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Revolution in purchasing

Building competitive power through proactive purchasing

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New concepts in the field of purchasing, such as outsourcing, supply-base management and value-chain management, have become increasingly common practice. Because of the cross-functional character of these concepts, the call for a strategic reorientation of the purchasing function becomes louder. However, a clear future vision to guide the purchasing process has not yet matured. We investigated the most prominent developments and the expected trends in the profession, as well as the role and position that purchasing is probably going to have in major companies ten years from now. This article will start with a description of the changing business context with which companies are currently confronted. This is followed by an overview of the purchasing and supply practices of leading-edge companies. We conclude with a model for future purchasing organizations to make simultaneous improvements both in increasing functional expertise and in horizontal synergy. Copyright © 1996 Elsevier Science Ltd

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It is no secret that, over the years, differences in the area of purchasing and supply strategy have emerged between so-called 'leading edge' companies and the companies in the rear. Within manufacturing industry, the gap between the groups of companies has increased. Through the Purchasing's Future research project conducted by the Purchasing and Supply Management Education and Research Unit at Eindhoven University of Technology, we systematically describe and analyse best practices in purchasing and supply management.[1] With this article we should like to give an insight into what is going on in purchasing strategy and organization in leading manufacturing companies today. We shall describe how some leading-edge companies shape their purchasing strategies, and how they organize for competitive purchasing in the global marketplace. Compared with traditional purchasing, these modern purchasing practices are revolutionary. We hope they may serve as a warning to those who are lagging behind.

[1]The results of this research project are summarized in a recently published book called *Revolution in Purchasing*. This book is available through Eindhoven University of Technology.

Changes in the business context

The context in which manufacturing companies operate is undergoing radical changes (Hammer, 1993; Peters, 1994). We sense that the changes surrounding us are not mere trends but the result of large, unruly forces. We believe the next decade will show us three revolutions in business, which will dramatically change the nature of competition. The first revolution is the *globalization of trade*. Over the past few years, competition has intensified all over the globe, mainly because of deregulation, the emergence of new trade zones (GATT, NAFTA), the volatility of currency exchange rates, improved transportation, intercultural homogenization, and sophisticated information technology.

Exploiting the new information and logistics linkages, businesses are relocating and reconfiguring their activities into global value-added chains, based on least cost and greatest expertise (see *Boxes 1* and *2*). When operating and competing globally, it is seldom economically sound to buy locally. This will, beyond doubt, shift the traditional trade patterns between nations. It is expected that by the early twenty-first century there will be five Asian countries among the top ten economies in the world (Ohmae, 1995).

Box 1 Nortel's internationalization

Canadian telecommunications giant Northern Telecom (Nortel) is reorganizing its headquarters and manufacturing operations. In recent years, the company has been reorganizing its manufacturing operations worldwide in order to increase sales to overseas markets, which have grown from $784 million in 1990 to $2.6 billion in 1994. Customer sales in Canada now represent just 13% of worldwide revenues – a 45% decline since 1990. The signing of the Canada–US Free Trade Agreement put pressure on Northern Telecom's margins on its switching products, traditionally its core business. Unions for Nortel's Canadian employees have long complained that the company has transferred jobs from high-wage union plants in Canada to low-wage non-union facilities outside the country. The company now operates a non-union, switch-manufacturing facility in North Carolina, and has set up manufacturing operations in China (Anon, 1995).

Box 2 Global company

Some Japanese companies have already become 'global' in that their R&D is networked, involving American and Asian scientists; their design concepts are detailed by low-cost Indian engineers in Bangalore or Bombay and then switched over to Singapore; their components are produced in Taiwan and shipped to Tianjin for final assembly and inspection; and then final products are sold in Europe and North America (Ohmae, 1995).

The second revolution is the coming of the *information society*. Information technologies are at the core of today's economies, and have become the main avenue to revitalize mature businesses and to transform them into new ones (Davis and Davidson, 1991). Economic value from generating, using and distributing information is growing fast. Among other things, the new information society means embracing a world of mass customization, rapid response, pay for production, and closely coupled electronic networks. Network structures and their electronic implementation may well be the most important element of business strategy in the next decade. This will have its consequences for the purchasing profession. The concept of an arm's-length relationship may disappear completely. This is strikingly evident in the automotive industry, as we have noticed at NedCar, Philips Carsystems, Chrysler and Honda of America. Buyers will increasingly shun suppliers who do not offer electronic linkages, such as electronic data interchange (EDI). In the near future we think the Internet will prove its benefit in buying certain commodities, selecting suppliers and communicating the ins and outs of purchasing policy to suppliers.

