

# Challenges Facing Supply Chain Management

## **The Importance of SCM in a Global Environment**

Until recently, procurement was a necessary, but seldom celebrated, component of multinational corporations. But SCM within companies now plays a pivotal role in the success of global firms in ways that old-fashioned purchasing managers could never have imagined. SCM has risen to such prominence in the highly competitive global environment, and as supplies of critical commodities tighten and prices rise, companies can strategize to mitigate these and other risks.

## **So what are the Challenges Facing SCM**

SCM has become an integral part of corporate performance and is drawing increased attention from senior management. I will attempt to talk the most critical challenges facing SCM over the next five to 10 years, including training and employee development, managing global sourcing offices and ensuring collaboration across corporate departments.

In my view, people --training and development -- is the number-one key challenge for SCM. This includes: skill development; the right recruiting and retention practices; and career paths in other functions outside of SCM.

Second, is also related to organizational aspects. It is the organization of global sourcing. That is, how to set up and how to manage global sourcing offices. That is also more in terms of processes, a linkage between the global sourcing offices and the headquarters. It's also how the global sourcing offices do work with other non-procurement functions.

Third is cross-function and collaboration. That is, how does SCM work with not only engineering and quality management -- which has been the nature of the procurement department for a long time already -- but also with other functions like sales and marketing when it comes to requirements management? That's also with finance and controlling, and that's also with logistics.

These to me are the top three: people training and development, global sourcing organization, and cross-function and collaboration.

But are the three much different from the challenges that faced SCM 10, 15 or 20 years ago? 10 or 15 years ago, SCM was still fighting for organizational significance. Have they listened and do they have the right organizational position? In most organizations we see right now, this point has been reached already.

There's not so much a challenge anymore for SCM to be accepted as a strategic business partner inside the organization or to be accepted as the adding-value partner in the organization. So now it's more of how to move forward in this significant strategic position inside an organization.

Sourcing now has become the gatekeeper for supplier innovation. Technology competence of suppliers/manufacturers is growing. One needs to look at the number of Intellectual Property being applied for or registered in many industries. And even in the customer organizations, the suppliers are influencing our technological development more and more. Therefore, sourcing and to a great extent, SCM, will be the organizational unit which will manage these aspects.

With SCM becoming increasingly important and strategic, how do we retain and develop key people in this area? Where will firms find the best people? This is one of the key questions whose right answer I may not have yet. I am sure you too don't have the answer either.

Unlike most other functions within our organisations, there is not the academic purchasing manager education. You don't find, or very seldom find, a master education in purchasing. Very few universities around the world really focus and specialize on purchasing as an education path by itself.

So, one may ask, is KISM for example working to develop those career paths by themselves. We cannot wait for the outside world. We need to develop it internally by setting up career paths across different functions, by setting up education programs for hard skills -- language, engineering, etc. -- and also soft skills, which are becoming more and more important, like project management, working in different cultures, and working in different business contexts. These skills need to be developed and championed by both KISM and also by your own organizations. Don't wait for the outside world to support you on this.

For instance, to be effective in global sourcing, it would seem that the type of people best suited for global sourcing would be people with the kind of skills that I have just mentioned.

If you need to set up a global sourcing office somewhere in any part of the world, it's more entrepreneurial groundwork. And the people there need to be much more like entrepreneurs and to improvise. They need to bridge their home organizations -- their headquarters -- with their local supplier markets. So the intercultural management skills are regarded as even more important than that of a domestic purchasing manager.

Is being a purchasing manager or a chief procurement officer a good career path? If SCM is increasingly important, is it a good idea for people to seek those jobs out, if they think that they can do well at them?

In terms of potential, I would say yes. SCM managers improve the bottom line through cost improvements and volume reduction but still have less of a reputation for contributing to corporate success. This is changing. As I mentioned earlier, as SCM becomes more and more the gatekeeper for innovation of

suppliers, for instance, this innovation some time later will result in additional sales. And suddenly, you have a bridge from supplier bringing the innovation power into the customer organization, thereby developing more and more to customers' innovation and thereby contributing to our own corporate success on the top line.

So, suddenly SCM not only becomes a bottom line impact, but also a top line impact, and at this moment the sales purchasing manager has a huge potential. We see that also reflected in the corporate organizations. More and more organizations in the automotive industry, which is like the front runner in this dimension, have a SCM function on the board level. That had not been the case some 10 or 15 years ago. In most organizations, SCM reported either to the chief technical officer, the chief engineering officer, the COO, or the CFO. Now we see that SCM has its own position in the organization.

What is the importance for SCM to work in tandem with other functions in an organization? Traditionally, SCM was more of a standalone kind of operation, off to the side, but more integrated today.

If we see the history of purchasing then that would give you a kind of maturity progress. Historically, there are six developmental steps. The first step was "Serve the Factory". SCM was more in clerical and logistics activities, so these skills were requested.

The next step was reaching the lowest unit cost. Call this theme, "Lowest Unit Cost." At this level, SCM was focused on pushing and pressing the supplier, and negotiating tasks, and that was sufficient enough.

The third step is what I would call, "Coordinated Purchasing." SCM needed to have the input of other functions to make the supplier-customer relationship better.

Fourth step was the "Cross-Functional Purchasing". So that SCM was an equal part across different functions, in which all contributed to the corporate success. Each function was dependent on the other, especially technical improvement leaders like make or buy; like standardization; like design to cost and process improvement leaders; demand bundling. So, to enable those leaders, you need to have cross-functional work, where SCM is across engineering, quality management, and sales/marketing.

The fifth step is "World-Class Supplier Management" where you have even more of an inter-cultural aspect.

The sixth step, is the highest aspirational level. The "Entrepreneurial Purchasing" which behaves like a cost and profit center as well. And so, they are building up supplier networks by themselves. They are offering supplier networks to the

rest of the organization. They bring in ideas. They are the gatekeepers of suppliers' ideas into the organization. So, SCM is no longer reacting to the organization demand, but it is vice versa. Sourcing brings in its own initiatives and thereby triggers the rest of the organization.

Does SCM demand any special skills or organizational needs? As I have already mentioned earlier, yes, and that's why many organizations are not where they want to be with regard to global sourcing, for instance. Global sourcing is not just identifying the Chinese supplier in mainland China, signing the contract, and that's it. It's the need to change the entire sourcing process.

What do I mean? If you are really taking global sourcing seriously, you need to sometimes extend your development process to allow a longer screening phase from your suppliers, to allow longer trial periods with new suppliers, etc. If you don't reflect that in your incumbent processes, you will not have success with global sourcing.

So you need people and departments who know how to deal with those challenges. For global sourcing ensure that the global sourcing offices around the world have equal power with their competitors inside the headquarters organization which do domestic or just regional sourcing.

You sometimes need to have more resources because you need to write specifications sometimes in the language of the global sourcing country, like Chinese. In India it is mostly English, but in China, it's a huge challenge. Eastern Europe is also a huge challenge. You need more resources in terms of supplier qualification management. So in terms of skills, resources, and new processes, organizations need to learn more.

Are there any significant differences between the way public companies and private companies, in Kenya approach the whole topic of SCM?

In conclusion, it is certainly that SCM will only become more important in the years ahead, for organizations of all kinds. The technology industry and the automotive industry have for instance already put sufficient emphasis on the procurement organization, and their reputation is higher. We now have SCMs on the board level. We have cross-functional teamwork. We have more and more sophisticated supplier-relationship management tools and processes.

This is now spreading to other industries as well, such as the machinery industry, the utilities-supplier industry. So, definitely SCM will become more and more relevant in strategic function.