



# Holding up the mirror: The impact of strategic procurement practices on account management

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**Abstract** Procurement has grown up. It is now a strategic business function that increasingly recognizes the importance of strategic supplier relationships, a reflection of key account management. It is time to assess the impact of this shift on the profession and practice of account management. This paper examines customer adoption of strategic procurement and then discusses the implications this has for account managers at the suppliers serving these customers. New techniques are emerging in these special relationships, including the use of psychological contracts and co-measurement and monitoring. Perceived fairness will also have a major impact on the customer's view of their suppliers. Account managers must recognize these changes or fall victim to supplier delusion: the belief that they are performing better than they really are.

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## 1. Strategic procurement: Everyone's a winner!

Procurement is big business. A company's purchases of goods and services can account for 50–70% of total costs (McGinnis & McCarty, 1998) and form 70–80% of the cost of new products in some industries (Minahan & Vigoroso, 2002). Coupling the scale of procurement costs with a recent increasing trend for outsourcing entire processes, it is hardly surprising that the purchasing profession is becoming more strategic. In many compa-

nies, strategic procurement is now seen as vital to competitiveness, and Carr and Pearson (2002) find that it has a positive effect on the firm's financial performance.

Traditional purchasing is driven by the desire to cut costs of purchase and improve short-term profit. It historically results in supplier proliferation, transactional rather than relationship behavior, and an emphasis on price reduction. In contrast, strategic procurement focuses on how the purchasing of goods and services, including outsourcing of entire processes, can deliver better long-term shareholder value. Strategic procurement is a very different approach which involves reducing the supplier base, cooperative negotiation with suppliers, quality interaction with suppliers,

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and developing long-term relationships with the best suppliers. These behaviors are linked to better company performance (Swinder & Seshadri, 2001).

Developing strong supplier relationships is a reflection of key account management. It is now well understood that long-term relationships can pay off for customers and suppliers, both. This, however, requires abandoning traditional adversarial roles and recognizing that more can be achieved from world-class suppliers if companies behave like world-class customers (Morgan, 1998). As well, it entails offering commitment and adopting a “can-do” approach, such as helping suppliers secure finance by agreeing to long-term contracts and work-in-process payments. Just as the key account manager is a boundary spanner for the supplier (McDonald, Rogers & Woodburn, 2000), so too is the purchasing and supply manager for the customer organization. Strategic procurement managers are now just as committed as key account managers to identifying mutual gain from key supplier/key customer relationships.

Assumptions regarding the nature of supplier/customer relationships have changed over the past decade. Suspicious win/lose scenarios are out. The current rationale is that buyers and suppliers can have common goals, there is no need for customers to have total control, and transactions are not random and episodic. An example of strategic procurement thinking is that of Kodak, which developed a successful supplier partnership program based on careful supplier selection and relationship measurement and management (Ellram & Edis, 1996). Kodak obtained benefits through lower costs and reduced cycle times, and gained improved solutions through earlier supplier involvement. Suppliers benefited from a greater share of Kodak’s business and secure long-term demand from the customer; they also gained competitive strength.

Strategically minded procurement managers recognize supplier partnerships are patterns of purposeful behavior that can deliver value to both parties. This new mindset from a traditionally price-driven adversary represents an opportunity for suppliers that possess key account management capabilities and the ability to respond. However, there are still underlying supplier/customer mismatches to be addressed. Procurement managers face two issues in moving toward strategic procurement: how they measure supplier performance, and the risk of increasing their dependence upon a smaller number of suppliers. For account managers, an important implication of closer relationships with fewer, larger customers is the need for greater proactivity and openness in performance measure-

ment. Account managers also need a better understanding of key customer profitability and the payback on the relationship, as suppliers, too, encounter risks in dealing with fewer, larger customers. Customer profitability risks have been extensively discussed elsewhere and will not be examined here. Our theme is the additional issues that are generated when a major customer moves toward strategic procurement: the problems of co-measuring a complex business relationship to minimize the risk inherent to the customer in supplier dependence.

## 2. Mirror, mirror: Measurement and risk affect both suppliers and customers

The risk of dependence impacts both parties in a relationship. While purchasing decision-makers have concerns about dependence upon a single source for key products or services, sales managers are equally concerned regarding the risk of over-dependence on a handful of strategic customers. Working together in strategic supplier/customer relationships requires a grasp by both parties of new tools and ways of operating in concert. In particular, the co-measurement and discussion of performance, including the development of trust and both parties’ perceptions of fairness, is essential to the sustainability of mutual benefit from the relationship.

### 2.1. Who’s the fairest supplier of them all?

Supplier selection is as strategic to purchasing as customer portfolio analysis is to sales management. Just as key account managers focus on understanding customers’ business needs, purchasers strive to understand supplier capabilities such that they can choose the best candidates with which to work. Purchasers bear a considerable risk management responsibility on behalf of the firm, balancing the trade-off between control (usually associated with playing a number of suppliers off each other) and dependence (single sourcing). They need to protect the firm from quality mishaps, service deficiencies, and cost overruns. Purchasers also have to judge the risk of supplier failure and keep up with suppliers’ financial health.

Supplier reduction has been a popular purchasing strategy since the 1980s. Although poor performers are dropped, purchasers see a vested interest in helping their best suppliers survive and thrive. There are many reasons why customers may move toward single sourcing or supplier concentration, including the need to increase coordination in a complex task or process, buffering the firm against

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