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Development in Supply Chain Management

Turning Buyers into Supply Chain Managers



1 Are your staff fit enough?

»No man has ever achieved anything useful without trying to achieve something extraordinary.«

Marie von Ebner-Eschenbach

Ho ho ho, merry Christmas

Do you remember Christmas 2008? Forget about the ›most peaceful time of the year‹. It has never really been like that anyway, but that year it was particularly bad.

On the first day of the Advent season, GM, Chrysler and Ford sent out the festive announcement that they were practically bankrupt and that German banks would need over 30 billion euro from tax payers; car manufacturers quickly announced a series of reduced working hour jobs – and the telephones rang off the hook in the executive education offices of the Supply Chain Management Institute at the European Business School. Our 350 researchers, trainers, coaches, academics, and academic workers had no more time to spend with their families; no tree-trimming, no visits to Christmas markets, not to mention buying presents. The global financial crisis was born.

And because there was a crisis, all the executive board members, managing directors, and human resource managers wanted to spend as much money as possible before Christmas. Some even arranged training sessions for the 23rd of December. The rather questionable choice of a training date notwithstanding: Should managers in a financial crisis not be trying to save money? Not in this crisis.

The good thing about this crisis was and is that many board members and top executives have finally recognized the nature of the interdependencies in their

networks: when the economy is networked to an unprecedented extent in which the fall of a butterfly in New York (for example Lehman Brothers) can trigger a hurricane in Europe, the survival of a company depends on how professionally the interdependencies and complexities of the company's networks can be managed. This realization hit many board members in this crisis like a bolt from the blue. So they booked training programs in an amount never witnessed before in the quiet days before Christmas only to serve one purpose: getting their teams fit for network management. But why had they been waiting for so long?

Future skills

Every year companies all over the world spend billions on training, management development, and the development of personnel and organization (PD and OD). There ought to be *some* results! Obviously not. At least none that could have prevented the current crisis – or the next one, for that matter! Don't get me wrong: After the CNC-lathe course, the CNC lathe operator can operate the CNC-lathe better. But isn't it alarming that the ›Consumer Products‹ divisional manager at a certain German conglomerate still cannot manage to correct his global strategic direction enough to reduce critical incidences in his network to a less dangerous amount, even after taking part in the last module of General Management Training? This is really incredible!

**The dominant
modus operandi
in management
training is the
root cause of the
skills gap.**

How can we invest such exorbitant amounts of time and money in skills training to produce just as exorbitant skills gaps? By missing the train and taking the next one. Managers like the one at the German conglomerate have recognized in the midst of the raging crisis that they urgently need to manage their networks better. So they book training courses to bridge these skills gaps. They are booking training courses *now*. But by the time these courses have been set up, carried out, and show results the crisis has already passed – *this* crisis. Then we find ourselves in the next crisis which brings up a new glaring skills deficit, and the manager again tries to

catch up with it but fails because he missed the train again.

This makes it easy to formulate this clear imperative: Do not train today what you needed yesterday. Train today what you will need tomorrow.

What will you need tomorrow? Who knows? No one can predict the future! Let's reword it: No *single* person can reliably predict the future. A single person normally has neither the required ability to forecast nor the corresponding statistical methodology. Academic research like the one by McKinsey, for example, or the QUEST Study are evidence of these deficits. Both studies dive into the depths of training gaps. Both ask two key questions: What is being trained today? And what should be trained instead?

