

Key Supply Management Not a simple mirror of Key Account Management

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Abstract:

This paper is a work in progress and reports on intermediary empirical findings of an on-going survey. The whole survey centers on specific organizational aspects of purchasing by concentrating on the implementation of key supply management (KSM). Research on KSM is scarce and this research aims at building knowledge on this overlooked topic. On the basis of 25 in-depth interviews with purchasing managers of multinational companies this paper concentrates on the obstacles that make it difficult for a firm to implement KSM. The paper identifies three main obstacles and develops the idea of an asymmetry between purchasing and marketing situations.

1. Introduction

1.1. The evolution of purchasing

The idea that purchasing has evolved from a clerical to a strategic dimension is now widespread in the relevant literature (Carr & Smeltzer, 1999; Cousins, 2002; Gadde & Håkansson, 1994; Ogden, Petersen, Carter & Monczka, 2005). Another evolution has also been largely documented: it concerns the nature of exchanges between buying firms and suppliers evolving from adversarial / transactional / competitive exchanges to collaborative / relational / cooperative ones (Carr & Pearson, 1999; Corsten & Felde, 2005; Gadde & Hakansson, 1994). Many are the authors having described the advantages of this last evolution (Corsten & Felde, 2005; Dyer, 1996; Harland, Lamming & Cousins, 1999; Hartmann, Ritter & Gemuenden, 2001; Matthyssens & van den Bulte, 1994). Different works

have nevertheless insisted on the idea that not all exchanges with suppliers should evolve towards relationships (Corsten & Felde, 2005; Gadde & Snehota, 2000) and have underlined that a ‘*company can be highly involved with only a limited number of suppliers and needs a variety of relationships—each providing its different benefits*’ (Gadde & Snehota, 2000, p. 305). A similar movement (the evolution toward relational exchanges) has already affected the marketing side of the company. In a growing number of cases, the implementation of relational exchanges with customers has resulted in new managerial practices. Among these practices is the management of key accounts, i.e. dedicated activities, actors and resources for an identified set of customers (Homburg, Workman & Jensen, 2002; Workman, Homburg & Jensen, 2003). Are similar changes occurring on the purchasing side of the company? Is key supplier management (KSM) a mirror of key account management (KAM)?

1.2. Purchasing portfolio as a related topic to KSM

Literature on purchasing portfolios remains the most related to KSM and these works aim at classifying purchases and/or suppliers (Bensaou, 1999; Kraljic, 1983; Olsen & Ellram, 1997; van Weele, 2002). Kraljic's portfolio approach aims at classifying purchased items (products or services) using two dimensions: profit impact and supply risk. This analysis results then in a 2×2 matrix identifying four categories of purchases: bottleneck, noncritical, leverage and strategic. Each of the four categories is then associated to a specific supply strategy. Other portfolio approaches, though introducing some variations remain globally quite similar to the Kraljic one. Though subject to criticism (see for instance Gelderman & van Weele, 2005), these works remain a good first approach to the KSM issue. For instance, Gelderman and Semeijn (2006) show how the purchasing portfolio tool is used for the implementation of organizational mechanisms of knowledge transfer to local units in the purchasing side of a company (Gelderman & Semeijn, 2006, p. 215). But, if purchasing portfolio models and KSM can be seen as two connected topics (similar to what happens in marketing with customer portfolio approaches and key account management), they cannot be considered as the same phenomenon. Purchasing portfolio models are about identifying specific sets of purchases (Kraljic, 1983) or supplier relationships (Olsen & Ellram, 1997) while KSM is about the organizational changes (by new actors, resources and activities) to support a new kind of exchange (relational) with suppliers.

