THE CHANGING ROLE OF PROCUREMENT IN MANAGING A SUPPLY CHAIN NETWORK (A GLOBAL CASE STUDY)

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Presentation Objectives

- Definition of a supply chain within the public and private sectors

- The concept of supply chain management,

- A successful global case study illustrating how the function was transformed from “Purchasing (i.e. paper pushing and admin) to Procurement (i.e. purchasing, strategic sourcing, supplier development etc)“ and finally into supply chain management

- The changing role of procurement in managing a supply chain network.

- Elevating the profession from MANCOM to that of an EXCO function in the emerging world

- The future of the procurement profession

- Potential Career progression for the Procurement professional

Caution: Presentation is not about telling the Procurement professional on what to think ... But rather what think about vis-à-vis potentially repositioning the profession for the foreseeable future!
What Is a “Supply Chain”? 

A supply chain is a network of internal/external companies /organizations that through value adding activities provides goods / services to customers.

Within each of the above entities there are INTEGRATED purchasing and supply chain functions to be performed.
A Supply Chain Exists Across All Sectors Be It Private Or Public

Government structures and departments are a network of supply chains that are supposed to work together to deliver a service to the people at the least cost.

Within Govt departments like the Home Affairs, Treasury, Trade, Health etc there internal and external supply chains,

Within National Provincial and local structures are also supply chains that are supposed to seamlessly work together to deliver a service to the people

Within an SOEs like SAPO & PETROSA, CITY POWER, SABC, UNISA, JOHANNESBURG HOSPITAL, etc there are internal and external supply chains that are supposed to work together to deliver a service

Within the private sector entities like PICK N PAY & TIGER BRANDS, VODACOM, STANDARD BANK, PPC, etc there are internal and external supply chain network partners that work together to meet customer needs

The issue has always been whether the process/purchasing/logistics custodians know and understand their supply chain network and the impact of their actions on the various entities within the network!
Example of a Public Sector Supply Chain Network
South African Post Office

SAPO and its supply chain is a network of internal/external companies/organizations that through value adding activities provides goods or services to customers.

A stamp and a post box are some of the supply chain products supplied by SAPO.

Structure may differ from where the focal entity sits in the network and their Tier 1 and Tier 2 customers could be internal or external.
Example of a Public Sector Supply Chain Network City Power

CITY POWER and its supply chain is a network of internal/external companies/organizations that through value adding activities provides goods or services to customers.

Structure may differ from where the focal entity sits in the network and their Tier1 and Tier2 customers could be internal or external.
Example of a Private Sector Supply Chain Network  Pick N Pay

PICK N PAY and its supply chain is a network of internal/external companies/organizations that through value adding activities provides goods or services to customers.

Structure may differ from where the focal entity sits in the network and their Tier1 and Tier2 customers could be internal or external.
Example of a Private Sector Supply Chain Network Vodacom

VODACOM and its supply chain is a network of internal/external companies/organizations that through value adding activities provides goods or services to customers.

Structure may differ from where the focal entity sits in the network and their Tier1 and Tier2 customers could be internal or external.
What Is Supply Chain Management?

There Is A Lot Of Confusion Over What Supply Chain Management Is.

Some consider it “logistics outside the firm” some confuses it with operations management whilst other think it is a glorified term for purchasing... that can’t be right.

Supply chain management is defined as “the integration of key business processes from end user through original suppliers that provides products, services, and information that add value for customers and other stakeholders.” Lambert(2007)

Set of business processes that seamlessly work together to ensure that requirements of the end user are at all times satisfied within reasonable time and cost limits, Boateng(1998).
There is a subtle difference between supply chain management and operations management....!

SCM attempts to integrate all internal functions plus the interactions with suppliers and customers. Operations Management focuses more on the way and manner of execution within each of the functions...Procurement encompasses the purchasing and strategic sourcing and other aspects of supply chain management.
The supply chain issues have not really changed but the context within which the issues exist may have slightly changed*

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Strategic move from Purchasing to Procurement and finally into Supply Chain Management

A Global Case Study of a Pharmaceutical Manufacturer
The organization and associated Supply Chains

- The Global Organization
  - Over 280 BILLION RANDS* GLOBAL REVENUE ORGANISATION
  - Hundreds of product lines
  - Thousands of employees
    - Highly qualified professionals, competitive organization

- The supply chain for the development manufacture and supply of a Prostate enlargement pharmaceutical product
  - At its peak global sales of product was well in excess of 4 BILLION RANDS*
  - 1st on the market for prostate enlargement
  - Multiple sourcing locations
  - Multi product manufacturing
  - Complex supply chain with multi channel partners in various global locations
  - Complex bill of material
  - Delivery lead time ranged from a day to 120 days!