More demanding consumers and continuously changing consumer preferences are responsible for revolution number 3. In the past, customers judged the value of a product or service on the basis of some combination of quality and price. The customer of tomorrow will employ an expanded concept of value that encompasses convenience of purchase, after-sales service, uniqueness, and reliability (Treacy and Wiersema, 1993). In essence, people will no longer settle for whatever companies are offering. Instead, in relationship with suppliers, customers will take charge: they now tell manufacturers *what* they want, *when* they want it, *how* they want it and *what* they are *willing to pay* (Hammer and Champy, 1993). Ignacio Lopez, VP Purchasing of Volkswagen, speaks of it as the 'Third Industrial Revolution'. According to Lopez, coping with this kind of consumer requires a fundamental change in the attitude of employees and managers. Every activity within the company, and its suppliers, should be aimed at 'delighting the end-customer'. Adopting this philosophy represents a drastic change from traditional management thinking and, more importantly, of management's behaviour. It also implies a drastic change in how to deal with suppliers (Weele, 1994a). Levi Strauss anticipates this new customer environment by letting the customers design their own jeans (see *Box 3*).

Apart from these revolutionary changes, we expect to see technologies mature in many end-user markets, such as automotive, computer and office equipment. Every business system develops itself along the business life cycle of introduction, growth, saturation, and self-renewal – or, if not, decline (Moore, 1993). There are apparent differences in competitive strategy, management style and purchasing importance, depending on the stage in the industry life cycle (Weele, 1994b). During maturation of the business along the life cycle, in our view, the competitive edge changes from technology and product features in stage 1, to knowledge of production processes in stage 2, to core competences, customer focus and service in stage 3, and eventually to embedded management style and a people orientation in stage 4. In this last stage, companies have to cope with ever-increasing materials and production costs, in order to make the next generation of technologically advanced products. Customers are not willing to pay for marginal technological improvements. To survive, the manufacturing industry has two options: continuous and drastic *cost reduction* or *constant innovation*. Most companies will have to pursue both strategies at the same time, however. There is a great need to change the corporate vision for innovation and renewal in this stage. One of the major questions is: how do you motivate the people (both inside and outside the organization) to improve themselves continuously, so that the organization as a whole can deliver higher value added to the customers?

Box 3 Levi Strauss

The California-based apparel company Levi Strauss has begun marketing a made-to-order service for customizing women's jeans in selected US locations. Sales clerks measure customers and feed the data into a computer-aided design information system. They let a customer try on sample jeans in the store – to perfect the fit – and they feed the additional data into the system. The system forwards the information to a computerized fabric-cutting machine at the factory, and the jeans are made to order. The custom jeans cost only $10 more than Levi Strauss's mass-produced products. In this real-time system, the transaction (selling the jeans) is also a service experience for the customer. The shopper will still expect high-quality jeans at a reasonable price, but she will also help Levi Strauss to design her product, and she will define elements of the product – measurements, colour, and texture – that satisfy her.

In the future, Levi Strauss could use this system to broaden its dialogue with the customer. Customers could order new jeans over the phone; Levi Strauss could make them using the customer's measurements, stored in a database, and ship them out quickly. The company could also send information on new products to repeat customers. And, as the company database grows, it will have useful information about the sizes and styles of jeans that its customers are ordering (McKenna, 1995).

Besides this, it is becoming more common for large manufacturing companies to operate sophisticated services businesses. Manufacturers like IBM and Digital Equipment bring in more revenues from consulting and processing services than 'real' services companies like EDS. US automakers today make almost no parts themselves. It is an exaggeration, but perhaps not an outrageous one, to say that the Big Three (Ford, GM and Chrysler) are chiefly design studios and marketeers. Nowadays, almost 75% of Chrysler's employees are in non-manufacturing services like engineering, design, sales, purchasing, or distribution (Stewart, 1995).

