

THE FUTURE OF SUPPLY MANAGEMENT PART III

ORGANIZATION + TALENT

By Phillip L. Carter and Joseph R. Carter

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Part 1 of this series on the Future of Supply Management highlighted the importance of category and supplier management strategies. In Part 2, the authors described a world of customer-driven supply chain complexity that will require new technology combined with relationship-based management. This final installment focuses on the future organizational structure for supply management and the related talent considerations. To read all of the articles in this series—a joint project of CAPS Research, A.T. Kearney, and the Institute for Supply Management—visit www.scmr.com.

“The only thing we know about the future is that it will be different.”

—Peter Drucker

Supply management organizations have been in flux for the past decades and will continue in that state over the next decade. Most of the past reorganization was driven not by a vision for improving supply management performance, but by changes in the parent organization. Mergers, acquisitions, divestitures, and leadership changes—coupled with the evolving competitive landscape—led to company

organizational changes and, consequently, supply organization changes.

As these changes unfolded, the demands on and for supply professionals also have changed, although sometimes unnoticed. A shortage of personnel is emerging that finds organizations scrambling to find people with the necessary skills, abilities, and aptitudes to fill important supply management roles. Finding talent and creating the right organization will occupy the time and energy of supply executives in the decade ahead. This article discusses the nature of that dual challenge and outlines some effective responses to meet it.

Supply Management Organization

Strong competitive pressures in recent years have forced companies to reduce prices paid for goods and services, create strategic alliances with key suppliers, increase service and quality from suppliers, gain access to the best and latest tech-

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nologies from the supply base, and implement best practices across the organization. To do these things effectively, many companies have moved toward a center-led supply organization, creating various forms of centralized, hybrid, and shared service approaches. The undisputed success of center-led organizations to date will ensure the continued dominance of this model. However, external forces and business strategies will require some relaxation of the center-led model in the next decade. The key factors in play are discussed below.

Forces Impacting Center-led model

An Acute Need for Local Leadership

Managing a global workforce is especially difficult to do from a centralized platform. Local leadership and authority—and not just expensive expatriates—will be needed to build an effective supply management team in developing economies. Local leaders are needed to develop local market knowledge and networks as well as to serve as role models for the indigenous workforce. Because supply talent will remain in short supply in developing economies, companies must keep in close contact with the top local people to mitigate the risk of them being recruited away. At the same time, they will need to build expertise at lower levels of management.

Flattening of Cost Savings from Consolidation

The greatest driver of centralization has been the need to reduce the cost of purchased goods and services.

Organizations have achieved cost savings by analyzing spend across business units and regions, agreeing to standard specifications for similar items, aggregating the demand of the standardized items, and reducing the number of suppliers. However, once these savings have been realized, the argument for centralization loses some steam. Admittedly, decentralization to regions or SBUs (strategic business units) might bring a return to disparate standards and specifications. However, this is unlikely because it would also result in higher costs.

Embedded Best Practices and Processes in Technology

Many best practices have been embedded into new software systems that have been rolled out across organizations. Some have been embedded in ERP systems, while others have taken the form of new suites of applications developed specifically for supply management. In both cases, once the software is deployed the embedded best practices become common practice throughout the organization. Thus, technology is replacing the need for a center-led group to oversee and enforce the use of the best practices.

Common best processes embedded in technology will allow people who are re-assigned to immediately focus on learning new markets and products without having to learn new processes. Skilled category managers will be able to operate from any location or from within any business unit. As one study participant noted, deploying common processes across the global enterprise will be an important strategy in the next decade: “We always look at globalization as having consistent processes and having people tied together more than having a consistent supplier.”

Technology will allow virtual collaboration among category teams and free them from the necessity to co-locate to or constantly travel to a central location. Knowledge management systems will allow personnel to have access to the same information regardless of location.

Increased Control for Business Units

Centralized vs. decentralized control is an old debate. But going forward, large business units may have the stronger argument, to the detriment of highly centralized supply organizations. Best practices created by center-led organizations can be implemented by business units that then no longer see the need for control from the center.

