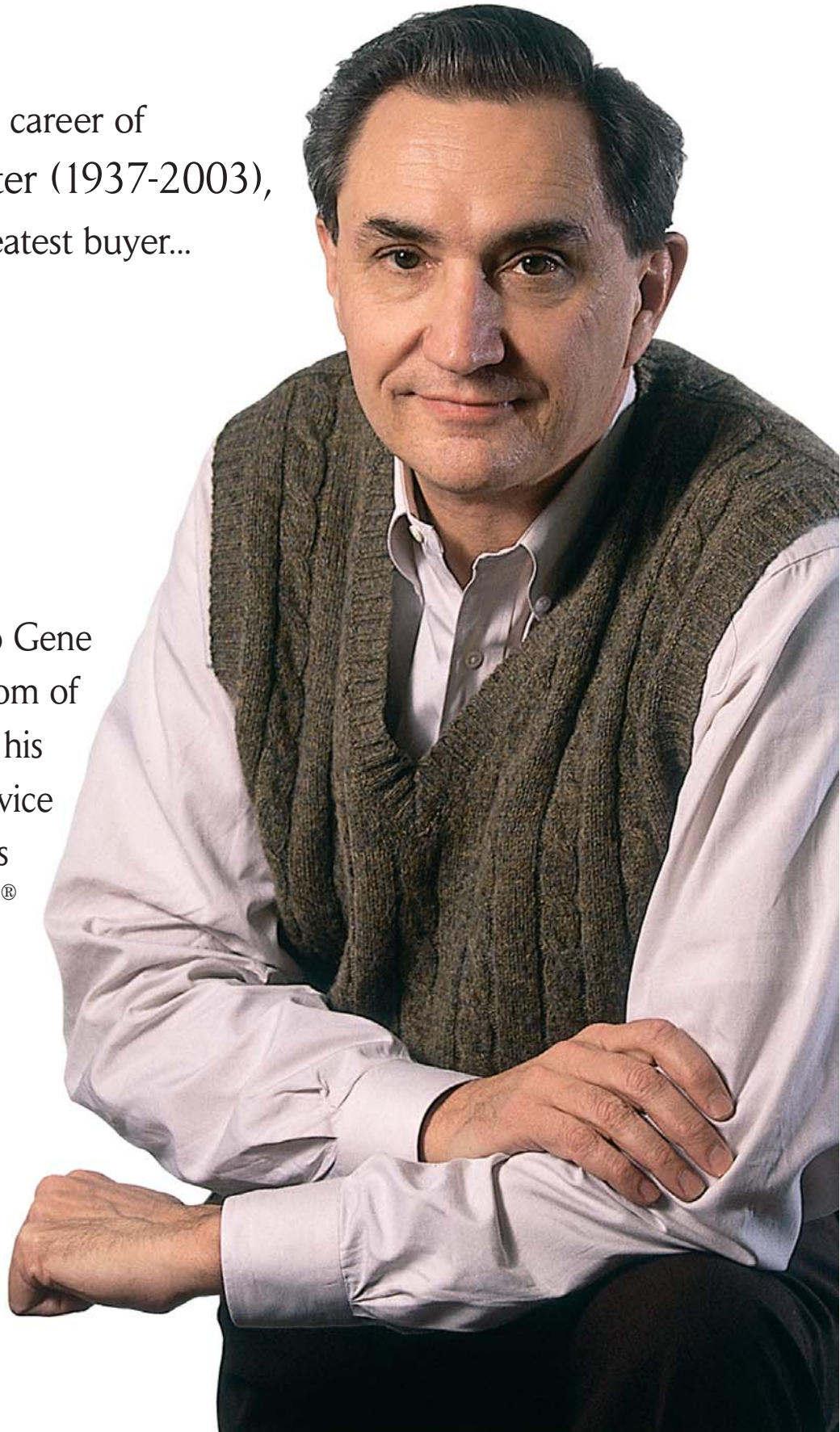


SAS salutes the career of
R. Gene Richter (1937-2003),
possibly the greatest buyer...

ever.

