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NEW ITEM:

Letter to the Editor: "Payout of Executive Bonuses"

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UPCOMING SEMINAR

MATERIALS AND SUPPLY MANAGEMENT CONFERENCE 2009

MMG LMMG LEADERSHIP

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Founded in 1915, the Institute for Supply Management™ (ISM) is the largest supply management association in the world as well as one of the most respected. ISM's mission is to lead the supply management profession through its standards of excellence, research, promotional activities, and education. ISM's membership base includes more than 45,000 supply management professionals with a network of domestic and international affiliated associations. ISM is a not-for-profit association that provides opportunities for the promotion of the profession and the expansion of professional skill and knowledge.

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LETTERS TO THE EDITOR

PAYOUT OF EXECUTIVE BONUSES

The notion that the finance-investment industry needs to pay excessive bonuses is sheer nonsense and their claims to that effect reflect a mind-set still controlled by greed and arrogance. Even more incredible is there assertion that they need the bonuses to retain key talent. Are these the same executives who got us in to this mess in the first place? There are plenty of talented and ethical executives now available who are willing to work for reasonable and appropriate compensation – the shortage claims are bogus strawmen. How did American "Big Business" manage to grossly over pay executives? As a retired Professor of Business and Management Consultant, I think there are five major reasons.

1 <u>Employment Contracts</u>.

Multiple-year contracts that only guaranteed bonuses, high compensation and almost obscene "buy-outs" and contained no penalties for failure, i.e. win-win situations, somewhat like summer camp without the counselor. No one should have this kind of insurance; it is an automatic incentive to gamble, cheat and to engage in unethical and even illegal behavior.

1. <u>Old Boy, Old Girl Boards of Directors</u>.

As Ross Perot discovered as a newly elected member of the GM Board, the management-executive members of the board want rubber stamp, passive and token outside board members. GM had to buy him out after they discovered he was asking too many questions. By the way, it is not uncommon for outside board members to earn $100,000 per year to attend 4 meetings.

2. <u>Compensation Consultants</u>.

Many boards of "Big Business" employ compensation consultants to tell them what to pay key executives and outside board members. One does not need to be a rocket scientist to realize the built in bias and incentive to the consultants to inflate the compensation of the very people paying their fees. Board members will obviously hire consultants to tell them what they want to hear and this is one reason American executives and board members are paid much more than their global counter parts.

Even more puzzling, these giant firms already have large human resource departments perfectly capable of conducting simple pay comparisons for similar companies. In fact, since most giant firms are public, one would only have to read their annual reports, proxy statements and/or other readily available industry sources. Many major share-holders have voiced these same concerns only to be “voted down” and ignored at the annual meeting. In addition, most annual meetings are carefully staged public relation events with more emphasis on the cocktail hour, dinner and entertainment than objective Q&A.

4 Mind-Set.

Many executives have come to believe their own spin and hype to cover up the pure greed that drives them and their families. Few MBA programs talk much about ethics and indeed, the “elite” ones foster egotistical, and arrogant beliefs of entitlement regardless of real merit and long term honest success. I think the proof is in the current denial or silence of so many key executives that anything is really wrong with their inflated pay and even more alarming, that they did anything wrong.

5. Short Term Thinking.

Our financial system is based on quarterly returns and the current stock price, not long term performance as opposed to much of the rest of the modern industrialized world. This is reinforced by the observation made by many experts that the typical fortune 500 US firm is run and dominated by finance/accounting executives, who reinforce the next quarter focus. Where are the marketing and operations production executives who actually produce the value added?

Conclusion

Let’s get back to the basics that helped build American business. No contracts and a reasonable salary to reward specific skilled management tasks appropriate to the level of decision making for a particular position. Base the bonus on target performance goals for everyone in the firm and never, never pay for failure. Buy-outs should be reasonable and based on years of service, not a luxury life style of the rich and famous. Finally, we need to aggressively enforce existing regulations of the finance industry and create new ones for the swap-hedge-derivative market now virtually unregulated.

Respectfully submitted,

Richard L. Pinkerton, Ph.D.
Professor Emeritus, California State University, Fresno
30 March 09

Marketing and Purchasing: Partners in Supply Chain Management: Fact or Fantasy?

by: Richard L Pinkerton, PhD, C.P.M.
Professor Emeritus, Marketing and Logistics, California State University, Fresno

Introduction

The purpose of this article is to explore how buyer and seller organizations interact within the current meaning of supply chain management (SCM). After giving the traditional definitions and a short explanation of the evolution of purchasing to SCM, I will describe the role that purchasing can (and does in advanced firms) play in making major contributions to improving the marketing process. Thus, I am asking the reader to now view the purchasing activity within the marketing organization of their own firm vs. the traditional view of how the selling organization views purchasing in the buying organization.