Changing insights on organizational behaviour

What will be the impact of these changes in the business environment on the strategy and structure of large companies? Today's global economy is genuinely borderless. Information, capital, and innovations flow all over the world at top speed, enabled by technology and fuelled by consumers' desires for access to the best and least expensive products (Ohmae, 1995). This has issued a wake-up call to companies everywhere to change their assumptions about the design of effective organizations and workplaces. The desire for fat organizations that relied on redundancy, encouraged overstaffing, and could afford to waste talents of people on non-essential tasks has been replaced by a preference for lean organizations with focused efforts. Companies that want to stay competitive in the late 1990s and beyond are being forced to narrow their business focus, not broaden it. By focusing, companies can gain such a lead that competitors find it hard to catch up. This is largely because the leaders have aligned their entire business model – that is, the company's culture, business processes, management systems and computer platforms – on delivering a superior customer value. For example, Nike aligned their entire organization to deliver leading-edge sportshoes (Treacy and Wiersema, 1993). Less focused companies must do far more than simply re-engineer existing processes to gain this kind of advantage.

Further, value chain management, competence-based strategies and a process orientation will change the workplace in important ways. Businesses that will flourish in the new century will delegate more responsibility to fewer, but more responsible people. There will be higher-than-ever investments in education and training to ensure workforce professionalism. There will be abundant information technology tools to empower frontline service workers to care better for customers, to make decisions on the spot using their portable computers for data access, to check in with their team, or to get quick approvals for unusual actions. There will be more entrepreneurial initiative, and there will be more intensive communication between all the locations that the company operates in, ensuring coordination and the power of joint action across countries as well as across departments at home (Moss Kanter, 1995).

Value chain management

Many companies are reorganizing their value chains and focusing on a few core activities, where they can achieve and maintain a long-term competitive advantage, outsourcing all other activities in which they do not have world-class status (Quinn, 1992). Some, especially the ones in very volatile, highly customized, or advanced technology fields, find extensive outsourcing more attractive and of strategic importance for the survival of the company, than before. This explains the rising purchasing-to-sales ratio of many manufacturing companies, including IBM, Xerox, Philips Electronics, and Alcatel (Weele, 1994). In this respect, value chain management is the way a company defines its business and links together the two resources that matter most in today's economy: knowledge and relationships or an organization's competences and customers.

A still rarely used technique for defining the relationships in the chain is 'value chain mapping'. Some companies, for example Chrysler, map out the origin of

their supplies: where the parts actually come from, who is involved in the supply chain, etc. The reason for this is that further back along the chain most of the subsuppliers literally have no idea where their products end up. Each link in the chain communicates only with purchase orders, releases, and payments. They never really talk to each other, except in financial terms. Chrysler is dedicated to changing this. Communication along the chain is a primary issue of their Extended Enterprise Programme, a programme aimed at managing the entire value chain. It is not about rationalizing, or controlling the chain; all Chrysler wants is that people (suppliers) should talk to each other, and to make them members of the Chrysler family. According to Chrysler, this better understanding will lead to better quality and lower costs for all.

Competence-based strategies

It appears that the way forward requires fundamentally different approaches to inter-firm relationships. Companies become smaller, downsized through outsourcing, but reinforced by strong collaboration with other firms that were once called 'supplier', now 'network partner'. Applying this approach to core competences, companies can develop a much higher level of focus, and hence leverage, for their strategies than through traditional product-focused strategies. This extensive outsourcing increases the dependence of suppliers, making supply management, or management of best-in-class supplier networks, a key success factor. Companies who are not capable of developing and managing this kind of competence-based network will fail in the highly competitive environment of the future.

Process orientation

In order to meet the contemporary demands of quality, service, flexibility and low cost, organizational processes must be kept simple, transparent, and focused on the customer. Companies must look at entire processes that cut across organizational boundaries, and work should be performed where it makes most sense. In the future, managers, in most cases, will delegate responsibility to teams that might include people from many departments, who report to various bosses. The horizontal dimension (looking across territories to focus the effort of the organization on common goals to serve customers) is getting more important than the vertical dimension (what bosses in a single department tell people to do). At every level more work is being done in cross-functional or cross-departmental project teams or even joint customer–supplier development teams. Narrow specialist jobs are being replaced by broader and more demanding jobs. Work is even shifted across organizational boundaries to improve overall process performance (Hammer and Champy, 1993).