Integrating Supply within the Organization

Regardless of where it ultimately ends up on the centralized-decentralized spectrum, supply management will have to be well integrated with corporate leadership, business units, and internal functions if it is to be successful. In the next decade companies will take different paths to integrating supply

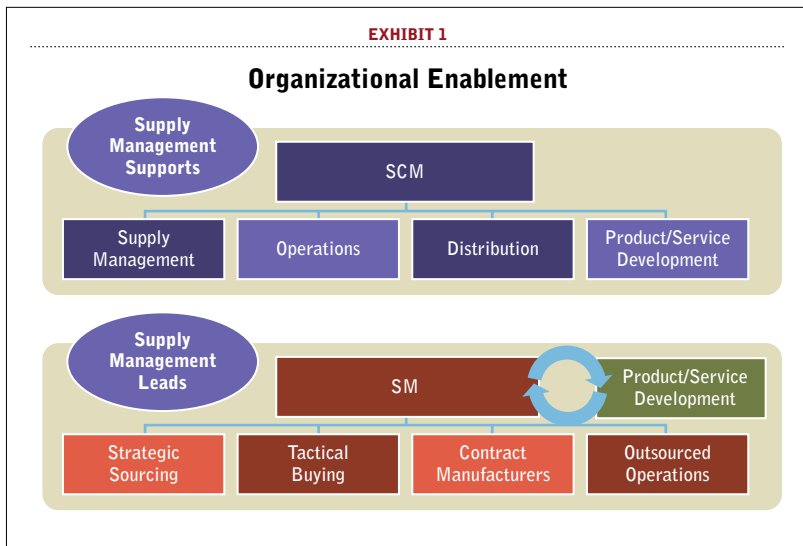
management with the rest of the organization. The two main scenarios, supply management in a supporting role and supply management in a leading role, are depicted in Exhibit 1.

Supply Management in a Supporting Role

At some companies, supply management will become one of several pillars in a larger supply chain organization. While the marketing/sales and finance functions will remain outside of supply chain, integration with these functional areas will be key.

acting as the chief cost management officer. One study participant discussed how this reality is coming to be:

“We are very much involved in spend at the operating level, but even within our own corporate office more of the spend is coming under our auspices. We are finding ourselves facilitating the process, spearheading things, and doing global contracts. We are assuming the budgets from multiple areas of our enterprise and pulling it together under the auspices of supply management.”



Outsourcing Supply Management

Continued pressure on headcount will drive more companies toward automation or outsourcing of select parts of supply management. Companies will centralize and automate transactions, reducing the absolute supply headcount while freeing up slots for higher value supply management work. This centralization and automation will open up opportunities for companies to offshore and/or outsource their transactional supply activities, which many will do.

Outsourcing of strategic supply management activities will occur only very selectively. There are two important reasons for this. First, to understand the important details of goods and services to be sourced, the buying organization needs to have a close and integrated connection with internal customers. Outsourcing firms will be challenged to establish these connections. Second, although an individual firm might gain some cost savings by aggregating their demand through an outsourcing firm, this savings will not make up for the loss of any unique marketplace advantages (for example, early access to new technology). Nonetheless, companies will likely outsource supply management for some categories that have low strategic importance and high market complexity. Such categories include energy, specialty chemicals, facilities management, and MRO (maintenance, repair and operations).

Within the supply chain organization, supply management will have the principal responsibility for managing the supply base and insuring that internal operations have the goods and services needed. One study participant explained how this will look:

“Supply chain will be absorbing other functions that traditionally were not within supply chain. Supply chain will take on responsibility and accountability for other things so they can influence it better instead of having to coordinate with other functions.”

Supply Management in a Leading Role

In the second scenario, supply management will take on a leading role to manage both external and internal supply. The top supply management role will closely resemble today’s chief operating officer’s job description. In this organizational structure, supply will manage the external supply base and contract manufacturers. Doing so will require a tight integration with engineering to help ensure the proper management of new product introductions and continuous improvement in legacy products and processes.

Under this model, supply management will have near-complete responsibility for the management of all expenditures in the corporation, with the supply management leader

As companies become larger and geographically dispersed, they will require relevant and effective metrics to manage and control the global operations. Metrics will be needed that clearly link supply management performance to the organization’s strategic performance. In particular, companies will need to develop measures of supply’s contribution beyond cost savings.

Supply organizations will develop many innovative metrics, but they will be hard pressed to create one that shows the total value they deliver. There will be no one metric or even a small set of metrics that demonstrates total value. Supply managers will continue to be challenged to present

Measuring Supply Management Performance

the right combination of metrics and supporting discussion to demonstrate the value they return to the organization and to justify the resources devoted to supply management.