1.3. The organizational perspective

If we take KSM from an *organizational* perspective, the theoretical background is dramatically reduced. Internal organizational issues within the buying firm linked to the evolution of sourcing are seriously overlooked (Andersen & Rask, 2003; Ivens, Pardo & Tunisini, 2009; Piercy, 2009; Sheth & Sharma, 1999; Sheth, Sharma & Iyer, 2009) and we can easily notice that just a ‘*little research has entered into specific organizational issues, similar to what occurs on the marketing side*’ (Ivens *et al.* 2009). Main purchasing organizational issues worked out by scholars deal with centralization/decentralization (Johnson & Leenders 2001; Johnson, Leenders & Fearon, 2006; Leenders & Johnson, 2000). Less are the works focusing on the CPO position (Johnson, Leenders & Fearon, 1999) and the integration of the purchasing department with other departments (Cousins & Spekman, 2003; Williams, Giunipero & Henthorne, 1994).

1.4. Scope and aim of paper

The aim of this paper is to elaborate on the organizational aspects of purchasing in relation to the evolution towards more strategic purchasing through the phenomenon of KSM. Because the KSM phenomenon has not yet been clearly described in the literature, we posit, for the purpose of our research, a definition that imitates that of KAM. We then define KSM as dealing with practices put in place by certain companies in which certain suppliers (here called key suppliers) receive a specific, adapted treatment (i.e. different from the one usually used for other suppliers). More specifically, this means the creation of a new mission (thus the creation of a new job, new practices, etc.) and its integration into the existing structure. This mission involves coordinating the company's information and action in time and space in relation to an identified supplier in its entirety. The whole objective of KSM is to enable a company to generate an increased relational value, compared with the one that could be forecasted with a traditional management of suppliers". Such a definition of course lacks precision, but the objective here is to capture any aspect of the phenomenon that is going to help us analyze and understand it. We will come back on the problem of the KSM definition in the discussion part of the paper. This paper is organized as follows. We first situate the topic of key supplier management by referring to the very few works dedicated to this specific issue. Then, we briefly discuss the research design of our on-going research. We go on to describe the main results of our exploratory study and, finally, we conclude with a discussion of results and some implications for managerial and academic debates.

2. The issue of Key Supply Management

2.1. An identified phenomenon in the purchasing practices

Missirilian and Calvi (2004) are acknowledged for empirical evidence of key supplier management in different firms. Based on an empirical study carried out within 15 Danish manufacturers Andersen and Rask (2003) also report the existence of KSP (key supply purchasers) practices. Wagner and Johnson (2004) reporting on BPS (a multinational OEMs headquartered in Europe and specialized in high-technology and IT-production equipment) explain that "*key supplier management is used [at BPS] in the case of very carefully selected and important suppliers that are subject to extremely high demands in terms of management of core skills, market and technological leadership. In effect, this means absolute single sourcing from key suppliers and very close supplier relationships*" (Wagner & Johnson, 2004, p. 723). More generally the examples of organizations communicating on their KSM practices are widespread; For instance AKZO-Nobel started KSM in 2008 with 20 suppliers explaining that: "*Globally working together with suppliers in Key Supplier Management contributes to risk mitigation, global winning partnerships for the future, cutting-edge technology & innovation, competitive advantage versus our competitors and of course increased leverage possibilities*"¹. The same with Motorola arguing that: "*the key to [its] success has been the establishment of a corporate purchasing structure and use of key supplier management and cost cutting initiatives*"². For Tyco: "*key suppliers [are] influencing the suppliers' growth and strategic planning*"³. Numerous other examples could be found in the professional and consulting literature. Without claiming any homogeneity of the practices reported here, it is possible at least to conclude on the existence of a managerial phenomenon identified under the general label of key supplier management.

¹ http://www.akzonobel.com/system/images/AkzoNobel_Key_Supplier_Management

² http://www.purchasing.com/article/230109Motorola_leverages_its_way_to_lower_cost.php

³ http://www.purchasing.com/article/340124IT_sourcing_efforts_drive_value_for_Tyco_and_suppliers

2.2. KSM as an overlooked topic of the purchasing literature.

The very few authors who have identified KSM as a topic of possible interest for research in purchasing agree on the scarcity of works. Missirilian and Calvi (2004) in their attempt to propose a framework for the analysis of KSM state that they “*have not found literature that describes this function specifically*” (Missirilian & Calvi, 2004, p. 3). Andersen and Rask (2003) share a similar point of view and express their surprise that such an issue is so totally overlooked by the literature: “*there is nothing (at least to our knowledge) in the SCM or procurement management literature about [this] role in the buying organization*” (Andersen & Rask, 2003, p. 86). Ivens et al. (2009) arguing for an overarching concept of “relationship keyness” mention the existence of practices labeled “*key supplier management*” *have been observed and described as an element of certain companies' purchasing strategy*” (Ivens, Pardo, Salle & Cova, 2009, p. 3).