Global purchasing and supply strategies

What are the implications for the purchasing profession? How do leading-edge companies cope with the increasing need to professionalize, rationalize and globalize their purchasing operations? In this new business environment purchasing must bring increased skill and value to their companies. There is no choice. Purchasing must find a way to 'serve the customer', or disappear. This has led to significant changes in the role and position of purchasing in many leading-edge companies like Xerox, A&T, GM, IBM and Chrysler (Weele and Rozemeijer, 1996). In particular, it has led to redefinition of primary purchasing tasks, responsibilities and competences in the relationship with other departments. Over the last few years, many international companies have slashed their centralized corporate staffs, while adopting a business unit structure. In doing so it seems that companies traded bureacracy and lack of customer focus for ill-defined communication and lack of synergy. Today many companies have abandoned the pure business unit structure, and have moved to a centre-led organizational structure. This structure is characterized by a clear direction, ie vision, from the top in combination with bottom-up entrepreneurship and decentral execution. A clear example of what this means for the purchasing function can be found at IBM (see *Box 4*).

In discussing appropriate purchasing and supply strategies we encountered during our research project, we differentiate between production and non-production buying.

Box 4 IBM commodity buying

IBM's new procurement organization provides suppliers with consolidated, enterprise-wide requirements and a 'virtual' organization with a single contact point (the commodity council) for 'contracting'. However, in all cases the actual purchasing operations are decentralized. Production buying is organized around divisional global procurement executives. These managers report to the Chief Purchasing Officer (CPO), but also to their line manager. The business unit managers meet with the CPO on the corporate business councils, so there is direct contact between the CPO and them. Here common agreements are decided upon. The CPO works with each of these managers individually to make sure that the corporate-wide procurement strategy is consistent with what the division needs to have. In this way IBM is able to benefit from its massive purchasing power, while at the same time pursuing maximum operational flexibility for its manufacturing plants.

Global coordination of production-related goods

When we look at the production-related purchasing and supply strategies, we see *global uniformity of purchasing processes*. Leading-edge companies have a global competitive sourcing process that searches for main suppliers with world-class capabilities and global presence. Some of the advantages of this global sourcing are price advantage, improved quality, supplier commitment, a reduced supplier base, and reduction in total inventory. It also saves time and resources: hence more attention can be given to the relationship with suppliers in the value chain to improve their performance. Using all the resources in the value chain, and improving them continuously, is key in today's competitive environment. The issues that leading-edge companies pursue to improve the global sourcing process are strong leadership, active involvement of line management, aggressive supplier management, corporate commodity plans, cross-functional teams, and supply standardization.

The corporate commodity plans are mostly drawn up by so-called *cross-functional commodity teams*. Such teams consist of professionals in functions such as product design, research and development, marketing, product distribution, and finance, together with purchasing professionals. The leader of the team will often be a person identified as a commodity manager, not necessarily a purchasing professional, who will report to the vice-president of purchasing and to a functional line manager. The structure is usually virtual. These teams have the power to select suppliers and to contract worldwide agreements, for their particular commodity.

Another important issue is the implementation of *supply standardization*. Many companies are starting to realize that there are a lot of commonalities between their businesses, and that they need to share that information. They cannot afford not to do it in this competitive environment. In order to generate leverage in the company's total requirements, companies must look for opportunities to reduce cost and share suppliers, and possibilities to pursue product and supplier standardization. This has been recognized clearly at Chrysler, where standardization is successfully implemented to rationalize fastener purchases (see *Box 5*).

Some of the benefits of standardization are lower materials costs and lower overhead costs (Guigley, 1995). It looks simple, but when there are multiple plants and/or divisions across a country or different continents, it gets very difficult.

