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WASHINGTON, D.C. 20005-2111

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**EX PARTE**

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
Portals II  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

Re: Application of SBC Communications, Inc. and  
Ameritech Corporation for Authority To Transfer  
Control of Certain Licenses and Authorizations, CC  
Docket No. 98-141 – Written Ex Parte Presentation

Dear Ms. Salas:

Pursuant to a request of Commission staff during the January 29, 1999 meeting to discuss Requests for Proposals received by Ameritech Corporation, attached hereto are articles, citations, and other sources that document the increasing trend of purchasing consolidation and the growing demand for single source providers of telecommunications services.

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Ms. Magalie Roman Salas  
February 16, 1999  
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Two copies of this written ex parte presentation have been submitted  
to the Secretary's Office.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Antoinette Cook Bush". The signature is written in black ink and extends to the right with a long, thin horizontal stroke.

Antoinette Cook Bush  
Counsel for Ameritech

cc: Bill Dever, Common Carrier Bureau (CCB)  
(w/attachments)  
Lynn Starr (w/o attachments)  
Dick Hetke (w/o attachments)

## **SUPPORT FOR GROWING DEMAND FOR SINGLE SOURCE SUPPLIERS**

### **A. Generic Support for Supplier Consolidation**

1. Robert J. Trent, Ph.D. & Robert M. Monczka, Ph.D., Implementing Integrated Strategic Sourcing: Future Trends and Implications, Jan. 1998, at 39 (Strategy of corporate-wide consolidation of purchases involves combining purchases of families of items across buying locations to maximize a firm's buying leverage.).
2. Robert J. Trent, Ph.D. & Robert M. Monczka, Ph.D., Purchasing and Supply Management: Trends and Changes Throughout the 1990s, Int'l J. of Purchasing and Materials Management (Oct. 1, 1998) (Purchase consolidations will concentrate on worldwide buying units, which usually involves selecting suppliers with global design, production, and technical support capabilities.).
3. See also Purchasing Practices Changing Dramatically: How the Shift From Downsizing to Purchasing Consolidation Is Affecting Agents, Manufacturers' Agents National Association Agency Sales Magazine, Mar. 1997, at 17 (discussing purchasing consolidation); Phillip L. Carter, Joseph R. Carter, et al., The Future of Purchasing and Supply: A Five- and Ten-Year Forecast, Joint Research Initiative of Center for Advanced Purchasing Studies National Association of Purchasing Management, A.T. Kearney, Inc., Spring 1998, at 4, 12, 29 (emphasizing consolidation of supplier base and global sourcing strategies); Roberta J. Duffy, The Future of Purchasing and Supply, Purchasing Today, May 1998, at 32 (summarizing A.T. Kearney Joint Research Initiative); Mark Vigoroso, Buyers Pare Down Supplier Rosters (Oct. 22, 1998) <<http://www.manufacturing.net/magaz...chives/1998/pur1022.98/102news.htm>> (noting trend of supply-base optimization).

### **B. Examples of Supplier Consolidation in the Telecom Industry**

1. Canadian Department of National Defense issued a request for proposal in its quest for a single telecom service provider over the next

seven years. Dow Jones Interactive (citing Canadian Communications Network Letter, Mar. 2, 1998).

2. Dan Ernst of The Strategis Group made a presentation to industry conferences during the period from Fall 1997 through Spring 1998 in which he asserted that telecommunications managers are highly interested in a sole source vendor. For excerpts from the presentation, see, for example, Dan Ernst, The Strategis Group, Creating Competitive Offers, at 9 (data shows that over 35% of medium and large firms want a sole source vendor). For background on The Strategis Group, see <<http://www.strategisgroup.com>>.
3. "In today's global economy, few companies operate in one location. Businesses interact with customers – and employees – in different towns, countries, time zones . . . . For telecom providers looking to differentiate themselves in the marketplace and gain competitive advantage, network access server technology offers many important benefits including value added services, one-stop shopping, convenient network management and flexible migration of services." Anand Parikh, One-Stop Shopping for Voice, Data, and Video, Telephony, June 24, 1996, at 166.
4. "The aspect of having a single service provider for all of the telecommunications needs of an organization is attracting the attention of business customers who are constantly searching for ways to improve operational efficiency." Sylvia Dennis, CLECs Becoming One-Stop Shop as Revenues Soar -- F&S, Newsbytes News Network, Aug. 10, 1998 (quoting Imran Kahn).
5. Article on e.spire Communications noted that "the company introduced . . . a new integrated communications product developed specifically for small business" and quoted an e.spire executive's view that "customers really want just three things from a telephone company – savings, convenience, and simplicity." See Communications News, Dec. 1, 1998, at 22.
6. At the October 1998 Ameritech International Operations Conference in Budapest, Hungary, Gemini Consulting Limited made a presentation which demonstrated that a key customer need is global sales,

products, services and support. This implies that customers want to buy from fewer suppliers, if possible. See Gemini Consulting Limited, Predicting the Future of Global Telecom Alliances, Oct. 1998, at 6, 16, 31-38.

7. In an April 1998 analyst report, Salomon Smith Barney's Jack Grubman states that "the companies that will trade at premium valuations in this industry will be those that can provide end-to-end connectivity especially for business customers. . . ." Excerpts from Salomon Smith Barney, Equity Research Telecommunications Services, Company Report on WorldCom, Inc., at 6 (Apr. 9, 1998). An underlying assumption to Grubman's assertion is that large business customers want to buy from a single provider of end-to-end connectivity. Id. at 14-15.

**C. FCC Acknowledgment of Demand for Single Source Providers**

1. Market Entry and Regulation of Foreign-Affiliated Entities, Notice of Proposed Rulemaking, 10 FCC Rcd 4844, 4853, para. 20 (1995) (Commission recognizing that most of the major U.S. corporations are now multinational and these multinational "commercial customers prefer one-stop shopping to satisfy their varied and specialized communications needs") (emphasis added).
2. The Merger of MCI Communications Corp. and British Telecommunications PLC, 12 FCC Rcd 15351, 15377-78, para. 56 (1997) (Commission acknowledging its recognition of the global seamless services market as an emerging product market of worldwide geographic scope, which consists of a combination of voice, data, video and other telecommunications services offered by a single source on an integrated international network of facilities).
3. Applications of Pacific Telesis Group and SBC Communications, Inc., 12 FCC Rcd 2624, n.94 (1997) (Commission noting recent research reports/studies "investigat[ing] the choices likely to be made by large business customers for telecommunications vendors to meet their one-stop shopping needs).



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# *Implementing Integrated Strategic Sourcing*

## *Future Trends and Implications*

Prepared by  
**Robert J. Trent, Ph.D.** and  
**Robert M. Monczka, Ph.D.**

and

Developed by  
**Robert M. Monczka, Ph.D.** and  
**Robert J. Trent, Ph.D.**

**January, 1998**

**Robert M. Monczka, Ph.D.**, Director The Global Procurement and Supply Chain Benchmarking Initiative and Professor of Strategic Sourcing Management and The National Association of Purchasing Management Professor, Michigan State University  
**Robert J. Trent, Ph.D.**, Assistant Professor of Management, Lehigh University

The *increased reliance on and importance of suppliers* result primarily from three trends that will continue to affect companies over the next several years. These trends include (1) a focus on core competencies and technologies (firms doing what they do best), often with head count reductions, (2) the presence of intense worldwide competition (with accompanying cost pressure), and (3) pressure to innovate and improve continuously in critical performance areas.

While participating firms argue that suppliers are increasingly critical to their success, they will continue to share their destiny with fewer of them. In 1993, 80.4% of respondents said they reduced the number of active suppliers they maintained between 1988 and 1993. Almost 10% said the size of the supply base remained the same over that period, and almost 10% said they increased suppliers. Of the 80% who decreased suppliers, the average reduction in the size of the supply base was 34%.

Table 23 reports on the percent of firms that increased, decreased, or experienced no change in the number of suppliers they used regularly over the last five years. Table 24 reports on the percent of firms that anticipate an increase, decrease, or no change in the number of suppliers they use regularly by 2000.