It is important to note that the purchasing profession is one of the oldest of the business functions to be organized with the founding of the National Association of Purchasing Agents (N.A.P.A.) in 1915, which has evolved into The Institute for Supply Management (ISM) in Tempe, AZ, with over 45,000 members worldwide.[1] In spite of this long history and ISM's many fine publications and an outstanding certification program, the marketing literatures seldom quotes purchasing and supply management texts, journals and other research, such as the studies by The Center For Advanced Purchasing Studies (CAPS) at ISM, Tempe, AZ. On the other hand, supply scholars seldom quote marketing literature. It is my hope that this article will stimulate both to read and study more about each other and to collaborate on selected research projects, i.e. AMA and ISM could research and publish rather monumental studies to help American firms improve their competitive position in world markets.

Supply Chain Management Defined

Most purchasing and marketing writers define the supply chain from a macro view such as all the informational, financial and operational activities involved in creating and distributing high value products and services to final buyers/users including extraction of raw materials and suppliers of components and indirect support items to final disposal after use.[2]

[1] Leenders, Michiel and Harold E. Fearon, "Developing Purchasing's Foundation" Journal of Supply Chain Management Vol 44, No2, April 2008. Pp. 17-27
[2] Monczka, Robert M., Robert B. Handfield, Larry C. Giunipero and James L. Patterson Purchasing and Supply Chain Management 4th ed, Mason, OH., South-Western Cengage Learning, 2009, p.10.

Inherent in this and similar definitions is that supply chain activities exist whether they are managed or not. To maximize the value of any particular "chain" for a particular firm requires cooperation – collaboration of all the key members to interact in the most efficient and effective win-win operations to create a true value added chain. SCM is both a philosophy/attitude (the mandatory first steps) and the integration of multiple procedures, IT flows, systems contracts and related operations.

THE COMMON SCM THEMES - WHAT DOES SCM MEAN? [3]

When the professors, consultants & enlightened executives say SCM, they are usually talking about the following policies, activities, philosophy, procedures, programs and systems that make up effective SCM.

1. SCM requires strategic planning in order to execute the proper tactics-action.
2. SCM requires proactive vs. reactive thinking, policies and procedures.
3. Cross Functional Teams for design and sourcing are necessary.
4. Partnerships and collaboration with suppliers is the basic philosophy. Collaboration stimulates innovation, better designs and reduces the lead time to market which leads to higher share of market (SOM) and increased customer satisfaction – all major marketing goals. There are some suggestions that 65-70% of product innovations come from suppliers.
5. A reduced but higher quality supplier base, with long term contracts with "meet competition" requirements.
6. Early supplier involvement (ESI) in new product development programs and modifications.
7. Concurrent engineering vs. sequential "over the transom" nonintegrated steps and decisions.
8. A viewpoint of total cost of ownership (TCO) vs. a focus on price. Remember, unit price is just one portion of total lifecycle costs.
9. Total quality management (TQM) is a prerequisite to SCM. The philosophies and techniques of the gurus, i.e. Deming, Crosby, Taguchi, Juran, etc.. Six Sigma is the rather new management system to apply TQM, as popularized by Motorola in the 1980s, but GE has become the current disciple. The goal is to eliminate rework, rejects, returns, i.e. do it right the first time.
10. Do continuous flow, i.e. lean manufacturing.
11. Utilize demand management beyond forecasting including techniques – in software such as MRPII, ERP & DRP (distribution resource planning).
12. Separate strategic from tactical purchasing. Even a one-person department can do this.

[3] Ibid. P. 11 Also see Michael E. Porter's classic text, Competitive Advantage: Creating and Sustaining Superior Performance, NY NY, Free Press, 1985. Porter was the first to explain the nature of a value chain as a key element of competitive advantage.

13. Outsource materials with low value added capacity, i.e. MRO, office supplies, and other indirect "commodity material and services" such as security and janitorial. What is your core asset-operation? Put time, effort and money on high value added activities. Purchasing now becomes a profit center vs. a cost center.
14. Eliminate the "small order problem" via consolidation, simplification and buyer planner activities and procedures. For example, use long term contracts with "release" authority given to planners.
15. Work backward from the ultimate customer and think the entire pipeline of materials in and products, services out. Burt calls this "total value impact".
16. Total systems and interface vs. department self interest i.e. think macro but take appropriate micro steps. The "Gestalt", i.e. 2 + 2 = 5.
17. The really new skill emphasis is on negotiation in order to get all the players in SCM on the same page, the same page of understanding and the contract, which must be managed.
18. In most cases, SCM begins with an audit, diagnostic, ABC analysis etc. to determine the current situation. We then look for "gaps" on the road to SCM. Think of this stage as a radar fix to see where we are versus where we want to go – be. This is major re-engineering and bench-marking.
19. It takes money to make money. SCM requires a fairly significant upfront investment in analysis, training, software and education to get the desired ROI. This is a rather sophisticated collection of many policies, procedures, techniques, and tools. It requires a rather elaborate plan with input from and cooperation of many different players or stakeholders – internal and external to the particular organization. The conversion will take time and US firms are notoriously impatient.
20. Finally, the supply chain exists whether you manage it or not, do not leave it to chance.