To enable the above strategies, companies are establishing *worldwide information systems*, such as single worldwide databases with complete and current technical and commercial data of all available components, of preferred parts and approved suppliers, alternative suppliers, and specifications (with probably over 100 000 part numbers and hundreds of suppliers). Ford, IBM, Alcatel, Xerox and Chrysler are some of the companies that are working to establish these systems. It is the task of the commodity teams to define the preferred parts and suppliers. This provides an important vehicle to design and engineering: they have only to tap into the system to search for components and select them. These kinds of system will drastically reduce the number of different components and part numbers and new product introduction cycle-time by using common parts and off-the-shelf parts. Purchasing can add savings directly to the bottom line.

Box 5 Standardization at Chrysler

Chrysler restricts the number of fasteners (screws, bolts, nuts, etc) that engineers of the product development platforms can use. They used to have a situation where engineers could use any fastener they wanted. Now they are restricted to a small list, which is very restrictive and brings an approved source with it. This list is also integrated in the CAD/CAM systems. In this way, Chrysler rationalized its fastener purchases from a high point of 500 suppliers down to 42 suppliers for the whole company. Today, Chrysler also intends to take that recommended list to its first-tier suppliers, in order to rationalize the whole supply chain.

Purchasing coordination of non-production-related goods and services

We turn now to the non-production buying area. Traditionally, purchasing has been very much production oriented, but today we definitely see a trend towards more attention for centre-led non-production buying. Re-engineering the buying process and application of modern purchasing practices can significantly reduce costs and improve productivity in this area. However, getting results from this area requires a thorough analysis and a careful orchestration of the purchasing resources all over the company. Most critical is the lack of information on this kind of expenditure: 'What do we buy, who are the suppliers?'. Some leading companies have discovered that the amount of money spent on suppliers in the non-production areas far outweighs the amount of money spent on production buying, and that the percentage covered by corporate contracts is very low. AT&T, for example, found out that they spent 60% of their $20 billion on non-production items such as car rental, maintenance, insurance and travel. For Xerox this figure is even higher; Xerox purchases $6 billion in total, of which over $4 billion is in the non-production area, most of it on health insurance and transporation.

Companies today are packing once-fragmented purchases of services and supplies into one or two company-wide contracts for each. High-volume purchasing can trim bills for services and maintenance,

repair and operations support (MRO) by 10–25% (Tully, 1995). The corporate contracts are to be followed by all divisions and business units concerned, who should order from the relevant suppliers directly.

In general we have found two *centre-led approaches:* the *systems-supported approach* and the *purchasing card*. The first approach resembles centre-led production buying, with the commodity teams supported by information systems. These systems will contain enterprise-wide purchasing information, enabling users to buy for themselves, and to find information about corporate contracts, approved suppliers, supply history, performance, etc. The system is fed by regional or global commodity teams. Corporate purchasing is responsible for managing and facilitating the whole process. The actual buying is done decentrally.

In addition to the systems-supported approach, many US companies, among which are Gillette, IBM and Xerox, have distributed the purchasing card to their employees. These cards incorporate codes that set credit limits and restrict where they can be used and for what commodities. At the time of transaction the electronic checking process validates that the type of commodity is allowed. The credit card company pays the suppliers, eliminating thousands of purchase orders and cheques. At the end of the month the company receives one bill on hard copy and/or tape, with all transactions sorted by purchaser, supplier, store, and/or job code. These systems greatly reduce cash use and provide cost control over the many small purchases often needed in non-production areas. Despite all these features the biggest roadblock to implementing the card remains the control of abuse. At Gillette they are still very enthusiastic about the card (see *Box 6*).

Box 6 Gillette and the purchasing card

Bob Edwards, VP Purchasing at Gillette, sees a brighter future for the credit card, because purchasing in his view adds hardly any value to the buying of MRO items. 'We just take a requisition and convert it to a purchase order and pass it on to a supplier. We are high-priced clerks. The cost is often more than the spend. My goal is to cut back 15–20% of the people from Purchasing and Accounts Payable', Edwards says.

'First, I have to pull the people in. I do not want them restricted at first on the card, because then they are not going to use it. I let them buy anything that is bought with MRO. I want them to get used to use that card, that they cannot live without it. Secondly, in a year's time I do an analysis of what expenses have been done, and what companies they bought supplies from. After that analysis Purchasing will go out and negotiate a national or international company-wide contract for them. And then, Purchasing is going to add real value, because we are able to negotiate better contracts, finding better suppliers, and we have the leverage of the total dollars'.

