There's a reason that the average CPO tenure is down to just over three years. Maybe its time for procurement leaders to rethink their strategies for cost savings and supplier relationships.

The average career of an NFL player is 3.3 years, according to the NFL Players Association. Given that no one is trying to sack them behind the line of scrimmage or cut them off at the knees, you'd think that CPOs could look forward to longer job tenures than a football player, but that's just not the case. According to research from CAPS, an organization's first CPO is likely to keep the job for 3.9 years, while the average tenure for a successor is down to just 3.2 years—a little longer than the average Millennial is likely to stick around in their first job. In contrast, the CFO likely to sack a CPO holds that spot for eight to 11 years. What accounts for the relatively short job span of CPOs? Based on our experience as academics, consultants, and former CPOs, we contend that it starts—and ends—with strategy.

Over the following pages, we'll look at the supply management strategies we most often see at play; identify why we think they not only fail, but contribute to the short tenure of CPOs; and offer some prescriptions for addressing the issue.

It's Not a Zero Sum Game

Maybe the issue isn't strategy per se, but the misapplication of strategy. Without a doubt, one of the most successful business strategy frameworks is the Five Forces Model of industry profitability developed in 1979 by Harvard's Michael E. Porter. One of the assumptions of Porter's model was that of a static, zero sum game in which the potential profit of an industry is fixed, with players competing for their share of the pie. Nearly forty years after its publication in the *Harvard Business Review*, Porter's original model continues to captivate the minds of MBAs, CEOs, and supply management practitioners.

But, is a zero sum game the right model for supply management? Or, is the model both overused and misused in our discipline, resulting in blind spots that inadvertently promote combative buyer-supplier relationships and "voodoo economics?" We contend that the formulation is misaligned as a supply management strategy, and adversely affects absolute firm effectiveness, competitiveness, and profitability in ways that often (and should) get CPOs fired.

While zero sum games may be a good way to determine industry profitability at a fixed moment in time, they are dangerous to use in formulating supply network and procurement strategies for your firm. Firms are rarely industries by themselves. The conventional wisdom and intuition developed by using static industry profitability models for individual firms can create inferior performance by framing attitudes, policies, and practices that favor zero sum versus non-zero sum outcomes. For example, we have seen numerous situations where mutual dependency between a supplier and buyer results in superior performance. One need go no further than the automotive industry to see this clearly. But CEOs and CFOs don't hire CPOs who plan to be dependent or weak on suppliers. Instead, we find ourselves in a culture that glamorizes fire fighters and ignores those who steadily prevent fires.

CAPS suggests this disconnect is largely due to the lack of alignment—and credibility—between supply management and finance. We'd agree to a certain extent: CFOs don't understand or trust CPOs claims of savings; moreover, the CPO's savings often get frittered away by the budget owners. Nevertheless, we believe the shortening of CPO tenure is a result of "voodoo supply and operations management economics." By this we mean there is a perverse system that expects supply management to routinely create huge savings opportunities that

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Who's Kidding Who?

Your Strategy Should Get You Fired

By Corey Billington and Joe Sandor

can be harvested in ever increasing amounts (in absolute and percentage terms). This creates a vicious cycle that is doomed to fail in the long run.

If CPOs want job tenure longer than the career of the average linebacker, or their kid's first job, perhaps the time is ripe for a new strategy. One starting point may be to revisit another management classic, W. Edwards Deming's 14 Points and Five Deadly Diseases: Deming offers some points of difference to conventional supply management wisdom that we feel can drive sustainable competitive advantage and that might reverse the trend toward shorter CPO tenures. The three points that we contend are most relevant to CPO tenure are:

- create a constancy of purpose (the disease is lack of constancy);
- replace numerical goals with leadership (the disease is overemphasis on visible figures); and
- minimize total cost by working with a single supplier in a relationship that is based on trust and loyalty. (Although Deming didn't identify a specific corresponding disease to this point, we suspect it would be something along the lines of: "Sourcing on the basis of fear and power with little regard for supplier tenure and profitability.")

The Procurement Savings Paradigm and CPO tenure

To understand the change we are advocating, let's begin by characterizing—perhaps harshly—the approach to procurement management we frequently observe. In our experience, most supply management organizations claim they are two to four years into a journey of radical transformation. They argue that the strategies followed by the recently departed CPO were woefully inadequate to meet the demands of the future. Thankfully, a savior has arrived in the form of a new CPO who is prepared to kick butt and take names. They aim to be supply management leaders, and for good reason. AT Kearney's highly regarded 2014 Assessment of Excellence in Procurement finds that the savings and ability of supply management leaders to leverage competition are more than double typical companies.