And thanks to Gene
from the bottom of
our hearts for his
wonderful service
to SAS and his
vision for SAS[®]
Supplier
Relationship
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R. Gene Richter:

The man who made supply strategies work

For many purchasing professionals the recent death of R. Gene Richter marks the sad closing of a transition era in the purchasing profession.

BY JIM MORGAN

Gene Richter, who is probably best known for his most recent work in reengineering the purchasing function at IBM, was a true pioneer of the purchasing function. Early in his career he saw the need to move purchasing from a tactical task orientation to a profit-centered outlook. Richter began his career in an era when industry was just beginning to understand some of the significance and potential of the sourcing, purchasing, and supply functions. He left it with a string of successes and a philosophy built around the importance of the goods and services that go into a company's products.

At IBM he literally transformed purchasing from what essentially had been a collection of divisional purchasing groups into a centralized structure. Centralization, of course, was hardly a pioneering concept. For more than four decades after World War II many (maybe most) of the nation's largest companies had built up centralized bureaucracies that could rival anything created by the federal government in Washington. But Richter had the knack for reexamining and reengineering things as they stood and making them work better. What set Richter's use of centralization apart was his employment of centralization as a tool for achieving purchasing,

supply, and sourcing goals and establishing the importance of suppliers in keeping IBM a leader in the technology marketplace. From a mainly tactical function, the whole supply chain was gradually being moved into a profit-determining mode.

As Richter saw it

Richter's reengineering of IBM's procurement organization is generally credited with playing a dominant role in IBM's dramatic recovery in the late '90s. Under his leadership, procurement played a key role in moving IBM from a vertically integrated behemoth to a flexible competitor.

But even though Richter did much to popularize the use of



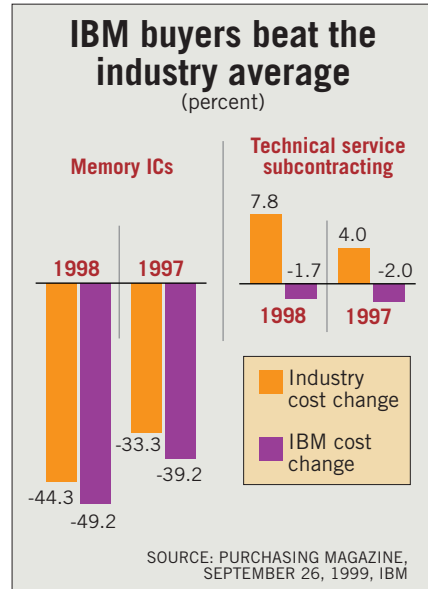
Gene Richter was the dean of *PURCHASING* magazine's Editorial Advisory Board, shown at Cessna Aircraft. From left, Intel's Whittier, Lucent's Carson, Motorola's Metty, Richter, Bayer's Rudzki, Alcoa's Breves, *PURCHASING*'s Smock, Cessna's Katzorke (back), Tyco's Stewart and *PURCHASING*'s O'Connor.

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strategic thinking in procurement, he was hardly a pushover for those promoting new products, systems, and software programs. Indeed, his relationship with the use of the Internet was a decidedly mixed one over the years. As he saw it, the Internet was often undervalued as a tool for "really creative process engineering."

On the other hand, he suggested to a PURCHASING magazine advisory panel that for the Internet to be a truly significant tool for change it would need to be used in a relationship where there is an "open flow of thought." Bad things usually happen, he said, "when smallish to medium-sized suppliers get pressed on issues (such as EDI) and then begin to see the Internet as a new way their bigger customers are going to screw them." Then in his typically puckish manner Richter pointed out how well the "Internet enables people to do really creative process engineering such as we did at IBM."