**TABLE 23**  
*Adjustments to the Total Number of Suppliers Last Five Years*

<b>Remained the same</b>	6.9%	<b>1-10% decrease</b>	6.9%
<b>1-10% increase</b>	5.2%	<b>11-20% decrease</b>	22.4%
<b>11-20% increase</b>	6.9%	<b>21-30% decrease</b>	13.8%
<b>21-30% increase</b>	3.4%	<b>31-40% decrease</b>	13.8%
<b>31-40% increase</b>	0.0%	<b>41-50% decrease</b>	8.6%
<b>41-50% increase</b>	0.0%	<b>Over 50% decrease</b>	8.6%
<b>Over 50% increase</b>	3.4%		

N = 61

**TABLE 24**  
**Adjustments to the Total Number of Suppliers**  
**Projected 2000**

<b>Remain the same</b>	<b>6.9%</b>	<b>1-10% decrease</b>	<b>12.1%</b>
<b>1-10% increase</b>	<b>5.2%</b>	<b>11-20% decrease</b>	<b>17.2%</b>
<b>11-20% increase</b>	<b>3.4%</b>	<b>21-30% decrease</b>	<b>20.7%</b>
<b>21-30% increase</b>	<b>0.0%</b>	<b>31-40% decrease</b>	<b>17.2%</b>
<b>31-40% increase</b>	<b>0.0%</b>	<b>41-50% decrease</b>	<b>8.6%</b>
<b>41-50% increase</b>	<b>0.0%</b>	<b>Over 50% decrease</b>	<b>8.6%</b>
<b>Over 50% increase</b>	<b>3.4%</b>		

N = 61

Tables 23 and 24 reveal that supplier optimization is, and will continue to be, a continuous activity at most firms. For firms that decreased suppliers over the last five years (74% reduced suppliers), the average reduction was 21-30%. This was not as aggressive as the reduction that took place during 1988-1993. For firms projecting a decrease suppliers through 2000 (84% expect to reduce suppliers), the expected reduction should also average 21-30% from existing levels.

### **Supplier Performance**

Table 25 presents the perception of business units concerning *past, current, and expected supplier performance* across various performance categories. Interestingly, no single respondent rated supplier performance as *excellent* for *providing product cost reductions, assisting in concept-to-customer cycle time, and providing transportation cost reductions* in the 1997 sample (where 1 = poor performance, 4 = average performance, and 7 = excellent performance). Table 25 is sorted by descending value within the 1997 column. The number in the parenthesis is the performance rank for that item within each period. This table also includes perceptions from a 1988 sample of 40 firms.

A true cost-based approach requires cooperative behavior between the participants within a supply chain. Purchase/selling prices, *established through joint buyer/seller evaluation and analysis*, reflect agreed upon return-on-investment, productivity, and cost-saving sharing goals within the cost-based pricing framework. A cost-based approach is appropriate for items with a high value-added contribution from the supplier. It is not appropriate for standard items where the market has determined the most efficient producer.

A buyer and seller's agreement on the supplier's full cost to produce an item is the foundation of a cost-based price. Additionally, joint assumptions and agreement on product cost, production volumes, quality improvement requirements, targeted costs, quantifiable productivity improvement projections, specific cost content definition, and contractual sharing of performance improvement savings are essential. Cost-based agreements require a higher level of trust, information sharing, and problem solving between a buyer and supplier compared with traditional or market-based pricing approaches.

Relationships should strengthen when applying cost-based pricing as both a buyer and seller's products become more competitive in the marketplace. Performance improvements will result from a better understanding of requirements, information sharing between firms, and the continuous reduction of a supplier's product cost structure. A cost-based pricing approach should also result in reduced transaction costs between a buyer and seller over time.

This approach, which business units often combine with a target pricing framework, reflects a need to develop innovative ways for achieving cost reductions. It is a sophisticated approach that differs significantly from market-based pricing. Purchasers should pursue this approach with selected suppliers only after successfully establishing mutual trust, longer-term contracts, and closer relationships.

\* ***Corporate-Wide Consolidation of Purchases*** This strategy involves combining purchases of common items or families of items across buying locations to maximize a firm's buying leverage. Consolidation involves combining separate purchase agreements with the same supplier into a single, larger volume agreement, or eliminating multiple suppliers of a common item by establishing a single company-wide source.

Combining purchase requirements and giving fewer suppliers additional volume should reduce the average cost required to produce an item and result directly in lower cost/price. Furthermore, additional volume, along with a longer-term purchase agreement, supports increased investment by the supplier for future cost, quality, delivery, and technology improvements.

Few activities provide as rapid or large a return for the effort expended as purchase consolidation. Relatively few firms, however, have realized the total cost savings available through consolidating purchase volumes across buying centers. Currently, only *moderate consolidation* occurs when opportunities for consolidation exist. As a result, significant cost savings are still available from purchase consolidation, although participating firms are pursuing consolidation at higher levels compared with 1990.

## ***PURCHASING AND SUPPLY CHAIN MANAGEMENT KEY TRENDS AND CHANGES***

This section outlines the changes and trends that have affected and will continue to affect purchasing and supply chain management professionals. This discussion uses 1990 as the base year when discussing trends and changes, which appear in no particular order.

- \*1) **The percentage of longer-term contracts to total contracts and the percentage of the dollar value of purchases represented by longer-term contracts will continue to increase.**

A steady increase in the use of longer-term contracts has occurred between 1990 and 1997. The percentage of longer-term contracts to total contracts has increased 50%, from 24% of total contracts in 1990 to 36% currently. Additionally, the dollar value of purchases represented by longer-term contracts has increased almost 47%, from 34% to 50% of total purchase dollars. Within the next several years, expect at least half of all contracts to be longer-term, representing two-thirds of the value of total purchases.

Sound reasons exist for the growth in longer-term contracting. The pressure to reduce costs has had a major influence on the development of longer-term agreements. Longer-term agreements can reduce dramatically the transaction costs associated with maintaining a buyer/seller relationship. Firms no longer pursue short-term contracts characterized by frequent bidding and switching costs. Instead, purchasers can begin to focus on value-adding activities with suppliers.

Supplier reduction efforts often precede the development of longer-term purchase agreements with remaining suppliers. Perhaps most importantly, longer-term purchase agreements are prerequisites to activities requiring closer interaction and cooperation between a purchaser and supplier. As purchasers expand their use of activities that require closer relationships, such as early supplier design involvement, expect the use of longer-term agreements to increase.

- \*2) **Expect a continued increase in purchase volume accumulation or consolidation to occur. Furthermore, firms will increasingly focus their consolidation efforts worldwide rather than across domestic units only.**

Intensive cost pressures caused by worldwide competition have forced firms to create innovative ways to reduce total costs. Because of the low emphasis placed on purchase consolidation during the 1980s, consolidation has provided tremendous cost savings opportunities throughout the 1990s. The logic why firms consolidate purchase volumes is clear. The primary objective of consolidation is *to maximize a firm's buying leverage by combining purchases of common items, or families of items, across buying units*. Cross-locational/cross-functional teams are often used to identify cost-savings opportunities from consolidated purchases across buying locations. Although consolidation efforts have increased since 1990, most firms have achieved only a *moderate* level of consolidation, even when opportunities for consolidation exist. Purchase consolidation remains an evolving opportunity.

Firms will increasingly focus their consolidation efforts across worldwide buying units. The ability to consolidate worldwide usually requires the development of global data bases and commodity coding schemes to coordinate the consolidation effort. Also, consolidation usually involves the use of suppliers who have worldwide design, production, and technical support capabilities. These issues make supplier selection and management increasingly complex.

**(3) Expect a continued reduction in the average number of suppliers that a buyer manages X regularly.**

In 1990, a buyer typically was responsible for an average of 126 suppliers. Currently, buyers regularly do business with 60 suppliers on average, representing a decline of over 50% from 1990 levels. Part of this decrease is due to the reduction in the number of suppliers that firms rely on. Maintaining fewer suppliers means that each buyer can work with suppliers to develop closer relationships and pursue improvement opportunities jointly. Buyer emphasis can shift from trying to managing many suppliers to developing and improving the performance contribution of fewer suppliers.

**(4) Foreign purchases by domestic firms will continue to increase gradually.**

Purchases from foreign sources have increased 200% on average since 1990, from 9% to 27% of total purchases. This increase results from cost reduction pressures along with a need to gain exposure worldwide to process and product technology. These factors will help ensure that a gradual increase in total purchases from foreign sources will continue.

An increased reliance on international suppliers for product and process technology reflects several changes affecting firms today. First, technological leadership is not limited to U.S. manufacturers. U.S. companies must source wherever technological leadership exists. Second, product life cycles, especially in highly technical industries, are becoming shorter. This creates greater reliance on external suppliers to help shorten product development time, despite geographic location. Finally, as strategic plans rely less on vertical integration, companies have little choice but to search worldwide for the best possible sources of technology and material.

Foreign sourcing requires new skills for most buyers. The need to manage currency risk, lengthened material pipelines, and cultural differences (to name but a few) creates higher levels of complexity. Companies that do not have the expertise to pursue worldwide sourcing often must rely on international specialists to support their efforts.

**(5) Executive management's perception of supplier importance and of the purchasing/sourcing process toward achieving a firm's strategic goals and objectives will continue to increase.**

The increase in supplier importance, which executive management increasingly recognizes, is a result of five factors at work within most industries. These factors include (1) the need for cost control and reduction, (2) the need for supplier participation to reduce the total cost of acquisition, (3) increasing supplier impact on a purchaser's ability to be responsive to customers, (4) an increased reliance on fewer suppliers, and (5) the growing percentage of total product cost represented by external purchases. These factors have combined to elevate the role that suppliers have in achieving a firm's goals and objectives.