This radical transformation is intended to create the savings opportunities we discussed above. Invariably, initial savings rates are targeted at two to 10 times their recent past performance, often in the range of four percent to 10 percent. For example, the new CPOs promise that under their leadership procurement will improve their company's competitive position by delivering price reductions from their suppliers of six percent per year for the next four years. These saving are justified by the senior management of credible consulting firms to their organization, who eagerly promote power-dominated action.

Radical transformations are also accompanied by sweeping organizational changes intended to move the organization from tactical to strategic procurement (whatever that means). Change is not only required but is almost always brutal—less than half of the current staff can make the transition. It's tough love and only the strong survive.

Though common, this approach to reorganization and right sizing is a delusional journey. Rather than weed out incompetents, we believe that it only serves to diminish critical supply knowledge, create bogus saving's accounting, and reduce morale. Moreover, as a static, zero sum game, the transformation invariably is focused on a single company—the one undergoing the transformation: Suppliers are not included in the vision except as sources of price reduction despite the lip-service to total cost of ownership,

Harley-Davidson's Integrated Plating Services

In a presentation to students at Michigan State University, Wayne Vaughn, head of Harley-Davidson's Integrated Plating Services (IPS), described Harley's superb supplier relations by recounting how Harley made a quantum leap in chrome. The jewel-like shine and performance quality of chrome is enormously important and a significant product differentiator for Harley-Davidson motorcycles, Vaughn said. But, back in 2001, Harley realized that unless something different was done, Harley would not be able to meet the demand, quality, or complexity needs for platted chrome parts going forward. Vaughn responded by issuing a challenge to key stakeholders: These included Harley's engineering, operations, and styling personnel and three principal suppliers. With the help of a neutral facilitator, the IPS group developed and executed shared accountability and action plans.

The accomplishments of the IPS team were phenomenal. They not only conquered daunting production problems, they also achieved quality improvements that were considered impossible. In the process of solving capacity issues in the supply base, more robust risk mitigation, production planning, best practice sharing, and warranty reductions were instituted. Profound new knowledge was created. The list of achievements was staggering. But, according to Vaughn, the most important enablers were near total network visibility and genuinely shared commitment.

collaboration, and improved asset productivity.

Why is this so? Because conventional supply management wisdom does not usually include Deming's recommendation to minimize total cost by working with a single supplier in a relationship based on trust and loyalty. Rather, procurement strategy is viewed as the enhancement and exploitation of power over suppliers to demand price reductions. Indeed, this strategy is commonly taught in business schools. As such, most MBAs expect good procurement departments to use whatever means are necessary to ensure that suppliers do not use their power to "steal our profit." Vulnerability, or being weak on suppliers, should be avoided at all cost.

Conventional supply management wisdom does not usually include Deming's recommendation to minimize total cost by working with a single supplier.

Sales and customer service reinforce the conventional wisdom, because their customers use their position of power to demand their own 4 percent to 6 percent price reductions per year. That, of course, filters back down to new demands for another round of price reductions from the supply base. Hence, the vicious cycle continues.

Of course, the strategy of continuous price reductions is mathematically impossible and ridiculous. If it worked, suppliers would eventually sell us their goods for free and maybe even throw in a rebate check with their deliveries for good measure. Instead of creating Deming's "constancy of purpose," this strategy creates combative supplier relationships, a culture of lying, and the withholding of opportunities to remove costs from products or avoid needless costs by purchasing better. In combative relationships, suppliers rarely reveal their true costs and only provide cost avoidance opportunities as part of a confrontational negotiation that adds no value to the network.

Competitive bidding is another highly-regarded tool in the buyer's arsenal. The idea is to openly and fairly reward business to the lowest bidder. It's almost universally accepted that such competitive tension is not only beneficial, it is also an illustration of Adam Smith's invisible hand at work to ensure that only the minimum price is paid. But is that really the case in practice? Is your market a zero sum game with your customers? We suggest that bidding is also often non-value adding to the supply network. In fact, because bidding hides costs and waste, it is destructive to supply network effectiveness (sometimes, significantly so).

If radical transformations worked, we would expect to see earnings per share increases and market share gains to the most aggressive and confrontational buying firms. Further, instead of repetitive iterations of "the journey" with each successive management change, we would see Deming's "constancy of purpose." But we don't, which is why we believe that harsh cost reduction strategies don't work, never have, and never will. Rather, one radical transformation will always get replaced by another; one CPO will be replaced by the next; and genuine, sustainable competitive advantage will never be created.

