

AN INTERVIEW

WITH DR. ARJAN VAN WEELE



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Dr Arjan van Weele holds the NEVI-Chair of Purchasing and Supply Management at Eindhoven University of Technology 1, Faculty of Technology Management, Department Organization Science and Marketing (OSM). Next, he serves as an independent boardroom consultant on procurement governance and strategy to many international companies. Over the last 20 years he has published over 100 articles and 15 books on business strategy and organization, including purchasing and supply chain management

EIPM: For quite some time we hear that purchasing and supply management as a management discipline is getting more strategic. In your view and experience, having been exposed to many companies, why is this happening?

Dr. Arjan van Weele: We have seen purchasing and supply management develop from an operational function to an activity that makes a difference in companies. This is due to the tremendous change in our industrial landscape. With the fierce international competition, companies have increasingly focused their attention, efforts and investments on what they could do best. Therefore they have outsourced activities that specialist suppliers could do better. It started with manufacturing activities, first with components and later with complete modules or sub systems. Then followed services and white collar activities.

Forexample: call-centers, software development, maintenance of software application have been outsourced to countries where labor is cheaper than in Europe. As a consequence, companies have become much more dependent on their suppliers, not only for their operational performance, but also for innovation and for service delivery to customers. For instance, a company like UPS, which delivers thousands of parcels everyday to customers of its clients, has a critical impact on the customer experience of the clients that they work for. Companies have become more dependent on outside suppliers, because third-party spend has increased. And a strategic question for business today is "how do you actually manage that third-party spend?".

EIPM: To what extent do purchasing executives still consider cost cutting their prime concern. What is the chance that they change their cost paradigm to a value driven paradigm?

Dr. Arjan van Weele: With the tremendous impact of procurement decision making comes a great responsibility. You can only spend the money once and cost reduction

remains the core paradigm in most procurement organisations these days. The reason for that is what we call Shareholder Value thinking at the top. The board of many companies is expected to produce financial results. When third-party spend makes up to 70% of the total cost, it's easy: procurement needs to deliver and to contribute to the company's financial results. And therefore cost reduction is and will be paramount on every purchasing agenda.

This is confirmed in a recent survey by Pricewaterhouse-Coopers. Personally, I don't like this outcome at all, because driving cost out of your supply chain automatically leads to reduced quality. And in many industries, suppliers' margins are eroding, and this leads to bad services as well. A single focus on cost reduction sets a vicious circle into motion.

In The Netherlands industries such as: cleaning services, contract catering, personnel transport, temporary labour, are extensively pressured by buyers who have squeezed out the entire margins of these companies. This leads to situations where people are not even paid the minimal wages. And this is giving procurement people a very bad reputation.

EIPM: In the eighties total quality management was the big focus. We have lost touch with what we learned at that time.

Dr. Arjan van Weele: Absolutely! However we need to make a difference between purchasing direct and indirect materials and services. For direct materials and components, quality remains something you cannot debate. But my observations relate more particularly to indirect purchasing spend, where assessing quality can be more complex. And here I haven't seen many cases where procurement professionals are kept responsible for the quality of the services delivered by their suppliers. In this respect there is a big difference between managing direct purchasing spend and indirect purchasing spend.



EIPM: What about complexity, outsourcing has been a way to reduce complexity for some companies? But have they really gotten rid of it?

Dr. Arjan van Weele: Companies, through outsourcing were indeed able to reduce their internal complexity, but they increased dramatically their external complexity. We have built vast and complex global supply chains and now we are barely able to manage them.

Many examples of this exist in the retail industry, the fashion industry, the electronics industry or the construction industry. With so many suppliers around, it becomes impossible for one particular company to manage all of them properly. Especially as these suppliers primarily are selected based on the lowest price. In some instances, the company reputation ends up being damaged as low cost suppliers use child labour, or operate in facilities that would be closed if they were part of our European society. The recent catastrophe in Bangladesh is an example of this. A textile manufacturing company collapsed due to bad infrastructure, 1100 people were killed in one day. Take also the suicides at Foxconn two years ago, where employees jumped from the companies' buildings to kill themselves due to unacceptable working conditions. Look also at the enormous damage done in some areas of China by the waste disposal industry; most of our electronic components after their end of life are shipped to China to be disassembled, leading to terrible environmental and social consequences.

This really puts the question whether we as a professional community are still on the right track, and what the suitable route for purchasing is. With this expanding role of purchasing comes a tremendous responsibility. And it is about time that purchasing professionals take that responsibility seriously. I think we are just at the beginning of this issue.

EIPM: You were mentioning the impact on the society and the environment. There is a strong focus on compliance plans. Are they effective?

Dr. Arjan van Weele: They are totally ineffective. Predominantly, lip service is being paid to the subject. First of all, when driving sustainability in supplier relationships, buyers don't take all of their suppliers into consideration. Secondly, when audited, sustainability audits are performed by external consultants hired to do the job, so the buyers can have their hands free for their daily duties.