Source: Richard L. Pinkerton, "Taking the Mystery out of Supply Chain Management: The Vision and the Reality"
Dinner Speech, Purchasing Management Association, Cleveland, OH, Nov 15, 2007

It is obvious that management of the chain is extremely difficult and either requires raw market power to force it such as Wal-Mart in retail or enlightenment such as Toyota and Honda in manufacturing.[4] There doesn't appear to be an accurate estimate of the number of well managed value chains but the author of this article feels it is a rather small percentage of even the huge multinational firms and many organizations use the terms without real execution, i.e. merely lip service with the best example being the US automotive industry.

[4] Nelson, David R., Patricia E. Moody, and Jonathan Stegner, The Purchasing Machine, NY, NY The Free Press, 2001.

The Evolution of Purchasing, Post WWII to the present

While many firms still use the historical term, purchasing agent, which is accurate from a legal stand point, increasingly, the title supply manager is being used in forward thinking firms. The change is or should be much more than pure semantics as the duties have greatly expanded from pure buying as a transaction facilitator to a true manager of materials, involving planning procurement strategy, forecasting and managing demand, conducting sophisticated negotiations to achieve true buyer-seller partnerships, conducting total cost of ownership (TCO) studies and coordinating inventory and production control, logistics, managing outsourcing contracts, strategic alliances and other critical activities of supply chain operations.

The change started shortly after WWII triggered by the development of the materials management organization concept which grouped common materials functions such as purchasing, traffic, inventory-production control and salvage-surplus disposal under one executive.[5] The term "procurement" was and is still often used to denote a wider range of tasks beyond buying. Advances in information technology such as MRPI, MRPII, distribution resource planning (DRP) and ERP all facilitated the ability to track inventory throughout the pipe line. In addition, total quality management (TQM) forced senior executives to recognize the value of "doing it right the first time", including increasing incoming supplier quality levels, concepts ignored in the US until Japanese auto manufactures, primarily Toyota, started to take away from the "big three" market share. Finally, many industrial firms discovered the Japanese philosophy and practice of treating suppliers as partners (vs. vendors) paid off in greatly improved "value chains" or high value supply network management as envisioned by Burt and Porter.[6]

Marketing's Traditional View of Purchasing vs. The Purchasing View of Their Function.

Almost all business scholars know the business market or business to business (B to B) is the marketing name to distinguish this segment from the consumer side

[5] Pinkerton, Richard L. "The Evolution of Purchasing to Supply Chain Management", John A. Woods, and the National Association of Purchasing Management, EDS., The Purchasing and Supply Year Book, 2000 edition, NY, NY McGraw-Hill, pp 3-16. Also see Dean S. Ammer, Materials Management and Purchasing, 4th ed. Homewood, IL., Richard D. Irwin, Inc. 1980.

[6] Burt, David N, Sheila D. Petcavage and Richard L. Pinkerton, Supply Management, 8th ed. burr Ridge, IL, McGraw-Hill Irwin, 2010. p 17-18, 66-73

of marketing. Former and current marketing majors will testify that most university marketing programs focus on consumer marketing because more marketing professors studied high velocity products consumed by the general public, i.e. the Proctor and Gambles, Lever Brothers, General Foods, WalMarts and similar producers which serve the huge retail food and dry goods markets promoted by the mass media. Just check the number of pages in marketing textbooks covering consumer goods vs. the number devoted to business marketing, which used to be called "industrial". Even more dramatic, count the number of business marketing courses compared to courses simply called marketing and marketing management. Many schools do not even offer business marketing courses.

While marketing scholars usually describe buying units and buying centers as composed of users, influences, buyers, decision-makers and gatekeepers, with the exception of "users and buyers" purchasing text books do not use these terms.[7] Purchasing scholars often use the term "boundary people" to describe how supply personnel interact with many external and internal personal contacts, one of the few business functions to do so except for sales and service.[8]

Even more unusual, purchasing supply text books do not nor have they ever even mentioned the terms, straight rebuy, modified rebuy or new buys, but do discuss system buying/contracting to purchasing groups of similar and related material.[9]

Purchasing supply text books usually describe the buying taxonomy as: maintenance, repair and operating (MRO); raw material, components, capital equipment, and outsourcing of services such as, janitorial, security, information technology (IT) and commodity buyers for bulk generic supplies and specialty buyers in appropriate firms such as electrical, mechanical, sugar, spice, flavor buyers or original equipment (OEM) buyer.[10]

Note that marketing scholars distinguish according to the familiarity of the purchase while the purchasing scholars distinguish by the nature and type of material-service. This is a major difference and may be one reason buyers and sellers often have difficulty communicating with each other. In addition, studies of buyer behavior by marketing scholars have been much more popular than studies of seller behavior