Richter, who spent his final years as a business/procurement consultant, was an ebullient developer of tools to improve purchasing performance. Typically his tools were improvements or more refined versions of tools that had already been in use—often for years. His use of a written procurement strategy was a good example of an old tool being put to new uses. This tactic/strategy,



Many purchasing departments benchmarked against government data. Richter raised the bar, measuring performance against actual industry data.

used for all major commodities, includes a market analysis along with a rundown on such things as number of suppliers in the field, leading suppliers, standings of suppliers in such areas as quality, delivery, and technology. It also includes a negotiating strategy. Having a written strategy "really makes a difference" over having a strategy "that's just rolling around in your head," he often

The career of R. Gene Richter

Richter's successes at IBM constitute only a fraction of his contribution to the procurement function. He started his 40 plus year procurement career at Ford Motor Co. after earning a bachelor's degree in marketing and economics from the University of Maryland and a masters degree in business administration from the University of Michigan.

He worked at Ford for 23 years, holding a variety of purchasing management positions. And in 1984, he became vice president of purchasing. In 1988, Black & Decker won the PURCHASING magazine Medal of Professional Excellence for the leading-edge procurement programs that were installed under Richter's leadership. Richter championed the idea of global sourcing at Black & Decker and developed a strategy of using one dominant sup-

plier and two smaller ones for a commodity.

After B&D, Richter moved to Hewlett-Packard where he was executive director of procurement. Under Richter, HP developed written sourcing strategies, forged strategic alliances with leading-edge suppliers, sourced globally, and improved quality from suppliers. In 1992, HP won PURCHASING magazine's award.

In 1994 IBM hired Richter to revamp its global procurement operation. Richter centralized IBM's purchases through commodity councils, saving the company millions of dollars. Richter also formed and added customer solutions procurement to IBM's Global Services division, set up a commodity convergence office to tap into suppliers' technical know-how, and moved IBM's purchasing process to the Internet.

noted to many of his colleagues.

A big payback, Richter felt, comes from putting the plan down in black and white, when, for instance, the negotiating part of the strategy stares back at you and says, "What if we don't achieve our objectives? What's the backup plan?" Insisting on a written procurement strategy, in Richter's eyes, was a "real breakthrough kind of practice."

Going global

Many of Richter's colleagues and close friends point to his stint at Black & Decker as the real turning point in his career. At Ford, he had gained the background and understanding of how a large and successful company competes in a world market. Indeed, in the 1970s and '80s Ford tended to be looked upon in some circles as a veritable "Big Rock Candy Mountain"—a storehouse of smart young executives who were competent to play in the world market.

But at Black & Decker, Richter's mettle was sorely tested as the smallish hand-tool maker was in process of swallowing the small appliance division of General Electric. Purchasing's mission (to out-buy the competition at home and abroad) needed to be backed up with a strong buying policy. Without a strong policy, backed up by forceful implementation, B&D's purchasing operation could have easily turned into a fiasco.

Richter's answer to this need was development of a policy built on these cornerstones:

A supplier for each major commodity. By dominant supplier strategy Richter meant that one supplier received the lion's share (say 70%+) of the business. The purpose: To create and maintain competition while providing most of the benefits of single sourcing. In turn, the supplier on which this status was conferred must be able to demonstrate the ability to produce world-class quality and technology.

Long-term agreements. These were to run three to five years with "evergreen" renewals each year. Roughly 20% of B&D's purchases were covered by these agreements. The goal: To keep increasing this percentage each year. This strategy was not so much a love-call as a means of gaining leverage

over suppliers.

Centralization of key commodities. A centralized purchasing function had been established to oversee purchases in key commodities for U.S. and European plants. Purpose: To capitalize on B&D's worldwide presence and to make purchasing more efficient. Key commodities were defined by one of the following criteria. 1) high dollar volume, 2) small supplier base, 3) strategic importance, 4) criticality to quality, 5) high technical content.