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Purchasing and supply management: Trends and changes throughout the 1990s

Robert J Trent; Robert M Monczka

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## (C) BRIEF

Understanding the changes and trends affecting purchasing requires replacing anecdotal evidence with research-based observations. Using data collected annually from leading firms worldwide, this article details the real and projected changes and trends that have affected and will continue to affect purchasing and sourcing professionals. These changes and trends appear within seven areas: (1) performance improvement requirements, (2) supplier and purchasing/sourcing importance, (3) organization, (4) systems development, (5) performance measurement, (6) supply base management, and (7) purchasing responsibilities and activities. A lack of awareness concerning these trends by purchasing professionals limits their ability to anticipate change and respond in a way that will create competitive advantage for their organization.

The functional area called purchasing is experiencing dramatic change within U.S. industry. Once regarded as a reactive activity capable only of neutral or negative contribution, the procurement and sourcing process at leading firms is at the forefront of responding to and creating change. The ability of purchasing, often in collaboration with other functional groups, to affect cost, quality, time, technology, and, ultimately, customer satisfaction is substantial. As AT&T's executive vice-president for telephone products remarked, "Purchasing is by far the largest single function at AT&T. Nothing we do is more important."<sup>1</sup> Market success demands that organizations maximize benefits of world-class supply management practices. The once minor function called purchasing has come of age. Understanding the changes and trends affecting purchasing requires replacing anecdotal evidence with research-based observations. Each year the Eli Broad Graduate School of Management at Michigan State University conducts a five-day seminar attended by executive managers from a broad range of industries and geographic locations. Before each seminar, participating companies complete The Purchasing and Sourcing Executive Research Survey, which focuses on a variety of purchasing and sourcing issues. Executive managers (1) provide a detailed evaluation of current purchasing and sourcing strategies, practices, and concerns, (2) identify changes that have taken place within the last five years, and (3) project supply management practices and changes through some future period. Responding to the survey often requires a collaborative effort by different managers within the same business unit. While the samples are not random, participating firms are generally larger and often

recognized as progressive in their purchasing and supply management practices. Annual data collection has allowed researchers to identify the procurement and sourcing trends and changes that have taken place throughout the 1990s. This article outlines the real and projected changes and trends that have affected and will continue to affect purchasing professionals. A real change or trend is one where the data show an actual shift in perception or behavior over the last several years. A projected change or trend involves an anticipated or expected change by some future date. The 1997 sample projected purchasing and sourcing changes through the year 2000. These changes and trends appear within seven areas: 1. Performance improvement requirements 2. Supplier and purchasing/sourcing importance 3. Organization 4. Systems development 5. Performance measurement 6. Supply base management

7. Purchasing responsibilities and activities The following sections provide an overview of real and projected purchasing and sourcing changes within these seven areas throughout the 1990s.

**PERFORMANCE IMPROVEMENT REQUIREMENTS** Over the last eight years respondents have overwhelmingly recognized the need for continuous improvement, including the need to realize timebased reduction targets. Performance improvement requirements at the corporate level have been a driving force behind the execution of innovative purchasing strategies and activities. This section examines the improvement targets that respondents expect to achieve through the year 2000. Expect continuous improvement in cycle time, cost, quality, and delivery performance, both internally and from external suppliers. Stringent customer requirements and increasingly competitive markets require performance improvement across all major performance categories. This has forced managers to make continuous improvement an integral part of their strategic planning processes. Over the next several years, firms expect to achieve the following improvement targets as part of their continuous improvement efforts: More than 70 percent of respondents expect no change or a decrease in purchased material costs (after adjusting for inflation/deflation). Firms expecting to achieve material cost decreases (55 percent of firms) anticipate annual decreases averaging 2 to 3 percent. More than 92 percent of firms expect average annual product quality improvements of 10 to 13 percent. This improvement relates to whatever method respondents use to measure quality. Almost 91 percent of firms expect average annual delivery performance improvements of 7 to 10 percent. Continuous improvement expectations make purchasing's contribution crucial to long-term success. Purchasing and sourcing managers must develop strategies and approaches that link to and support corporate improvement targets.

Expect purchasing and sourcing management to focus extensively on time as a competitive weapon, particularly during product and process development. Figure 1 provides a time-phased ranking of competitive capabilities. This figure is sorted by the percent of firms indicating an item is a "top five" capability required for competing successfully on a worldwide basis. While quality and cost will continue to be important, time-related capabilities are rapidly becoming the next generation of "order winning" characteristics. In particular, product support and best customer service with short leadtimes and the ability to bring new products from concept-to-customer in the shortest time in the industry will begin to rival

cost and quality as critical market attributes. Most respondents agree that reduced cycle times are essential for market success. Competition is no longer between big and small firms but rather fast and slow firms. Purchasing plays an important role in time-based competition because of its ability to affect time-related processes and activities. For example, reducing material ordering cycle times with suppliers can also help reduce a firm's internal manufacturing cycle time. Faster supplier responsiveness supports faster responsiveness to end customer requirements, particularly as planning horizons become shorter and less certain. While beyond the scope of this discussion, supply management practices directly affect four components of material ordering cycle time: (1) transmission of requirements to suppliers, (2) the suppliers' ordering and manufacturing cycle time, (3) delivery from suppliers, and (4) incoming receiving and inspection. Perhaps the most obvious areas where firms are concentrating their time-reduction efforts is product and process development. Major changes have occurred over the last eight years, in the methods and time required to develop products and processes, such as the use of product development teams and rapid prototyping technologies. As a result, average product development cycle time has declined from 3.2 years in 1990 to less than 2.5 years in 1997. In 1990, executive management reported that the importance of reduced product development cycle time for achieving competitive goals was 4.7 on average versus almost 5.6 in 1997 (where 1 = limited importance and 7 = significant importance). Companies will continue to reduce cycle times in areas sensitive to time-based competition and performance, particularly product development. Most business units expect a 40 to 45 percent reduction from existing levels in product development cycle time over the next several years. This has and will continue to require purchasing to pursue actions directed at reduced cycle times. For example, early supplier design involvement increased from 29 percent of firms stressing this activity in 1990 to 66 percent in 1997. Computeraided design interface with suppliers grew from 21 percent of firms stressing this activity in 1990 to 36 percent in 1997. Both activities support reduced cycle time by involving suppliers in the product development stage.

#### FIGURE 1

**SUPPLIER AND PURCHASING/SOURCING IMPORTANCE** In the mid 1960s, Bruce D. Henderson, a respected purchasing professional, spoke about the state of affairs facing purchasing. He stated that purchasing was a neglected function in most organizations because executive managers believed it was not important to mainstream problems. He indicated that some executives found it hard to visualize a company becoming more competitive because of superior procurement. In his view, this was incorrect since firms often derived a competitive edge from other functions such as research, marketing, finance, or manufacturing. In his words, "Procurement is regarded by executive management as a negative function - it can hinder the company if not done well, but can make little positive contribution."<sup>2</sup> During the 1990s, there has been almost a total reversal of this belief, where now suppliers and purchasing/sourcing have the attention and respect of executive managers. A need to achieve the continuous improvement targets presented earlier requires purchasing to assume a heightened position within the organizational hierarchy.

Executive management's perception of supplier importance and of the purchasing/sourcing process toward achieving a firm's strategic goals and objectives will continue to increase. Figure 2 (see page 5) shows the average perception that executive managers have of supplier importance, as reported by purchasing/sourcing executive perceptions of executive management, growing from 3.1 in 1990 to 4.64 projected in the year 2000. In addition, 98 percent of respondents in 1997 expected supplier importance to be quite or extremely important by the year 2000. The shift in supplier importance is a result of at least five factors which affect most industries: (1) the need to control unit costs, (2) the need to reduce the total cost of acquisition, (3) the increasing influence that suppliers have on the purchaser's ability to respond to end customers, particularly as it affects time-related requirements, (4) an increased reliance on fewer suppliers, and (5) a willingness of purchasers to rely on suppliers to design and build entire subassemblies and subsystems. These factors have heightened the role and importance of suppliers. Executive purchasing management's awareness of supplier importance in supporting product development has also increased steadily, growing from 4.5 in 1990 to 5.9 in 1997 (where 1 = limited importance and 7 = significant importance). Executive managers are recognizing the contribution that qualified suppliers should make during product development, such as providing design and technical expertise for components and subassemblies. Progressive firms involve suppliers in the early stages of the product development process.

A major sign of purchasing's growing importance involves the number of firms where purchasing/sourcing personnel make strategy presentations to the highest executive levels. In 1990, only 18 percent of respondents said they made strategy presentations to the Board of Directors versus 32 percent in 1997. Just over 50 percent said they made strategy presentations to the executive committee in 1990 versus 83 percent today. This growth likely reflects a maturing of purchasing to the point where it can assume a position on par with other functional groups. A study by Bales and Fearon<sup>3</sup> revealed that two-thirds of CEOs and presidents from various-sized companies viewed the purchasing function as very important to the overall success of their firms. Furthermore, almost 90 percent of the CEOs and presidents showed an interest in reviewing purchasing performance measures. Expect purchasing and supplier importance to continue to increase through the year 2000.