[7] Dwyer, Robert F. and John F. Tanner Business Marketing: Connecting Strategy, Relationships, and Learning, 4th ed. Burr Ridge, IL, McGraw-Hill Irwin, 2009. P 99
[8] Burt, Petcavage and Pinkerton, op. cit pp 49-62
[9] Dwyer and Tanner, op cit p. 72-73
[10] Leenders, Michiel R., P. Fraser Johnson, Anna E. Flynn and Harold E. Fearon. Purchasing and Supply Management: with 50 Supply Chain Cases, 13th ed. Burr Ridge, IL, McGraw-Hill Irwin, 2006. Pp 33-35, 52

by purchasing scholars until the supply management focus on the last few years.[11]

In addition, while not taught in marketing courses (at least to the best of my knowledge), sales managers often instructed their sales people on how to go around the purchasing department, to directly contact the key buying influences and users, a practice long called "back door selling", and a sales tactic that understandably enrages purchasing/supply managers and buyers. However, I have experience in selling sophisticated material handling systems and discovered professional buyers were extremely helpful in saving time by arranging the proper contacts and giving valuable "selling" suggestions. The message here is that scholars on both sides of the desk must do a better job of teaching both roles, buyer and seller, to help develop collaborative supply chain operations.

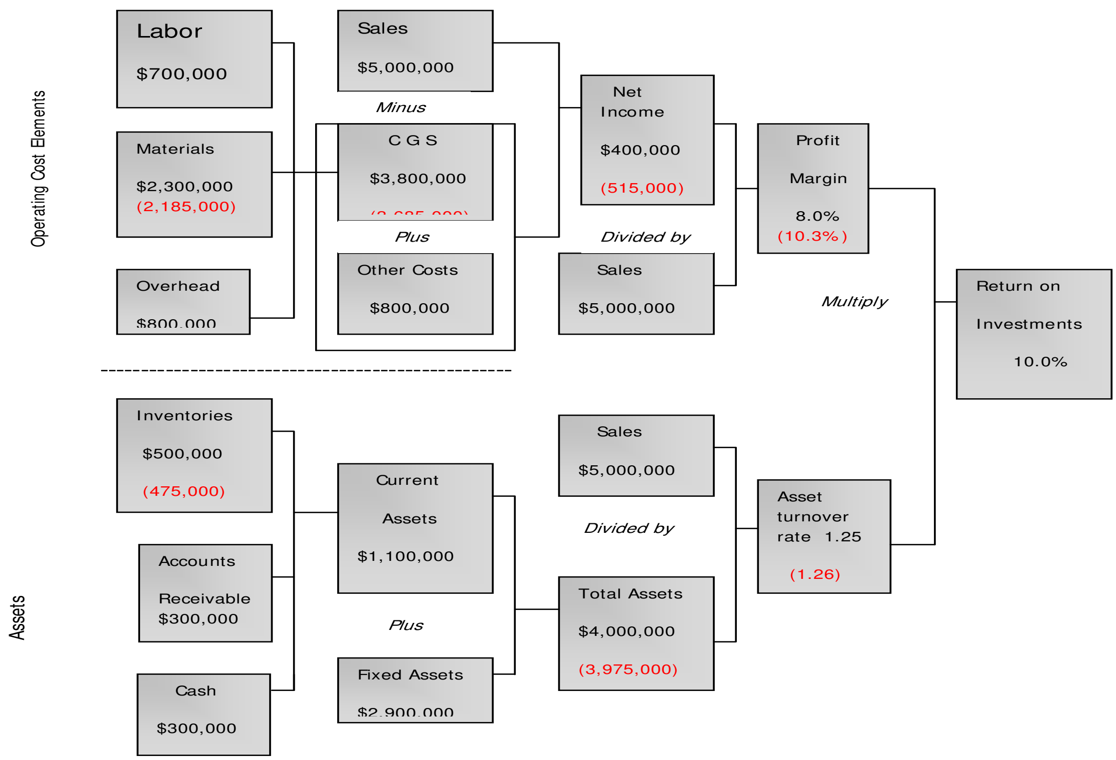
Purchasing's Role in Adding Value to Marketing Activities and Increasing ROI

While it may seem a bit like working backward, very few marketing scholars ever mention the inherent advantage of a dollar saved in purchasing compared to a dollar increase in sales and the effect on ROI. Figure 1 reveals that a 5 percent reduction in the cost of materials increases ROI by 40% and because material expenses have dramatically increased over the last several years and now account for as much as 80% of production expenses in many firms, purchasing supply is the last great cost center vs. years ago when it was labor.

While it is still true that "nothing happens until somebody sells something" merely increasing sales may not increase ROI unless you decrease costs versus a situation known as the purchasing leverage, i.e. a dollar saved in material costs goes straight to the profit margin vs a gross dollar increase in sales which must be reduced by the cost to produce it.

[1] [1]The classic text in The field of business buyer behavior is Frederick E. Webster Jr., and Yoram Wind, Organizational Buying Behavior, Upper Saddle River, NJ, Prentice-Hall, 1972. Also see Marjorie Cooper, John F. Tanner, Jr., and Kirk Wakefeld, "Industrial Buyer's Risk Aversion and Channel Selection", Journal of Business Research, 59 No.6 (2006) pp 653-61

Figure 1 – A graphic view of the relationships of basic elements, which influence return on investment. The figures in parentheses reflect a 5 percent reduction in the cost of materials.

