

The Agony of a Supply Chain Manager

Summary

Supply chain managers face a variety of pressures from individuals and groups within their organizations. To be successful, they must achieve the goals set forth by the executive team without overlooking the needs of the engineering and manufacturing departments. They must reevaluate current processes and garner support from individuals throughout the organization in order to effectively change the processes that don't work. It is no wonder that many supply chain initiatives never get off the ground. In order to succeed, supply chain managers must be aware of the challenges that lie ahead and be armed with the tools to overcome them. This paper identifies some of the underlying issues that contribute to the failure of supply chain initiatives and provides the keys to success in managing the supply chain.

The Scenario

You have been promoted to supply chain manager. The CEO has taken the time to explain how vital it is to rationalize the procurement practices of the company and you are expected to work with all of the divisions to leverage the company's buying power across commodities. After several months you realize that there is a small problem that nobody mentioned. The divisions like their autonomy and have very little interest in cooperating with you. The only items anyone expressed an interest in buying together are the indirect materials. Seizing this opportunity, you spend the next three months coordinating a company-wide negotiation for corrugated cardboard packaging. Everything seems to go well until the boxes start to arrive at the various divisions and a third of them are incorrectly sized. Rather than fix the problem, the divisions immediately revert back to their old vendors. Once again the company has 12 different suppliers and you are back to square one. This process repeats itself several more times, until one of the General Managers complains that the corporate supply chain people have caused him to miss a shipment, which effected his revenues for the month. Your CEO decides that there are other battles to fight. A difficult job just became impossible.

Reasons for Failure

- ✓ *Divisions like their autonomy*
- ✓ *Incumbent suppliers provide a certain degree of comfort.*
- ✓ *Corporate pressures can alter objectives.*
- ✓ *Nobody likes to be told how to do their job, especially from headquarters.*

Why Divisions Do Not Cooperate

There are a number of reasons that procurement people have little interest in coordinating their spending with other divisions.

Divisional Goals Come First

The issues that are important to the CFO at headquarters tend to be pretty far removed from the day-to-day issues at the divisional level, where most purchasing decisions are made. Buyers are constantly responding to a variety of pressures from the manufacturing or engineering department and these pressures have a more direct impact on the buyer's decisions. Furthermore, suppliers are selected based on the buyer's personal knowledge and relationships. The primary goal is to avoid shortages, not necessarily lower material costs. The rationale for this behavior is that buyers believe that they will be in a better position to respond to problems if they have a personal relationship with their suppliers.

This cycle of pressure and procurement is a far more compelling call-to-action than a set of corporate goals related to saving money for the entire company. In fact, most divisions believe this effort is more likely to benefit other divisions within the company that are weaker at purchasing than they are.

The Challenge of Out Negotiating Corporate Agreements

One of the most ironic outcomes of many corporate led supply chain initiatives is that they inadvertently set up competition between the company as a whole and the divisional procurement people. Procurement professionals view themselves as excellent negotiators and therefore assume they are getting excellent prices from suppliers. When a supply chain initiative results in a new corporate pricing contract, buyers don't say thanks for the help, they view it as the start of the procurement Olympics and immediately begin trying to get better pricing on the same commodity.

We Hate People Who Think They Are Smarter Than Us.

There is nothing worse than doing the hard work of manufacturing a product, only to have people in suits from corporate headquarters telling you how to do your job. Supply Chain Managers are frequently the object of scorn. Buyers feel they lack the expertise in their commodities, do not fully understand their business requirements, and are looking to make a quick cost reduction score while leaving the divisional procurement team holding the bag dealing with low quality suppliers.

Getting People to Agree is Hard.

The most common objective of a corporate supply chain initiative is to lower costs by aggregating demand across divisions. This requires divisions to agree not only on requirements, but also on the suppliers that are best suited to meet those requirements. Getting 6 or 8 people, with different needs and opinions, to concur is nearly impossible. Furthermore, trying to manage this process and ensure meaningful outcomes in the face of day-to-day pressures can be extremely costly and time consuming.

Success in Supply Chain Management

The key to success in Supply Chain Management is to understand the real objective. No matter what they said at the interview, the goal is to create value. If aggregation has limited application, identify another area that will have broad, lasting effects and focus your efforts there. The role of Supply Chain Management should be focused on improving the **process of procurement**. The goal should be to develop processes that are objective, easy to follow,

visible, and measurable. Try to avoid large sweeping programs, but rather start with simple steps that will generate results in less than 6-months. This will lay the foundation on which you can build support for your activities.

Avoid Interfering with Divisional Decision Making

People like their autonomy so don't start out by taking that away. Pilot your ideas with one division and let the procurement people experiment with the new techniques. Avoid making all-encompassing statements about the goals of the new corporate initiative. Work quietly and build on small successes. This approach has several advantages; it will reduce fear, build a strong base of support, and allow you to have the divisional staffs take ownership of the new procurement practices. As the corporate Supply Chain Manager you may not always receive the recognition for doing the small things that lead to success, but over time the results will be your best validation.

Get a Budget

Today's management degree dujour, is that headquarters pays for nothing. Do not accept this position. Get a budget that will allow you to introduce software and services that support the processes you are trying to implement. Without the ability to fund an initiative, you will frequently find yourself at a roadblock. The divisions will use budget constraints as an excuse not to change. Frequently divisions like to spend their money on programs that generate new sales. New product development, marketing campaigns, and larger sales forces tend to take a higher priority in the allocation process than supply chain initiatives. By having your own budget, you can get divisions to experience the benefits of improved procurement practices and tools, without having to try to change their budgeting priorities.

Engage, Engage, Engage.

The most difficult part of the job is getting people engaged in the process you are promoting. Do not rely on logic, corporate mandates, or your title to get people on board. Just like a politician, you have to win one convert at a time. Show them how it makes their job easier, get them recognition for taking a risk, solicit their inputs outside of a meeting room and constantly follow-up. One or two engaged procurement people per division can be enough to trigger the adoption of a new process. There is no more painful and important goal when introducing change to an organization. Most of us lack the patience and the humility needed to gain robust adoption.

Beware of Software

People love buying software. It is the corporate equivalent of diet books in that it promises to transform your organization, yet routinely falls far short of the goal. No group has bought into this mythology with greater zeal than the procurement organization. Software has a place, but do not let it distract you from the goal of developing a rational process. Once you establish a process, you can support it with people and software. Failing to define the process, investing too little in people, or selecting the wrong software all lead to the same disappointing result.

Supply Chain Survival Tips

1. Focus on developing processes that compliment divisional autonomy.
2. Act as a facilitator. Utilize divisional resources to lead initiatives.
3. Get a budget to implement the necessary tools and services needed to support your programs.
4. Implement small changes that produce short-term results to build momentum.
5. Do not allow success to be solely based on savings achieved through spend aggregation. Manage expectations religiously.
6. Spend substantial time communicating and visiting with operating divisions to win key converts within the procurement groups.
7. Constantly follow-up on implementation issues.