*Based on the prevailing exchange rate during that period
The Product Supply Chain 1 “Before”

Within each of the above entities there were INTEGRATED purchasing and supply chain functions to be performed.
The Purchasing Role I “Post 1995”

Purchasing was just an administrative and paper pushing activity with the organization.
Issues and Challenges faced by the Purchasing Professional

- The prodigal buyer
- ERP systems seen as the panacea and not the training
- Treated as a admin clerk and a paper pusher
- Low morale
- High staff turnover
- Reporting structure
- Cost over runs
- Blamed for
  - Late deliveries
  - High inventory due to lack of coordination
  - Rejects and waste etc
  - Downtime in the factory
  - Systems integrity problems
  - Customer service problems
  - Manufacturing problems
  - Relatively low salary

Inventory across the GLOBAL product supply chain was in excess of R200m* .......and this was just for one product!!!!

*Based on the prevailing exchange rate during that period
Initiative to Restore Morale and Professional Integrity  “How?”

- Purchasing officers came together to form a thought leadership forum.
- Clear plan of action developed to change the image of the profession within the organization.
- Through various consultations the name was strategically changed from Purchasing to Procurement.
- Tactically decided to educate EXCO about supply chain management and the role of procurement within a supply chain.
- SCM Project Head and a Steering committee was formed.
- Executive coaching and mentoring programs were initiated.
- Started working on easily quantifiably benefits to prove the benefits of SCM.
- Highlighted potential conflicts especially with Finance.
- All Procurement officers went through a SCM re-orientation program.
- Regular meetings internally and with external entities.
- Forum encouraged innovation plus the timely sharing of information.
- Job description was changed...and later compensation structure.
- SCM related professionals became the change agents for the vocation within and outside the organization.
- Redirected issues to human capital development and less on technology which is just an enabler.

Procurement was positioned as the strategic aspects of the supply chain process whilst purchasing on the other hand focused on admin aspects the procurement process.
Effect on the Supply Chain I “After”

Seamless flow of products and information across the network with procurement as part of the function within 12 months
Benefits

- Recognition and elevation of role within the organization within 12 months
- Supply chain management department was established
- Career progression for supply chain professionals
- Significant year on year savings
- Customer and supplier satisfaction
- Focus shifted from Finance and technology to the underlying process
- Co-sourcing, insourcing and outsourcing VMI etc
- Relative record time to market and extension of local and global reach
- Less emphasis on technology and more human capital development
- Operational improvement and organizational restructuring
- Employee satisfaction, respect and high morale
- Appointment of CSCO to EXCO.
- Sharing of best practices and information
  - CPO does not report to Finance but to CSCO!
- Initiative now part of organizational culture

Proactive supply chain management instead of reactive procurement and logistics management realized hundreds of millions of rand equivalent savings
The Effect of the Paradigm Shift on Procurement Related Activities!

- New Product Development
- Strategic Sourcing
- Supplier Development
- Materials Management
- IT and Finance
- Purchasing Admin & paperwork

Sample was drawn from internal and external supply chain related professional

Procurement spending more time on important issues!
Challenges Encountered

- Internal Turf war
- Initial lack of a champion at the highest level
- Lack of understanding among the purchasing fraternity vis-à-vis supply chain management
- Limited coaches and mentors to drive the message home
- Exco lack of understanding vis-à-vis difference with the Chief Operations Officer
- Initial budget for training
- Major supply chain initiatives were mainly driven from technology and finance
- Power of the CFO and CIO
- Technology was seen as the panacea!!
- Outdated company policies
- Fear of change and lack of trust!!
THE FUTURE
Procurement as it is Today in the emerging world!

Despite the hype the profession is still not seen as a strategically important function.

It is still seen as a buying function taking on by Professionals who could not make it in more respected functions!!!

Most procurement professionals still report to the CFO.

Non EXCO appointment.
Perceived Importance within EXCO**

*Supply chain management is one of the fastest growing vocations in selected industries in the world*

*Based on selected companies and institutions*
The Future Is towards Supply Chain Management with Procurement as one of the sub key Functions.
The Rapidly Emerging Organizational Structure

1. For more visibility and accountability CSCO shall assume more responsibilities
2. Position shall become part of EXCO

With targeted education coaching and mentoring CSCO shall become an Executive Committee function (aka EXCO) with clearly defined roles and responsibilities!

