Episode Transcript

What CEO’s Want from Procurement – And Are Not Getting, with Jeoff Burris

Announcer: Welcome to the Art of Procurement Podcast with your host Philip Ideson. Hear thought leaders share the trends, strategies, and tactics that you can use to elevate the role of procurement, and your career.

Philip Ideson: Hi there. Welcome to today's episode of the Art of Procurement. First of all I just really want to thank everybody publicly who really graciously reached out to me with really positive feedback regarding our rebranding, and our redesign. It has been a few weeks now, but I have really appreciated the feedback. It certainly lets my team and I know that we're doing the right things to really try and make the content that we have as accessible as possible, and sometimes you do that in a bubble. So just thank you, it truly is appreciated.

If you haven't checked it out already we actually have a YouTube channel where we continue to try some new things to bring the Art of Procurement to an even bigger audience. So just go onto YouTube, and look for Art of Procurement, and you'll find some more content that we share on that channel.

Today's guest on the show is Jeoff Burris. Jeoff is the Founder and Principal Consultant of Advanced Purchasing Dynamics, or otherwise known as APD. APD is a purchasing services, a consultancy, and a software company. They're based out of Detroit in Michigan. And they're primarily serving the manufacturing and automotive industry. I just wanted to give a little bit of background just in the name of transparency. APD used to be a client of mine. Actually I recorded this episode while I was on site at APDs offices with Jeoff. But I wanted to wait until my engagement with APD had concluded before I actually published the show, so that was kind of why I held off to publish it until now.

APD recently commissioned a study to understand what perceptions C-Suite executives, such as company CEOs, CFOs, presidents, general managers, what their perception is of the role that procurement, or purchasing depending on your point of view, brings to the companies. In the conversation Jeoff and I discuss the findings of the study, and Jeoff also shares ways in which he sees companies addressing the issues that are being raised by the C-Suite. While the survey was based off of manufacturing firms I do think that there is a lot of content here that's just as relevant for non-manufacturing companies, and it can definitely be applied to both direct and indirect areas of spend.

Before we head into the discussion I do just want to do a quick reminder that if you do enjoy the show you can sign up to receive notification every time that a new episode is launched. Just head on over to

Artofprocurement.com/subscribe, pop in your email address, and I'll be sure to send you a note every time we hit the publish button. All right then, enough of that, let's go straight into my conversation with Jeoff.

So Jeoff welcome to the show, welcome to the Art of Procurement. I'm really pleased that you were able to join me today.

Jeoff Burris: Thanks for having me.

Philip Ideson: So I gave a brief overview of your background before I rolled the tap on our interview. But I wanted to ask you a first question that I ask all of my guests, and that's how did you get into purchasing? Is it something that you chose, or did it choose you?

Jeoff Burris: It was really neither. I got sold purchasing. I did an undergraduate degree in operations. I worked for Cummins Engine Company for a couple years, got caught up in the Reagan, Carter recession, whoever you want to blame that one on. I went and got my master's degree. The folks from Ford came and said we want you to be in purchasing. Then they said what we want is we want people with manufacturing experience who also understand cost, because we're trying to go from mini suppliers to few. And in doing that we're going to switch from a market approach where it's market test, market test, to a knowledge based approach where buyers actually understand the cost of production. They sold me on that process, and they sold me on being able to utilize my expertise in that area, so I joined Ford back in 1984.

Philip Ideson: So you went out on your own, I think, 12, 13 years ago. What was the motivation behind doing it, and going ahead, and launching Advanced Purchasing Dynamics?

Jeoff Burris: Since some industries that I worked for got bought and merged into a larger company. I worked there for a couple of years, decided it wasn't a good fit anymore, went to work for Magna Corporation as the head of purchasing for their seeding group. I miss the autonomy I had running my own business unit. Since I was in high school I always thought I wanted to run my own business. It got me thinking. And I thought gee if I don't do this at age 45, and this being going out and starting my own business I may do it half baked when it get to be 65. So I thought I need to get this off my list. So I wanted to start my own business, and I thought what better thing to do than to start a business about what drew me into purchasing to begin with, and that's this knowledge based collaborative approach, and build a business around that.

Philip Ideson: Yes. So one of those things that if you don't do it now you might never do it, and then you would always regret not going ahead and trying it.

Jeoff Burris: Or I'll do it when I'm 65 and never retire.

Philip Ideson: As you took the leap, and jumped into running your own business, what were the biggest things you learned that perhaps you weren't expecting when you started on the journey?