A balanced scorecard approach to measuring the contribution of supply management to the success of the company will be in common use. A balanced scorecard framework and example metrics are shown in Exhibit 2.

Supply Management Talent

In the coming decade, supply management organizations will take on increased responsibility and a higher value role. Success will hinge on whether they can attract, develop, and retain individuals with the right skills and capabilities to excel in the future.

We believe that companies will need to focus on three specific actions in the decade ahead:

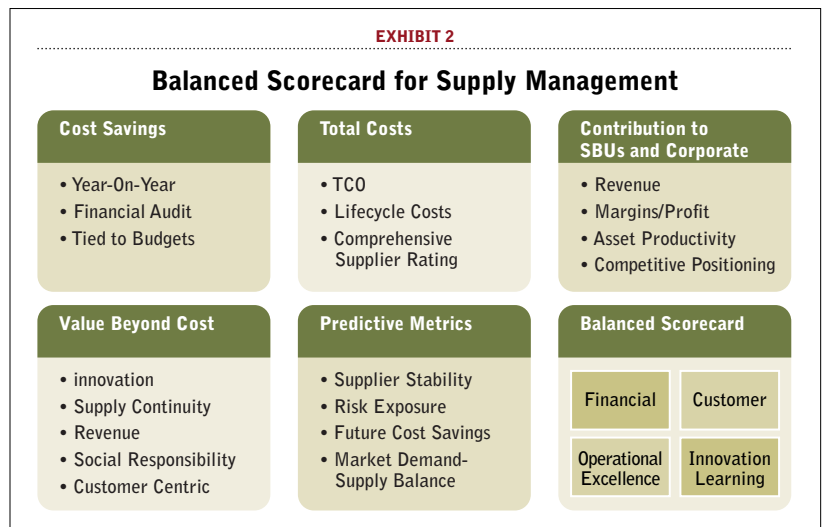
- Identifying needed skills and capabilities.
- Acquiring, developing and retaining talent.
- Managing a diverse, dispersed workforce.

Identifying Needed Skills and Capabilities

Much will be expected of tomorrow's supply management professionals. They will be charged with developing and executing strategies that find new value in the supply base. Importantly, this value must be delivered as quickly as possible within the cost parameters defined by the demand market and must maximize the return to the company. To do this, supply management professionals will need the skills and capabilities to understand and interpret supply market dynamics, analyze complex supply options and risks; and develop innovative value-acquisition strategies that integrate with and support business and functional strategies. Supply leaders will also be asked to create and manage collaborative supplier relationships and lead global cross-functional and cross-organizational teams. Exhibit 3 presents an overview of the many skills and capabilities that supply management professionals will need to succeed in the next decade.

Supply Management Skills. The foundational skills for supply management will increasingly center on a combination of supply market knowledge and supply process expertise. As one study participant told us, "We're challenging our people to be content experts and spend area experts on a global basis and asking them to be process owners." This dual requirement of market and process knowledge appears to be stretching the capabilities of many supply management professionals today. The challenge will only intensify going forward.

Cross-Functional and Cross-Cultural Skills. Supply management professionals will increasingly need both broader general business knowledge and multi-discipline skills. Understanding how their own business operates and competes will be key to identifying and delivering new value-



creation opportunities from supply management. Similarly, understanding how key suppliers operate and compete will help enhance overall value received, reduce costs, and ensure business continuity.

The ability to work cross-culturally will become more important as companies further expand geographically and continue to offshore activities and pursue suppliers in the next wave of low-cost countries. Individuals with international experience will bring to their organizations a broader understanding of how to work in different settings, and will act as a bridge between cultures.

"Soft-Side" Skills. Soft skills include the following: exhibiting and fostering a collaborative style of working; possessing an innovative spirit that challenges the status quo; seeking new solutions to problems; and having the ability to lead others effectively. Supply executives acknowledge the critical importance of soft-side skills in a global environment. Here is one comment we heard: "One of the things that we found is they had people with good technical skills but they just didn't have the soft-side skills to fit the organization. We're trying to source, beyond a technical skill set, what you need to know to be able to operate in a global business."