Towards virtual structures in purchasing and supply

An ever-more demanding competitive environment requires ever higher levels of corporate purchasing performance. The trouble is that performance improvements that are needed often remain out of reach for purchasing organizations organized in the traditional vertical fashion: hierarchically structured, functionally oriented. The crucial advantage of vertical organizations is functional excellence, but their central dilemma is coordination across tasks, across departments, across functions. By contrast, there is real performance leverage in moving towards a flatter, more horizontal mode of organization, in which cross-functional, end-to-end work flows link internal processes with the needs and capabilities of both suppliers and customers.

The virtual purchasing organization

A possible model for future purchasing organizations to make simultaneous improvements in both increasing functional expertise and horizontal synergy, and in improving focus and flexibility at the business unit level, could be the *hard core/soft core organization*. In this organization a small centralized hard core of corporate purchasing professionals is surrounded by a rather fluid soft core of business specialists. The hard core is responsible for the purchasing process, the strategy, professional development, and the recruitment, training and development of the people involved in the purchasing process. This hard core resides mainly at headquarters, and will be very small (about 20–30 people for companies as large as Alcatel Alsthom and IBM). These hard core professionals move from setting up a particular purchasing process, and all of the support that is needed there, to whatever the next major project is.

This hard core delegates all business-specific purchasing responsibilities to a soft core group aligned with each business unit. These soft core specialists are the real 'on-the-spot' commodity managers, who have the authority to make decisions on how best to meet local needs. They reside in their own business units and are part of virtual purchasing teams. They will make extensive use of video-conferencing, telephone, and Internet, all to ensure that everybody is aware at all times of the group-wide picture, and to share information. The soft core people come and go (to the purchasing function) depending on the purchasing needs at a specific time, in a specific place. The hard core backs them up with sophisticated tools, like state-of-the-art information systems, generous financial rewards, training, and old-fashioned cheerleading.

This organization ensures high involvement of the

line, because of a two-line reporting relationship. The soft core commodity managers report to their divisional manager, and to the Vice-President Purchasing, who will control their working methods. This means that purchasing has to consider these people by formulating their policy, providing them with tools for this, and training them, but most importantly by letting them do the job, because they know what is best. *Box 7* illustrates that, according to a leading New England bank, buying of law services can successfully be done by somebody of the law department.

This structure is especially appropriate in the non-production area, where buying has an ad hoc character and where specific expertise is needed temporarily. In this situation it does not pay to build up specific expertise within the purchasing function.

Staffing, hiring and training future purchasing professionals

The practical question, of course, is how to build such a hard core/soft core organization. In order to make this model reality, companies first need to upgrade their purchasing staff. The future purchasing professional needs different behavioural skills and capabilities, and is going to be a business person. In general, leading-edge companies look for young, highly educated people with great communication skills and a teamwork orientation, a strong personality, and a general business view. He or she should have a greater willingness to take risks, whether that means linking up with other purchasers to pursue more effective and efficient buying, partnering with a major supplier in a new business approach, or working with manufacturing to explore more efficient value chain operations. Furthermore, tomorrow's purchaser must be both a team member and a team leader: a facilitator and a consensus builder.

We see two different generic buyer roles: the production buyer, a product/market specialist with an engineering background working in cross-functional teams; and the non-production buyer or facilities buyer, a generalist with an all-round business background, working as a process consultant and facilitator.

Today, leading-edge companies are already building the skills of the new purchasing professionals by changing hiring criteria, by establishing ongoing training and management development programmes, and by developing cross-functional career paths to broaden their understanding and exposure. Leading companies in this area, like Chrysler, know that the biggest challenge for the future is how they will use the purchasing intelligence in the organization (see *Box 8*).