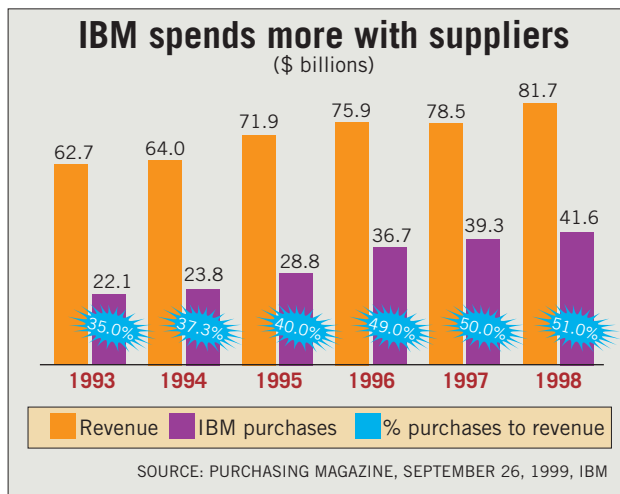
International buying. At B&D global buying was not a slogan. Richter had become convinced there was no single place in the world to buy everything. The B&D buying team pursued the global market and fortified itself with market and technological intelligence in order to make its global buying strategy an effective strategy.

Perhaps the biggest initial challenge resulting from the GE small appliance division acquisition was the need to expand the supply base to support the increased demand. Like many other U.S. companies, B&D had been in a supply base-trimming mode as part of an effort to improve quality and supplier relationships. At Black and Decker this policy had to be put on hold for a while as Richter and staff tried to get a number of suppliers to expand their capacities. When they were unsuccessful, they were forced to seek new sources.

A major worry about the acquisition of GE's small appliance business and the restructuring that followed was that it shined the spotlight on purchasing, and the picture was often harsh. For instance, at the time of the acquisition, purchasing was operating in a completely decentralized manner. Plant purchasing managers essentially went their own ways, and there was little effort to coordinate and leverage common buys among plants. In fact, in many instances plant purchasing managers were unwittingly competing against each other.

A major challenge facing Richter when he assumed command of pur-

chasing in 1984 was to find a way to give purchasing more ammunition without hand-cuffing the plant buyers. Centralization, which had been tried back in the '60s, had left a bad taste. While it helped to improve the professionalism of buyers, noted one senior buyer, "central purchasing became progressively more institutionalized and stifling as it passed through several hands of leadership. No one could do anything unless it was blessed by corporate purchasing."



As Richter implemented outsourcing strategies, the percentage of total sales represented by purchased goods and services rose like a rocket ship.

Still the problem remained: Decentralization didn't mesh well with management's plans to rationalize design and manufacturing on a global basis. The solution when it came was a hybrid that combined the free-wheeling style of a decentralized purchasing operation with the "critical intelligence" and buying muscle provided by centralization. Richter immediately began assembling a core group of commodities managers to handle key purchases for all of the B&D manufacturing plants. The core group would be the glue holding the entire operation together.

To ensure that this hybrid organization behaved in a coherent and intelligent manner, Richter created purchasing councils to review tactics and strategies. These purchasing councils, composed of plant buyers as well as corporate staffers, met periodically.

HP buying turns strategic

Once regarded as the boneyard, corporate procurement in recent years has become not only a corporate nerve center but also a guiding force on many strategic issues. It was a fact of life for Gene Richter and a subject on which he took great interest as he moved on to Hewlett-Packard.

The popularity of moving purchasing professionals closer to the strategic face of business began to show up in the early 1980s with the creation of corporate commodity teams. Under the stewardship of HP's Dan Bechtel, support at Hewlett-Packard for corporate procurement and corporate commodity teams grew. International procurement offices (IPOs) were set up to handle the growing volume of overseas buying. But Bechtel was more of a manufacturing maven than a purchasing maven. And as buying became more and more international in scope and increasingly strategic in nature, he convinced management that it was time to bring in some "real professionals" to run corporate purchasing. Gene Richter was the man tapped to lead the charge and with his first Medal of Professional Excellence tucked under his arm he came to his new job with a philosophy behind his proposed actions. Some of the elements of that philosophy:

Leadership. Top management understood the strategic importance of purchasing and the value it would get when "purchasing knowledge" was cranked into products.

