

RISING TO THE OCCASION

How Purchasing departments can boost business performance by engaging external expertise





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“Irrespective of how hard we think our business is right now – it will only get harder.”

Dieter Zetsche
Chairman, Mercedes Benz

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Preface



Dear Readers,

To establish security of supply, lower purchase costs, and optimize processes; these are the primary activities of Purchasing departments. Eight years of steady economic growth have changed the priorities.

Traditionally, Purchasing has been viewed as a cost-optimizing department. But today, Purchasing safeguards the long-term competitive ability of companies through the safeguarding of supply and optimization of processes. The department ensures that companies are able to handle the orders they have gained on time. It has become an “enabler”.

The greatest obstacles to Purchasing’s success are the lack of resources, know-how, and a supportive IT infrastructure. According to this study, this is exactly the point at which external experts can begin helping. Classic medium-sized companies with 100 to 1,000 employees can benefit greatly from the additional resources and know-how of consultants. Companies that take advantage of external support improve their competitive ability by 20 per cent in comparison to the standard group.

I hope you enjoy reading this report.

Matthias Droste

Managing Partner,

Expense Reduction Analysts (DACH) GmbH

Preface



Dear Readers,

Both global players and SMEs know that procurement is an increasingly key function. When it comes to competitive ability, Purchasing departments are challenged to rise to the occasion. They have become the drivers of company success.

In many companies, qualified procurement management must be preceded by rethinking the status quo. Ever more frequently, the complexity of individual procurement processes is obliging buyers to contribute their knowledge to interdisciplinary projects and teams, and boost performance by means of process improvement.

Above all, the ability to understand internal customers is essential – and once understood, to procure what they need from the right supplier. In the past, too many Purchasing organisations have selected what they deem good without listening to their customers. Today, Purchasing must act in tandem with internal consumers as a team. The team must not view Purchasing as a bureaucratic process that they must laboriously navigate in order to receive what they need.

I wish you much success in the optimization of your Purchasing processes. The present study will provide you with valuable knowledge on the topic.

Dr. Silvius Grobosch

Managing Director, Association for Supply Chain Management, Procurement and Logistics (BME)

Management Summary

13%

Companies with a permanent focus on process improvement increase their efficiency by 13 per cent.



Main tasks of Purchasing:
Establish security of supply, reduce costs, and optimize processes.

20%

With the know-how and expertise of external consultants, companies boost their competitive ability by 20 per cent.



Greatest obstacles:
Lack of **resources** and **know-how**, plus inefficient **IT infrastructures**.

60%

Six out of ten companies do not actively manage risks. The majority lack resources and IT tools.



Transparency & processes must be improved. Company-wide control variables/KPIs are usually lacking.

