EADS: Negotiating a supply management minefield

When EADS Defense & Security decided to change its supply management strategy, it faced the challenge of a new governance model, a new organizational structure and a new sourcing strategy.

November 29, 2011

When Michael Mosberger (not his real name) was tasked with reorganizing procurement strategies across the entire Defense & Security Division of EADS and developing a new governance model for its supply management activities, he knew he would have his work cut out.

Executing such sweeping change across an amalgamation of some of the oldest and largest European companies in the aerospace sector would be no easy task.

The case study, "EADS Defense & Security Supply Management," written by IESE Prof. Marc Sachon, in collaboration with María Granero of EADS and management consultant Noah Suzar, walks readers through the minefield.

Old habits die hard

The European Aeronautic Defence and Space Company (EADS) is the product of a merger of Aérospatiale-Matra of France, Dornier & DaimlerChrysler Aerospace of Germany and Construcciones Aeronáuticas of Spain.

It consists of four main divisions: Airbus, Eurocopter, EADS Astrium and EADS Defense & Security, where Mosberger was chief procurement officer.

One of the greatest challenges he faced was overcoming the company's highly politicized decision-making processes.

Strategic decisions on investments, procurement, the location of facilities, general HR practices and raising capital were determined via negotiations between the national governments involved in EADS, in particular those of France and Germany.

In other words, all major decisions had to make economic sense as well as meet the political realities of the day.

What's more, each national company had entrenched traditions that sometimes dated back to the early 20th century, resulting in very different corporate cultures. Their integration had proven to be much more difficult than expected.

Seeking a better balance

EADS' top management was aware of these challenges and had undertaken a number of measures to simplify and streamline its corporate governance structure.

In 2007 an agreement was reached to increase the efficiency, cohesiveness and simplification of EADS' management and leadership structure.

This was followed by the "Future EADS" program, which aimed to improve the efficiency of the communication and decision-making processes between headquarters and the divisions, and increase the use of shared services.

"Future EADS" was part of an even more ambitious project called "Vision 2020." This was a blueprint for growth, changes and goals that the company aims to achieve by the year 2020. In the company's own words, the objective is to create "a better-balanced EADS."

The emphasis on balanced revenue had important ramifications for the group's supply-chain management.

Airbus was responsible for roughly 60 percent of EADS revenue. As the commercial airplane business was highly cyclical, EADS wanted to reduce its dependence on Airbus and boost revenue streams from non-Airbus divisions, including the Defense & Security Division, from 40 percent to 50 percent.

"Vision 2020" also called for EADS to accelerate its program of internationalization, by increasing its non-European sourcing from 25 percent to 40 percent. As such, procurement marketing and global-sourcing activities were considered vital for achieving this goal.

But increasing global sourcing was a particularly touchy subject, given that sourcing defense technology from certain countries would be next to impossible, and the final customer almost always preferred local suppliers, sometime even making this an essential condition for buying from EADS.

How to meet tough objectives?

The Defense & Security Supply Management Board, headed by Mosberger, had been established to centralize and coordinate commodity management and operational sourcing activities.

In this way, the board believed it could simplify complex procurement practices, enhance cost savings and efficiency, streamline management processes and become more transparent.

To improve organizational effectiveness, the board split procurement into "centralized," for maximum pooling of volumes, and "decentralized," to achieve maximum teamwork with internal customers.

The board was responsible for providing senior managers with reliable and accurate supply management reporting and key performance indicators. It also sought to develop a pool of talent dedicated to supply management.

Mosberger was fully aware that his decisions would play a pivotal role in meeting the objectives set forth in "Vision 2020."

His first step was to hold a workshop with the board directors to define the future governance model for supply management. The board opted in favor of a governance model based on "network management."

But in opting for such a decentralized governance model, Mosberger wondered how EADS could possibly achieve the synergy desired. Also, how would they meet the objective of increasing global sourcing across all divisions?

Perhaps the biggest issue of all was how to address the organizational issues, especially given the fiercely defended independence of many of the business units, and a supply base comprising more than 20,000 different suppliers, spread around the globe and ranging from small companies to large multinationals.

www.iese.edu/insight