Buying power. Although highly decentralized, HP needed to behave as one big family on the purchasing front, using corporate contracts to leverage its buying power. If, as many believed, material cost was the last frontier then HP's buyers had been doing an effective job of taming this frontier.

Strategic alliances. Purchasing was making sure that HP stayed ahead of the game by developing close relationships with suppliers of leading-edge technology. Its alliances with Canon may well have been the quintessential supplier

retrospective: gene richter

partnerships.

Quality. During the '80s, supplier quality improved ten-fold. The goal then was to keep improving at a faster rate than the competitors. Not only was purchasing responsible for the quality, but it also had the muscle to do something about it. Component testing and qualification fell under purchasing's wing.

Global sourcing. If we're not able to buy from all over the world, we don't have an effective purchasing department.

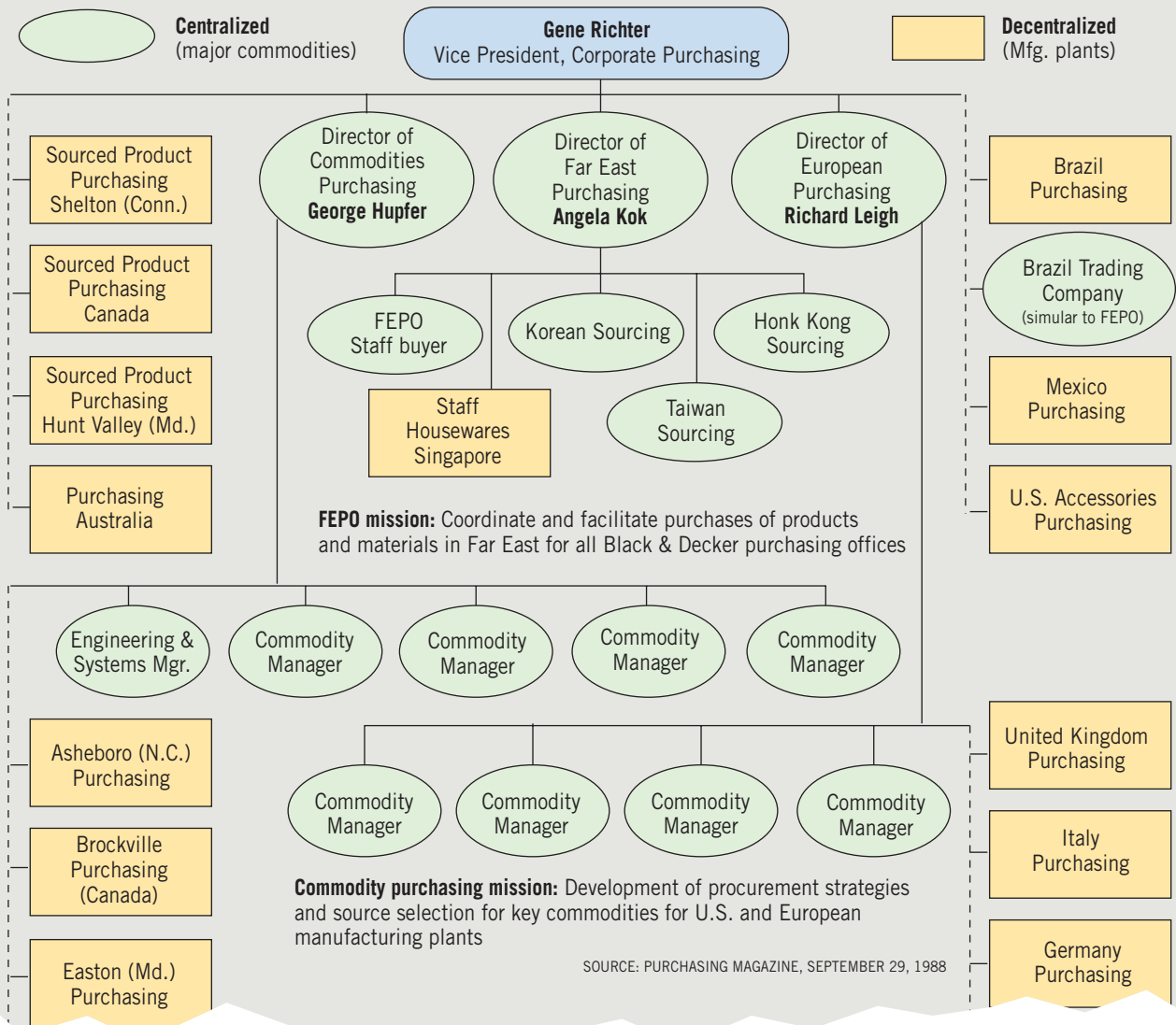
Strategic sourcing. Strategic commodities were watched over by a board of directors that plotted purchasing's next move.