Firms will increasingly rely on external suppliers as a source of product and process technology. A dependence on suppliers as a source of product and process technology provides additional evidence of growing supplier importance. Since 1993, reliance on external sources for product technology has increased from 37 percent to 44 percent, while reliance on suppliers for process technology remains steady. Figure 3 shows the actual and expected changes in external reliance for supplier-provided product and process technology through the year 2000. Concentrating on core competencies and technologies with a greater emphasis on outsourcing non-core requirements almost guarantees continued growth in external reliance. Also, pressure to innovate by including the latest technology in product designs makes supplier contribution increasingly vital. ORGANIZATION The right organizational structure is essential for implementing leading-edge procurement strategies and plans. Today, this often means using

higher-level teams to evaluate, select, manage, and develop suppliers. Furthermore, the need to support accelerated product development and other cross-organizational tasks requires purchasing to take an end-item rather than strict commodity focus. Several changes correspond directly to the purchasing organization.

The number of purchasing groups organized by commodity will continue to decrease gradually, while the number of purchasing groups organized by end item or hybrid structures will increase. While most companies still organize purchasing around commodities, the number of purchasing groups organized by finished product or other hybrid structures continues to increase (see Figure 4 on page 6). This shift toward end-item and other hybrid structures reflects a growing need for purchasing to become more integrated with other parts of the organization. Purchasing participation on product development teams, for example, forces the purchasing professional to assume a product rather than commodity perspective. Some organizations have developed a product and commodity focus to their purchasing structure, with commodity teams or specialists supporting product development teams with commodity information as required. This hybrid structure features linkages between product development teams and commodity management teams.

#### FIGURE FIGURE

Expect a continued reliance on cross-functional sourcing teams to support various supply management tasks. A major change over the last eight years involves the use of cross-functional teams to support sourcing decision making. In 1990, less than 50 percent of firms said they emphasized the use of cross-functional teams to support sourcing decisions. This has increased to more than 75 percent of firms with an expected increase to about 80 percent by the year 2000. Cross-functional sourcing teams are assuming greater responsibility for evaluating, selecting, and managing suppliers.<sup>4</sup> These teams include members, perhaps only one of whom has formal purchasing or supply management experience, from different disciplines. Perhaps the greatest challenge confronting crossfunctional sourcing teams has been getting nonpurchasing members and functions to support team tasks. Because sourcing team assignments are usually part-time, members work within a matrix reporting structure. Members report not only to the team but also to their functional managers, some of whom perceive the sourcing team's tasks to be part of traditional purchasing responsibilities. Continued use of cross-functional sourcing teams requires a careful examination of the difficulties surrounding their use.<sup>5</sup> SYSTEMS DEVELOPMENT Given the need to coordinate purchasing activities across buying locations, assume an organizational rather than functional perspective, and take on complex and strategic responsibilities with existing staff, it is logical that almost 70 percent of respondents expect to emphasize purchasing systems development through the year 2000. Furthermore, the increased complexity and importance of information systems help explain why development is becoming less the responsibility of purchasing and more the responsibility of information technology specialists. (In 1990, almost 40 percent of firms surveyed indicated that purchasing systems development was a primary purchasing/supply management responsibility. By 1997, this figure had declined to less

than 30 percent, indicating that purchasing systems development was less the responsibility of purchasing and more the responsibility of systems development experts.) Purchasing systems development will increasingly emphasize (1) external system linkages and (2) networking between purchasing sites and with suppliers. Increased networking between sites and the development of external system linkages are projected rather than real changes, partly because networking and Internet/intranet applications were unheard of in the early 1990s. During the last several years, purchasing systems development has evolved around the need to integrate global buying centers, worldwide production locations, and suppliers. As such, purchasing systems will emphasize Internet/intranet applications, networking between purchasing sites, and global databases. Figure 5 (see page 7) identifies the top 10 projected systems application growth areas through the year 2000.

Expect continued growth of and emphasis on electronic data interchange (EDI) systems with suppliers. Figure 5 also highlights the continued emphasis that firms expect to place on EDI development. Respondents anticipate having electronic linkages with almost 60 percent of their supply base (compared with 25-30 percent today) by the year 2000. Furthermore, almost 60 percent of total purchase transactions (purchase orders, amendments, shipping notices, and schedules) should link directly with suppliers through EDI (compared with 32 percent today). Respondents expect to link almost 70 percent of total purchase dollars through EDI by the year 2000 (compared with 38 percent today). Whether these projections are realistic is questionable since EDI growth has consistently failed to meet respondent expectations. While actual EDI volume has increased since 1993, actual EDI volume does not match the expected volume predicted in 1993. In 1993, respondents estimated that 60 percent of the supply base, 70 percent of total purchases, and 65 percent of total purchasing transactions would flow through EDI systems by 1997. Actual volumes, while higher than actual 1993 actual volumes, do not come close to those projections. EDI growth, which may not take place at the projected rate, will continue for several reasons. First, the use of EDI has become routine within most industries. It involves available and straightforward technology that enables even smaller companies to benefit from its use. Second, the pressure to reduce material cycle times and related costs will ensure EDI's continued growth. Third, EDI offers the opportunity to develop closer buyer-seller relationships and improved communication linkages. PERFORMANCE MEASUREMENT Performance measurement is essential for gauging the overall effectiveness of functional and team-based strategies and plans. Specifically, procurement managers should rely on measurement systems to identify:

FIGURE 4

1. Supplier performance and improvement opportunities
2. Performance trends
3. The best suppliers to select, both for routine purchase requirements and for critical items that would benefit from long-term purchase agreements
4. Where to commit limited supplier development resources

5. The overall effectiveness of supply management improvement efforts. A formal supplier measurement system also provides an efficient way to express performance requirements throughout the supply chain. Several trends involve purchasing performance measurement.

Expect a continued increase in the measurement of purchasing's contribution and performance particularly in areas that directly affect a firm's competitive position.

As purchasing stresses strategically-oriented activities, expect certain performance measurement areas to gain importance. These include: 1. Purchasing's support of concept-to-customer

cycle time reduction for new products 2. Purchasing's ability to introduce new technology from suppliers

3. Purchasing process cycle time measurement 4. Total cost of ownership. New measurement areas will emphasize purchasing effectiveness rather than efficiency, reflecting a shift toward an increasingly strategic sourcing perspective. Figure 6 (see page 8) reports on the percent of firms that measure and expect to measure purchasing contribution within a particular area. Companies will continue to develop formalized systems for measuring supplier performance. Furthermore, expect increased development of minimum levels of acceptable supplier performance. An often ignored area involves the continuous measurement of supplier performance. Many organizations, large and small, have failed to recognize the importance of supplier-related measurement. This has resulted in shifting systems development resources to more critical areas. As a result, wide differences exist in the quality and capability of supplier measurement systems. Some firms perform monthly qualitative assessments of supplier performance while others measure performance on a daily basis against stringent targets. A small minority calculates the total cost of supplier-caused nonconformance while others fail to evaluate supplier performance.

In 1990, only 47 percent of the responding companies had a formal system to measure continuous supplier performance. Only 36 percent maintained specific minimum levels of acceptable supplier performance. By 1997, 85 percent of firms say they have a formalized system with less than 60 percent maintaining defined minimum levels of acceptable performance. For smaller firms, these figures decline rapidly. Expect firms to enhance their supplier-related measurement capabilities, often as part of their systems development effort.

**SUPPLY BASE MANAGEMENT** Not long ago, most U.S. companies believed that how they managed suppliers made little difference in their overall performance. Buyers played suppliers against each other, switched suppliers frequently, and offered only short-term contracts. This adversarial model, while not ideal, worked when all industry members practiced the same form of supply management. The model changed, however, when global competitors showed that collaborating with suppliers could lead to competitive market advantages. Now, changes are occurring in the way firms approach and manage their supply base. Most companies will continue to reduce the total number of suppliers they maintain, although the reductions will not be as

dramatic as those of the last eight to ten years. Almost 75 percent of firms decreased the number of suppliers they maintained over the last five years. More than 80 percent of participating firms expect a continued reduction in the size of their supply base through the year 2000, although the reductions will not be as aggressive as the late 1980s and early 1990s. Respondents anticipating a reduction from 1997 levels estimate a 21-30 percent average decrease in the size of their supply base. Interestingly, supplier reduction sometimes involves only a reduction in the number of first-tier suppliers. A trend within the automotive industry, for example, has been to rely on larger, full-service suppliers to design and build entire subsystems. Instead of many smaller suppliers providing components for the subsystem, the purchaser uses one major subsystem supplier, who then depends on smaller suppliers to provide components. Former first-tier suppliers have become second-tier suppliers. While the purchaser maintains fewer first-tier suppliers, strategic supply management requires that buyers maintain a keen interest in first-, second-, and even third-tier suppliers.

FIGURE 5

Reduction efforts carried out during the early 1990s primarily involved a smaller group of suppliers selected from the original supply base, thereby ignoring the evaluation of new suppliers. This resulted partly from the urgent need to reduce the supply base quickly in response to threats from overseas competitors. Supply base improvement might have been greater if purchasers had broadened their supply search. While relying on existing suppliers reduced disruption and lessened supplier switching costs, it also precluded considering potentially better suppliers. Most companies have experienced some supply base restructuring; therefore, any improved performance was not unique to a single company. Optimization is only a first step toward worldclass supply base performance. Advanced sourcing strategies requiring closer interaction between the purchaser and the seller simply are not feasible with a large supply base. Executive managers must question whether supplier optimization has created a foundation for pursuing more complex activities that will further accelerate improvement.