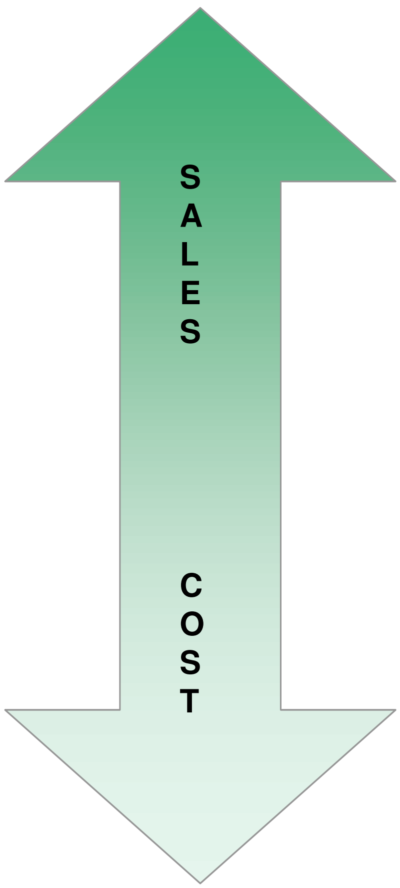


<u>Source:</u> David N. Burt, Sheila D. Petcavage and Richard L. Pinkerton, <u>Supply Management</u> 8ed., Burr Ridge, IL, McGraw-Hill Irwin. 2010, p. 14

This is a major reason firms often go out of business in spite of increasing sales without adequate cost control and inventory cost is the major cost component in most manufacturing firms. This is a major reason firms often go out of business in spite of increasing sales without adequate cost control and inventory cost is the major cost component in most manufacturing firms. Figure 2 gives a graphic depiction of how purchasing can affect net income.

Figure 2 - A Graphic Reproduction of Supply Management's Impact on the Bottom Line.

Net Income



Increased Sales:

Faster to Market

Improved Quality

Pricing Flexibility

Innovation

Enhanced Customer Satisfaction

The Supplier of Choice

Lower Total Cost:

Better Product Design

Acquisition Cost

Processing Cost

Quality Cost

Downtime Cost

Risk Cost

Cycle Time Cost

Conversion Cost

Non-Value Add Cost

Supply Chain Cost

Post Ownership Cost

Source: David N. Burt, Sheila D. Petcavage, Richard L. Pinkerton, Supply Management 8ed., Burr Ridge, IL., McGraw-Hill Irwin. 2010, p. 9

Utilizing cross-functional teams, purchasing-supply managers are in an excellent position to organize early supplier involvement (ESI) in new product development, which facilitates concurrent engineering. Such project teams help prevent designs for material that suppliers can't provide or at least at the target cost or desired lead-time. Purchasing's role in these design teams can dramatically lower the cost of new products and help the marketing team lower prices, a major competitive advantage.[12]

The other key advantage is faster to market new product introductions, which leads to increased share of market. Years of research suggest the first to market will obtain 40-60% of the market even after competition enters.[13]

ESI and long term contracting with superior suppliers encourages much higher quality control which substantially reduces rework, rejects, returns and warranty claims while increasing final customer loyalty. The Japanese use of suppliers as partners is ample proof of the vital role purchasing now plays with their marketing colleagues. The concept of total cost of ownership (TCO) is actually the benchmark of the successful supply chain and it is what smart marketing people sell, i.e. price is just one of the life cycle cost components.[14] Thus, TCO is both an internal benchmark re: the true cost of materials from a particular supplier, and the true cost of our products purchased by buyers of our products. Again, the automobile is a good example as the price is just the beginning cost as mileage, insurance, maintenance, trade-in value and useful life are the real total life cycle costs.

Buyer-Supplier Relationship Research

In a landmark article, Terpend, Tyler, Krause and Handfield studied empical papers of buyer-supplier relationships, published over a two decade period (1986-2005) in The Journal of Supply Chain Management (JSCM), previously known as The International Journal of Purchasing and Materials Management, The Journal of Operations Management (JOM), The Academy of Management Journal (AMI) and The Strategic Management Journal (SMI).[15] Their histograms of article subject matter reveal a focus of articles on operational value such as quality, cost, delivery, inventory and/or speed derived values of effective buyer-seller relations for the period 1986-91.