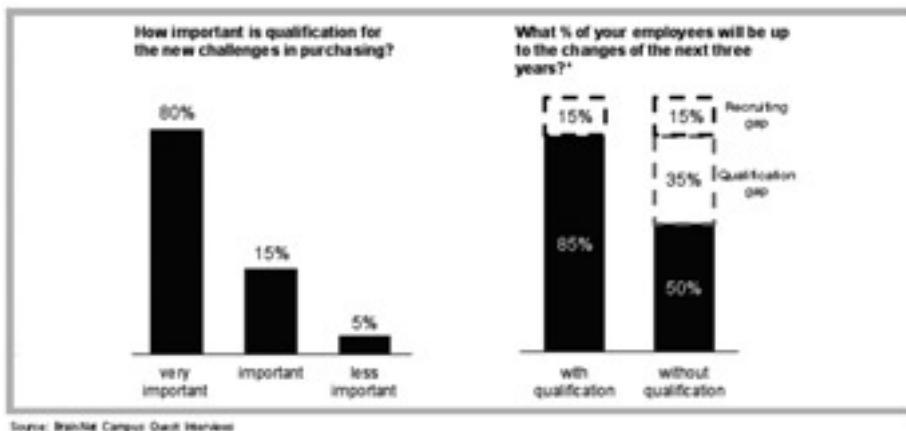


Figure 1: Qualification is considered to be an essential key for coping with future procurement challenges

The black swan of the future

In both of the aforementioned studies the people concerned were being interviewed: board members, HR Directors, Chief Procurement Officers (CPO) and HR experts. The result is a catalog of future-oriented topics and competencies which should be trained *today* because they will be needed tomorrow, for example:

- Value-based management: What qualitative (ethical and moral) and quantitative (ROI, ROCE, et cetera) values will ensure the long-term and sustainable existence and success of our company? How can we expand and strengthen these values in the best possible way?
- Optimization of cross-functional efficiency: The individual functions have already been optimized for the most part – the expensive and damaging inefficiencies arise today in the functional interfaces.
- Improvement or at least the professional implementation of global supply network management.

Concerning the last point: If we ask ten divisional managers and heads of department in a company what makes up their company's supply chain, we will get twelve different answers. In the past it was said: You can't manage what you can't measure. Now some board members are wondering: How can we manage what we are obviously not even able to *agree* about? The more important question is: What actual skills are necessary to manage networks professionally? The previously mentioned studies both provide reliable information on exactly this point. They describe what companies need today in order to keep fit for tomorrow. The first of these skills is rather obvious:

- *Future competence: The most reliable anticipation of future developments.* The fact that crises hit us so hard does not necessarily have to do with the harshness of the crises themselves. It is more that the really harsh crises are constantly catching us off guard. But haven't we been able to adapt ourselves successfully to every critical market development thanks to our flexibility? Isn't that the principle of evolution? First the markets and environments change, then we adapt ourselves to the changes.

The only problem is: Would adaptation have helped Lehman Brothers? No. Lehman and many other banks and companies around the world were nothing more than victims of this strategy. The environment and markets stopped changing linearly a long time ago. They are no longer satisfied with the occasional structural shake-up and show what US researcher and bestselling author Nicholas Taleb (*Fooled by Randomness*) calls ›Black Swans‹: completely ›unpredictable‹ developments. Anyone still gambling on adapting to the unpredictable is backing the wrong horse. Adaptation is out, anticipation is in. It's the secret of every good striker: to be where the ball is going to be in a few seconds. It's a skill, and it can be trained. Assuming, of course, you bring in a second one:

The principle of adaptation does not work any more.

- *The ability to think in terms of supply chains.* Of course, we have our supply chains and we are *acting* within them. We are just not *thinking* in terms of a chain of supply. For example, when a chip factory in Asia is hit by a Tsunami, the buyer of electronic components has an idea of what that could mean for him: delivery bottlenecks, delays, production downtime. That is all well and good, but it is not what I mean by ›thinking‹. The supply chain manager, on the other hand, immediately reels off the five direct and indirect consequences of the (impending) delivery shortfall in terms of money, including second source and contingency plans. This is ›thinking‹ in terms of supply chains.

Only a few supply chain managers have learned this by now – and they regularly antagonize their competition with this special knowledge. As the CPO of a grocery store chain put it: »I am not afraid of the next crisis. I am afraid of the day when one of my competitors can manage the network better than us.« These are the words of a true leader. And that brings us to the next future skill:

- *Leadership: Managers will continue to be in demand. But what the global network really needs is leaders.* Managers mainly manage their own functions. The recent globalization shocks have taught us: The problems in the network do not normally arise in the operational areas, but in their functional interfaces. These interface problems can only be eliminated by managers who understand more than just their own areas, people who can ›manage‹ cross-functionally. This is generally accepted as leadership.