Expect a continued reduction in the average number of suppliers that a purchaser manages regularly. In 1990, the typical purchaser was responsible for managing 126 suppliers on average. By 1997, this number had declined to managing 60 suppliers, representing a decline of over 50 percent from 1990 levels. Part of this decrease is due to the reduction in the number of suppliers that organizations rely on. Maintaining fewer suppliers means that each purchaser can work with selected suppliers to develop closer relationships and jointly pursue improvement opportunities. Purchaser emphasis can shift from attempting to manage many suppliers to developing the performance contribution of the vital few. Expect a continued decrease in the average number of suppliers a purchaser manages as firms further reduce their supply base and consolidate purchase contracts across buying centers.

FIGURE 6

The percentage of long-term contracts to total contracts and the

percentage of the dollar value of purchases represented by long-term contracts will continue to grow. A steady increase in long-term contracting has taken place since 1990. The percentage of longer term contracts to total contracts has increased from 24 percent of total contracts in 1990 to 36 percent in 1997, an increase of 50 percent. Additionally, the dollar value of purchases represented by long term contracts has increased almost 47 percent, from 34 percent, to 50 percent of total purchase dollars. Within the next several years, expect at least half of all contracts to be long-term, representing two-thirds of the value of total purchases.

Long-term agreements can dramatically reduce the transaction costs associated with a purchaser/ seller relationship. Organizations no longer pursue short-term contracts characterized by frequent bidding and switching costs. Instead, purchasers can direct their efforts toward value-adding activities. Perhaps most importantly, long-term purchase agreements are prerequisites to activities requiring closer cooperation between a purchaser and a supplier. As purchasers expand their use of activities requiring closer relationships, such as early supplier design involvement, expect continued growth in the use of long-term agreements.

Expect a continued increase in purchase volume accumulation or consolidation to take place. Furthermore, organizations will increasingly focus their consolidation efforts worldwide rather than across domestic units only. Severe competition has forced organizations to search for innovative ways to reduce total costs. Because of the lower emphasis placed on purchase consolidation during the 1980s, this approach has created significant cost savings throughout the 1990s. Organizations consolidate or leverage their purchase volumes of common items or families of items to receive lower prices and better service. Although consolidation efforts have increased since 1990, respondents say their efforts have resulted in only a moderate level of consolidation, even when opportunities for consolidation exist. (On a seven point scale where 1 = no consolidation, 4 = moderate consolidation, and 7 = total consolidation, the average amount of consolidation is 4.95 across the entire sample when asked, "To what degree are purchase volumes consolidated across the total firm when opportunities for consolidation exist?") Purchase consolidation remains an evolving opportunity at most organizations.

Organizations will increasingly concentrate their consolidation efforts across worldwide buying units. This usually involves selecting suppliers which have global design, production, and technical support capabilities. Worldwide consolidation requires the development of global databases and commodity coding schemes to coordinate the consolidation effort. Unfortunately, almost two-thirds of the respondents did not have access to a global purchasing database. This can deter future consolidation efforts, particularly those involving worldwide buying locations.

Expect organizations to be increasingly willing to take direct action to develop supplier performance capabilities. Historically, U.S. organizations committed few resources toward developing supplier performance capabilities. Traditional purchaser/seller relationships, characterized by limited trust, did not support

collaborative efforts. Now, a smaller supply base requires a commitment and investment in relationships rather than switching suppliers at the first sign of a problem. Progressive companies have increasingly practiced supplier development activities that are direct and aggressive. Figure 7 reports on the percent of organizations reporting that they practice supplier development activities. Clearly, major supplier development efforts are taking place that require purchasing to maintain a crossorganizational focus. Even with this willingness to work with suppliers, most U.S. business units still report they commit limited resources toward development. Supplier development, however, is an activity that separates those organizations that are truly committed to leading-edge supply management practices from those that maintain more traditional sourcing relationships. Expect purchasers to be increasingly willing to help develop the key suppliers within a smaller supply base. PURCHASING RESPONSIBILITIES AND ACTIVITIES If an increase in purchasing importance is taking place, then shifting responsibilities over time should reflect this importance. Since 1990, dramatic shifts have occurred in purchasing areas of responsibility and the activities put forth to help achieve an organization's goals and objectives. Expect a continued increase in strategically and externally-focused purchasing responsibilities. Furthermore, expect a continued decrease in purchasing's responsibility for tactically-oriented tasks. The shift since 1990 in purchasing responsibilities reveals a large-scale movement away from tactical commitments and movement toward strategic or value-adding tasks. The following activities have increasingly become the responsibility of purchasing or require direct purchasing involvement. The figures in parentheses represent the percentage growth in the number of organizations indicating an activity is a responsibility of purchasing compared with 1990 levels. For example, almost 12 percent of organizations in 1990 said they had responsibility for international supply management versus almost 54 percent in 1997, or an increase of 450 percent. International supply management (+325%) New product development involvement (+280%)

#### FIGURE 7

Commodity futures trading (+213%) Outbound transportation (+37%)  
Travel buying (+30%) Production buying (+30%) MRO buying (+23%)

Construction/capital buying (+21%) Inbound transportation (+20%)  
Strategic purchase planning (+17%) Subcontracting responsibility (+14%)  
The following activities have become less the responsibility of purchasing since 1990. Production control (-86%) Finished goods inventory management (-83%) Customer service responsibilities (-65%)  
Managing work-in-progress inventory (-59%) Production planning (-57%)  
Finished goods field warehousing (41%) Shipping (-37%) Part numbering (-37%) Receiving (-36%)

Countertrade management (-36%) Inventory control (-34%) Expediting (-27%)  
Systems development (-23%) Along with the movement away from tactical activities, most firms are taking action to reduce purchasing's responsibility for ordering lower value goods and services. Purchasers can no longer commit a disproportionate amount of staff resources to process low-value purchases. New systems and processes that allow users to order directly from approved suppliers

should result in purchasers performing less day-to-day buying. For example, many organizations now issue credit cards that allow holders to purchase miscellaneous requirements directly from suppliers. The expanded use of information technology will further reduce the operational burden placed on purchasing. By relying on PCbased information systems, users can order directly into an approved supplier's system against a corporate contract. Also, material ordering for production items can be automatic after generating production schedules. Another development is the use of third-party suppliers to manage inventory investment. Increasingly, on-site suppliers are managing a purchaser's tool cribs, store rooms, and maintenance supplies. Since the purchaser no longer has primary responsibility for these items, purchasing professionals are free to pursue valueadding activities. These changes concern some purchasers. If an individual's main responsibility has been to routinely place purchase orders, what happens when job requirements change? A changing profession calls for continuing education and skill development. Many purchasers are ill-equipped to respond to these changes and should seek to improve their skills.

Since 1990, purchasing has emphasized certain activities, processes, and strategies at an increasing rate. Many activities have experienced major changes in their relative emphasis since 1990. The percentages in the following list represent the growth in the number of organizations reporting that they emphasize an activity compared with 1990 levels. At least one-third of the respondents must emphasize an activity to qualify for inclusion on this list: Benchmarking against leading firms (+146%) Use of full-service suppliers (+125%) Joint ventures and supplier partnerships (+117%)

System or subsystem sourcing (+67%) Supplier technology demonstration days (+96%)

Value analysis/value engineering (+96%) Global sourcing (+74%) Total cost of ownership supplier selection and management (+72%)

Cross-functional sourcing teams (+62%) Single sourcing (+44%)

Supplier recognition through awards (+43%) CAD interface with suppliers (+71%) Activities to promote continued growth are often put in place to reduce the concerns of purchasing managers. The concerns that are most likely to affect purchasing and sourcing performance in the year 2000 (in order of rating by respondents) include availability of talented personnel for purchasing positions, high or rising material/product costs, length of time to introduce new products, and availability of systems support. Many of the following activities speak directly to those concerns. The percentages represent the growth in the number of firms expected to emphasize an activity by the year 2000 compared with 1997 levels. Bar coding with suppliers (+45%) Use of full-service suppliers (+24%) System or subsystem sourcing (+18%) Strategic cost management throughout the supply chain (+17%) Part number reduction (+15%) Standardization of finished products, components, assemblies, and materials (+13%) Value analysis/value engineering (+11%) Purchasing systems development (+10%) Total cost of ownership supplier selection and management (+10%)

Use of buyer-seller improvement teams (+9%) Computer-aided design interface with suppliers (=6%) Benchmarking (=5%) Cross-functional sourcing teams (=4%) Cost-base versus traditional bid pricing (=4%) Supplier recognition through awards (=4%) Purchasing is increasingly becoming a global activity.