2.3. The KAM background as a possible background

The central characteristics of KAM are for instance summarized by Pardo (2006, p. 115): “*In a firm's customer portfolio, there is a central core (of customers). The supplier believes that if the exchanges with these customers are managed in a specific way, they can offer greater commercial efficiency. These are the customers the supplier designates as his firm's key accounts. To manage them in a specific way means a different form of management than that usually used for his customers. More specifically, this means the creation of a new mission (thus the creation of a new job, new practices, etc.) and its integration into the existing structure. This mission involves coordinating supplier information and action in time and space in relation to a custom*”. For Ojasalo (2002) the KSM issues can be approached in the same way as KAM issues insofar as “*the principles of key supplier management are the mirror image of KAM*” (Ojasalo, 2002, p. 269). In their work on supply chain management Andersen and Rask (2003), focus on a KSM that they consider “*analogous to a KAM at the selling end of the marketing dyad*” (Andersen & Rask, 2003, p. 93). Missirilian and Calvi (2004) in their work try to elaborate a description of KSM functions by analyzing the “*job descriptions*” found today in some companies. They use the theoretical framework developed by Homburg et al. (2002) who propose an analysis of KAM through four fundamental dimensions: (1) activities (2) actors (3) resources and (4) formalization.

2.4. In search of a definition of KSM

For Missirilian and Calvi (2004) the KSM role emerges “*when buyers in the purchasing department dedicate themselves to the management of relationships with suppliers, which the company has identified as strategic*”. According to the authors those specific “*strategic suppliers*” are “*any or a combination of the following situations: (1) suppliers with the highest spend in the company; (2) suppliers of multiple sites/divisions of the; (3) suppliers of three different commodities (for example, Telecom company buying microelectronic components and finished measuring instruments from the same supplier); (4) suppliers supplying the company at a global level; (5) suppliers which are also major customers; (6) and suppliers of strategic items according to Kraljic (1983)*” (Missirilian & Calvi, 2004, p. 2 and 3). Though calling it a different way Andersen and Rask (2003) propose that “*the KSP will be the access point of single or selected groups of suppliers to other departments in the buying situation. The KSP is an important part of the information architecture put in place to foster a closer and tighter relationship with suppliers. This procurement job functions as a mediator, with a focus on both external and internal issues*” (Andersen & Rask, 2003, p. 93).

Ivens et al. (2009) state that “*the KSP role consists of managing relationships with suppliers that the company has identified as being of strategic importance*” (Ivens et al., 2009, p. 3).

3. Methodology

The main objective of our ongoing research is to provide a better knowledge of the phenomenon of key supply management that is beginning to spread within companies. Due to the quasi-absence of academic work on this topic a qualitative methodology was chosen. It aims both at better understanding the KSM phenomenon and at identifying specific issues. The current stage of this study is based on in-depth interviews conducted with 25 respondents within the purchasing functions of eight multinational companies during the fall of 2009. These companies belong to different industries (manufacturing of industrial goods, energy, public administration, telecommunications, cosmetics and beauty, Internet and communication...). All the respondents are based in France although most of their suppliers are international ones. These eight companies were chosen after discussion with their purchasing managers so as to identify the ones that indicated they were “doing something specific with some of their suppliers” thus using the concept of “activity intensity” as proposed by Homburg et al. (2002). A semi-structured interview guide is used. The structure follows the one used by Missirilian and Calvi (2004), which is based on the works from Homburg et al. (2002). Four questions are then analyzed. An additional part of the guide consists of questions related to difficulties or problems encountered with the implementation of key supply management. The duration of interviews varied from 60 to 90 min. All interviews were recorded (with permission of respondents) so as to allow different scholars to get access to data and share their analyses of the described phenomena. Internal memos, articles and archival data are also collected. For the present paper we are just focusing on part of the collected material, specifically on data reporting on difficulties implementing KSM.