**Supply chains
need fewer man-
agers and more
leaders.**

Every manager knows, for example, that hardly any more savings can be achieved on a new product once it has left the drawing board: 70 percent of the expenses have already been determined. Nevertheless, purchasing is put under intense pressure to squeeze as many tiny bread crumbs as possible from the miserable 30 percent left over instead of integrating procurement into the product development process from the beginning which would make savings of at least twice the costs. Why doesn't it happen? Because we lack leaders.

Leaders do not grow on trees. They have to be developed. As the CPO from an international corporation once said: »We should have started five years ago!« Well, why didn't they? Because purchasing was still in the basement.

Purchasing and supply chain management have to leave the basement!

Imagine that the board of directors of a multi-billion dollar corporation all received as their company car a beautiful, red – Mini. Funny, isn't it? About as funny as the fact that the most important managers in a company often sit in the basement.

Up to 80 percent of the parts of a product are being produced externally today. In plain English: purchased. And where are these purchasers who deliver this 80 percent of the product success to the company? Often in the companies' worst offices. Called form-

fillers by their colleagues, they are allowed a training course about every two years. The specialists who carry and manage the global networks are slightly above doormen (nothing against doormen) in terms of influence and power in the company hierarchy. Best Practice managers are turning these old power relationships upside down with a vengeance which accounts for the ever increasing number of Chief Procurement Officers with a seat on or direct connection to the management board (see also chapter 2).

Purchasers need to transform into consultants

Of course there are reasons why purchasers in many places are still sitting in the basement and not at the table of decision makers: They do not speak the lingo. A production manager will not allow a buyer into the conference room – even if this person heads up a global network – unless he is able to speak in a language his engineers can understand. But a buyer needs to learn that first, one way or another. Since many buyers either cannot or do not want to learn (anymore), many companies have turned their recruitment upside down: They do not hire purchasers for purchasing anymore. They look for technicians, mechanics and engineers whom they can train in procurement and supply chain management.

Cross-cultural competence

We are living in a networked world. We are living in and on networks – but we cannot (optimally) manage them because managing networks is such a complex business. And because foreign countries are by definition part of global networks. It wouldn't be that bad if it was just foreign countries – foreign people are even worse. ›The Chinese‹, for example, do not honor any contracts – as long as the guanxi isn't right. ›The Russians‹ are not much better: Trust is more important than a contract. And ›the Indians‹ will only take orders from the CEO – frequently heard in many companies. This is, of course,

just a bunch of crude prejudices. But it is this type of generalization that leads to minor catastrophes each day in the supply chain, and it is not a result of the supply chain itself but rather of the people in the network not getting along with each other. Instead, Westerners complain about the ›lack of infrastructure in the emerging markets‹. That is just an excuse. Sure: The infrastructure there is often as full of holes as a Swiss cheese. Yet even a holey road can be mastered by a rickshaw – if the supply chain manager knows someone who knows someone who has a rickshaw. This is what cross-cultural competence is about. Recently, a chief negotiator of a fashion corporation showed up at the final negotiations with a Chinese supplier dressed in Blahnik shoes, a Strenesse blouse and Calvin Klein jeans. She does not know to this day why the contracts have still not been signed. Even 2,000 euro designer jeans are a no-go in top level Chinese business circles. This is also a question of cross-cultural competence (see also chapter 5).

Multi-project management

Many projects are being launched because our network management is not up to scratch. Every supply (chain) manager has enough of them. So why does hardly anything change? Because in many teams and off the record the definition of ›project management‹ is: lots of projects, little management. This is shown by the fact that schedules are not being adhered to, synergies are not being used, resources are being wasted, budgets are running off course, many projects are finishing below their targets and the supply chains are still foundering despite all these projects. Even worse: As a matter of fact, many of these projects which are supposed to *reduce* the complexity in supply chains actually inflate them even more. We will not be able to handle our supply chains unless we get a handle on our projects.