Several trends and changes reveal that purchasers have increasingly assumed a global perspective over the last eight years. ~~As mentioned, the focus of purchase volume consolidation today is across worldwide buying units.~~ Since 1990 the number of organizations reporting that purchasing is responsible for international supply management has increased by 325 percent. Respondents also expect the development of global databases to be a primary area of systems growth through the year 2000. Finally, an unquestionable increase in foreign sourcing is occurring. ✓

Purchases from foreign sources have increased from 9 percent of total purchases in 1990 to 27 percent of total purchases today, with an increase to 35 percent expected by the year 2000. Respondents say this increase results primarily from cost reduction pressures and the need to gain exposure to worldwide process and product technology. These pressures ensure that a gradual increase in total purchases from foreign sources will continue.

The trend toward increased global purchasing is clear. However, the need to manage currency risk, extended material pipelines, global databases, and cultural and language differences creates greater complexity. The question becomes whether organizations have the resources and capabilities required for coordinating worldwide purchasing activities.

#### CONCLUSION

This article highlighted the trends and changes that are affecting purchasers at most organizations. Surviving in an era of rapid change and intense competition requires a commitment to develop the skills of purchasing professionals, use information technology throughout the sourcing process, pursue activities and strategies that capture the full benefit of a world-class supply base, and create responsive new organizational structures. The competitive environment of the year 2000 and beyond requires purchasing to play an active role in helping achieve an organization's cost, quality, time, and technology goals. Without purchasing's input, organizations risk losing market share to competitors who have positioned themselves to receive the benefits offered from world-class supply management.

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Robert J. Trent is an Associate Professor of Management at Lehigh University. He earned his Ph.D. degree from Michigan State University. His current research interests include crossfunctional/cross-organizational integration.

Robert M. Monczka is a professor of strategic sourcing management and the director of the Global Procurement and Supply Chain Benchmarking Initiative at Michigan State University. He is also The National Association of Purchasing Management Professor. Dr. Monczka earned his Ph.D. degree from Michigan State University  
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## LEVEL 1 - 369 OF 396 STORIES

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HEADLINE: Purchasing practices changing dramatically: how the shift from downsizing to purchasing consolidation is affecting agents.

## BODY:

Now that America's major corporations have downsized to the point where a few people are doing the jobs of many, the latest wave of penny-pinching seems to be in the hands of purchasing people. Not that getting the most bang for the buck is not a noble and practical tradition, but its latest incarnation is going to have a major impact on suppliers, whether they sell through factory direct people or through independent agents. And, as you might expect, there are new phrases creeping into business lingo to describe the process. "Centralized buying" is one term you are probably familiar with. "Purchasing consolidation" is another. No matter what you call it, though, the business of buying is changing - and so will the business of selling.

Many major corporations whose far-flung plants used to buy products, services, and supplies locally are now buying centrally. Subcontractors that used to quote hourly rates to their customers are now being asked to give fixed quotes for specific tasks. Suppliers that sold to regional plants in their territories now find themselves faced with centralized buying practices. And a new crop of corporate executive is emerging - the truly professional purchasing executive. Where the PA of earlier times was, in many cases, a high-level clerk, the purchasing agent we are seeing today is not only a highly trained and professional person, but often a person who now has a lot of clout at the corporate level.

This change is felt not only by agents and other salespeople who must now deal with a centralized buying function, but it's being felt and resented within the corporate giants themselves. Where the manufacturing manager a few years ago might have had full responsibility for buying the parts and raw materials his line might need, he or she no longer has this responsibility. To some, it's a relief, giving them time to concentrate on what they know best, manufacturing. But, to others, it's a stripping of authority; it's taking away one of the elements of quality control. When purchasing people buy "cheap" and the product they put on the line isn't up to par, it's often the manufacturing person who gets the heat.

The goals are the same as downsizing - do the job for less and fatten

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profits. In a sense, it's hard to quarrel with the basic assumption. After all, this is a cardinal tenet of a free-market economy. However, as everyone knows, when the curve of "cheap" crosses the curve of customer acceptance, business is lost. Smart companies push to that point, then back off just enough so that they keep their margins strong and their competition at bay.

#### The Shift to Centralized Purchasing

Remember just a few years ago the gurus were saying that we were entering the era of the service economy. Service was going to be everything. Banks sought competitive advantage by telling us just how friendly their tellers and officers could be. And every other business under the sun promoted the smiling faces of their people. Today, you have to pay a premium at some banks if you want to talk with a teller. Use their cash machines, is what these service economy folks are telling us. And banks are just the most obvious example.

This sudden shift from service was strictly the result of cutting overhead - or to put it bluntly, firing people. Centralized purchasing is just a further extension of this notion. And, when the accountants do their numbers, the results usually are better profits, something that is difficult to argue with. But, this doesn't make it easy for us, as agents, to provide the best goods and services and run our businesses efficiently.

The problems that this trend is raising for agents are many and complex. For example, suppose that a customer with plants located in the territories of different agents centralizes its buying at headquarters. The products are bought centrally, but are shipped to and used in territories of other agents. Is this a split commission situation, with the headquarters territory agent getting a split of all the business going to individual territories? It's not an issue we have heard of yet, but it could happen. Suppose that the customer decided to reduce the number of vendors it is willing to deal with, and you are one of the vendors being dropped. Is this legal? Is it ethical? What does this mean to the agent whose principal is no longer on the preferred supplier list?

In even larger terms, what does this mean for agency selling in general? The companies who have tried to cut agents from the picture and asked for price reductions based on eliminated commissions have already felt the wrath of the legal machinery on this one. But, where money is to be saved, there's no shortage of clever folks who will find the way - no matter at whose expense.

#### Face the Problem Head-On

OK, so we are seeing economics in action, and a lot of it isn't pretty. Some of it isn't legal. But, much of what we see and will probably see in the future will not only be legal, but it will impact the way we do business - some positively, some negatively. Those who previously decried government intervention will probably turn to government for help. Those who have traditionally faced problems head-on will find ways of doing things differently and probably better. One agent we talked with recently told of having several of his principals cut his commissions. Rather than scream and holler, he quickly devised a bonus plan based on specific goals. He now makes considerably more than he would if the principals had not nicked one percent off his "traditional" five percent commission rate. In fact, he said that the manufacturer recently and sheepishly asked him if he would like to return to the old system. This

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agent saw the problem, saw the opportunities, and made both work for him.

There is very little any of us, individually or collectively, can do to change economic trends. We can, of course, react to the injustices we encounter and do something about them. But when the forces of the marketplace shift, we have to be prepared to make the most of the shifts. Just remember that the phenomenal success of the agency method of selling after World War II was pretty much the result of such shifts. Many small companies with new and good ideas and products needed the enthusiasm and coverage that only agents could provide. And we did it. Then, when the first wave of downsizing hit about ten years ago, the steady shift from direct sales to agency selling took another big leap. Now, business is changing again. We are seeing both problems and opportunities. And the agency business is not going to be the same as it was ten years ago any more than it was the same ten years ago as it was before that.

At MANA, we are talking with manufacturing executives, agents and consultants almost daily. We are asking them what they see and what they feel is going to happen. We have taken a major step in professionalizing our business by taking an active role in the CPMR program. We are seeking input from everyone, including you. Write us. Call us. Tell us what you see, what you are doing and how your efforts are working. The times, they are a changing. Let's be part of making the changes - not reacting to them.

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**THE FUTURE OF PURCHASING AND SUPPLY  
A FIVE- AND TEN-YEAR FORECAST**

*A Joint Research Initiative  
of*

Center for Advanced Purchasing Studies  
National Association of Purchasing Management  
A.T. Kearney, Inc.

*The Research Team*

Phillip L. Carter, D.B.A.  
*Center for Advanced Purchasing Studies  
and  
Arizona State University*

Joseph R. Carter, D.B.A., C.P.M.  
*Arizona State University*

Robert M. Monczka, Ph.D., C.P.M.  
*Michigan State University*

Thomas H. Slaight  
*Vice President  
A.T. Kearney, Inc.*

--- Andrew J. Swan  
*Research Manager  
A.T. Kearney, Inc.*



#### FOR ADDITIONAL INFORMATION

- A comprehensive report containing a discussion of the research methodology employed, a bibliography of literature reviewed, quotations from CEO and Purchasing/Supply executive interviews, and survey results is available. A stand-alone annotated bibliography with brief summaries of the literature reviewed has also been published. Both reports may be obtained by contacting the Center for Advanced Purchasing Studies, P.O. Box 22160, Tempe, AZ 85285 (602-752-2277).
- Additional information about A.T. Kearney's *Leadership Practices in Procurement* research, the *House of Purchasing and Supply<sup>SM</sup>* framework and *The 1997 CEO Global Business Study* may be obtained by contacting Ruth Groth in the firm's Operations Services Practice, 222 West Adams Street, Chicago, IL 60606 (312-223-6227).

