

FORETHOUGHT SUPPLY MANAGEMENT

Procurement as Strategy

by Carlos Niezen and Wulf Weller

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In 2004, just days after Greece unexpectedly won the European Soccer Championship, Adidas delivered more than 145,000 Greece team jerseys across markets in Europe. Smart marketing, right? Without a doubt. But perhaps even more impressive were Adidas's global procurement efforts: Thanks to a centralized supply chain coordinated with its country-based sales subsidiaries, the company created just-in-time product not only for the championship team but also for the other national teams as they advanced through the series. To round out the success, Adidas's flexible supply chain strategy delivered these sales at very low risk, avoiding any significant investment in materials or finished product.

Procurement coups like this are helping to elevate supply management from an operational function to an integral part of company strategy. In fact, in a recent survey of 156 procurement executives that we conducted with our colleague Heidi Deringer, more than 90% said that their job responsibilities had expanded in the past three years. These new duties included shortening cycle times, taking the lead in product innovation, enhancing the quality of products or business outcomes, and even, as in the case of Adidas, generating incremental revenue via close collaboration with sales.

Consider how supply management has become strategic at Boeing. In developing its 787 Dreamliner, Boeing has expanded the role of procurement from outsourcing parts to outsourcing entire subsections. Nearly all of the new jet's design and fabrication, along with some 40% of the estimated \$8 billion in development costs, is being outsourced to subcontractors. Mitsubishi is making the 787's wings, Messier-Dowty is making the landing gear, and Latecoere is creating the doors. Says James Renaud, Boeing's director of development operations, "The subcontractors are responsible for end-to-end design, and what we provide is integration [in project management and assembly]." As little as five years ago, such a pivotal role for procurement seemed remote.

At the Clorox Company, many new products are developed in conjunction with supply partners. When the company wanted to develop a line of surface-protecting cleaning products, it partnered with specialty chemical companies to develop products that could protect surfaces as sensitive as Teflon.

Clorox is a leader in a movement by manufacturers to expand their supplier universe in search of innovation. They are asking savvy procurement organizations to identify suppliers with new or different capabilities, which in turn can spur initiatives for innovation in a variety of forms. For example, when the division of one health-product maker sought a different way to market a new sweetener, the procurement organization went out and found the right marketing agencies to help expand the product's reach beyond an initial target of diabetics to include an expanding market of food and beverage makers and even fast-food restaurants.

Henkel Group is another supplier acting as an innovation agent for its manufacturer customers. Henkel runs units that provide adhesives, gaskets, and other bonding materials to auto and appliance manufacturers. Procurement teams from the appliance manufacturers frequently call on Henkel engineers to tear down new appliances in search of ways to save costs in assembly. In one such session, Henkel found 14 ways to save time and money in manufacturing a refrigerator by, among other things, using adhesives to replace screwed-on gaskets and taped-on shipping foam.

Beyond innovating processes and products, supply management is helping the balance sheet by shifting not just material and packaging inventories but even noncore R&D to capable suppliers, thereby freeing up resources to invest in sales, marketing, distribution, and higher margin products. For example, in the electronics industry, where supply management has long served strategy, Hewlett-Packard today uses supply partners to codesign items ranging from servers to printers and speed product out the door.

As more and more companies discover the scarcity and growing importance of supply management talent, the demand for such supply skills will only increase.

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