* Today the CEO of this 280 BILLION RAND and the 3rd* largest Pharmaceutical company in the world was previously head of Supply chain management for the Group*

* Depends on industry
The Chief Supply Chain Officer

CSCO shall be the natural career progression for logistics, Procurement, Customer service and other related professionals.

Procurement shall continue to be a Management committee (MANCOM) function!
A Procurement Professional shall be expected to understand all the issues within a supply chain: Logistics, Customer Service, etc.
The Shift towards Supply Chain Management Is already Successfully* Implemented in a number of Industries/Organizations.

- Automotive-Toyota, Honda, BMW, MERCEDES
- Services Industry-McDonalds and WIMPY, KFC, BIDVEST*, Amazon,
- Food and Agriculture-ADM, Cargill
- Retail- Marks and Spencer Wal Mart, Sainsburys
- Public sector- Malaysia* and Singapore* and more recently UK Government*
- ICT-HP, MICROSOFT, INTEL, DELL
- Beverages-, Diageo and Coca Cola, SAB,*
- Utilities , UK, France, Sweden, Norway, Parts of the USA
- Mining sector-Xstrata*, Anglo American*, Barrick,* Alcan/Alcoa*,BHP*

* In certain units/divisions

A number of these organizations have a CSCO on the EXCO!!
Supply Chain Management and not Procurement shall be at Core of Organizational Improvement and Growth Initiatives

Supply Chain Management Is Now At The Core Of Integrated But Competitive Trans National Business Strategy

Today it is supply chains that compete and not individual and companies...Toyota, Merck, Intel, Coca Cola SAB Singapore, China, Brazil, etc......!!!. Govt are also becoming more integrated through the application of SCM!
Supply chain management and international trade and distribution
Critical Success Factors.

- Too many practitioners and not professionals

- Collective effort between
  - Academia-SBL, UNISA, GIBS, UCT Stellenbosch etc
  - Practitioners across the supply chain
  - Industry
  - Training organizations-Commerce Edge, Damelin etc GIMT etc
  - Local Professional bodies - CILT, CIPS IPSA, CCMP etc

- Input from Practitioners into content delivery

- Innovative but standardized education and training

- Innovative partnership with relevant departments in Government:- Finance, Public Enterprises, Trade and Industry, Labour, etc

There has to be a critical look at the professional bodies and training organizations to come up with standards and innovative ways to assist in the repositioning process
Example of an initiative already underway to potentially reposition the Profession in South Africa, rest of Africa and the Emerging world

😊 CIPS leading the way

😊 An international but independent thought leadership forum for Procurement and SC professionals in the emerging world

😊 Already with OVER 11000 direct and indirect SC affiliates
  – Global perspective with strong local centric content and all inclusive professional involvement
CFO, CIO, CMO cleverly positioned their roles as strategically important.

Purchasing and Procurement unfortunately missed the opportunity to position the profession as an EXCO function.

The role of the Chief Procurement officer shall expand into supply chain management.

Procurement as a profession shall remain one of the core functions under supply chain management.

The natural career progression path for the CPO shall be to that of Chief Supply Chain Officer (CS CO).

Supply chain management and not necessarily just procurement education is the key to transforming the image of this critically and strategically important profession.

There is the risk that CPO titles may changed to CSCO to:

1. Placate individuals with desires for grand titles with no substance
2. CFO to show that internal supply chain practices are in line with world class practices. Professionals must avoid this at all costs as more long term harm will be done to the already tainted image of the profession...!!!
Conclusion

• We are on this crusade together!
  – Some Academics, trainers, industrialists and practitioners have already embarked on the journey to try and change the image of the profession in the emerging world

• The journey to professionalize the profession through supply chain management will not be easy and will need an attitudinal change from existing and future professionals

• Collective training and education will be the key to acceptance, vocational transformation and success

• Procurement as a profession will remain limited in scope and stature

• Enabling technologies will re-enforce the strategic importance of the CIO and CFO but will not solve the negative image associated with Procurement

Collectively the repositioning of the profession can be done in a relatively short pace of time. However what is needed is for the Procurement professional to focus on the supply chain processes whilst creatively keeping procurement in mind. In so doing the status of the profession shall be indirectly elevated and its strategic importance recognized!
Jointly, we can transform this exciting, strategic, and critically important vocation into one of the most respected and leading executive level professions in South Africa and the emerging world within the next 5 years!

**Be cool & stay focused.. Thank you!**

Copies of presentation can be found at: [www.cips.org](http://www.cips.org) or you can email me at dboateng@panavest.com