This is not a way for companies to engage with sustainability in their supply chain relationships. They wait for the reports from external auditors and then they ask "should we do something about it or not?" "Should we ask for corrective actions?" But they do not engage actively with the suppliers themselves.

And I consider this personal engagement as a necessary step for driving sustainability in supply chain relationships. Buyers need to engage actively and communicate personally

with suppliers, they have to reach out to these companies in order to understand what they are really doing. But very few do.

This explains why, although compliance programs are in place, some suppliers still cause problems and do not meet sustainability requirements. With all due respect, it is easy to make a good impression on auditing companies; they do not have sufficient in-depth expertise in the business they audit.

EIPM: Do you have examples?

Dr. Arjan van Weele: I was in a Chinese factory that was ISO9002 qualified. It also had completed recently a sustainability audit. It had a spraying facility where cabinets were being sprayed with paint and there was a watershed, a water curtain that was used to catch the spray. The plant manager said that the water was fed into a reservoir and then filtered. But when I was strolling around and I looked where the water went, it was going right into the river. When you see this you ask yourself the question: "how is it possible that such a company got an ISO qualification and a sustainability qualification?". You need to be there and actually walk around by yourself in order to see and take actions.

EIPM: This is a strong call for change. Purchasing departments often have the support of CFO. But what about the people that are driving the business? The business units managers, the product managers... They must be part of the equation?

Dr. Arjan van Weele: They certainly are part of the equation but the procurement agenda is rather simple. It is driven by the board of management, not by the business unit managers. Purchasing professionals are expected to reduce cost and to drive category strategies that are not fully aligned with the individual business' needs. This is visible when you look at the degree to which corporate contracts are being complied to by these individual businesses. Most business units don't want to use them. And it takes quite some convincing and discussion to make them do so.

Category strategies generally insufficiently support the business unit strategies. The business could benefit more from suppliers by accessing their new ideas for innovation and product development, by leveraging their business improvement opportunities, rather than focusing solely on leveraging volumes to drive prices down..

Of course I should not generalize here. There is nothing wrong with establishing these kind of agreements for straight commodities, raw materials and energy. But as soon as you get into specialist services or high tech components, it's a different game. You shouldn't do that.

EIPM: A lot of people keep saying "if only we had a CPO at the top level of the board..." Is that really a great idea?

Dr. Arjan van Weele: It wouldn't change much because mostly we have CPOs who just do what the board tells



them to do. And what I see is very little engagement at the CPO level, where people stand up and say “listen, it is ok for me to go one step further and reduce cost in this particular area, but in other areas I won’t do it because we are now cutting into the flesh of our suppliers; we should initiate a different strategy, we should invest in our suppliers and we should bring them to a higher level of quality or productivity”. There are very few companies that do that. And we know how to do it. I mean, we have books such as the ones written about the Toyota Production System.

We have excellent books describing Honda production and purchasing practices. And other examples of Japanese companies. But if you look for it you can find excellent examples also in Europe. In Germany you’ll find examples such as BMW, Porsche or Mercedes Benz, who invest in supplier relationships, bringing suppliers to a higher level of expertise. But European examples are too few. All of these companies look for the long term, for long term value creation, whereas most of the companies that I know and that I’ve worked for are only there for the short term financial returns. And as long as that is the overarching paradigm, i.e. that we should stick to delivering on short term expectations, there’s little hope for procurement.

EIPM: So, do we have to wait for a new style of capitalism to emerge? Or can we start acting anyway?

Dr. Arjan van Weele: Certainly there’s a new type of capitalism around the corner. And that’s the type of capitalism that Michael Porter had described in his famous HBR (Harvard Business Review) article on “Creating Shared Value”.

This new capitalism is driven by social media. Social media will lead to a situation where we’ll have full supply chain transparency. And there will be no company that can escape from it. Being a responsible company is going to be a pre-requisite in order to be able to survive in the long term. Even for Apple and Shell this will be important. Having a nice brand, such as Apple, or having a permit from the government to drill for oil at the North Pole is not sufficient anymore. You also need a permit from the general public, and the public will only give that to Shell when it is confident that Shell will do a good job there.

If Shell is not able to get that message across and if Shell is not able to convince the greater public, Shell will face very difficult times. Having the technology is not enough, having the permits from the government is not enough; you should also have the acceptance of the wider public. In Nigeria, clearly Shell is a victim of some infringements and some sabotage. However, they have failed to communicate this to the broader public and now Shell has to take the blame for it. These companies need to open up and be more responsive to public requests for information on how they actually operate. The new capitalist paradigm will be

based not on shareholder value, but on stakeholder value creation. Companies will need to provide superior customer value and superior society value, and, if they are able to generate both, this will translate in the long term on greater shareholder value.

However, if they focus solely on shareholder value this will be at the detriment of customer value and societal value, and such companies will be taken care of by society. So it’s a matter of time. This will change the landscape of procurement dramatically. Because then it will open up possibilities for procurement directors and managers to drive sustainable and responsible practices in their supply chain. I like it very much that we have social media in place that will consistently review in the years to come irregularities of companies and supply chains. And we should use that information to improve our supply chains.