[12] Burt, Petcavage and Pinkerton, op cit pp. 93-116

[13] Buzzell, Robert D. and Bradley T. Gaze, The Pims Principles: Linking Strategy to Performance, NY, NY, The Free Press, 1987.
pp 183-184

[14] Burt, David N. and Richard L. Pinkerton A Purchasing Manager's Guide to Strategic Proactive Procurement, NY, NY. The American Management Association (AMACOM), 1996. Pp 39, 65-66, 141, 222, 290 and Burt Petcavage and Pinkerton, op cit. Pp 303-317

[15] Terpend, Regis, Beverly B. Tyler, Daniel R. Krause and Robert B. Handfield "Buyer-Supplier Relationships: Derived Value over Two Decades" Journal of Supply Chain Management, Vol. 44, No. 2, April 2008. Pp. 28-55

Practices such as the movement to long term contracting with fewer suppliers, JIT, and collaborative vs. adversarial treatment stimulated higher levels of commitment between buyers and their suppliers which led to improved performance – contract execution beyond mere contract compliance.

The period 1992-95 continued to stress operational performance and integration with a focus on long-term investments and short-term financial success based on continued improvement in quality, cost control, delivery and speed. Not surprising, poor communication was the "single largest contributor to partnership failure, followed by other factors such as the lack of shared goals, the lack of supplier commitment and ineffective conflict resolution".[16] Other factors in these period studies included a continued reduction in the number of suppliers per buying firm (probably due to the increased use of JIT) and more regular supplier evaluations with an increased incidence of win-win relationships. Information sharing partly facilitated by increasing EDI implementation and the integration of values and cultures all seem to be key factors for improving derived value for both buyer and seller.[17]

The buyer-supplier relationship period of 1996-2000 reveal more theoretical based articles including transaction cost economics, organizational learning, agency theory, resource-based view, relational theory, conflict theory, exchange theory, game theory and resource dependency.[18]

In this period, financial performance becomes more important with less focus on quality and cost but the same emphasis on delivery and lead-time reduction and new variables such as agility (responsiveness). During this period, "the focus on integration also continue to grow by focusing on the factors that improve cooperation, collaboration and partnership".[19] However, as the article authors astutely state, "1996 through 2000 was an increasingly competitive time period that resulted in new demands by buying firms on their suppliers".[20] There is also more awareness during this period of the value of early supplier involvement in the new product development process as recommended by Burt, Petcavage and Pinkerton.[21]

[16] Ibid, p. 35
[17] Ibid, p. 37
[18] Ibid, p. 37
[19] Ibid, p. 37
[20] Ibid, p. 37
[21] Burt, Petcavage and Pinkerton, op cit. pp. 95-97.

The requirements for mutual efforts and dependence obviously stimulated more research in the areas of trust building and the article authors point out three new research in the areas of supplier certification, supplier training and visits to the supplier.[22]The reader is reminded that these three practices have long been recommended in purchasing text, trade books and other practitioner publications, only the research studies are new.

In their final study period, 2001-05, the theoretical articles continue but there is a "surge of articles investigating buying firms' financial performance", product development integration, collaboration planning, and informational system integration.[23] Finally, the article authors state an important observation, "it was really surprising to find that only six articles of the 151 reviewed were dyadic buyer-seller supplier studies, where both the buying firm and supplier participated".[24] They also observe the lack of longitudinal studies, a rather common weakness in all business research. This research leads to the final section with a few thoughts on why I think so few firms actually implement SCM.

Resisting Factors, The Hurdles On The Road To SCM

1. It is abstract, vague and most definitions are so broad, they come off as glittering nice sounding platitudes, i.e. sounding good, but how do you do it? What are the steps? You cannot write, phone, email, fax or visit "The Supply Chain". In addition, it means many different things to different discipline groups like APICS, Council of Logistics, ISM, Decision Science, etc.. all of whom have now called themselves by the same name i.e. Supply Chain or "Supply Something".
2. SCM is a massive concept. Most definitions amount to all the aspects of running an organization so what single executive group can perform it? The answer is the President and executive staff which is why SCM never starts at the bottom, it comes from the top down.
3. Because of the second point, like the earlier concept of materials management, SCM inevitably invites power struggles. The SCM executive is actually the CEO.
4. The typical large publicly held US firm is focused on very short term quarterly stock market reports vs. the long term orientation of many foreign firms, especially Japan, India, China, Russia, etc. SCM development takes time, usually at least 5 years. American management is notoriously impatient.

[22] Terpend, Tyler, Krause and Handfield, op cit. p. 39
[23] Ibid, pp. 39-40 and also see Delvon B. Parker, George A. Zsidisin and Gary L. Ragatz "Timing and Extent of Supplier Integration in New Product Development: A Contingency Approach "Journal of Supply Chain Management", Vol 44, No. 1, Jan 2008
[24] Ibid, pp. 42-43. Also see Shelby D. Hunt and Donna F. Davis "Grounding Supply Chain Management in Resource-Advantage Theory", Journal of Supply Chain Management, Vol 44, No. 1, Jan 2008, pp. 10-21

5. In my opinion, The leadership in large US firms has been taken over by the Finance – Accounting Executives who have little experience, interest, or skills in production and marketing, the essential activities for long term successful quality products and services. These short term number oriented individuals are primarily focused on EPS and stock growth. The classic example is the long-term mismanagement of the US Auto Industry. Japanese auto giants, primarily Toyota, have long embraced SCM concepts and philosophy. It is possible that many US companies will "cost reduce" themselves right out of business along with their suppliers?
6. There are very few good at activity based cost (ABC) accounting systems which means many firms do not know which activities ad value and/or how much. This lack of data hurts attempts to document total cost of ownership and facilitates misleading allocation of overhead and fixed-sunk costs.

