

New skills for a new era

Leadership skills, strategic vision and political and multicultural savvy are key ingredients for success for today's purchasing executives

BY EMILY KAY

As The Toro Co. develops sourcing relationships with low-cost, offshore suppliers, diverse language and cultural training is critical for its buyers. Such skills came in handy during recent telephone negotiations with a new Asian supplier, recalls Deb Lynch, sourcing and supply management director with Toro, a \$1.7 billion, outdoor-maintenance products manufacturer in Bloomington, Minn.

During the discussion, the supplier, at least to Lynch, seemed "positive and forthright." However, a buyer on Lynch's staff—who speaks Chinese—believed the talks were not so direct as they appeared and initiated a follow-up call during the supplier's work day. As Lynch's buyer suspected, the supplier did have some specific concerns, but had been uncomfortable discussing them with Lynch.

That example underscores the significantly different skills that today's procurement professionals need, says

David Hope-Ross, senior director of procurement applications with software supplier0 Oracle in Redwood Shores, Calif.

Indeed, today's procurement executives, he says, need strong leadership, communications, business and global supply-chain skills. These skills are

Skills procurement needs

- Leadership
- Strategic vision
- Political and multicultural savvy
- Relationship-building
- Project management
- Ability to work cross-functionally
- Problem-solving
- Ability to align sourcing plans with business strategy
- Supplier relationships
- Multiple languages
- Knowledge of multiple cultures
- Forward-minded thinking

needed to build long-term, strategic relationships with supply chain partners, to aggressively reduce total costs while not focusing solely on price and to manage increasingly strategic purchasing operations that oversee millions of dollars in spending power, much of it spent and sourced globally.

David Jacoby, president of Wellesley, Mass.-based research firm, Boston Logistics Group, agrees: "As supply chain integration increases and sourcing becomes more strategic [and more global], it requires a different and more robust skill set."

The need for procurement professionals with such skills is unlikely to diminish anytime soon. If anything, the need for individuals with new skills sets will only increase as the ability of manufacturers to obtain inexpensive goods worldwide grows in importance. Already, many companies spend 80% of their efforts and time in Asia, according to a recent Boston Logistics Group study—which also reported that strategic sourc-

ing will become 30% more critical to senior executives during the next four years.

And the need for procurement professionals with new skills is coming at a time, suggests Jacoby, when there is "a dearth of strategic supply chain skills in their organizations."

What's needed

How have buyers' responsibilities changed? During the 1980s and early '90s, companies began employing strategic sourcing techniques such as global sourcing, group buying, long-term contracting, and supply process integration. By the turn of this century, new technology such as portals, auctions and exchanges helped buyers identify and negotiate with suppliers.

That contrasts to when Toro's Lynch interviewed for her first purchasing job 15 years ago. Then, spreadsheet and negotiating skills were paramount. The same position today requires buyers to "build relationships, manage a project, work effectively cross-functionally, resolve problems systematically, look at the world globally, and understand different languages and cultures," she says.

The ability to cooperate across all supply chain functions is critical, experts agree, because buyers increasingly work with marketing and sales units to align new product introductions and pricing strategies with overall business objectives. In addition, procurement works with both engineering, and research and development to facilitate the introduction of new products as conditions change. Operations and production groups must accept changes to supplier relationships, while logistics and distribution organizations monitor costs and service performances.

Buyers also need political savvy and interpersonal skills to build such relationships. Cross-functional business knowledge is critical to aggregate spend across divisions for volume discounts, notes Lora Cecere, supply chain research director with AMR Research, a market-research firm in Boston, Mass. "You need to be good business partners with [each division] and really be sure there's a spirit of collaboration within

Profile of a Category Manager in a Mid-Sized Manufacturing Company

	1985	1995	2005
# previous jobs	2	4	6
Decision horizon (years)	1	3	5
Suppliers who account for 80% of spend	5-20	2-10	1-3
\$ (in millions) spend they influence	25	50	75
% time working cross-functionally	60%	75%	90%

SOURCE: BOSTON LOGISTICS GROUP INC.

the enterprise," she says. "We're moving more from a price-based, 'you do it or else' mentality to a more collaborative environment."

Lynch can attest to that. During a typical day, she deals with businesses and divisions to identify strategic sourcing opportunities, and plans and explains short and long-term business impacts of specific purchasing projects. "We build sourcing project plans a year or two out and align them with the businesses and their product development plans," says Lynch. "We integrate with what the business [units] want to achieve and work to help them achieve that."

Top purchasing executives must also demonstrate forward looking management skills. Why? Economic volatility requires a strong leader with long-term vision, says Jacoby, who adds that companies with purchasing strategies and tactics that change monthly will "be out of the game."

Jim Cebula, director of global purchasing and travel for Kennametal, recognizes such realities. Cebula spends some three months "developing a strategic plan, and the rest of the year executing it," he says. "I set aggressive goals, communicate them throughout our global organization, monitor those monthly, and take action where we're not meeting our goals."

Procurement leaders must understand how supplier relationships affect the manufacturer's bottom line, says Jody Sommer, strategic sourcing services senior vice president with Procuri Inc., a software supplier in Atlanta, Ga. "Every contract negotiation or request for information requires knowing your purchase base, what's happening in your industry, benchmarking with other companies you've networked with, and reading up

on what's happening with the suppliers you're working with," says Sommer, who worked in purchasing with General Electric for four years. "Strategic sourcing isn't rocket science but it does require diligence."

With diligence and vision, Cebula created a purchasing plan that has helped Kennametal cut \$80 million in supply chain costs since

2001. "We put together a strategic plan for sourcing globally that made sure that the specific goals aligned with our corporate ambitions," says Cebula. He also deployed electronic procurement tools that help buyers analyze ways to consolidate Kennametal's supply base.

