

Global concerns

Purchasers across the world have different challenges but also a great deal in common. Emma Clarke assesses how buyers in the US, China, Australia and South Africa are getting results and recognition

Purchasing is now established as a global operation. Whether you are in Shanghai, Melbourne, San Francisco or Johannesburg, the buying profession will have reached a different point of its evolution. In fact, in all these places, as well as many others, no matter what their stage of economic development or political climate, purchasing and the value it can bring to an organisation is receiving greater prominence.

AT Kearney's Assessment of Excellence in Procurement study examined purchasing practices in North and South America, Europe and Asia Pacific. Despite the report's breadth, a common theme revealed a focus on creating value regardless of sector and location.

Although the goals may be the same, the challenges are certainly not. Each country - with its individual industry cross-section, supplier base, economic environment, and geographical location - creates a distinct set of challenges for organisations and their procurement departments.

The US

The Institute for Supply Management (ISM), the US equivalent to CIPS, has about 40,000 members, but this is thought to be only 10 per cent of the country's entire purchasing population. At such an advanced stage in its economic development, US organisations have long been building procurement departments. The sophistication of these varies not only by sector, but by location and individual companies.

In successful corporations, procurement departments help to support growth, gain control over a wider area of spend and secure more respect from bosses. At Procter & Gamble, for example, Rick Hughes, vice-president of global purchases, says the profession left behind its cost-reduction focus long ago. "Procurement's challenge is in supporting the sustained

growth of the company through innovation and value contribution," he says. "This includes cost avoidance and savings but also the long-term cost of ownership."

Despite its elevated state, some argue the US is still years behind the UK in terms of strategic procurement. Among those who hold this view is David Read, chief executive at consultancy Prestige Purchasing. His company has had seven years' experience working with US organisations of all sizes and in all industry sectors.

"In the US you still see buyers signing invoices and dealing with purchasing orders, but this moved to administration long ago in the UK. Category management isn't as big over there and formalised supplier relationship management (SRM) is almost non-existent."

Tom Slaight, vice-president at AT Kearney, agrees that there is a different approach to supplier relationship management in the US. "In Asia, relationships between purchasing organisations and the supply base are more traditional compared to the competitive rounds of bids and negotiating style you will find in the US. Europe is somewhere in between."

Examples from the automotive sector illustrate his point. "Toyota's process, developed in Japan, is based on a continuing relationship with the supply base; for General Motors in the US there is more of a negotiation style with its supply base. Volkswagen in Europe is a hybrid of the two styles."

Slaight sees the gap between leaders in SRM and the rest widening in US organisations. AT Kearney's study found only 18 leaders with effective SRM programmes and advanced sourcing technologies. Below this, he says, are a "mass of companies that usually know the concepts but are only dabbling in implementation and not engaging effectively with the rest of the company".

Developing attitudes to SRM will require a cultural change

for US purchasers, he adds. "The purchasing executives who have been able to adapt have done well. But those that have grown up within a risk-averse approach, simply managing terms and conditions, are falling behind - they don't have it in them to lead change."

Chris Sawchuk, procurement practice leader at business adviser Hackett, agrees it is time for US purchasers to make a leap forward. "Most of the low-hanging fruit has already been picked, for example, through e-auctions. Senior leadership has become accustomed to the year-on-year savings procurement has been achieving but it is impossible to keep finding more." Procurement has to look beyond cost savings at relationships with suppliers and security of supply.

While Read admits there is a strong academic focus on procurement in institutions such as the Harvard Business School, he feels US buyers lack the same level of training as their British counterparts. "In the UK you need a CIPS qualification to get a job - but it's not the same with the ISM's Certified Purchasing Manager programme."

AT Kearney also found a shift in the number and type of risks for organisations in the US. As well as risks from regulation, interest rate volatility and political disturbances, others are emerging in areas such as governance, intellectual property, theft and terror.

Dan Krouse, operations vice-president for procurement at Hallmark Cards, says natural disasters in the US last year provided US buyers with some important lessons. "Following the hurricanes in the US, a lot of organisations that traditionally thought they were doing a good job on risk management found out that they could have been doing much better." Shortages in oil supply severely affected prices of all petroleum-based products including chemicals, natural gas and raw materials. "Our paper supply was less affected but we still felt it in some of the chemicals we buy, as well as natural gas

prices. Other companies are still dealing with the effects of this."

What keeps Hughes awake at night is not talent management or e-procurement, but the fear that there are opportunities that procurement is missing out on. "Have we thought about other things that we could be outsourcing, or indeed are there things we should be in-sourcing?" he says. "Are there suppliers that can help us with new technology or knowledge? I want to make sure procurement is externally focused and I encourage my staff to keep a window on the world."

China

The greatest leaps forward in procurement are being made in developing economies. In China, says Professor Wang Derong, executive vice-president of China Communications and Transportation Association (CCTA), procurement is experiencing evolution.

"There are many things that are developing this trend. They include the influences of global companies, government drive and China becoming the world manufacturing centre and a major purchasing source. Also China's entry to WTO, it becoming more active in the globalisation process and competition becoming more intensive."