Competency-Based Delivery Model for the Future. While tomorrow's supply management organizations may aspire to have everyone possess the full set of skills described here, the scarcity of talent and simple economics makes that aspiration neither practical nor even economically possible. A more realistic approach will be to adopt a competency-based delivery model in which category managers blend category expertise with the soft-side skills needed to drive strategy and lead improvement efforts through culturally astute cross-functional teams. Such teams will draw from a shared pool of specialists who will support the team in analysis, process redesign, IT, and knowledge management.

Acquiring, Developing, and Retaining Talent

Global demand for talent is rising rapidly as companies in

EXHIBIT 3

Future Skills and Capabilities for Supply Management Professionals



emerging markets seek to build their industrial and commercial bases, and those in developed markets fight to protect theirs. Even within companies, requirements are converging and battles looming—the cross-functional, cross-cultural and soft-side skills that will be critical for supply management will be similarly critical for all other parts of the business. In short, supply organizations will face stiff competition from both within and outside the profession for tomorrow’s talent.

In this environment, companies will need a thoughtful, multi-pronged strategy to acquire, develop, and retain individuals with these skills and competencies, as shown in Exhibit 4.

Talent Acquisition. In the next decade, companies will need to be far more aggressive and creative in identifying and attracting supply management talent. Individual companies must create unique acquisition strategies according to their needs, drawing on experienced external hires, internal transfers, and campus recruiting. Talent will be sourced and deployed globally. Relationships will be established with the leading external talent suppliers, including universities, executive recruiters, and training providers. In essence, strategic sourcing and strategic supplier management principles will be applied to talent acquisition.

Companies will continue to rely on external recruitment of experienced staff to fill specific needs for supply management expertise or industry expertise. Companies will aggressively recruit experienced supply professionals for their specific areas of expertise (for example, deep category experience or proven success in implementing Six Sigma techniques with suppliers). Increasingly, companies will recruit individuals from industries that supply them, and then train them in supply management techniques. One study participant remarked upon the move to bring in non-supply talent:

“Because of our diverse technology portfolio we hire chemical engineers and mechanical engineers. We also hire chemists so they’re techni-

cally competent in the category that they’re managing and then we have been providing training to them to make them into sourcing professionals.

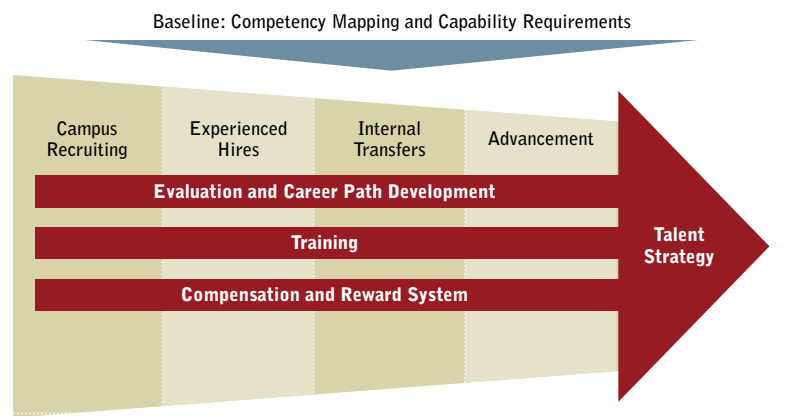
Internal candidates will be another important source of talent. Because of the growing importance of supply management, companies will increasingly consider a rotational tour in supply as a must for high-potential general executive candidates. Where the supply organization needs to add specific industry or domain expertise, transfers from other departments will become an even more

attractive option in the future. Related disciplines such as manufacturing, logistics, engineering, and R&D have historically been the source of these transfers. But as supply management expands, its influence into nontraditional areas such as human resources or marketing, people with domain knowledge and established relationships in those departments offer advantages over external candidates.

As supply management continues to become more attractive as a career field, companies will expect university programs to produce more and better qualified graduates. With increased competition for talent, however, they also will need to become more aggressive and selective in their campus recruiting efforts. Campus recruiting will require a blend of strategies, including establishing or strengthening relationships with universities that have leading supply chain programs or strong programs in related fields like design and engineering. In developing markets, companies will target leading universities to hire people with local market knowledge and language skills. As part of recruiting efforts, companies will continue to use summer intern and co-op programs to screen and groom young talent to fill entry-level positions.