More than just price

Contracting with low-cost suppliers overseas is a primary driver of the need for enhanced buyer proficiency. "Global sourcing is becoming a way of life due to both the increased availability of skilled and inexpensive offshore labor, especially in China, and to the technologies that facilitate those relationships," says Jacoby. "Those who will be relying heavily on global sourcing will also be emphasizing partnering and long-term agreements."

As he points out, companies have attained cost reductions of up to 70% by sending some manufacturing to Asia. China's "low labor cost, large talent pool, and improving legal structure" are particularly attractive, says Jacoby, though he cautions that global sourcing poses significant challenges and risks as well. In particular, he warns that companies need to be cognizant of potentially protracted product delivery lead times and language and cultural obstacles.

Oracle's Hope-Ross also urges buyers to factor more than just pricing into their overseas sourcing calculations. "When you add in tax, freight, transportation costs, and the time it takes to get from point A to point B," he says, "it becomes more complex than [buying] three widgets at \$3.99 instead of \$4.99."

To be sure, evaluating overseas vendors on price alone can have serious repercussions. That's why many supply

chain and procurement experts recommend that buyers make surprise factory inspections to forestall any nasty surprises. "Poorly run supplier factories where their staffs are mistreated are likely to be bad bets as suppliers," says Bob Otis, managing director with Atlantic Research Technologies in New York. "Business partners who cheat their staffs might also cheat their customers."

Kennametal also recognizes the potential impacts that buying products from low-cost, offshore suppliers can have on the entire supply chain. "Buyers and sourcing specialists need a better understanding of our total cost, not just the purchase price," says Cebula. U.S. companies, for example, might charge more, but delivery times from offshore vendors can be extensive—and more than offset price savings. "There are complications that occur and investments in inventory needed to support a lengthened supply chain," says Cebula. "The lowest total cost analysis is more involved than just comparing price."

Targeting price alone can actually cost more in the long term. "Three months later, [low-cost suppliers] can't honor the deal because you cut a deal so low they went out of business," says Procuri's Sommer. "You don't want to beat them up to the point where they're not successful and you have to recreate the wheel."

Legs on the ground

Global sourcing relationships also require sensitivity on the part of procurement professionals to other cultures, languages, and political establishments. Buyers must "step out of one's own culture to think about what might motivate other cultures," says Oracle's Hope-Ross, a former procurement analyst with market researcher Gartner Inc.

Speaking offshore suppliers' languages is crucial, "especially when talking over the phone," says Lynch. "Those who speak the language and know the culture understand unspoken nuances. They know what a pause or a certain phrase means. They also know cultural norms of negotiations and are more able to deliver more effective results."

Heading off a potentially troublesome relationship with the new Asian supplier, Toro's Chinese-speaking buyer successfully established a plan that included weekly phone calls to discuss issues. Without such communications, the supplier would likely "have called in with delays but not told us the problem," says Lynch. She also counsels that identifying and developing offshore suppliers can be "slow and systematic" and involve much "hand-holding" as suppliers learn manufacturers' specific needs.

Companies in different countries may also have work habits and expectations that differ from those in the U.S. "Europe doesn't always respond back to e-mails and quotes as fast as we do,"

observes Leah Orvis, raw materials supply manager with Bristol, Vt.-based Autumn Harp Inc., a contract manufacturer for the personal care products industry. "We want instantaneous responses but other cultures don't necessarily give that. It can take up to a week to get an e-mail back from an Asian company."

Different countries may also view quality differently. U.S. companies may reject what they deem to be inferior products that offshore suppliers consider excellent. "Sometimes their technology is not up to par, so their quality standards are not always what we're looking for," says Orvis.

Visiting offshore suppliers' manufacturing plants helps buyers verify that products meet their standards. "They need to see evidence that quantities of product have been produced on schedule and received with the quality expected," adds Atlantic Research's Otis. Toro's Lynch agrees. "Having legs on the ground is extremely important." She says that buyers must check in with suppliers often, visit plants, audit manufacturing, and look at products.

But don't expect high-quality materials and products immediately, Lynch warns. Toro suppliers initially deliver less intricate parts; the company increases their complexity as the relationship builds and suppliers better understand Toro expectations.

The long-term impact of the changing procurement environment is this. As procurement becomes an increasingly strategic operation, companies must "recruit, hire, train, and manage a new breed" of purchasing professionals, says Jacoby. Potential procurement executives need to have well-rounded skills, be able to work cross-functionally and have global experience in order to work with supply chain partners on continual performance improvements.

"You need to run a good sourcing organization," explains Jacoby, "but that's not enough today unless you know how you're helping to cut total costs."

Purchasing's range of job titles

Executive/Vice President

- President
- Chief Purchasing Officer (CPO)
- VP, Global Supply Chain
- VP, Operations
- VP, Sourcing
- VP, Procurement
- Senior Procurement Officer
- VP, Supply Chain Management
- VP, Supply Management
- VP, Planning and Purchasing

Director

- Senior Director, Materials Management
- Director, Global Procurement
- Director, Supply Chain Management
- Director, Materials
- Director, Strategic Sourcing
- Director, Sourcing
- Director, Procurement
- Director, Purchasing

Manager

- Global e-Sourcing Manager
- Procurement Manager
- Supply Base Manager
- Supplier Development Manager
- Manager, Indirect
- Purchasing
- Performance Manager

SOURCE: BOSTON LOGISTICS GROUP INC.

Purchasing professionals carry multiple titles.

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