Conclusion

World class supply chain management requires mutual understanding, trust, collaboration and virtual communication among all major member of "the chain". It is a collection of many procedures, activities, programs, and agreements that the chain members understand, accept and trust one another to work together as a team. It may start with answers to the basic question, "Are we all talking the same language"? Do we really view each other as partners or adversaries? Do we all have the same concept of SCM?

It is my hope that this article will stimulate debate among marketing scholars, teachers and consultants to help marketing and purchasing supply managers join hands to help America regain its competitive edge in this global market place.

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The Future of Capitalism in the United States

Sheila Petcavage,C.P.M. – Cuyahoga Community College

The economic system that has created tremendous wealth not only in the United States, but in many parts of the globe is capitalism. Based on a market where exchange of goods, services, and ideas is free to transpire with limited government intervention, capitalism has brought prosperity to much of the world. Inherent in the capitalistic economic system is the inevitable fact that some will prosper more than others. This element of inequality is often amplified by human greed. Recent instances of corporate greed have come to light in the tangles of the financial debacle which threatens to tug at the very roots of capitalism; threatening to bring it crashing down. The magnitude of this financial conundrum has reached the very depths of the masses suffering from this economic fallout. As a result, governments all over the globe are scrambling to intervene in the name of the masses. The Group of Twenty (G-20) Finance Ministers and Central Bank Governors will be meeting in London this week to discuss the serious financial global challenges threatening the world economy. The *Financial Times (*3/31/09 p.9) reports that they will "seek ways to overhaul the financial system so that lending can revive-while reassuring citizens that they will never again have to foot the bill for mass rescues…". Much of this dialogue resonates serious regulation.

Government regulation is nothing new to the operations of an economic market. In order to protect the rights of the stakeholders and consumers, governments have intervened. In general, what defines the type of economic system under which business and the markets operate is the degree of control the government has over the market. The continuum on which economic systems exist ranges from complete freedom of trade with no government control of the markets (capitalism), to total government control over the markets (communism). An economy where some markets are government controlled and others are free is defined as socialistic. Most systems today are mixed economies with government control of trade resulting in trade protectionism. The United States has built the ideal of democracy on the very notion of free trade with limited governmental intervention. That concept of free markets where buyers and sellers decide what to produce, how much to produce, and at what price is being challenged as the world economy fights to weather the storm of financial chaos.

At stake from a personal perspective is the health of the individual financial state. For some, this financial storm will have long lasting effects. For others, financial advisors tell them that an investment in time will help revive their portfolios. This is fairly accurate advice when predicting the resilient capabilities of a capitalistic economy. But what of an economy whose government is orchestrating the restructuring of a major industry;

down to the ousting of its chief executive and much of its board of directors? What if they go as far as to dictate what products the industry will produce and what the consumers will buy (fuel efficient hybrids)? This no longer is a capitalistic economy but rather a textbook definition of a communistic (or at the very least socialistic) economic system. This affront to our economic system infers an even greater threat to our societal system as well. If the basis of our economic wealth is heavily regulated by government, it follows that the health of our societal freedom could be policed as well.

"One of the major causes of the financial crisis

*was not lax regulation but what we chose **not** to regulate."*

I am not advocating total lack of government intervention on behalf of the people. In fact, I agree with *Financial Times* writer Eric Dinallo who writes, "One of the major causes of the financial crisis was not lax regulation but what we chose not to regulate." (3/31/09 p.11) Dinallo recalls the bank panic of 1907. This crisis was brought on by "unregulated speculation on the price of securities by people who did not own them". At the time, these 'bets' were called bucket swaps because "the bets were literally placed in buckets". In an effort to save the industry after a run on the banks, J.P. Morgan locked all of the bankers is a room and refused to let them out until they agreed to contribute monies that would be used to fix the crisis. In 1908 laws were passed to regulate the bucket shops. Over the years, the lessons learned from the 1907 crisis were forgotten amid the rush to protect against the risk of bonds or subprime mortgages. In 2000 credit default swaps were basically deregulated; exempted from existing laws. These credit default swaps and derivatives grew unchecked, unregulated and in the end destroyed the U.S. financial system's perception as a safe, secure, and transparent system.