# INTRODUCTION

The purpose of this research was the development of five- and ten-year forecasts for purchasing and supply based upon a close examination of key change drivers. The authors aimed to highlight the most important areas of concern for Purchasing Executives. The research included trends of importance for organizations of all sizes, in all major industries — profit and nonprofit — private and public. To this end, the research team:

- Identified the major economic, demographic, societal, competitive, and technological trends most likely to have major implications for the purchasing and supply management profession, its professionals, and organizational processes.
- Projected the identified trends for five years (2003) and ten years (2008).
- Determined the impact of these trends on two types of executives: Chief Executive Officers (CEOs) and Purchasing and Supply Executives.
- Forecasted the environment for purchasing and supply in five years (2003) and ten years (2008).
- Projected the changes to the purchasing and supply profession, its professionals, and organizational processes implied as a result of the research.

The ultimate value of this research is contingent upon its use by purchasing executives and organizations. Hopefully, this document will stimulate thinking about the future and the formulation of plans and strategies that incorporate the environmental and business trends identified by the research.

# RESEARCH APPROACH

We used a triangulated approach (*Figure 1*) to obtain inputs for the research study. The research consisted of three components:



FIGURE 1

1. An Environmental Scan of Future Trends
2. CEO Interviews and Survey
3. Purchasing/Supply Executive Focus Groups and Survey

Each component served as input to the other two and provided the basis to validate and challenge the findings derived from the other two areas. This research approach, illustrated by the research project's "logo" (*Figure 2*), sought to identify and understand the interactions among the three areas addressed in the research:

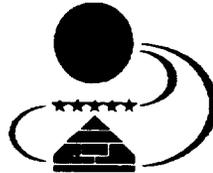


FIGURE 2

- How changes in the competitive landscape ● affect the CEO's priorities ★★★★★ and the organization's agenda for action
- How purchasing and supply organizations ▲ align themselves with these CEO and organizational objectives ★★★★★
- How purchasing decisions and supply restructuring ▲ impact the competitive landscape ●
- How technology, globalization and new competitors ● alter the rules for purchasing ▲ and for the overall organization ★★★★★
- How supply opportunities and constraints ▲ help reshape strategy and the CEO agenda ★★★★★

The process is iterative, interactive, contingent and highly changeable. The information obtained over the course of the nearly 10 months of this study helps to illuminate how the linkages work today and where future opportunities lie.

## ENVIRONMENTAL SCAN

The long-term profitability of companies depends on executives understanding the global and local forces in the new millennium and capitalizing on these changes. Several key environmental change drivers (*Figure 3*) will significantly impact organizations and purchasing/supply in the next ten years. The following paragraphs describe the conclusions reached by the research team regarding the key drivers of company and purchasing/supply strategies.

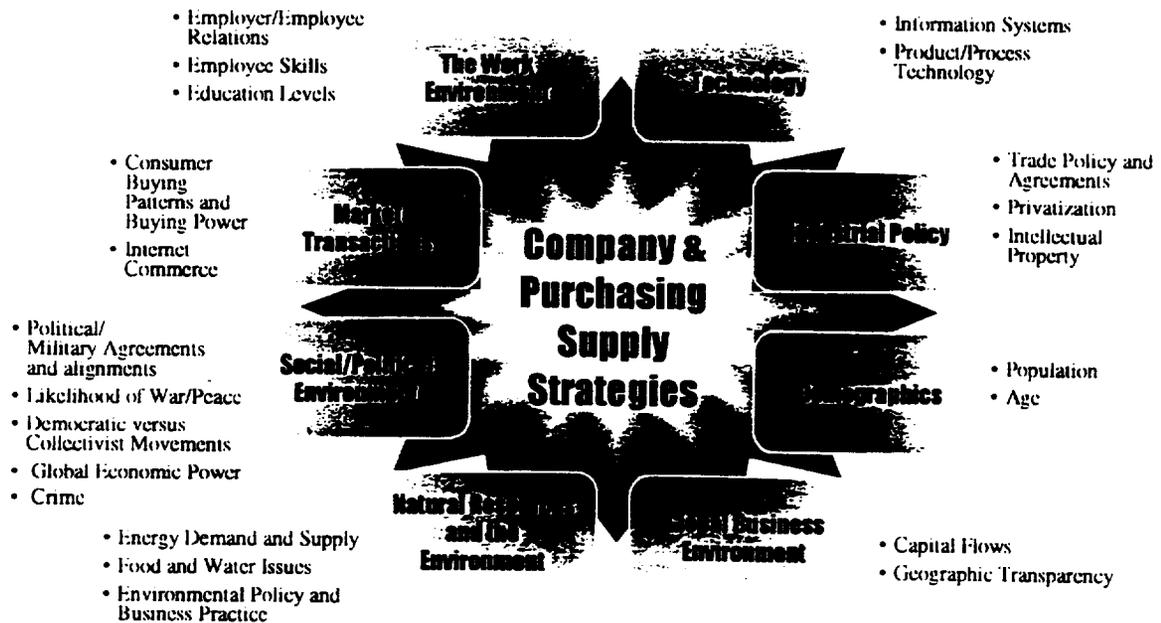


FIGURE 3

While it is clear that many of the trends are interrelated, it is less clear which trends are precursors to others. For example, did technology drive and enable the “borderless” world we now operate within? Or was it the desire for personal and market freedoms that drove a worldwide trend towards democratization, increased global competition and the need to continually innovate? Although answering such questions is beyond the scope of this research effort, opportunities and constraints arising from the trends are identified.

## EXPECT, ACCEPT AND DEMAND CHANGE

Perhaps the most significant trend that will impact the world for decades to come is the willingness of the populace to expect, accept — and even demand — change. Whether socio-political, technological, personal, or environmental, the majority of the world's people critically examine long-held traditions and the status quo to explore improvements. For example, through democratic elections in communist and socialist countries, people have demanded a new government mindset to permit personal freedom and financial growth. Through re-engineering, companies have realized that changing a company's culture and operations is often the only way to survive. Through purchases of new technologies and home computers, people changed how they communicate both personally and professionally. This pace of change is increasing exponentially.

<b>Expect, Accept and Demand Change</b>	
<b>Opportunity</b>	<b>Constraint</b>
<ul style="list-style-type: none"> <li>• New product and service development</li> </ul>	<ul style="list-style-type: none"> <li>• Inadequate change leadership skills</li> </ul>
<ul style="list-style-type: none"> <li>• Greater propensity to recycle products</li> </ul>	<ul style="list-style-type: none"> <li>• Disagreement over long term benefits of recycling compared with extra energy usage</li> </ul>
<ul style="list-style-type: none"> <li>• Environmental protection industry to flourish</li> </ul>	
<ul style="list-style-type: none"> <li>• Low inflation and steady increases in GDP/GNP fuel industrial consolidation and economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for creation of large regional differences in received investment</li> </ul>
<ul style="list-style-type: none"> <li>• Growth through international acquisition</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidation of supplier base</li> </ul>

## GLOBAL ECONOMY

Largely driven by political and technological change, world financial markets are closely linked via 24-hour trading. A drop in one nation's economic fortunes directly impacts financial markets worldwide. Organizations such as the International Monetary Fund and the World Bank are increasingly forced to stabilize and/or mitigate these negative economic impacts.

International business is no longer limited to large multinational corporations. Small to medium size enterprises increasingly source from or operate in other countries. Manufacturing firms in "developing" countries, originally used to access low labor costs, have improved their capabilities to the point that they provide innovative product and process technologies that create competitive advantages for a corporation. Productivity and quality are dramatically improving worldwide.

Global Economy	
Opportunity	Constraint
• Total markets growing	• Inadequate distribution channels globally
• Developing markets require advanced products/services faster than ever before	• Inadequate supplier base and supply chain infrastructure in those markets
• Capability to exploit home nation strengths	• Overcoming residual protectionism and trade barriers
• Greater specialization in developed markets	• Structure of economies changing more rapidly than can be supported by education, skills, investment, etc.
• Economies of global scale	• Slow start-up in developing countries
• Trade barriers "officially" disappearing	• Integration of technology with trade expansion is essential

## TECHNOLOGY

Technology is often labeled the “great change agent” — it overcomes the physical limitations of time and space. Through information technologies, the borders between countries, corporations and people have likewise been removed or mitigated. The “information age” has encouraged increasingly smart consumers to become less loyal to any specific brand. Through product and process technologies, consumers can also acquire customized products and services that are less costly yet of higher quality than ever imagined.

<b>Technology</b>	
<b>Opportunity</b>	<b>Constraint</b>
<ul style="list-style-type: none"> <li>• Exponential rate of adoption and exploitation</li> </ul>	<ul style="list-style-type: none"> <li>• Market oversaturation</li> </ul>
<ul style="list-style-type: none"> <li>• Global communications removes need for geographic colocation of workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Manufacturing production remains plant-bound</li> </ul>
<ul style="list-style-type: none"> <li>• Design and development speeds enhanced through 24-hour working</li> </ul>	<ul style="list-style-type: none"> <li>• Labor becomes more transient and has commensurate risk of knowledge loss/theft</li> </ul>
<ul style="list-style-type: none"> <li>• Volume of information and data available to users will grow substantially</li> </ul>	<ul style="list-style-type: none"> <li>• Systems integration becoming harder as developments precede standards</li> </ul>
<ul style="list-style-type: none"> <li>• Value chain enhancements utilizing new technologies</li> </ul>	<ul style="list-style-type: none"> <li>• Quick response will require restructuring of supply chains and distribution channels</li> </ul>
	<ul style="list-style-type: none"> <li>• Companies have to learn to plan for uncertainty</li> </ul>

## DEMOCRATIZATION AND CAPITALISM

Since the dissolution of the former Soviet Union, numerous countries have embraced democracy, privatization and capitalism. Though the rate of change varies, the trend is clear. Governments have adopted the belief that their countries' economic independence and their political parties' governing power are dependent upon the implementation of market economies. This philosophical change improves the standard of living for a country's populace and creates new markets for global competitors. National and regional marketplace differences erode as companies correspondingly move towards global operations and management.