Procurement used to be seen as a part of logistics, adds Professor Wang Derong, and many still think along these lines. But with the development of a market economy and more multinational companies setting up facilities in China, people are starting to accept the idea that procurement can contribute to their competitive advantage and profitability.

David Avery is the CEO of Rail Sourcing Solutions (International), a subsidiary of Hong Kong metro company MTR Corporation. MTR, he says, is busy meeting demand for new metro lines and introducing stock across China.

"With the agricultural population moving into industrial areas, the government needs to build the infrastructure to support this change. They have money available and they are ambitious. The mayors of major cities are eager to either extend existing metro systems or build new ones, and public or private funding is available."

And with a localisation policy that requires 70 per cent of all kit and equipment value to be sourced in China, it is also investing heavily in building new manufacturing capabilities.

With organisations and supply bases developing at such a rate, procurement has to work to keep up. "When it comes to purchasing, China is still some way short of WTO standards," says Avery. "In the Chinese culture there is a process of barter and negotiation. You have to know the man that runs or owns the factory and you need to forge the relationship. Unfortunately, this approach has tended to sit with the problem of corruption at all levels of industry."

But the Chinese government is doing everything it can to stamp out corruption, he adds. "Because central government is pushing this, it can change the cultural way that materials and goods are purchased."

CCTA has worked with CIPS on providing training and qualification of purchasing professionals in China since 2003. "By now, several hundred purchasing professionals from the manufacturing, retailing, petrochemical and automotive industries have CIPS qualifications," says Ronald Wang, director of CCTA Logistics Training Centre.

But there are still no procurement degree education programmes in the Chinese universities. In 2005, CIPS and Beijing Education Examination Authority and CCTA launched a joint programme of purchasing and supply, offering the Chinese college diploma and CIPS certificate, which pioneered purchasing education in China. A national joint programme of purchasing is expected to be launched in 2006 with the

Chinese education authority to offer a bachelor degree and CIPS diploma in China.

Australia

Australia's purchasing profession is at an earlier stage of development than the US and some parts of Europe. Its biggest challenges are related to the size and location of the continent. Though huge in geographic terms, Australia is not as large economically. Its GDP is around a third of the UK's, and most of its 20 million population live around the country's five major cities - Sydney, Melbourne, Perth, Adelaide and Brisbane.

For procurement this means there is a smaller pool of talent to draw purchasers from in only five disparate locations. The buoyancy in the job market for procurement professionals may soon be driving up salaries as organisations compete for talent. More than 60 recruitment companies in Australia already specialise in supply chain recruitment and job vacancies are frequently advertised in the national newspapers.

With smaller purchasing functions more common in Australia, many companies may find they haven't got the staff to manage all spend categories - especially in indirect spend. This is one reason why buying clubs, where purchasers band together to aggregate spend and form economies of scale, are common. Companies can, in effect, outsource their indirect spend to the buying club.

It is in resources, banking and telecoms that procurement functions have made the greatest moves forward, says Jonathan Dutton, managing director of the Chartered Institute of Purchasing & Supply Australia (CIPSA). "Procurement is gradually moving from price management through total cost of ownership and towards risk management."

As the public sector is proportionately larger in Australia than in the UK and is largely financed with a higher basic tax

rate, spend in this sector is a larger percentage of GDP. The trend towards privatisation has been slower in Australia and the upcoming privatisation of the remaining part of telecoms company Telstra is a high profile example. Spend in the public sector is also centered at a state level and not at a federal government level, while defence has its own agency for procurement.

As a result, Evelyn Jelliffe, director at Queensland Purchasing for the Queensland government, says procurement in the public sector is advancing at the same pace as the private sector. "Most government agencies have moved beyond the transactional activity and have embraced strategic procurement. There is a good understanding by government that procurement can add value. The challenge now is raising the capability, trying to extract value to pave the way for great initiatives."

The supply market is becoming more global as Australia abandons its traditional patriotic, buy-Australian habits. At the CIPSA conference in November last year, Mark Paterson, the CEO and Secretary of the Department of Industry, Tourism and Resources, said purchasers should always buy better, faster, cheaper, safer and not ignore market forces. Only where suppliers offer common terms should buyers favour Australian suppliers, he added.

Top suppliers to Australia are mainly based in South East Asia with the US becoming an increasingly important supplier following the signing of The Australia-United States Free Trade Agreement in January 2005. With suppliers further away, both geographically and culturally, Australian purchasers are now beginning to embrace the importance of developing robust approaches to strategic sourcing overseas and supplier relationship management. As Nick Ford, manager for corporate procurement at BAE Systems Australia, explains, sourcing from overseas, "isn't just a challenge of import regulations, but also

managing relations with suppliers, understanding their dynamics and keeping up with what's going on in the world".

South Africa

While preferential procurement in Australia is dying out, it is blossoming in South Africa where it aids social and economic regeneration. Though the country's economy is the most thriving in the continent, with vast mineral resources and a progressive democratic government, stability is at risk because the majority black population is still largely excluded from economic activity.

To address this imbalance the government is in the process of implementing a strategy for black economic empowerment. Preferential procurement in the public and private sectors is central to this to ensure more goods and services are bought from black-based suppliers.

