

Welcome,

Procurement is changing. Increasing connectivity and digitalisation mean that companies need to build strategic partnerships and networks which maximise value in order to remain competitive. Procurement must take a leading role. In this edition, we show you how you can turn your procurement department into a value creation partner to consistently increase company value.

The benefits of involving buyers in marketing procurement are clear to see in our case study of Tomorrow Focus AG, where procurement expertise significantly increased the efficiency of sourcing marketing services.

Our case study of German and UK hospitals (from page 8) shows that the huge potential for procurement optimisation is not being fully exploited and what can be done to improve the financial health of hospitals.

We hope you enjoy the edition.
Happy reading!

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PROCUREMENT TRANSFORMATION TURNING BUYERS INTO VALUE CREATION PARTNERS

Good procurement departments do more than just buying; they play a vital part in improving a company's value. We take a look at the five most important steps that managers should take to turn their procurement department into high-performance teams.

Experts have known for a long time that procurement is not just a service. With the right targets, structures and processes, buyers can have a huge effect on a company's growth. Such value-enhancing procurement reduces costs, lowers risks, promotes innovation and helps to improve products and services.

But this level of procurement excellency doesn't "just happen". It is up to management to develop it and to first remove obstacles

that prevent procurement from reaching peak performance, such as insufficient monitoring of the procurement process, inappropriate strategies and structures, a lack of resources and inadequate cooperation with other stakeholders.

So what exactly can be done? Real world examples show how management can best set up and run their procurement activities and the results that a strategic procurement transformation can achieve.



Step 1:
Defining the scope of procurement

First, companies need a vision for their procurement: the scope for action and the goals of the procurement organisation. These should fit into its general strategy and take current structures and resources into consideration.

This vision should, of course, also take into account the specific details of its product portfolio. For technology companies, such as those in the automotive and telecommunications industries, it is generally advisable to work towards supplier relationships that maximise innovation. In

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other words, the aim of procurement is to develop products in the most efficient way possible. However, this is an approach that may be unsuitable for companies aiming for cost leadership.

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Step 2:
Understanding what's important

In order to develop procurement strategies, structures and procedures, management first needs a comprehensive understanding of all procurement processes and demands. In practice, however, this is very difficult. There is often a lack of relevant standards and IT tools, which would



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provide an overview of purchasing volumes, commodity structures, agreements and processes.

Naturally, this lack of transparency also has an effect on procurement itself. Buyers may not be able to recognise or deal with incorrectly categorised demands, implement standard processes or comply with unknown supplier agreements, all of which results in additional costs and a decrease in value creation.

This is why transparency should always be the foundation of any procurement transformation.

The benefits of such efforts are clear for home improvement chain bauMax. Working with INVERTO, the company achieved transparency regarding the purchasing process, its demands, the market and relevant suppliers and made savings of over 10 percent. This was all achieved by quickly and efficiently

eliminating weaknesses in the procurement strategy and system to improve the company’s results as rapidly as possible.

Step 3: Determining strategies

The next step requires management staff to examine material groups and carefully observe the associated demands, consumers and procurement markets to identify potential areas for improvement. Since this often involves an overlap of responsibilities with other departments, management must employ an unbiased approach. If procurement is to promote innovation, it must be introduced early on in the product development process and be included in decision-making.

For example, automotive part supplier HELLA was ready to restructure its existing strategy. An investigation revealed that although the managers recognised procurement as a strategic

field, they rarely included it in strategic considerations. Buyers were also aware of their strategic relevance, but were often more likely to pursue operative goals in their day-to-day activities.

Working with INVERTO enabled the responsible members of management to improve the partnership between procurement, specialist organisations and suppliers. Costs were no longer the only priority; the quality of sourced products and minimising risks also played an important role.

Step 4: Restructuring procurement

Now the procurement organisation can be restructured. HELLA’s existing procurement was already sound and simple changes to the company’s organisational procedures were sufficient in order to achieve its objectives.



However, many companies have no choice but to restructure procurement structures as well as procedures. This can be the case if, for example, procurement is decentralised and there is no procurement coordination across business units, there is no central information system or key roles are not filled.

Management looking to eliminate these or similar weaknesses by means of re-organisation need to remember one thing above all else. Besides structures and processes, “new procurement” also

requires new roles and job descriptions. These must include transparent qualification requirements for the procurement staff. Otherwise, the correct staff resources will not be available after the changes and the restructuring will fail.

KION Group GmbH is a prime example of successful restructuring. Initially, the group maintained independent purchasing organisations for each of its subsidiaries - not a good basis for implementing pooling strategies and developing synergies.

As a result, the company worked with INVERTO to centralise its procurement in a multi-stage transformation process. The result? The group now has a corporate sourcing committee to manage procurement for all companies in the group. Demands, procurement and commodity management are all strategically planned across the group and suppliers are managed centrally. The company's management is very happy with the results: "INVERTO has proven to be a valuable partner for KION in exploiting our procurement potential," explains Christian Harm, Head of Group Purchasing at KION.

Step 5: Developing and strengthening business relationships

Once the purchasing organisation is well-positioned and works closely with other departments, purchasing managers and buyers can move to the last step: systematically improving supplier relationships. They have a significant impact on the company's depth of added value and results, and subsequently the company value, particularly in industries where working with system suppliers or high intermediate consumption are common.

The best way to improve business relationships is to share knowledge or work together in development or other teams. Firstly, they increase mutual understanding, create a sense of

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belonging and often open up new business opportunities. Secondly, such measures often help to reduce purchasing and process costs and spread risks. For example, as part of one of INVERTO's projects in the electrical industry, buyers worked with experts at a supplier to rework the specification and composition of a gold-plated plug connection, reducing the gold content in the expensive component by two thirds and considerably lowering procurement costs for both sides.

However, this should not be the only kind of relationship maintenance that management should be concentrating on as part of this final step. Managers should also be responsible for developing structured and systematic risk management for strategic supplier relationships.

This gives companies a competitive advantage and enables them to avoid

losses and reduce the total cost of ownership of business relationships (according to 80 percent of respondents in INVERTO's study of risk prevention in procurement), as well as making a vital contribution to developing company value.

Conclusion

Well-organised procurement can have a considerable effect on a company's added value. Optimisation often requires a comprehensive transformation to build a high-performance procurement team, but it pays off. Careful, systematic and above all courageous procurement transformation can significantly increase a company's success.



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