

## **Executive Interview:**

*Dean Bennett talks with Tetsufumi Terashima who leads our IBM procurement consulting practice in Japan to understand what it is like to operate in the procurement space in Japan.*



**Q:** Tetsufumi-san, how long have you been operating in the procurement world?

**A:** Since 1998 – I was engaged in supply chain projects partially including the procurement area. However, it is from 2002 that I was in charge of procurement area as my specialty. Japanese Automotive OEM was my main client at that time. Since then, I have worked for several direct, and indirect, procurement projects.

**Q:** What would you say are the biggest differences to conducting procurement work in Japan versus the West?

**A:** There are two major differences:

One is low productivity. As you know, with global leading organizations in the Western World, such as IBM, workload ratio of value-added work and low-valued operations is circa 7:3. However, most Japanese companies are the reverse of this at 3:7. To put this in perspective, this is where the leading Western companies were in the early 90's. There is much room for improvement by using IT capabilities and redesigning/clarifying organizational roles.

Another is a unique supplier relationship mechanism known as “Keiretsu.” Once this became famous and was prized in the West, but global sourcing and the change of power structure in the current supply market made it complex for Japanese companies. This is proving a challenge for adaptation with many Japanese companies.

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More recently we have seen traditional Japanese companies adopt some Western concepts such as “voice of suppliers” or “power balance theory against suppliers,” in an effort to remain close to the customer and competitive.

**Q:** What are the biggest challenges facing your clients at the moment?

**A:** The volatility of material prices, such as oil and steel, are their major concerns at the moment. However, on the basis that this is cyclical, we need to prepare them for when the material prices rescind and proper and timely purchasing price reduction will become their new challenge.

Inflation of labor cost in China is seeing a new rush to find the next viable source of low cost sourcing. We are keeping an eye on the role IBM procurement is leading in exploring the sub Sahara region as the next area of opportunity.

Lastly the Green agenda and CSR is another big issue, even though we in Japan see ourselves as one of most advanced countries tackling environmental issues in the world.

**Q:** Looking forward two to three years, how do you see the role of procurement changing?

**A:** Procurement or purchasing is still not universally seen as a strategic function in most Japanese companies. However, the current global economic elements are bringing a renewed focus on the role of the function. Procurement divisions that can achieve significant results at this difficult era will likely develop as a recognized strategic role in the company. This is an opportunity that presents itself now and will determine the fate of procurement functions in Japan over the next few years.