56%

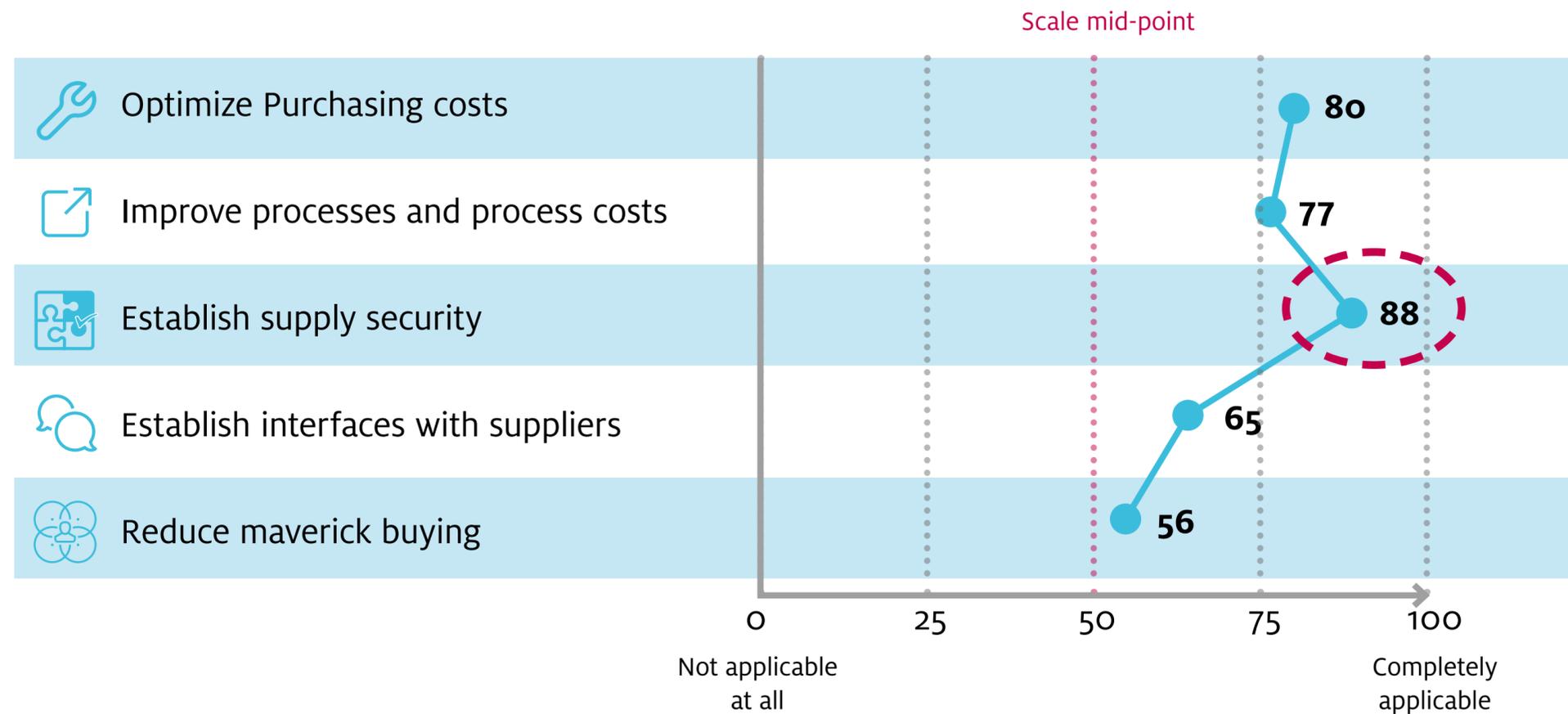
Maverick buying is widespread in more than 50 per cent of companies.



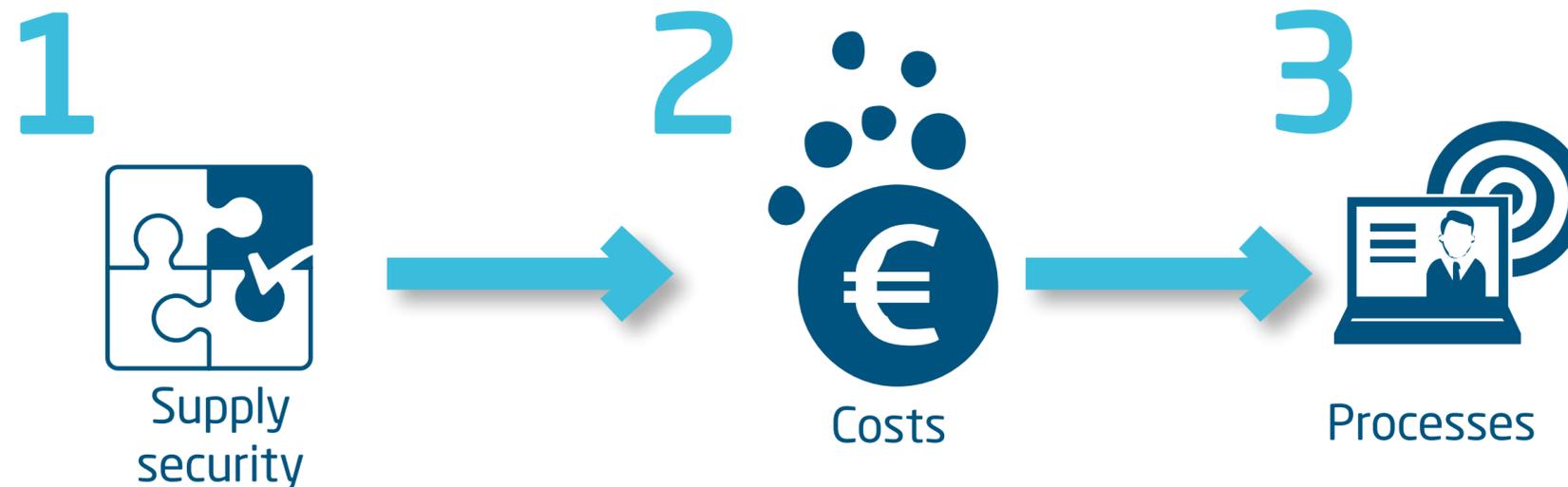
Stay on course: competitive advantages and differentiation by means of a clearly defined Purchasing strategy.