As Richter saw it, successful procurement involves the following five steps: (1) developing written sourcing strategies; (2) developing division involvement and consensus; (3) negotiating fairly, but effectively; (4) writing creative contracts that not only accurately capture the results of these negotiations but also suggest goals for continuous

improvement; and (5) assuring that everyone (customers and suppliers) comply with the agreements.

Under Richter, HP began to act its size—a difficult feat considering that the company was, is, and probably always will be a decentralized company. Its purchasing operation is one of those rare instances of corporate intrusion into divisional autonomy. What Richter—and top management at HP—wanted was a concerted effort to leverage its buying power for commodities that are

Hybrid operation at Black & Decker gave purchasing more bang for the buck



Richter established strong commodity teams at Black & Decker, where he won his first PURCHASING magazine Medal of Professional Excellence. He also made innovations in developing international procurement offices.

widely used throughout the company, such as plastic resins, or are of great strategic value, such as semiconductors.

At the same time Richter insisted that there must be “buy-in” on the part of the divisions. It was important to him that the divisions perceived that they were getting something of value for their money. As he saw it, in developing a hybrid corporate buying strategy for HP there needed to be a special effort devoted to striving for consensus—especially at the divisional level. “You can bargain with confidence,” he said, “if you have the support of the divisions.”

On the other hand, Richter didn’t believe that corporate purchasing should get involved in unique divisional buys or meddle in day-to-day tactical affairs of the divisions. Corporate purchasing may negotiate with plastic resins suppliers, but it left it to the divisions to choose the molders. That way corporate and divisional buying was optimized.

As Richter saw it, the right way to manage a supply base is from the bottom up. “It seems that every company today is into the rationalization game...handing out pink slips to suppliers, until all that remains of the supply base is a skeleton crew.” The danger, warned Richter was obvious—especially in the electronics industry where “leadership tends to skip generations.” His solution: Examine the issue from a micro perspective. How many suppliers are really needed for SRAMs, DRAMs, etc. If a supplier makes many different things, should you get them from this one source, or should you look for the best supplier in each case? The difficulty with such an approach, warned Richter is that solutions tend to be in motion. What’s a good solution today may be very wrong in three years.

One thing that matured in Richter’s HP days was his thinking on global sourcing. While global sourcing had always been important to him, his days at HP convinced him that no purchasing

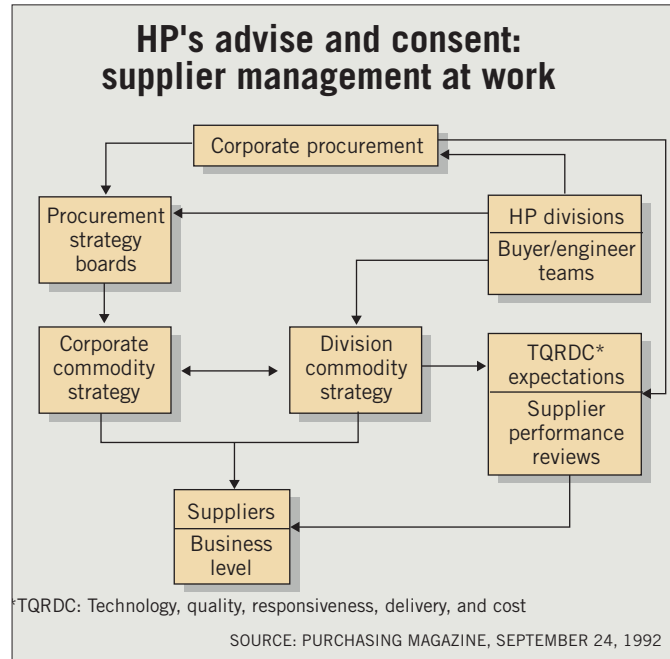
department can be effective today if it doesn’t have the ability to buy from all over the world. For a transitional company like HP it would be tantamount to suicide to become overly dependent on any single region of the world in its sourcing policy. Besides, he came to believe, “there aren’t many suppliers that are in all regions of the world.”

