

Large-scale Transitional Procurement Change – An ‘Insider’s View’

a report by

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Introduction

There are plenty of success stories about change management in purchasing, especially when it comes to implementing ‘planned’ category management approaches in purchasing. However, we rarely get to read about the ‘inside view’. The aim of this article is to present a clear and candid view of large-scale internal change inside the procurement function of an aerospace company. For reasons of commercial confidentiality and the company’s anonymity, it is known here as ‘Keele Aero’.

Keele Aero – The Organisation

Keele Aero is a multibillion-pound, British, publicly quoted aerospace manufacturing company with a UK and overseas sales and assembly presence. Consistent with others in the aerospace industry, the company’s product life-cycles would typically be 25 years. One of the keys to business success is that of the ‘installed base’, i.e. the share of operating hardware in the market at the current time, which is the source of profitable aftermarket revenues.

As external expenditure accounted for greater than 60% of turnover, attention focused on procurement as a significant financial and operationally sensitive priority during the 1990s. This profile was due to growing procurement expenditures and the desire to exploit this for commercial benefit, but also because *de facto* long-term relationships in the industry had become increasingly business-critical. This was underlined by the fact that 70% to 80% of the value of newly developed products was ‘bought out’.

The organisation of purchasing prior to the transformative change programme was commodity-based and centralised with some delegated local purchasing authority among a UK matrix organisation structure of over 30 discrete customer and stakeholder teams. This organisational complexity led to a multitude of dysfunctional or uncontrolled supplier relationships. With often 20 different named customer contacts for a single supplier, it was hardly surprising that suppliers sought to exploit the inevitable internal crossed wires.

Although the importance of improving the strategic contribution from procurement and supply chain activity had been recognised, the supply chain relationships were in significant disarray after suffering many years of neglect. A culture of mutual distrust, with insincere one-to-one relationships masking opportunistic intent, gradually emerged. This was evidenced by suppliers being out of touch with end-user and market needs, demonstrated in the supplier culture of opportunism and complacency.

Consequently, the procurement team’s record of achieving top-down targets for cost reductions from the supply chain was very poor indeed, which resulted in a collective mindset of cost-containment. Supplier performance in other areas such as delivery and product quality had similarly slipped to extremely poor levels. Reactive and largely passive/aggressive responses from those in the procurement team had undermined the team’s credentials and authority so much that other key decision-makers and actors in the business felt it was their own prerogative to visit suppliers and arrange terms of supply.

Setting the Agenda

A number of new staff appointments were made in the late 1990s and given a mandate to make changes to the procurement organisation. High-level targets for performance measurement were set early on, namely:

- year-on-year cost reduction in the region of 7%, measured by price variance;
- quality performance to improve by a factor of 10 every two years (measured in defective parts per million by Keele Aero’s quality conformance system);
- deliver reliability to improve to 98% on time, in full to Keele Aero’s schedule requirement; and
- product lead times from supply delivery to customer receipt to halve every three years.

In addition to the financial metrics for performance, it was also apparent that some key tasks were needed



to drive a transformative change programme:

- to critically assess the effectiveness of the prevailing internal and external relationships and develop appropriate relationship strategies, with an aim to create positive, effective relationships with significantly fewer suppliers;
- to codify the supply chain in terms of the value stream, physical logistics and the impact of power and influence on performance;
- to focus on rapidly improving buyer and team capabilities based on latent competence; and
- to use the outcomes of reassessing the external and internal relationships so that the procurement team would be in a position to gain authority and be accountable for supply management matters within the company.

The processes and outcomes of the change programme can be summarised best using an eight-stage model adapted from Kotter.¹

order to challenge some of the chronic behaviour patterns that had developed.

During this period, it became necessary to change and improve a number of performance metrics as prevailing measures had proven ineffective in reflecting true performance. This change in measurement practices was undertaken in an effort to effect changes in behaviour away from close, but perceived unproductive buyer–supplier interactions.

Stage Two – Creating a Guiding Coalition

Senior executive support for the change became highly visible, but it was necessary to build a critical mass of motivated and committed team members that would help lead the changes. It became clear that a significant competency development programme needed to be designed to equip team members with the skills for demanding procurement roles. Job roles were redefined and simplified around three ‘core’ activities: the management of quality, cost and delivery – creating ‘QCD’ teams.

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Stage One – Establishing a Sense of Urgency

The business at large had developed a low expectation of procurement performance over previous years and had only recently begun articulating its desire for radical improvement. The senior leadership in procurement had exhausted itself attempting to get the wider procurement team to respond to the changing needs of the business.

An in-depth study of past and current performance was undertaken along with an assessment of the current relationships, internal and external. An exhaustive series of one-to-one semi-structured interviews and focus group discussions with team members and selected suppliers was carried out. Quantitative data was also generated on supplier and procurement team performance and a significant number of suppliers and procurement team members were confronted with the data in

The team was also bolstered with several significant appointments to the procurement organisation, including two managers, and these helped establish new expectations of appropriate behaviour required to ensure success. The next stage was to develop appropriate strategies that would deliver the required improvements.

Stage Three – Developing a Vision and Strategy

One of the major goals was to establish procurement as the lead point of contact between the company and its suppliers and for the team to set and lead the performance improvement agenda with those suppliers.