<b>Democratization and Capitalism</b>	
<b>Opportunity</b>	<b>Constraint</b>
<ul style="list-style-type: none"><li>• Energy and utilities privatized and becoming acquisition targets for global growth</li></ul>	<ul style="list-style-type: none"><li>• Telecommunications aside, relative lack of economy of scale</li></ul>
<ul style="list-style-type: none"><li>• Global networks of supply supersede regional networks</li></ul>	<ul style="list-style-type: none"><li>• Firms required to build political intelligence networks to avoid supply interruptions</li></ul>
<ul style="list-style-type: none"><li>• Transition to information revolution</li></ul>	<ul style="list-style-type: none"><li>• Intellectual property complications due to rich/poor nation status concerns</li></ul>
<ul style="list-style-type: none"><li>• Early compliance with voluntary environmental standards</li></ul>	<ul style="list-style-type: none"><li>• Increasing power of environmental enforcement agencies</li></ul>

## LARGER AND MORE DIVERSE POPULATION

Even with the lowest projections, the world's population will increase dramatically. The majority of growth (98%) will occur in developing countries. China and India will continue to be the most populous nations. Birth rates are expected to slightly rise in the short term, then decline over time as industrialization spreads. By 2050, world population may stabilize or begin to decline. Immigration is expected to increase, as people in overcrowded and underdeveloped areas look for opportunities elsewhere, increasing the diversity of every nation's populace.

<b>Larger and More Diverse Population</b>	
<b>Opportunity</b>	<b>Constraint</b>
<ul style="list-style-type: none"><li>• Increased population leading to greater overall demand for goods and services</li></ul>	<ul style="list-style-type: none"><li>• Majority of growth in developing countries</li><li>• Worldwide increase in food and energy requirements</li></ul>
<ul style="list-style-type: none"><li>• Reducing influence of trade unions</li><li>• Increased telecommuting and use of temporary labor alongside job sharing</li></ul>	<ul style="list-style-type: none"><li>• Greater flexibility sought by employees in developed economies</li></ul>

## AGING POPULATION

The average age of the world's population will be approximately 40 years by the year 2050 (In the U.S., the average age is expected to exceed 40 years by 2010.) This is due both to a declining fertility rate and increased living standards worldwide. As the population ages there is stress on social systems for the elderly, stress on retirement plans, and increased medical expenditures dedicated to an aged population.

The average age of the workforce will also increase, requiring companies to develop strategies for in-house employee training and education. However, in developed economies, elderly persons will have greater disposable income and will demand increased services to preserve their accustomed standard of living.

<b>Aging Population</b>	
<b>Opportunity</b>	<b>Constraint</b>
<ul style="list-style-type: none"><li>• Continuing demand for products and services</li></ul>	<ul style="list-style-type: none"><li>• Social services burden on wage earners</li></ul>
<ul style="list-style-type: none"><li>• Increasing healthcare and healthy living market</li></ul>	<ul style="list-style-type: none"><li>• Healthcare needs increase as population ages</li></ul>
<ul style="list-style-type: none"><li>• Consumer buying patterns changing with greater focus on value</li></ul>	<ul style="list-style-type: none"><li>• Consistency of quality and availability of products/services become critical determinants of consumer choice</li></ul>
<ul style="list-style-type: none"><li>• Growth at both low and high ends of product ranges</li></ul>	

## WORKER SKILLS AND EDUCATION

Emphasis on improved education has resulted in marked improvements in the average education level achieved worldwide. There is greater educational opportunity and availability. However, improvements still lag requirements of an increasingly knowledge-based competitive environment. Shortage of technically skilled managers capable of operating in an international arena are apparent.

<b>Worker Skills and Education</b>	
<b>Opportunity</b>	<b>Constraint</b>
<ul style="list-style-type: none"><li>• Greater pool of available talented labor</li></ul>	<ul style="list-style-type: none"><li>• Geographic concentration of low-cost labor</li></ul>
<ul style="list-style-type: none"><li>• Higher education standards worldwide</li></ul>	<ul style="list-style-type: none"><li>• Inadequate executive skills to develop global companies and new opportunities</li></ul>
<ul style="list-style-type: none"><li>• Greater accessibility to education and information</li></ul>	<ul style="list-style-type: none"><li>• Widening gap between those who have access and those who don't</li></ul>
<ul style="list-style-type: none"><li>• Greater flexibility to education and information</li></ul>	<ul style="list-style-type: none"><li>• Immobility of low-cost labor</li></ul>
<ul style="list-style-type: none"><li>• Broader general management education</li></ul>	<ul style="list-style-type: none"><li>• Inadequately qualified technical employees</li></ul>

## GLOBAL BUSINESS STRATEGY IMPLICATIONS

Based on the environmental/futures scan, a number of macro implications for global business strategy emerge. They include:

### Global Business Strategy Implications

- **Global Focus**

Global, regional and local customer-oriented focuses will be required. Global product management to meet unique customer and geographical segment needs must occur. Product/service design, manufacturing, distribution channels and post-sales support require tailoring strategies to unique customer requirements.

- **Competitive Advantage**

Firms will selectively globalize to achieve competitive advantage. This will require executives focusing on interfaces between business unit, geographical and functional activities. Interdependence of business units must be recognized in order to lever the capabilities of the firm.

- **Management Practices**

Management practice will increasing use matrix organizations to leverage companywide capabilities. We will witness more rotation of executives and possibly technology personnel to fully "globalize" the firm, a continuous restructuring and reengineering utilizing information systems/technology, an increasing emphasis on managing uncertainty and risk, and a focus on the competitive advantage of different countries to provide for centers of excellence.

- **Strategic Alliances**

Cross-boundary and cross-functional management practices will become the norm. Strategic alliances with customers and suppliers will be increasingly established. Alliances will be developed with organizations (public and private) in emerging markets to provide competitive advantage.

## IMPLICATIONS FOR PURCHASING/SUPPLY

The following are key implications to purchasing and supply based on the environmental scan.

### Implications for Purchasing/Supply

- Regional and global sourcing strategies will become a critically important source of competitive advantage.
- The number of key suppliers to firms will be reduced to maximize leverage on a global basis. Supplier's regional and global capability expectations will increase.
- Strategies and tactical sourcing work will be further separated.
- Executive management expectations of purchasing/supply will increase due to the cross-functional, cross-boundary emphasis and focus on alliances with both suppliers and customers.
- Purchasing/supply will be increasingly integrated with the strategic plans of the firm to maximize company-wide leverage.
- Purchasing/supply performance measures will become further aligned with companywide measurements.
- Information systems/technology will be key to globalization and sourcing strategies enterprise wide.
- New, more complex skills and focus will be required in purchasing/supply to operate in a globally complex and uncertain world.
- More flexibility and external customer focus will be required in purchasing/supply activities to maximize supplier contributions.

## CEO ISSUES

In 1997, A.T. Kearney commissioned a study of the most pressing concerns of executives at four hundred and sixty-three of the world's largest companies (sales volume of U.S.\$1 billion or greater). Companies represented a wide range of industries including consumer products, retail, communications, healthcare, finance, oil and gas, automotive, transportation and utilities. An independent market research firm, Opinion Research Corporation, was commissioned to conduct the survey.

CEOs identified the following items as the most "critically important":

### 1997 CEO Global Business Study

1. Relationships With Customers
2. Cost Competitiveness
3. Effective Use Of Information Technology
4. Managing Change
5. Shareholder Value
6. Revenue Growth
7. Industry Restructuring
8. Globalization
9. Value-Added Relationships With Suppliers

*Source: A.T. Kearney 1997 CEO Global Business Study*

## KEY FINDINGS

Executives delivered five key messages:

- **Customer Relationships to the Forefront**  
Customer relationships have replaced costs as the new number one CEO issue — but CEOs haven't lost sight of cost control.
- **Supplier Relationships Emerge**  
Supplier relationships have emerged as a priority and increasingly are viewed as an underutilized vehicle for enhancing overall performance.
- **Common Goals/Common Barriers**  
In building high-quality supplier relationships, CEOs are addressing a common set of barriers.
- **Building on Trust**  
Trust is key to better relationships, and it is earned through performance.
- **Leveraging Supplier Relationships**  
Performance leaders address supply relationships in a dramatically different way — they "leverage" them, tailoring them to a) overcome obstacles and b) meet well-defined objectives.