Jeoff Burris: That's a good question. When I've answered that before I always think of the chef who goes off and starts his own restaurant, and finds that it's not cooking that's important, that it's cost accounting, and understanding the cost of everything that goes on the plate. Starting in consultancy where I've spent most of my time learning has been on the sales and marketing side. You think it's easy climbing on the other side of the table from being a buyer to being a seller, and it's really not. It has taken some skill set, development on my part on that side.

Philip Ideson: I think we give, it's funny you only realize when you go on the other side of a table how much of a hard time we give sellers sometimes when we're a buyer. Before we go into the main topic of conversation there was something that I wanted to mention, and this is really just to clear up terminology. We use purchasing and procurement interchangeably I think. But I know that for different people those mean different things. My show is called the Art of Procurement, not the art of purchasing. But you talk to different people, and they mean different things. From my perspective I think that they're one and the same. I just wondered if that was your perspective as well.

Jeoff Burris: Yes. That's my perspective as well. I use the two interchangeably.

Philip Ideson: So for the purpose of the conversation what we wanted to do was talk about the findings of what was a really interesting survey that APD performed earlier in the year. It was soliciting the views of company executives in terms of how they perceived the value of what their purchasing teams deliver. Before we go into the actual findings I'm interested to know what were some of the things you asked them.

Jeoff Burris: We asked them 16 questions ranging from is your purchasing team delivering bottom line value. We ask about are their cost reduction opportunities still on the table? Is purchasing helping you win new business? Is the supply base helping you deliver your vision for the company? Is supply base presenting undo risk, financial risk, or quality risk to your company?

Philip Ideson: Who were the kind of people that you reached out to? What were their level in terms of their organizations?

Jeoff Burris: The vast majority, 80 percent, were CEOs and presidents, general managers with full PNL responsibility. The next biggest group was CFOs, which comprised of about 15-17 percent.

Philip Ideson: So when you started to tabulate the responses I think you reached out to some respondents as well with follow up interviews to back up some of the numbers that you found. What were some of the key findings? What stood out to you from your key findings the most?

Jeoff Burris: Number one was that 58 percent of the CEOs believed that their purchasing groups are not creating value that drops to the bottom line.

Philip Ideson: So not creating value.

Jeoff Burris: Correct.

Philip Ideson: What was your response to that? Was it something that surprised you?

Jeoff Burris: I thought we would hear that some purchasing organizations aren't delivering bottom line value. And that's based upon CEOs call us, and engage us with companies. And they usually call us when they're not happy with what's going on, and so I expected to see some of that. I was very surprised at a 58 percent number.

Philip Ideson: Right. I think one of the things I read was that in the follow up interviews that CEOs were concerned that they don't see the savings that purchasing claims hitting the bottom line, and that leads to a trust issue. Is that true, and why do you think that is?

Jeoff Burris: One is I don't believe all the savings, purchasing claims hits the bottom line. In many purchasing organizations buyers and purchasing metrics are geared to show PO to PO savings. What they're not showing is the engineering expense, or the operations expense that go into implementing those cost reductions. The total acquisition cost of the components, if you're bringing things in. So you may be reducing price, but freight is going to go up. So if purchasing organizations started looking at every decision they made on a total acquisition cost basis, and reporting not a PO to PO savings number, but a value metric, then they would be more aligned with their CEOs.

Philip Ideson: So do you see companies that do take that approach, or is it typically most organizations are just looking at reporting savings on a PO to PO basis?

Jeoff Burris: Most organizations are looking at reporting savings on a PO to PO basis. In fact we're doing a follow up survey with CPOs now, and we've had about a score of them answer, and 19 out of 20 so far are reporting PO to PO. They may be looking at freight and transportation. Very few are looking at the cost from an operational standpoint, from an engineering standpoint, or what might have to be shared with the customer.

Philip Ideson: Right. Cost equality, I guess, as well.

Jeoff Burris: Correct.

Philip Ideson: So what was the next major finding that you had in the survey?

Jeoff Burris: This one was kind of surprising to me. It was at 52 percent of CEOs think there are still significant savings to be gained, but they don't know where to start.

Philip Ideson: Right. Is that because then that they think that their procurement, or their purchasing organization doesn't know how to get the savings, or that they just don't think they're looking in the right places?

Jeoff Burris: That's hard to tell. I think one of the things is that they're not seeing the processes that are put in place. When we talk to purchasing leaders, and now I'm referencing that follow up survey. What we're seeing is less than half of them are running visible, cross functional meetings where it provides the venue for alignment between the different functions, and folks are working together on cost reduction, and then reporting those. The other one, which I found quite interesting, is less than half of the companies that do monthly financials and quarterly financials, less than half of those include what's happening from a purchasing perspective, and the purchasing view on what they're doing to reduce costs. So one is CEOs aren't asking the question. They're not telling the purchasing guy, hey, when we report the monthly profits I also want you to report what you've implemented in terms of cost reduction.