Box 7 A leading New England bank

Says Ron Payne from Purchasing Services Inc.: 'At a leading New England bank the law department spends approx. $18 million a year on services of lawyers, as a supplement to their own law department. They now have a commodity manager, who is not a purchasing person at all, sitting in the law department managing that complete $18 million budget for them. This, in my view, is an ideal situation. You don't need a person with a purchasing title sitting in the law department doing that work, when in fact this person was recognized as an outstanding staffperson from the law department. This staff person said: I know what the requirements are, I know the business, I understand the business plan, and I understand what we are going to need from the outside law firms in this department, so I am in the best position to manage this "commodity". Together with "his" commodity team, he reduced the number of suppliers significantly, contracted best deals, and introduced free shopping.'

Revolution required

Most of the Western leading-edge companies in the field of purchasing and supply management (eg IBM, Compaq, Digital, Xerox and Chrysler) have gone through difficult times, in which the continuity of the company was in jeopardy. Stringent cost reduction was required for survival. Looking at their cost position and value chain, these companies decided to change their purchasing policies and strategies in a drastic way. New managers and staff were sent in, cross-functional teams introduced, local sourcing replaced by global sourcing,

Box 8 Chrysler on hiring and training

Chrysler has a detailed and differentiated hiring procedure for new purchasing and supply personnel. They do active campus recruitment from universities and business schools with purchasing management programmes (Michigan State, Arizona State). Candidates are offered a summer internship for two months in order to see whether they fit in for the job. If positive, they will move to a 2 year rotation programme, where they learn every aspect of the purchasing and materials job. After two years they may get tenure. After that time Chrysler expects each employee to take internal courses. Chrysler looks for a high-impact training process, which ties their training programme into key business issues and goals. The internal training programme consists of compulsory and optional courses. Finally, most purchasing employees must actively participate in a job rotation programme in order to get promoted. You cannot get promoted until you have broadened your base. With this rotation programme Chrysler has made it very clear that they want cross-functional development.

etc. All in all, these companies took an aggressive, business-like approach to their purchasing decision making. In some of the companies we have seen, purchasing and supply strategies are directly derived from the company's customer strategy instead of from the 'activity next in line' (which may be engineering, manufacturing, or logistics). Purchasing decisions in those cases are tested against the increasing value that is derived from them by the customer. We feel this concept will gain more value in the near future for purchasing and supply managers. What issues need to be addressed, and what will determine their success in the future? Based on our research we feel that general managers and purchasing managers need to address the following issues in order to be able to develop the earlier mentioned purchasing and supply function within their company.

First, *leadership*. In the past, purchasing and supply has suffered from lack of top management support in many cases. Many purchasing managers have complained about this and many scholars have written about this. As we see, it lack of management support is not the real explanation for why the development of purchasing has lagged behind those of other business areas. The real reason was lack of leadership. One of the themes that top managers and purchasing managers need to solve, therefore, is how to develop leadership in this important business function.

Second, *motivation*. Over the years much attention has been given to purchasing procedures, techniques and tactics. Our knowledge on these subjects has, however, solved very few problems that companies face nowadays in the purchasing area. We feel that this is due to a lack of understanding of the 'soft' issues of purchasing strategy, structure and decision making. Our understanding of these issues is almost nil. In order to improve purchasing decision making, companies need to find out what motivates people to support them.

Third, *performance*. Given purchasing's share of total turnover in the average company, it is clear that purchasing and supply management can and should contribute to the company's bottom line. The idea of getting purchasing performance registered, measured and monitored is an old one, which is, however, still very topical. Leadership and motivation are prerequisites for improving purchasing performance. Improving purchasing performance requires setting of targets, measuring actual versus planned performance through a coherent set of indicators, monitoring the variances, and taking corrective actions when appropriate.

These issues have received very little attention so far, either in business or in academia. However, we feel that they need to be addressed in order to get a better understanding of how to foster professionalism in purchasing and supply management. That is why we should continue research in this area at the Eindhoven University of Technology. For the practitioners, maintenance of the status quo and a more gradual, evolutionary pattern of change in this function might seem more attractive, and many managers may be comfortable with it. However, those managers should realize that the changes we are confronted with now are of a discontinuous nature. When considering a reorientation of purchasing and supply operations we feel that a drastic move from the past may be warranted. To build competitive power through proactive purchasing, companies have to work on strong leadership, motivation and performance all at the same time. In those circumstances, revolution, and nothing less, will be required.

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