EIPM: How should procurement organization evolve in this context?

Dr. Arjan van Weele: In a large corporation you have different business units with different markets, and different degrees of maturity. As a result the centralization of procurement will come to an end. We will only have centralized and standardized order-to-pay solutions, purchasing processes and its management. Procurement will move much closer to business. If they fail to do that and keep their centralized position, I think that will be short-lived.

EIPM: What about innovation?

Dr. Arjan van Weele: Well, look at the car you drive. Take your Automatic Transmission or Continuous Variable Transmission. This technology comes from specialist suppliers. If you look at your navigation system, it’s TomTom. If you look at, say, your climate and air conditioning, it’s coming from specialist suppliers. If you look at all the smart systems and the sensors that are everywhere in a car, they all come from specialist suppliers.

Today, car manufacturers can be only as innovative as their suppliers are. And the whole idea is to capture that innovative potential from suppliers. But you can’t do that if you have a short-term relationship with your suppliers and if you are not investing in collaborative relationships. Collaboration in the automotive business is called “tough love” – it’s very tough, because the targets that you need to meet are harsh. So as an automotive Company you need to work side-by-side, with suppliers to reach these targets, to produce a car that is consistent in quality, that has good reliability and good fuel efficiency. In the electronics industry we see less of this. Tapping into the innovative potential of suppliers is still a big challenge for these companies.

They suffer from the images of the past, the shadow of the past. When suppliers were beaten and confronted with



e-auctions; when they had to reduce their price every year. It was making it impossible for them to invest in new technology and R&D. And it makes them more reluctant now to share their best ideas with such customers. They do not trust them. These companies have to catch up. There's still a lot of work to be done to rebuild the necessary confidence and trust that is necessary to develop this kind of innovative relationships.

EIPM: We are increasingly talking about Ecosystem. Is it just like a new label or something new?

Dr. Arjan van Weele: What we see over time, is a change of paradigms, a massive paradigm shift. Let me discuss a few of these paradigms and how they shifted over time. The first paradigm we had was what I called the dyadic paradigm. We looked at relationships as dyads i.e. sets of two: we have the buyer, and the seller, and everything happens in that relationship. Then we changed our paradigm from dyadic to a Supply Chain paradigm: we realized that behind our suppliers there are other suppliers that are crucial to feed them with good products. Next, we changed this paradigm to the Value Chain perspective. The reasoning behind that was that we, as a manufacturer, are in the same boat with our suppliers. Both we and our suppliers jointly need to serve our customers better. It is not just us!

Our suppliers should help us to become more competitive and deliver better value propositions to our customers. At that time I thought that we were done and that before I would retire nothing else would change. But now we see the next paradigm coming, and that's the circular economy paradigm: today the way we engineer products and build them is decisive for taking them apart and reusing or recycling them when the end of life comes. Reusing and recycling materials will gain in significance as there is a limit to worldwide material availability.

Very few companies have recognized that. Today we should build a generation of products that can be recycled, and taken apart without shipping them to low cost countries, where people suffer from diseases due to pollution. I hope that the press will jump in and that social media will circulate these scandals. Because the more this will happen, the more the process of growing the circular economy will be sped up. Here again procurement people will be on the front line. They should challenge engineers to come up with designs that enable taking these products apart in an easy manner when it comes to the end of the life cycle. We will have to deal with increasing scarcity and we need to recycle products to be able to meet the requirements of our future generations. We don't have any other choice.

EIPM: Well, a "burning platform" is rising! What would be the three things you would say to someone entering into the purchasing profession? What would be your three pieces of advice or words of wisdom?

Dr. Arjan van Weele: First of all, there's not a single activity in your company where you can make a bigger difference than in the purchasing or supply function. There is so much to be done!

Secondly, there is no other function where you're going to learn so much, but learning will come the hard way, because you will be disappointed in the speed with which you will be able to drive ideas through. And the third is that this is a function where, apart from really contributing to your company's objectives, you can change the world. You can change the world! Just by implementing sustainability practices in your purchasing operations and in your supplier relationships, you can do a much better job for your company and for the world around us. There's not a single function that has that impact and opportunity.

So, therefore, we need people who are motivated, who are talented and who are determined to change the function, the world and their companies'.

EIPM: And for academics? How can they help in the future?

Dr. Arjan van Weele: We've come a long way by creating the Tool Box for Purchasing. We have now over Fifty tools that you can use to boost purchasing practices. Everything that needs to be known about how to drive professional purchasing can be known today by anyone. 30 years ago this was a totally different picture.

What we need to do now, as academics, is to engage much more with business managers and with society.

We have to do research which brings much more alignment between purchasing operations, business management and societal needs.

We need to enlarge the community, it is too small today.

We need to reach out to management disciplines and engage with them ■