A Way Forward

There is a better way. In our experience, it is the only logical way for procurement to deliver a sustainable competitive advantage. However, it is counterintuitive to conventional business wisdom. Suppliers, even bullied ones, have choices with regard to whom they sell, how they allocate scarce resources, and with whom they'll work openly to create mutual advantage. In the most important areas, the best way for buyers to earn preferential treatment from suppliers is to be comfortable with being vulnerable in their relationships with key suppliers. That is a very different strategy than the one previously described.

Consider a "thought experiment" from the supplier's per-

Challenging Convention

Speaking to an MBA class at the University of Chicago, Dave Nelson, the former head of purchasing at Honda of America, John Deere, and Delphi, challenged the widely-held accounting convention that savings are greater than avoidances. But are they really? Nelson asked the class to identify the savings opportunities that would exist if they perfectly launched the model year, specified all the components, configured material flow, and managed inventory.

According to Nelson, the answer was essentially the difference between Honda and Toyota compared to GM, Ford, and Chrysler. While the Big Three were claiming significant savings, the Japanese automakers were diligently meeting target costs. What's more, Japanese firms operating in the U.S. as well as their U.S. suppliers were highly profitable while the domestic automotive industry was inching closer and closer toward bankruptcy. In other words, savings are often nothing more than fixing a mistake that shouldn't have been made in the first place. Nelson's real takeaway: Preventing cost requires collaboration while savings only needs a hatchet.

EXHIBIT 1

Power-buyer vs. Dependent-buyer

Outcome Area	Power-buyer	Dependent-buyer
Information Sharing	As little as possible and biased/ finagled toward "proving" how meager my margins are	Open and transparent–won't be used as a negotiating club but rather a tool to advance continuous improvement
Focus	Price, bidding, auctions, unilateral demands, risk avoidance, legal agreements and compliance, and replicability	TCO, cost models, joint problem solving, shared risks, process enhancement, and innovation
Waste	Move	Reduce or eliminate
Tenure	Potentially very short	Expected to be very long
Queuing Priority	No incentive but make-believe	High incentive
Intellectual Property	Shopped	Protected
Technical Support	As little as absolutely needed	Routinely use "A" team
Risks	Passed	Shared
Benefits	Taken	Shared

Source: Authors

spective—let's call it power or mutual dependency? Trace the likely outcomes when the opportunity for waste reduction/elimination and continuous improvement/innovation exceeds the value of price savings primarily from margin reduction. Also frame it as zero sum vs. non-zero sum.

Is the static, zero sum positioning really so obviously beneficial? Should it continue to dominate MBA teaching and supply management strategy? Let's imagine two scenarios from the seller's perspective and speculate on logical outcomes. We'll call them Power Buyer and Dependent Buyer, or P and D respectively (See Exhibit 1).

Essentially, a supplier has more to gain as well as more to lose from D vs. P for the simple reason that in almost any buyer—seller dyad, the opportunity for continuous improvement, waste elimination/reduction, and innovation greatly exceeds the value of extracting lower prices from supplier margins. Further, and with near mathematical certainty, margin reduction is a strategy of diminishing returns (despite routine claims of ever increasing savings). Cost prevention, innovation, and continuous improvement, on the other hand, can deliver increasing returns—for every one in the network.

In fact, we challenge the reader to consider the following three procurement behaviors that may be superior to conventional wisdom. For each behavior, we have included a brief sidebar to illustrate the point. As you read them, consider why these behaviors are counterintuitive.

Counterintuitive: Mutual dependency is better than power. Cooperative, trusting, open relationships are more likely to create sustainable competitive advantage than another sourcing event. A good example of this is provided by Harley-Davidson, which created significant value by creating dependency with their suppliers. * (See sidebar 1.)

Counterintuitive: Cost prevention is more effective than price savings. It is better to *prevent* costs together with suppliers than to *find* savings alone and later (if ever). Dave Nelson, chairman emeritus of the Institute of Supply Management, asks students: "What savings opportunities would exist if you perfectly launched the model year, properly specified all the components, accurately con-

Packaging Consolidation at Delphi

Delphi, a spinoff of GM, is one of the largest Tier 1 auto suppliers in the world, with nearly 100 facilities just in the Americas. Historically, Delphi segmented categories into the typical spend supply strategy 2x2 matrix. Corrugated containers were placed into the northwest, or leverage, quadrant. At any one facility, corrugated was at best a "B" item but usually a "C" item. It represented a relatively small spend across many SKUs with plenty of potential suppliers. However, the total spend on corrugated exceeded $60 million a year. Plants individually solicited proposals for corrugated—usually on an annual basis. It comes as no surprise that they ended up with lots of suppliers—over 100 in total—and little incentive for a cost-based approach, an understanding of the total cost of ownership, or Early Supplier Engagement to develop specifications.