A strong procurement brand identity had developed through the creation of the QCD team, and stakeholders in the business began to support the QCD team’s leadership role. A concise document was produced detailing the company’s performance

1. J P Kotter (1996), *Leading Change*, Harvard Business School Press, Harvard, MA.

expectations of its suppliers, and this 'supplier charter' was circulated to all suppliers and around the customer businesses. It was reported by suppliers that they had never previously seen such clarity to what was required of them and it helped many supplier managing directors communicate what was happening at the customer level to the suppliers' own workforces. Internal stakeholder and customers, some of whom had contributed to the content of the supplier charter, also reported feeling encouraged that the procurement team was developing 'a strategy'.

The team also developed a new form of long-term agreement, branding it 'the route map', offering long-term contracts to selected suppliers in exchange for supplier commitments on dramatically improving cost, quality and delivery performance.

Stage Four – Communicating the Change Vision

In addition to the leadership team becoming highly visible day to day through a move to open-plan accommodation, an internal 'communication blitz' was launched whereby a 'roadshow' promoting the concept and practices around the supplier charter, route map and procurement transformation was taken to all procurement staff and key stakeholder groups around the business. Briefings were led by team members from all levels in the organisation, emphasising a guiding coalition rather than a pet project of a single leadership figure. A programme of team briefings and procurement team 'away days' was put in place to keep communication channels as open as possible and to share understanding of the progress being made towards the vision.

Externally, a supplier 'conditioning' campaign was launched with the release of the supplier charter, and a series of supplier conferences raising expectations for supplier performance took place. Selected high-impact (measured by financial and a qualitative risk assessment) suppliers were also visited to reinforce the need for change and improvement. The communications campaign needed to have a 'relentless' quality, with the core team overcoming significant resistance and some hostility (both internally and amongst the supply network).

Stage Five – Empowering Broad-based Action

The facilitation of a guiding coalition was a vital step, but was equally important for each member, although working with different procurement-led supplier targets had the collective effect of deploying more effective processes at Keele Aero.

A series of improved practices were introduced with

an intensive approach to training and wide involvement within the team. Supplier development was underpinned by the deployment of a 'supplier diagnostic' that had been used in the automotive sector. Value stream mapping and power and dependency analysis were among a wider set of new tools that were put to use.

With the accent being on action, once trained, team members were encouraged to practise deploying the wide range of tools. Reviews of the impact of the new practices were regularly subjected to learning evaluations.

Stage Six – Generating Short-term Wins

The leaders of the programme anticipated this and planned for the achievement of positive (although sometimes modest) outcomes and victories early in the programme. The luxury of long-term results was not enough to satisfy the key stakeholders. Procurement-led cost reduction had become a key element of the company's public commitment to improve shareholder value after many years of disappointing share performance. The need to improve supplier product quality, delivery performance and cost reduction was nothing less than urgent and the procurement team had to deliver high-impact improvement in months rather than years.

Stage Seven – Consolidating Gains and Producing More Change

A watchful eye had to be kept on whether procurement's behaviour was consistent with the collaborative (but sometimes adversarial – not a contradiction) principles laid out in the supplier charter and route map. Supplier development support had been committed and was provided via the deployment of trained production engineers. Additional business went to those suppliers that had succeeded in meeting the agreed performance targets, and a more open and transparent approach to performance management began to work as a result.

Anticipated outcomes of the change programme at Keele Aero were often a mismatch with outcomes, signalling that progress was rarely a smooth or easy journey. Throughout the first 18 months of the programme, there were many hurdles to overcome and a number of setbacks. However, there was also significant learning and a deepening understanding of the true circumstances in which procurement and the supplier network was operating, and processes continued to be modified as time went on. A watershed 'customer review dialogue' process was undertaken that involved in-depth semi-structured interviews with key stakeholders and this informed the team of the extent of the progress achieved but also

the gap that remained between the then current and desired performance required by those stakeholders. The report from this review did not always represent easy reading, but there was wide acknowledgement of the positive impact the programme had had on performance and achievements that had been secured.

Stage Eight – Anchoring the New Approaches in the Culture

The forces within Keele Aero and, in this case, also in the supply chain, that put the brakes on change efforts, were often overwhelming. A complex dynamic between organisation structure, programme leadership and an effective backlash from even the most collaborative of suppliers could have unhinged the best efforts of Keele Aero. Persistence, drive and resilience were required to ensure that changes have become part of the fabric, or culture, of the organisation – a set of factors beyond the single span of control for any leader.

Keele Aero underestimated the impact of leadership attributes associated with being accountable for managing relationships throughout the supply chain. With team members routinely chairing supplier business and performance reviews, leadership and change management competence became a vital next step in the development of the team.

Conclusions and Implications

The transitional change programme at Keele Aero realised significant improvements, albeit with a series of ‘non-planned’ events that shaped a curved rather than straight pathway between intended objectives and realised outcomes. From a position where procurement held little managerial control over the key supplier relationships, it established itself as the lead in all those relationships, greatly enhancing its standing within the company and its influence over the supply chain. The navigation effort for guiding Keele Aero’s transition was strengthened by the team having a ‘theory’ and ‘practice’ understanding of successful programme management. The leaders of the various initiatives greatly benefited from a better understanding of the levers of change, developing strategies to overcome the difficulties met on the way with their vision and perseverance. It was apparent throughout that taking shortcuts was a recipe for failure, disenchantment and cynicism.

In Keele Aero’s case, it was evident that a critical juncture had been reached that demanded improvements. It was the general realisation of such a situation that was the catalyst for the quantum leap of action. It is argued that change would have been much more difficult to effect without this shared imperative. ■