EXHIBIT 4

Talent Acquisition, Development and Retention Strategy



Evaluation and Career Path Development. The future will require that evaluation and career path development for supply management adhere to a number of guiding principles. In particular, employees will be evaluated against specific skills and performance goals based on formal competency maps. Formalized, multiyear skill development plans will be established and regularly updated for all supply persons, and progress against the plans will be incorporated into their evaluation processes. Time and funding will be made available to enhance skills and capabilities through training. Formal ongoing mentoring for all supply management resources will be used to guide individual development. Leading companies will launch formal programs to encourage highly qualified employees throughout the organization to become involved in supply management initiatives as a part of their career development. Supply management staff will have clear career path options within this discipline as well as the opportunity to transfer or rotate to other departments. Staff rotation will be expected and used to drive career growth and introduce new thinking and skills to the supply management organization.

Underlying the evaluation and career-planning processes, many companies will need to invest in learning more about skill profiles, performance levels, and development needs of their supply professionals.

Exhibit 5 offers a stylized version of tomorrow's supply management career path, including several on and off ramps. As individuals develop skills and experience buying, sourcing, managing and then leading supply management activities, additional career opportunities open. One path could lead to broader responsibilities for supply chain or operations, while another could lead to leadership in other areas, including general management.

Training. How companies adapt their training approaches over the next decade will become even more important to supply success. Training curricula will need to be expanded and constantly refreshed to support the broader skill sets and deeper expertise required of individuals. The training must also respond to changes in approaches and supporting technologies to deliver value from supply markets. Training programs will need to support not just the individual, but also cross-functional teams.

To offset the effects of staff turnover, training programs will need to integrate tightly with knowledge management. The aim is to capture what the organization collectively knows, and make it available in ways that allow new staff anywhere in the world to more quickly overcome the learning curve. Companies will make greater use of tailored learning programs, blending formal classes, collaborative team learning, self-paced learning, and on-the-job experiences in a mix appropriate to the subject and tied to

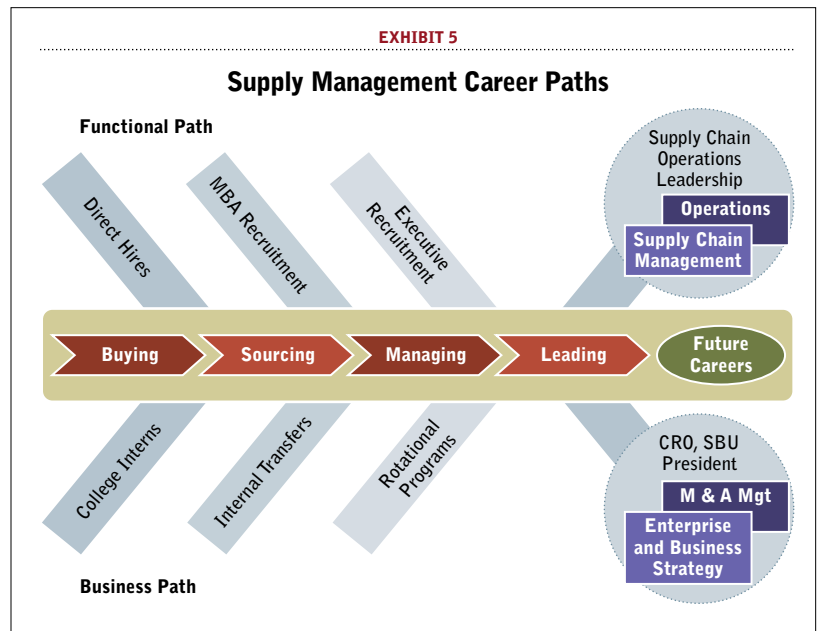
each individual's own learning pace and style.

Online learning will continue to grow as an "anytime, anywhere" delivery medium. But access will not be limited by computer availability. In fact, some companies are already delivering training to supply professionals via devices like iPods and smart phones.

Companies will create opportunities for individuals to become more culturally aware and more comfortable dealing in a global business world. One approach will be to rotate an individual to foreign countries on a short two- or three-month assignment as a part of a personal development plan. Another approach could be to place multinational teams of people at worldwide locations on a project basis to provide extra support to meet workload peaks. This type of temporary assignment will expose team members to a mix of cultures while helping them build a global network of contacts within the organization.