Richter’s last major assignment

find outside companies that could help IBM maintain its leadership in global high-technology markets. In essence, what they got from Richter was a person who could build a supply plan at the same time he was taking into account all of IBM’s competitive goals.

During his five years at IBM, Richter transformed IBM’s purchasing from essentially a collection of divisional purchasing groups into a centralized structure that truly recognizes the importance of suppliers in keeping IBM a leader in the global technology marketplace.

Richter set up a purchasing operation to support IBM’s fast growing Global Services Division, which provides expertise on information technology (IT) as well as hardware and software to IBM’s corporate customers. He set up another office to track technology road maps of core suppliers and to develop promising new ones. And he made sure IBM was on the forefront of electronic commerce. Today, while many companies are still struggling with installing the Internet, IBM is buying billions of dollars worth of goods and services over it.



One of Richter's great contributions was creating truly collaborative, rather than adversarial, relationships with suppliers. Supply strategies were closely integrated with business plans.

before semi-retirement is especially interesting to students of industrial procurement. It was a period where he was encouraged to do more than merely find solutions to nagging problems. At Ford and B&D, Richter won recognition for his often unorthodox approaches. At IBM he was encouraged to develop a philosophy that directly affected the company’s competitiveness. In short, Richter was actively challenged to develop a transcendent supply strategy that would radically affect and change the company’s ability to compete.

To its credit, IBM’s top management realized it had to turn its long-practiced approach to supply upside down. Rather than doing nearly everything related to manufacturing internally, Big Blue’s leaders decided they needed to

Commodity councils that leverage

Of course, fundamental changes to IBM’s business model resulted in major changes in purchasing organization and strategies. Where less than a decade earlier, IBM was mostly a vertically integrated company, making its own components, it began looking to outsourcing as a serious alternative. Items like memory chips, keyboards, and power supplies, which for years had been produced internally, were outsourced to contract manufacturers. In many cases, where IBM had been making virtually all of a component line, the work was outsourced.

As vertical integration began to be replaced by outsourcing, a largely ignored issue began to show itself: The secrecy question.

Looking back at his first days at IBM,

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Richter noted that there was “a general feeling that everybody was trying to steal our technology and ideas. Everything at IBM was a secret. In procurement we were the guardians of confidential information, the guards at the door who didn’t let any suppliers know anything.” This made it impossible to have effective collaboration with suppliers because IBM didn’t want suppliers to know what product their parts were going to be used in. “You couldn’t develop volumes very well because the volumes planned were a secret,” noted Richter. “And, you couldn’t say which plant would build the product that the part was going to be used in. Parts would be shipped to central locations like Kansas City or St. Louis and then reshipped from there.” Reason: So the supplier wouldn’t know what plant was going to use it.

What happened, said Richter, is “we woke up one day and realized that we couldn’t be expert in everything.” Management gradually came to the realization that outside suppliers had technology that IBM needed and competitors were reducing their costs by outsourcing. While IBM could make many of its own critical components for IBM computers, so could other suppliers—often at lower cost. So IBM began buying more from outside suppliers and outsourcing more.

