

Sales and Purchasing Communication Processes and Their Impact on Corporate Performance and Profitability

When representatives from supplier and customer organizations think of buyer-seller relations, they usually think in terms of their respective companies: one producing or distributing products, and the other purchasing those products. Both think in terms of meeting specs, production capabilities, delivery, service levels and unit price. What they do not think about is the complexity of the communication processes in play when individuals from these companies meet. Rarely considered are: how the specific actions they take when communicating impact the process; the quality of the many individual decisions they make during each meeting; how those interactions impact the performance of other functional areas within their organizations; or the overall Enterprise-to-Enterprise relationship. And, although they think about achieving their personal performance objectives such as making forecast or reducing unit cost, they are not necessarily thinking of the overall performance of their respective companies or the effectiveness of the entire supply chain system.

The subjects of Lean Manufacturing and Continuous Improvement programs seem to enter every aspect of business discussions today, except for the communication processes at the point-of-contact meetings between the customer and supplier representatives. At this critical point-of-contact, the general consensus seems to be “everyone can—and does—do it their own way.” Simply ignoring the fact that the current communications system is adding costs and fostering inefficiencies throughout the supply chain will not improve performance. Only appropriate and direct action will . . .

One of the most important discoveries made during the study was the fact that the processes used by the customer and supplier representatives during their meetings, particularly at the front end of the relationship, could accurately predict how successful the relationship would be. . .

Point-of-Contact Effectiveness

... As stated by the customers time after time to us,” I know who my best suppliers are.” Not unexpectedly, they always turned out to be one of the top 2% implementing the *Exceptional Practices*. . .

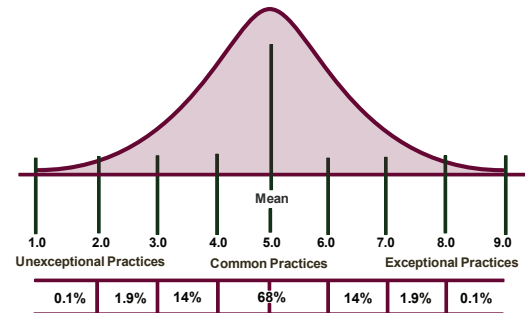


Figure 2.1

. . .The current purchasing practices are often seen by suppliers as being adversarial versus cooperative. Suppliers respond by becoming cautious and begin to spend time and energy ensuring they are not taken advantage of in the business relationship. This, in turn, draws attention away from the tasks of understanding needs and improving customer performance. . .

. . . Current sales practices are often seen as manipulative by Purchasing and the User Groups and addressing general needs with generic presentations of facts, features and benefits. This makes it very difficult for purchasing to distinguish one supplier from another. Purchasing responds by focusing on a limited number of easily comparable factors such as ability to meet product/service specifications, delivery capabilities and, of course, unit price. Total cost, although often discussed, is rarely the primary factor. . .

. . . It came as no surprise to discover that top executives from the various groups had differing perceptions from those at the implementation level. Many of the Purchasing and User Group executives described their company's system for selecting and working with suppliers as functioning well. They were quick to elaborate on all the improvements and measures they had implemented within their groups. It should be noted that these improvements and measures had little or nothing to do with improving the communications system at the customer/supplier meetings. This was reinforced by the comments at the implementation level such as: from the User Group, “. . . The amount of downtime and lost resource time just trying to make the system work is not truly understood by the upper levels – it is wreaking havoc with employee morale and throughput. Supplier relationships have been decimated. . .”; and, from the Purchasing Group, “We spend enormous amounts of time, effort, and money correcting, redesigning, repairing, and replacing items because the specs were wrong or purchased only with ‘price’ in mind.”

Supplier executives also have differing perceptions from those at the implementation level. We often heard how well their company understood the needs of the customer and how product quality and innovation differentiate their firm from the competition. At the implementation level we heard comments such as “At our company the sales force tends to focus on what we have in our bag and telling the customer all of the things we can do for them or sell them. But in the end, the customer only cares about price.”