Philip Ideson: So it could be as much as just communication, not necessarily that the purchasing teams aren't doing a good job.

Jeoff Burris: Correct.

Philip Ideson: They're just not communicating that job. I think part of that is on the procurement leaders to be the ones that ensure that they are communicating their value up to the CEOs, so that the CEOs know how to value the contribution that they're making. What else did you find?

Jeoff Burris: 52 percent of the CEOs believe that purchasing is not aligned with the demands that customers place on the business.

Philip Ideson: Okay. And what were their main concerns?

Jeoff Burris: One is commercial terms. And that the automotive industry is very competitive. It's very competitive with its supply base, constantly pushing for cost reductions. They don't see the same level of activity and performance on their supply base side as they feel they're giving to their customers.

Philip Ideson: Right. There was something when I looked at the comments that, to be honest, I was a bit concerned about. That the CEOs felt that their purchasing teams just, they need to demand the same concessions from their supplier base, I think was what was written, that they provide themselves to the customer. To me that it's not necessarily understanding how you can create value through purchasing is just expecting you to go and demand concessions just for the sake of well that's what my customer is asking me to do, and seems very short term. I just wondered what your thoughts were on that.

Jeoff Burris: I think in total the purchasing organization needs to deliver the same kind of savings that the sales organization is giving to the customer. On a line by line basis it's very difficult to achieve that. So in some cases you're going to have a commodity, or category that you're buying, and you're going to overachieve, versus what the customer requirements are, and on other commodities you're going to do a little bit worse. The question goes back to value. As a total organization are you delivering the kind of value that's actually driving spend as a percent of sales down over time. Then you're able to say hey, the whole picture looks good. On a line item by line item basis there's going to be some winners in the portfolio, and there's going to be some losers.

Philip Ideson: Yes. Make sure you don't give all the winners back to the customer, so you're just left holding the bag with all the losers.

Jeoff Burris: Correct.

Philip Ideson: Because I think that it talks, I think we'll talk about it a little bit later, it talks to alignment, to making sure you're actually aligned between the sales and purchasing organizations. So that they're giving up on reasonable concessions that you can never recover, or you're giving up too much of what you're able to recover.

Jeoff Burris: Correct. I think the other thing is keeping the score card. So that if you're not keeping a good score card, or you're not keeping good metrics that deliver the whole picture, then people tend to remember the pain. They remember where they gave more than they go. And if you're keeping the metrics the data shouldn't lie.

Philip Ideson: Right. So what was the next one of your findings then?

Jeoff Burris: I think it ties right to the other one in terms of demands that customers are placing on the business. That was that 48 percent of CEOs question whether their purchasing team effectively supports the company efforts to win new business.

Philip Ideson: Right. So they're not supporting from bringing supplier based innovation in, or is it simpler than that? It's just not being responsive enough to have prices available to support quotations.

Jeoff Burris: It's being reactive rather than proactive. It's waiting on engineering to get the prints done before you get the pricing. The way we work in manufacturing, a lot of times you have your quoting customers, and the designs aren't finalized. Purchasing needs to be proactive in working with engineering, and working with sales to understand when customer quotes are due. Developing the best price they can give, and the information they have at the time. It would be an easy job if all we had to do was wait on prints, send out prints to three suppliers that are unambiguous. We look at the three prices, and we pick the lowest price.

The way we work with how rapidly product gets innovated, many times we needed to choose a supplier before the design is finalized. Which means we're going to need a good understanding of supplier cost structures, and we're going to need to be proactive. It's the reactiveness that's causing the problem. Sales has to get a quote to the customer, and if purchasing is not there with what they think the cost is going to be, sales is going to have an answer, and they're going to plug a number in.

Philip Ideson: Yes. They have to use a number, some number, wherever they get it from. Then it becomes an issue for the purchasing team to meet it if they use an unrealistic number, and then want the business based on that.

Jeoff Burris: Correct.

Philip Ideson: What are some of the key things that you recommend to companies to do to be able to be reactive, to have data off the shelf, if you will, that they can plug into these models, rather than having to go out to suppliers every single time.

