreneurial team member</td>
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<td>Leverage supplier value offering to customer</td>
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Adapted: Cavinato 1998, Fitting Purchasing to the five stages of strategic management
With Full Value Chain Integration as the Ultimate Goal

Evolution through effectiveness

- **FUNCTIONAL FOCUS**
  - Transactional orientation: ‘Serve the factory’
  - Commercial orientation: ‘Reduce cost’
  - Purchasing coordination: ‘Savings thru synergy’
  - Internal integration: ‘Total cost of Ownership’
  - External integration: ‘Supply Chain Optimisation’

- **CROSS FUNCTIONAL FOCUS**
  - Value chain integration: ‘Total Customer Satisfaction’

Adapted: Van Weele 2002
Delivered through Strategic Purchasing and Supplier Relationship Management

Value Creation

FUNCTIONAL FOCUS

CROSS FUNCTIONAL FOCUS

Focus

Activities

Value chain integration

‘Total Customer Satisfaction’

• Customer driven activities
• Joint develop. Integration of supplier’s tech.
• Global supplier network integration

External integration

‘Supply Chain Optimisation’

• Outsourcing
• Co-development
• Shared cost models
• Supplier development
• SC optimisation

Internal integration

‘Total cost of Ownership’

• Cross funct. buying teams
• Systems integration
• Vendor rating
• Perf. based contr.

Purchasing coordination

‘Savings thru synergy’

• Volume consolidation
• Contracting
• Global sourcing

Commercial orientation

‘Reduce price’

• Commercial
• Tendering
• Negotiating
• Approved supplier lists

Transactional orientation

‘Serve the factory’

• Clerical
• Order processing

Time

Adapted: Van Weele 2002
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Towards Synchronisation of the Overall Value Stream

Supply Chain Management is no longer just about functional excellence or process re-design..... leaders are moving to a new tier of value stream performance.

Source: Solving International
The Demand Driven Supply Net Capability Model

A directional point of view endorsed by AMR Research

Supply Chain Coordination

Supply Chain Integration

Supply Chain Optimization

Orchestrate

Multi-tier federation

Collaborate

Company level efficiency

Anticipate

Single tier partnering

React

Department level optimization
The European Foundation for Quality Management Maturity Model

The collaboration between EFQM and EIPM on the Management of External Resources will be explained in this conference.
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There will be a convergence between Purchasing and Supply Chain Management – with operational purchasing integrated tightly into product flow
Business Excellence will be about Building Value from an Efficient Platform

- Revenue
- Cost
- Fixed Assets
- Working Capital
- Fiscal

Handles for Agility
- Volume
- Channel management
- Brand build
- Price
- Service bundle
- Emotional Intelligence
- Loyalty
- Customer Intimacy

SCE excellence (warehousing / distribution)
- Waste reduction
- Operational effectiveness
- Purchasing TCO focus
- Utilisation
- Market capacity
- Contract manufacturing (inc cost impact)
- Network strategy
- Relationships / trust to build confidence
- Cycle time
- Tax efficiency
- Treasury planning / hedging
Purchasing and Supply Chain of the Future – The way ahead

- Purchasing and supply chain of the future will pull the best from the lean and agile worlds
- Technology will continue to open up opportunities, but we need the management skills to obtain maximum leverage
- The future will take us ever closer to the virtual organisation, linking off-shoring and outsourcing through effective collaboration
- Risk management and supply chain resilience will be a major preoccupation for the business manager
- Change is inevitable. We must embrace change and turn it to advantage; purchasing integration with supply chain will play a pivotal role in future business strategy
Thank you for your attention

To continue the discussion, please contact

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