Another aspect of our capitalistic system going unchecked is the assault on competition. Competition is the cornerstone of a free market system. Antitrust Laws were put into place to safeguard the arena of competition and to prevent businesses from exerting control over the market. This series of laws, the Sherman Act, Clayton Act, Whealer-Lea Act, and the Federal Trade Commission Act was vehemently enforced through much of the 20th century against both monopolistic and monopsonistic violators. It was during the Reagan years that America's century-long tradition of antitrust enforcement was eviscerated. (Breaking the Chain: The antitrust case against Wal-Mart *Harpers pg. 29)* As a consequence, the potential for individual market control grows as the perception 'big is better' is espoused. Chrysler has recently been denied government bail-out funds unless they merge with another company. The government deems Chrysler too small to survive on a standalone basis. Understandably so, yet the government has watched J.P. Morgan buy out Bear Stearns, Bank of America bought Merrill Lynch, and Wachovia is now owned by Wells Fargo, and it's still not over. Wal-Mart has been left for years to subvert the functioning of the free market in their manipulation and control of their suppliers.

If we are going to preserve our capitalistic markets and our freedoms under a democratic government, our government is going to have to better understand where there intervention is well served, and where it undermines our way of life.

MATERIALS AND SUPPLY MANAGEMENT CONFERENCE 2009

Sponsored by
ISM's Materials Management Group &
Purchasing Management Association of Cleveland

Monday, May 11, 2009 * 8:00 a.m. to 4:30 p.m.

John Carroll University, 20700 North Park Blvd., University Hts., OH
(Lombardo Student Center Conference Room)

$199 for ISM Members and $239 for Non Members
Groups of 3 or more receive a 10% discount

Deadline to register – Thursday, April 30, 2009

Hosted by Dr. Brad Hull, Professor of Logistics
Boler School of Business, John Carroll University

SPEAKER

Dr. Ken Killen, C.P.M. is a very popular speaker and is a 20 year member of National Speakers Association. He has a way of adding the "light touch" to normally dry material. He can explain complex ideas in simple terms. This unique ability is the reason (over 40 years) for his popularity as a professor, speaker, and business trainer. From 1988 to 2003 he averaged presenting over 40 all day workshops per year. Besides the U.S., he has presented workshops in such international locations as: Bogotá, Caracas, Dubai, Jakarta, Kuala Lumpur, Mexico City, Penang and Singapore.

Before he began his teaching career, he worked for two major corporations, where he gained experience in general management, purchasing and transportation. He has since been a consultant to business, government, and health care organizations.

His management text (Published by Houghton Mifflin) was, also, published in Russia by the government when they were still under communist rule. He is co-author of: "Managing Purchasing: Making the Supply Team Work" and "Purchasing Manager's Guide to Model Letters, Memos and Forms." Killen is, also, co-editor-in-chief of the "Purchasing Handbook" (5th edition) He has written numerous articles on negotiations, business ethics, management and purchasing. Dr. Killen is the recipient of many awards, including:

- J. Shipman Gold Medal Award
- NAPM Akron Speaker of the Decade
- Ted Thompson Purchasing Educators Award

Current Chair of ISM's Materials Management Group.

Professor Brad Hull is Professor at John Carroll University and Logistics Manager at the Port of Cleveland. – CSCMP, CFA, NEOIBN, TRF, CTRF, Decision Sciences Institute Organization
Education chair of CSCMP, industry liaison for Decision Sciences Institute Organization.

PROGRAM

7:45 to 8:00 Registration / Continental Breakfast, Introduction

8:00 to 9:30 Lean Purchasing: How to Really Cut Cost

- **The impact of savings on the bottom line**
- **How to sell your cost reduction ideas**
- **Your lean tool kit**

9:30 to 9:45 ***Break, Snack***

9:45 to 10:30 Lean Purchasing – continued

- **How quality pays off**
- **Identifying your three biggest cost drivers (an exercise)**
- **Your cost cutting check list**

10:30 to 11:00 A New Lean Transport Opportunity for the Materials Manager (Dr. Brad Hull – Presenter)

- **There is significant opportunity for regularly scheduled water transport service.**
- **This new opportunity can reduce transportation costs up to 20% - 30%**
- **The St. Lawrence Seaway route is faster than the current ocean routes.**

11:00 to 12:00 How to Dramatically Reduce Inventory Cost

- **Why most inventory reduction programs fail and how to prevent failure**
- **Why carry inventory?**
- **Fundamentals of inventory management**
- **Secrets of inventory reduction**

12:00 to 1:00 Lunch

1:00 -- 1:30 Inventory continued

- **Fundamentals of inventory management**
- **Secrets of inventory reduction**
- **How to start a real inventory reduction program**

1:30 -- 2:30 Materials Metrics

- **Explain the value of metrics**
- **Introduce critical supply metrics; and,**
- **Help participants plan their own metrics purchasing and supply program**

2:30 -- 2:45 Break, Snack

2:45 – 4:15 Negotiations Best Lessons

- **The difference between winners and losers**
- **Profile of a successful negotiator**
- **Power in negotiations**
- **Global negotiations – handling cultural difference**

4:15 -- 4:30 Summary and Evaluation

Earn Seven Hours of Continuing Education Credit for Attending this Seminar

Refunds for cancellations will be issued up to 7 business days prior to seminar date

To register complete this form and email to Joe Ferritto at jferritto@applied.com

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