In contrast, some companies are finding that recruits from developing economies may require a somewhat different approach to development. Some western companies operating in China, for example, are sending local recruits on rotations of one or two years to the U.S. or Europe for development purposes in recognition that they require longer training cycles.

Compensation and Rewards. In the decade ahead, greater demand for supply management talent globally will cause compensation levels to rise. Companies will need to move away from internal benchmarking against other functions and look to the market and leading supply management organizations. Compensation and incentive programs must be redesigned to reflect both group performance against company supply management goals and individual performance against personal objectives and developmental goals. Non-monetary rewards also will be important. With a host



IBM Globalizes Supply Management

Our study predicts that western-based companies will more than double their purchases from China and India over the next decade. To meet the inherent challenges of this enormous shift many companies will follow the supply management approaches discussed in this article. IBM has already taken decisive actions along these lines. Sam Palmisano, IBM CEO, has identified talent and organization as two of the most important issues in globalization. Specifically, he has cited (1) securing a supply of high-value skills and (2) global corporate integration, changes in organizational culture, new forms of partnership among multiple enterprises and segments of society, and new standards for managing a much more complex marketplace.¹

In 2004, the company consolidated its purchase order processing in operations centers in Hungary, India, and China. Two years later IBM moved the office of CPO John Paterson to Shenzhen, China. Paterson commented, "IBM is more of a services and software company now and we're looking to develop suppliers in Asia that support and develop our non-hardware business on a global basis. We also want to assist in the development of high-level skills to enable us to develop those suppliers and manage them on a global basis. That can be done much more effectively with the headquarters of our organization physically in the region rather than 8,000 miles away." Paterson added that companies need to be able to run their organization globally from just about anywhere in the world. To do that, he said, requires standard processing and IT platforms and as well as well-educated and skilled people around the world.²

1 The Globally Integrated Enterprise, Samuel J. Palmisano, Foreign Affairs 132 (2006).

2 Heading East, Nick Martindale, CPO Agenda Spring, 2007

of external options readily available to supply professionals, companies will need to think creatively about development and career path opportunities for high performers as a part of their talent-retention strategy. High-profile projects, foreign assignments, and post-graduate educational benefits will be among the options considered.

Managing a Diverse, Dispersed Global Workforce

One of the biggest challenges for tomorrow's supply organizations will be how to lead and motivate individuals and teams in a far more diverse and distributed working environment. Globalization, demographic shifts, greater cross-organizational collaboration, and enabling technologies are creating a constantly shifting cadre of supply professionals from different cultures and generations. This dynamic is creating new ways of working across organizational and geographic boundaries.

The new generation of workers has different expectations from employers than did past generations. While the new workers no longer expect or plan for a one-company career, they will demand greater flexibility and free time, place great importance on personal growth opportunities, and expect more frequent feedback on performance. They have different working styles as well, patterned after the styles of communicating and interacting in their personal lives.

The generation that will enter the workforce in the coming decade represents the first generation for which large-scale social networking is a way of life and whose members are all "native speakers" of the enabling technologies. The trend toward more cross-organizational collaboration will provide a fertile testing ground for evaluating how well social networking skills transfer to the workplace. Over time, supply management processes and staff roles and responsibilities will be reshaped to take full advantage of the multitasking and social networking skills of tomorrow's workforce.

Organization and Talent: The Differentiators

Organizational development is the process through which an organization develops the internal capacity to achieve its mission and to sustain itself over the long term. In contrast, talent management focuses on the development of leadership as a process. This includes identifying necessary skills and capabilities, developing talent, and managing a diverse and dispersed workforce. Both forms of development mutually influence each other and impact the future success of any organization

Skilled and talented people with diverse functional and cultural backgrounds will be needed to power tomorrow's supply management organization. The demands of global business will call for more authority and responsibility at a country or region level, increasing the need to develop management talent at these levels. The application of information and internet technologies will provide knowledge and decision support to SBUs and regions that is now only available to center-led organizations.

In many ways, talent management will be the deciding factor in the success or failure of future supply management organizations. Competing companies will have access to the same supply market information, the same suppliers, and the same supply management best practices and tools. What will be different is how each company uses that information and technology, works with those suppliers, and applies those practices and tools. Success will all come down to the skills and creativity of the organization's people and the relationships those people build with others.

The challenge will be to effectively integrate talent, organizational structure, and technology to enable companies to be agile and flexible so they can effectively compete in the global economy.