Jeoff Burris: One is each commodity needs to be analyzed on its own. In some commodities you may have intimate knowledge of the supplier's cost structure. Maybe you do open book costing, like Honda does, and you've been on the supplier shop floor. That's not going to work with every commodity. But with every commodity you've got to have a strategy for how you're going to control and manage cost over time, and how you're going to gauge whether you're getting a good price or a bad price. If you've got those kind of models developed then you have the ability to work with engineering, and say based upon those assumptions here's what the cost looks like.

Philip Ideson: So you've taken risk out of the estimating process essentially. I mean there will always be some level of risk, but if it's manageable within a couple of percentage points then that's more effective, and allows you to be more proactive than, there may be a 20 or 30 percent swing when you're not doing that, and then that's what really puts programs in trouble. How about the final finding that you had then, or the final major finding that you had from the survey?

Jeoff Burris: That was that 41 percent of CEOs believe that the supply base impacts negatively their ability to implement their vision for the company.

Philip Ideson: Right. That's pretty damning to be honest, that the CEOs and executives feels that we're not helping them implement their vision, because essentially that's what they've been charged to do by their shareholders. Is that because their visions are often unrealistic, or does it just speak to the fact that we're not aligned, purchasing isn't aligned with executing the vision of the CEO?

Jeoff Burris: I think purchasing focuses, rightly, on cost, and cost control. But at the same point in time that you're doing that you need to be doing it based upon where the company is going. Understanding that the CEO wants to build a business in India, for example, and setting up that you're buying product from India three or four years before you want to start manufacturing. So you're importing product from India, so that once you start a manufacturing facility in India you've got a supply base.

Philip Ideson: Right. And a supply chain locally.

Jeoff Burris: And a supply chain locally, is a good example of a CPO who gets out in front of the vision, and finds ways to implement the vision. And at the same time they're saving money by buying out of India.

Philip Ideson: Right. Is that something that you hear consistently from CEOs, that they don't feel their purchasing teams are really helping them execute on their vision?

Jeoff Burris: It's not as high as the value to the bottom line by a significant number of percentage. I think that's because a lot of times the vision just gets going, and purchasing is able to scoop in, and not create a problem with the vision, rather than actively, proactively supporting it. I think there are probably some CEOs who haven't really thought about how they could leverage purchasing better, and leverage the supply base. Because whether it's expanding geographic locations, whether it's bringing technology into the company. Even finding ways to support customers. With manufacturing companies, and material costs being 50 to 70 percent you can't implement almost anything on a company wide basis without involving the supply base.

Philip Ideson: So when you take stock of some of those answers, and some of the findings, I think some of them are quite eye opening to be honest. It's not often that we're able to survey executives to really get an outside view of what they think. The value that purchasing or procurement creates, how can we react? What can purchasing leaders do in response?

Jeoff Burris: One is make sure they understand the CEOs vision. Look at the annual report. If you're a publicly held company plug into the earnings cost, and listen to where the CEO is driving the business. Then start to figure out how do you align your purchasing strategy to support that vision. So you're talking about things, like if we're going to expand in Asia in three years here's what I need to be doing from a purchasing perspective to help make that successful.

Philip Ideson: Yes. Rather than being reactive, and being told in three years' time hey, we're now moving to Asia, can you support us?

Jeoff Burris: Yes. We did an engagement with a company that did, that is exactly what happened. The company decided they were going to move production from Mexico to India. The purchasing guys were reactive in doing that. Once they started to build the facility the purchasing guy says oh, by the way the raw materials have to come from China and the US. Well the labor savings of moving to India was quickly offset by the transportation cost of bringing in product from China, and bringing in product from the US, taking it to India, and then shipping it back to the US again.

Philip Ideson: So how important is not just aligning yourself with the CEOs vision, but also your stakeholders? We often approach stakeholders in the mindset of we're basically going to use them to allow us to meet our objectives, rather than flipping it that we should be helping our stakeholders achieve their objectives.

Jeoff Burris: Correct. Far too often different functions within the company run over and say here's what I need from you. What I always talk to the purchasing guys about is that it's a collaborative negotiation. If you're new in a job, or you've been in a job for a while, go talk to the head of engineering. What are you going to be trying to achieve next year? How are you going to try to achieve that? How can the supply base help you? Ask a lot of questions. Then go back and say here's how I think I can help you. And oh, by the way, here's where I need some help. So first try to give, and then second start laying out the processes that help you achieve the goals that you're trying to achieve as well.

Philip Ideson: Right. Yes. So being transparent, but making it about them. You're there as a support function to them essentially to help them execute on what they need to do to support the CEOs vision, as opposed to just going and saying I need to get three percent cost savings, and I'm going to try and do whatever I can to get it.