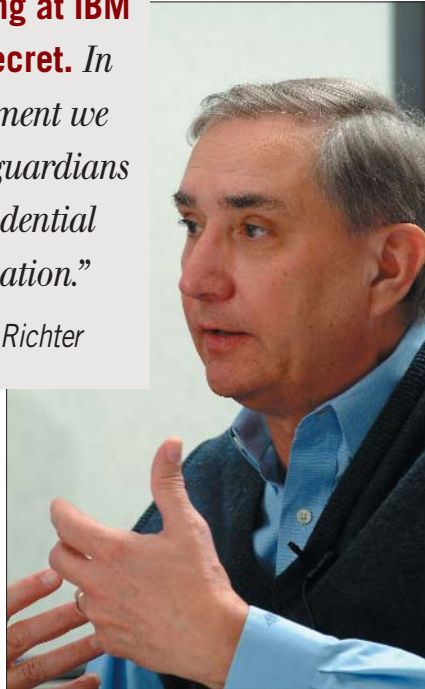
With a purchasing budget that was growing yearly as IBM began relying more on outside suppliers, it became apparent there was a clear need to leverage purchases. To take advantage of IBM’s huge purchasing volumes globally, Richter centralized IBM’s purchases, setting up commodity councils to buy parts rather than having individual sites buy their own components. The councils combined the requirements of all the divisions and negotiated long-term contracts with suppliers, resulting in lower prices. It also resulted in a major reduction in IBM’s supplier base, with accompanying cost savings.

IBM has commodity councils for

such items as DRAMs, microprocessors, logic, passives, monitors, electronic cards, and test board assemblies. Their job is to network and do the total buy for everyone who uses the commodity. There is one global con-

“Everything at IBM was a secret. In procurement we were the guardians of confidential information.”

—Gene Richter



tract per IBM supplier, thus a logic chip supplier would supply logic to all IBM divisions. IBM will commit to buying a percentage of its component requirements from a supplier. In order to understand how radical a change this represents, note that only ten years ago IBM had virtually no long-term contracts with suppliers and most of its commitments were for quantities.

While IBM outsources manufacturing, it has maintained control of the purchasing of components that its contract manufacturers (CMs) use. Many high-tech manufacturers let CMs buy the parts for boards and systems that are outsourced, but IBM benchmarks prices for commodities and believes it gets lower prices than the industry average for many commodities.

The commodity councils also are responsible for reducing the number of suppliers. That has been challenging because different IBM sites have had their favorite suppliers and commodity councils tend to be populated with buyers from various IBM facilities around

the world.

Recently, when Richter was asked about battles over narrowing the supply base, his response was more sanguine than deeply concerned. “We may have battles over narrowing the supply base. And we may want to have three suppliers in the world for a given commodity. The question is always which three? “In deciding, the council has to take into consideration technology, price, quality, and delivery. The weight of each criterion can vary depending on the commodity. “We have some things where price is 80% and everything else is 5%; or technology may be 80% and price is unimportant. The important thing is that decisions need to be arrived at by consensus.”

It was during his stay at IBM (1994-1999) that Richter became a three-time winner of PURCHASING magazine’s Medal of Professional Excellence. As the leader of IBM’s purchasing organization, he became the only person to ever win the medal more than twice. In a talk around the time of the presentation Richter was asked how he viewed all of the changes that have taken place in recent years in purchasing he was typically plain spoken.

“Commodity councils, supplier development, e-commerce, all have had an important effect on purchasing in general and at IBM in particular. And procurement is now much more important to companies than it used to be.

“For instance, 10 years ago when IBM and its procurement competitors were vertically integrated, procurement was not mission critical. It was doing tactical buying. Today procurement is strategic. Buying professionals went from being guardians of secret information to facilitators of communications among manufacturing, engineering, and suppliers’ people and their suppliers. We have learned to communicate and team across divisions. As a result we are much stronger. We truly have come a long way.”

See purchasing.com for a tribute section of peer comments.

PURCHASING magazine is sponsoring a memorial scholarship in Gene Richter's name. For information on how to contribute, see Inside Purchasing on page 13.