4. Main results

By focusing on the difficulties encountered by respondents in the implementation and development of KSM practices, three main ideas emerge. 1st - Because of the very high heterogeneity of products and services bought by a company (to sell *one* Ipod, for instance, Apple has to source up to 150 components from different suppliers) the relevancy of suppliers portfolio approaches is considered as being limited at the level of managerial action by the purchasing managers we met. This difficulty to enter into any kind of “hierarchy” of purchases (and even more difficult of suppliers) hampers companies from thinking about organizational means to manage certain suppliers – which is the essence of KSM – insofar as the identification of such suppliers is too difficult to manage. 2nd - The vision of a supplier-relationship as a possible source of value is questioned by the purchasing managers from our sample, or, more precisely, the means to be used in order to implement such value creation with suppliers are largely ignored. This does not favor a KSM orientation, the prime objective of which is to make new types of value creation possible between buyer and seller. Our study reveals different reasons for such a position. Purchasing managers in their majority feel they already create value insofar as they manage to maintain a certain level of competition between their different suppliers. Thus, managing a certain distance between their company and suppliers appears to be the most adapted type of governance. Furthermore, purchasing managers display a high sensitivity to the risk of dependence and consider it to be much more determining than for the marketing side. In-depth relationships are primarily seen as risky

relationships. 3rd - Finally, for the purchasing managers from our sample, savings still legitimate the purchasing function. The purchasing function still has difficulty positioning itself as a real boundary-spanning function which could allow it to appear legitimate to analyze signals sent by the supply network and to take over these signals internally. This is seriously hampering any attempt for KSM to emerge as a coordination function not only internally but also externally.

5. Implications

Our qualitative findings provide some material that can serve as a basis to discuss several aspects of KSM. As elements of discussion we first of all recommend examining the idea of a possible *asymmetry* between purchasing and marketing. Several authors have (on the contrary) supported the idea of symmetry (Enis & Smith 1977; Olsen & Ellram, 1997; Williams et al., 1994). For Olsen and Ellram for instance: “*Marketing and purchasing are essentially mirror images*” (Olsen & Ellram, 1997, p 102). We think this symmetry is not so systematic. For instance, “doing more” with a customer is considered as a good marketing orientation, but doing more with a supplier does not support the same meaning (cost increase, risk of dependence...). Thus value creation does not seem to be conceptualized in the same way on the marketing and on the purchasing side of the company. Second, we suggest a KSM position in the company that is distinguished from the purchasing position. KSM could appear as “an additional layer” in the organization, thus providing the company with a new organizational device to manage “relationships” with suppliers. If the focus of purchasers’ activity remains “families” or “categories” of products or services bought, the focus of key supplier managers is definitely the “relationship”, and their purpose is the combination of resources between their company and one or several key supplier(s). In a word, key supplier managers are not going to represent purchasing managers: they are two complementary devices to manage suppliers. This will inevitably raise the fundamental question of the integration between both functions and the possible danger of creating a hierarchy between them. Finally, we will discuss the necessity of defining KSM based not on the characteristics of suppliers but on the characteristics of what a company *wants* to do with its suppliers.

From a theoretical vantage point our results could contribute to enriching knowledge about KSM which can appear as interesting since there has been little research addressing this specific issue. More generally these results enlighten the topic of changes in supply management strategies (Carter et al., 2007). The limitations of this study are linked first to its qualitative nature (avoiding any attempt at generalization) and second to the difficulties of the observed phenomenon (when are observed practices KSM ones and when not?). All of these points offer possibilities to refine the design of further research.

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