... Another critical factor impacting performance is the alignment of objectives between the various User Groups and Purchasing (Figure 3.3). The customer User and Purchasing Groups as well as the Supplier Group were all in agreement in this dimension. The agreement unfortunately is that the objectives of the User and Purchasing Groups are far out of alignment. This is having a significantly negative effect on performance. In many cases the various internal groups and purchasing personnel, were actually working at cross-purposes. The result of this lack of alignment is wasted energy, poor use of resources and a significant increase in the cost of doing business. . .

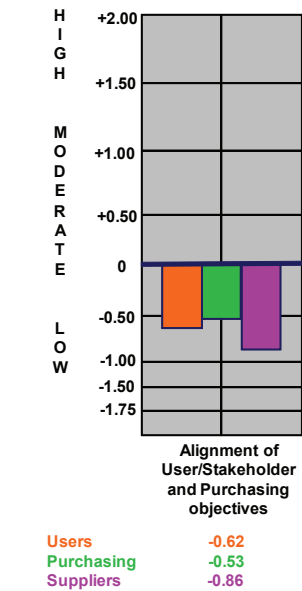


Figure 3.3

... Both customers and suppliers must begin to move toward a more collaborative model. This will not happen by continuing the never-ending discussions on the need for greater collaboration. It will happen only with the implementation of the specific processes that enable both customers and suppliers, to gain a more complete understanding of issues and needs at the beginning. . .

... The survey responses to the dimension “Effectiveness of RFP Process,” indicates the Request for Proposal process has a number of flaws as commonly practiced (Figure 3.6) The RFP is typically weighted heavily toward the product specifications and unit pricing. This, in itself, is not the problem. The problem arises with the manner in which the specifications are developed and how they are presented to the suppliers. Input from the User Group certainly covers the basic product specifications, but not enough emphasis on other factors such as the processes that could be affected by various designs, prototype development, material handling, or the needs of other functional areas are considered to the degree necessary. . .

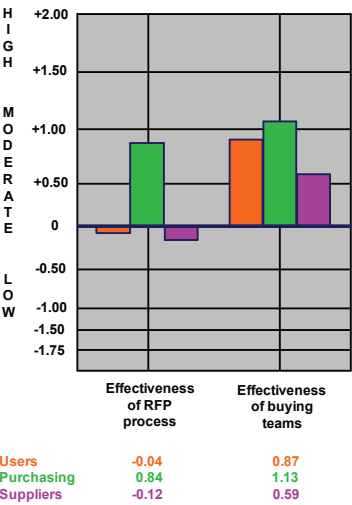


Figure 3.6

... The survey dimension that scored the highest among all three groups was the “Effectiveness of Buy Teams”. . . Both the User and Purchasing Groups were in agreement that when Buy Teams are in place and functioning at high performance levels, better decisions are made regarding supplier selection. . .

... Simply forming a Buy Team, however, does not accomplish a better result. . .

... Buy Teams in the *Unexceptional and Common Practices* were functioning merely as a group of people providing basic information on general issues. . .

. . . Based on the survey responses, the average seller has attended four of these sales training programs. During our interviews, sellers who had attended more than two programs stated they had difficulty distinguishing one program from another. We experienced that same problem. Another interesting response during our interviews came from sellers with more than one-year of experience. Those individuals who were preparing to attend another sales training course generally stated, “I hope to get a couple of tips” from the program. It’s important to note these programs were typically between two and five days in duration, which is a long time to spend away from customers for “a few tips.” Add to that the fact these programs cost between \$1,250 and \$3,500 per person, so a few tips, becomes a very questionable return on investment. . .

. . . One of the major benefits promoted by the sales training companies is that they create a common language base for the sales force. In theory this allows the sales force to communicate more effectively with each other and share ideas. On the surface this appears to be a solid concept. In practice, however, it falls short of its promise. The first flaw is that the common language base is so general that identifying exceptional practices remains in the realm of good intentions. Rarely, if ever, is the “common language” defined specifically enough in terms of a process component to enable an individual to reproduce the tactic within their process with any degree of effectiveness. The second and more problematic effect is that the managers cannot differentiate the feedback on a call given by an exceptional seller from that of a sub-par seller, as they will both describe their sales call in the same general terms. . .