Jeoff Burris: Correct. Because the best testimonial for the purchasing organization in supporting the CEOs vision is not what they tell the CEO, but it's what the guy who is running engineering. Or the woman who is running sales and marketing says hey you know these purchasing guys have really stepped up. They really help me day in and day out.

Philip Ideson: How about metrics? How important do you see metrics being? Because it's something that I could probably talk a lot about metrics, and how we measured...I mean that drives what people think about us, how people measure us, but it doesn't necessarily tie in with the goals of the organization. Is that something that when you see people starting to think more about than just cost, does that help them elevate the role of purchasing within their organization?

Jeoff Burris: Yes. I think it does. I think it's important to choose the right metrics. I think it is also important to differentiate what you're trying to deliver, deliver metrics, versus process metrics. At the same time you don't want to over complicate things. I think we see two failure modes with metrics. One is people that don't measure anything, or don't measure the right things. Then there are organizations that try to measure everything. I'm a firm believer that when everything is important, nothing is important.

Philip Ideson: Right. We talked about the fact that CEOs, they're not certain about where, or they know the cost savings are out there, that cost savings exist. But that they're not certain that their purchasing team necessarily knows how to go about finding them, and the fact that some of that can be down to communication. But I know that you've done a lot of work on understanding what some of the key drivers are that helps a purchasing organization basically set themselves up to deliver as much savings as possible. I just wondered if you could share a couple of the areas that you see leading companies, where do they excel?

Jeoff Burris: Since the inception of the company we've been doing a benchmark study, or a benchmark service we call the Competitive Advantage Assessment, where we go in, and assess a purchasing organization on 120 different points. We correlated those 120 points for the companies that we've dealt with against how well they were doing on adding value to the company red, yellow, green, a fairly simple correlation. And we were kind of surprised with what we found.

Because what we found was it's not so much what you do, but what order you put improvements in place. For example, we didn't find a good cost correlation between knowledgeable buyers, and cost reduction. What we did find was that there is a high correlation between performance objectives, good metrics, good program manageable for cost reduction ideas, and cost reduction. Then if you looked at the companies that had those in place then the talent came into play. So the people who set up the right processes, and the right metrics, then were able to leverage that talent to achieve the savings. You can hire the best buyers in the world, and if you put them into a stinky process, with stinky metrics, you're going to get bad results.

Philip Ideson: Right. So that was the engine.

Jeoff Burris: Correct.

Philip Ideson: From a talent perspective then, so you have the engine, if you will, of processes and the governance that enables good talent to be successful. How do you see leading companies in the purchasing space focus on talent, and focus on talent management?

Jeoff Burris: One is open and honest communications that come about through good job descriptions, a good performance review process. Objectives that are smart, specific, measurable, achievable, realistic, and timely. Then feedback based upon, you have tenured buyers who have been in the job for a long time. Maybe quarterly feedback for them is fine. You have a new buyer that has just come in from college. You probably want to be talking to them on a weekly basis for the first few weeks, and then gravitate to a less frequent...

Philip Ideson: I have a last question about the priorities of CEOs, and it is kind of tied in with the survey. It's something that you referenced in the survey. But I know that you spent a lot of time talking to executives just in your day to day business. So I'm interested from your perspective what would you say are the top one or two priorities right now of the C-Suite when it comes to managing their supplier base?

Jeoff Burris: I think they're back and searching for that value. We've hit an area where we came out of a recession. We've gotten to a point where it has leveled off, and growth is not spectacular by any means, it's more of a steady Eddie kind of growth. And in that steady Eddie growth you go back to value. You have to be able to provide value, and do things better every day, because the sales growth isn't there that hides the sins of poor performance. So I get back to the value thing that is very important to the CEOs, because of where we are in the economy right now.

Philip Ideson: Is that cyclical with the economy? Does the economy ultimately turn, and go back into recession? Which it will do one day. Who knows whether it's in a week, or a month, or five years' time, will then the cost become the number one focus again. It goes with the economy.

Jeoff Burris: Yes. I think that is true.

Philip Ideson: Jeoff, I want to thank you for your time today. If people want to know more where can they reach out to you, where can they find you?

Jeoff Burris: One is our website, Apurchasingd.com. The other is on LinkedIn. That seems to be the way people reach out these days.

Philip Ideson: Yes. Well what I'm going to do is I will link up to your contact details. I'm also going to link to the white paper that is associated with the findings of the report on the webinar. There's a live recorded webinar out there that talks about the findings in more detail. You can find those at Artofprocurement.com/CEO. That's Artofprocurement.com/CEO. So Jeoff, thank you very much again for your time today.

Jeoff Burris: Thank you Phil.