Despite the segmentation, a team was formed under Jon Stegner, Director of Purchasing, at Delphi's headquarters. The team consolidated essentially all of its corrugated container requirements with a single source integrator. Although the unit price savings were significant (~10 percent), they were dwarfed by the savings in use and consumption. Working with the various locations, Stegner's team and the new supplier cut the number of SKUs in half, implemented a cost model for raw material cost adjustments and new container pricing, and dramatically reduced the inventory investment. Within three years, the total benefit equaled the previous annual spend.

figured material flow, and optimally managed inventory?" His conclusion is that cost prevention is far more effective than price savings. (See sidebar 2.)

Counterintuitive: Mathematical models are better than bidding. In our view, a procurement group shouldn't be buying anything unless it knows what the absolute best cost should be, and that goes double for products bought through a bidding process. Simon Nagata, the Executive Vice President and Chief Administrative Officer for Toyota Motor North America, observes that you "only bid when you don't know costs … and, you should never not know the costs." For example, Delphi created competitive advantage in packaging by leveraging an analytical approach to cost with a key supplier. (See sidebar 3.)

Sustainable Competitive Advantage

In our opinion, sustainable competitive advantage results from *earning* preferential treatment. In essence, sustainable competitive advantage is created by network effects and requires taking a network approach with suppliers rather than taking a single firm perspective. Collective skills and competencies are known to be superior approaches to the efforts of a single firm. As an organization's interface to the supplier network, procurement departments can add more value by adopting this viewpoint and orientation. Our strategic vision of procurement in a networked world is this:

Our firm has no bidding events except for true commodities and there are almost none of those. All purchases are at the absolute best cost as measured by our should-cost models. We are so cooperative with our suppliers that we all help one another win. We work together to make our products and services the best value in the market. We understand that we are really a "two-sided" market and that our success is dependent on getting all the parts right. CPO and supplier longevity are assets rather than liabilities.

Adopting a different approach to procurement should allow the procurement function to fulfill the potential that we have long felt existed in the function but was never fully realized. In conclusion, here's a prescriptive list that contrasts the difference between collaborative and combative supply management transformation (see Exhibit 2). Although hard to sell to CFOs and CEOs, and even harder to do, the right-hand column activity and behavior is the only way to promote genuine supply network transformation that can create and deliver absolute, sustainable competitive advantage. Also, working from the right side of the chart below might keep you from getting sacked.

*Footnote: In *Dependence Asymmetry and Joint Dependence in Interorganizational Relationships: Effects of Embeddedness on a Manufacturer's Performance in Procurement Relationships*, authors Ranjay Gulati and Maxim Sytch show that the logic of joint embeddedness outperforms the logic of power. Joint dependence is mediated by specific elements of embeddedness such as joint action, trust, and the quality and scope of information exchange.

EXHIBIT 2

Headline headline headline

Zero-Sum–Tactical/Operational (Moves network costs with little, no or negative revenue impact or network profitability. Negotiation inherently combative)	Non-Zero-Sum–Strategic (Eliminates or reduces network costs improving network profitability and / or enhancing revenue. Problem solving inherently collaborative)
Combative to, at Best, Cooperative (Porter)	From Cooperative to Collaborative (Deming)
Negotiate from a Power Dominated Position	Create Opportunities Through Mutual Dependence
Efficient "Rights" Quantity, Place, Time and Price	Effective "Rights" Thing and Cost
Extend Payables	Reduce Waste and Network TCO
Combative Negotiations	Collaborative Problem Solving
Hold Harmless Clauses	Reduce Lead-Time and Enhance Flexibility
Transferred Warranty Obligations	Improve Manufacturability and Design
Imposed Performance Fines	Accelerate Continuous Improvements
Extracted Concessions	Increase Speed to Market
Redundant Audits	Advance Innovation
Vendor Managed Inventory	Reduce Network Inventory
Tactical Focus–Assign/Affix Guilt	Strategic Focus–Problem Solving
Price	TCO
Auctions and Bidding	Cost Models
Arms-Length and Punitive	Collaborative
Poker Chip (Delivery, Quality, Inventory, Admin)	Game Changer (NPD, CI, Interdiction and Innovation)
Efficiency	Effectiveness
Avoid Risk	Monetize Risk
Firm Optimization/Inter-Firm Competition	Network Optimization/Inter-Firm Collaboration
Vendor Compliance	Supplier-Driven Innovation
Procedures and Standards	Relationships
Vendor Performance Measurement	Supplier Development (Enhance 360° Performance)
Relative	Absolute
Save	Prevent
Quantitative Goals	Processes and Leadership

Source: Authors