Karen Van Vuuren, general manager of group supply management at transport and logistics company Transnet, and president of IPISA, South Africa's Institute of Purchasing and Supply, says: "Procurement is now the hot topic for discussion in the national departments and provinces in the country. They are understanding that a better approach to procurement, with planning and controls, ensures it can be used as a tool for promoting social equality."

The public sector is crucial to the South African economy and it still owns, or partly owns through state-owned enterprises, services such as electricity, telecoms and transport. Van Vuuren says not all levels of government are yet at the strategic level of purchasing. "There are three levels of skills and ability. The biggest skills gap is in local government. At the next level are the national departments and other provinces that are starting to deliver strategic sourcing." Then there are state-owned enterprises such as Transnet for transport and Eskom for electricity that are half-owned by the government

but run like businesses and self-funded.

"Procurement is more developed in these industries because if you run an organisation like a business there is an incentive to make profits. This means you have a clearer view of the value procurement can add. Procurement also tends to be seen as a strategic component rather than a support service and is given more resources to achieve better results," she adds.

Companies in leading South African industries such as mining are very much at a world-class level, she continues. For example, a local steel producer, Iscom was recently bought out by an Indian company - Mittal. It is in the process of implementing a global procurement function focused on commodity management. The South African team's skills in total cost of ownership and its policies and procedures have been crucial to this process.

A small world

Beneath all these apparent differences there are challenges common to purchasers, no matter what their location. Last year CIPSA conducted some research into the top issues facing procurement in Australia. What was interesting, Dutton points out, was not what the issues were - countries across the globe could list similar challenges - but instead the depth and breadth of them.

He uses stakeholder buy-in as an example. "You have the same problem in the UK of getting bosses to understand the contribution that procurement teams can make, but here it is at a different magnitude. The procurement profession has not won its stripes in Australia as it has in the UK and there are a number of indicators to demonstrate this. One is the number of CPOs invited on to the management board in major UK companies.

The UK's Purchasing Managers' Index is also quoted as an

economic barometer and it's difficult to get a job as a purchaser manager in the UK without MCIPS after your name. None of these things are true yet in Australia."

Nick Ford at BAE Systems agrees. He came to the Australia BAE division not only to improve procurement processes, but also to help improve stakeholder engagement. "Procurement wasn't seen as important a role as it was in the UK and, in the past, project managers or engineers were managing the sourcing process."

Another common global challenge is rising commodity prices. The pressure is for procurement worldwide to mitigate this cost.

Chris Sawchuk at Hackett explains: "We have been in a deflationary environment for years, but things are creeping up now. Cost reduction is subsequently becoming more difficult for purchasing."

The shortage of skilled purchasing professionals is also a pressing concern around the world. This has become such an issue in Australia that the procurement profession is now on the Migration Occupations in Demand List. One reason for this, Dutton explains, is that companies have favoured recruiting staff from other organisations or from other functions such as accountancy and engineering, rather than recruiting people specifically into the profession while young and investing in their development.

Dr Jeremy Taylor, manager of policy in Queensland Purchasing, says they have a number of initiatives under way to improve procurement training in the public sector. "We are trying to meet that gap for skilled procurement professionals through internal training."

They are also working with the tertiary education sector to make procurement part of the business and commerce degree programme. "Procurement is just not there in the curriculum, like marketing, or finance in universities. Once universities

introduce one or two procurement subjects into commerce programmes it will create a demand for procurement-specific courses."

Companies such as Procter & Gamble, on the other hand, have experience of developing buyers through education.

"We spend time interacting with schools and universities," says Rick Hughes. "There is an element of taking people from other companies but for the most part we develop the potential. And it has good results - I have been here for 23 years."

Hallmark's Krouse adds that demand for new purchasing skills is high in the US. "You can teach someone how to buy. But the ability to build relationships, influence business partners and manage projects and communications - these are skill sets we are in desperate need of."

Sam Rose, CEO at consultancy PMMS, says that there is a thirst for knowledge in China that beats most countries, but meeting the demand for training is proving hard for companies. "The top-level multinationals are bringing in people from western companies or Asian ex-patriots from Hong Kong or Taiwan. Not only will these contribute modern procurement experience, but they also have Chinese cultural and language capability."

But training for the lower levels of the profession is more difficult. Rose says: "In the UK there is a wide variety of training and this has taken time to develop. Even if there is good training, the sheer number of people in China means needs are not being met."

Global community

But the work that organisations such as CIPS and ISM is starting in countries including China and Thailand, as well as Australia and the Middle East, will ensure a global purchasing community is formed.

Australia is already seeing the benefit of the approach, says Nick Ford: "Involvement from CIPS has meant more networking across the purchasing profession in the country through conferences and regional meetings."

Chris Gallagher, CIPS director of membership development, says the institute will continue to build a global purchasing community. "The key issue for organisations in today's changeable world is how to survive and thrive in a fast-moving global economy. Interdependent harvesting and sharing of new know-how across international frontiers is fundamental for procurement professionals to achieve lasting competitive advantage."

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