Purchasing: from cost-optimizers to enablers

Purchasing Department profile

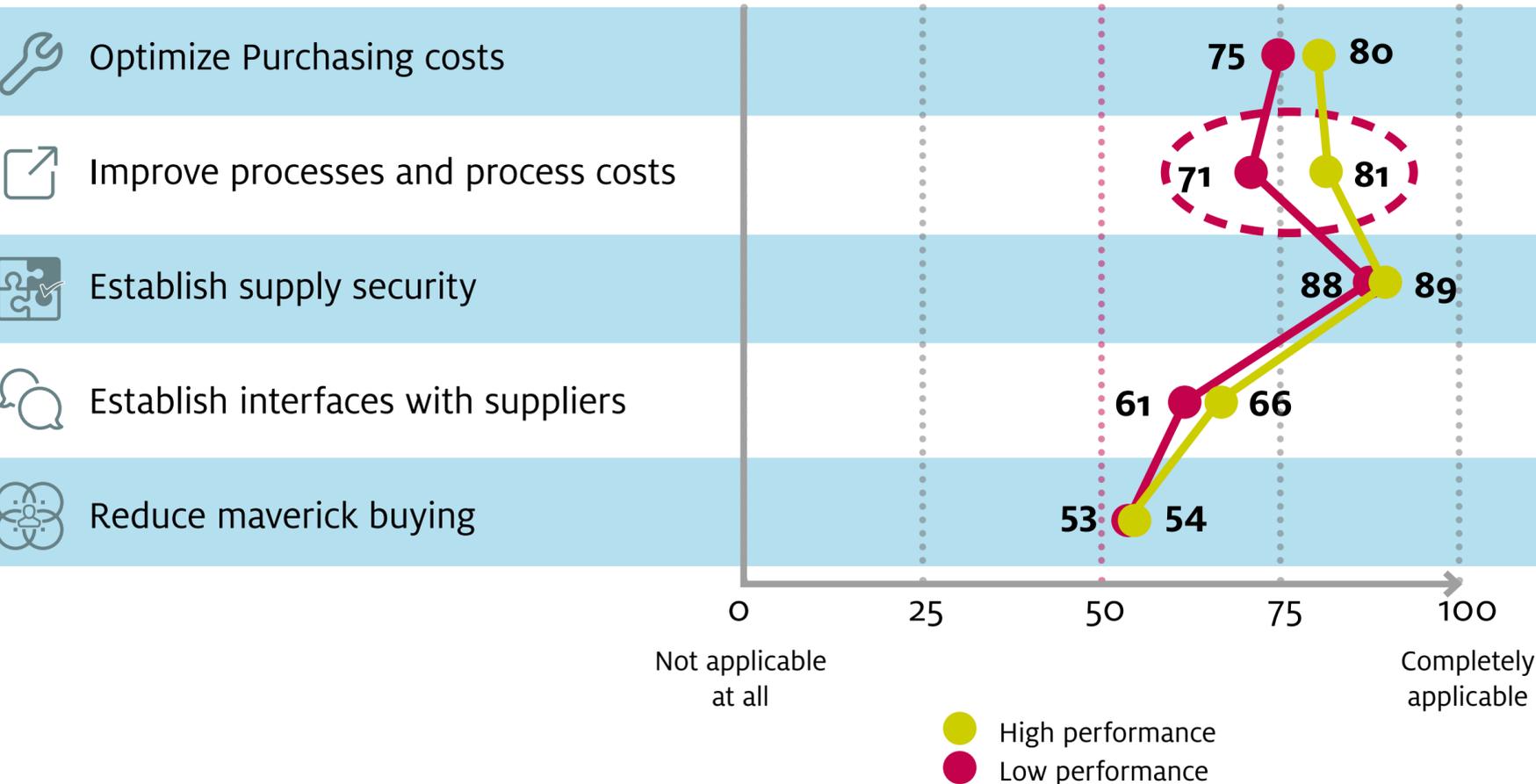


- A steady, dynamic environment of growth has changed the role of the Purchasing Department.
- Change in field of activity from cost reduction to establishment of supply security.
- Purchasing's self-image: enabler of production.
- Job focus #3: Process optimization
- Maverick buying still a problem for 56 per cent.

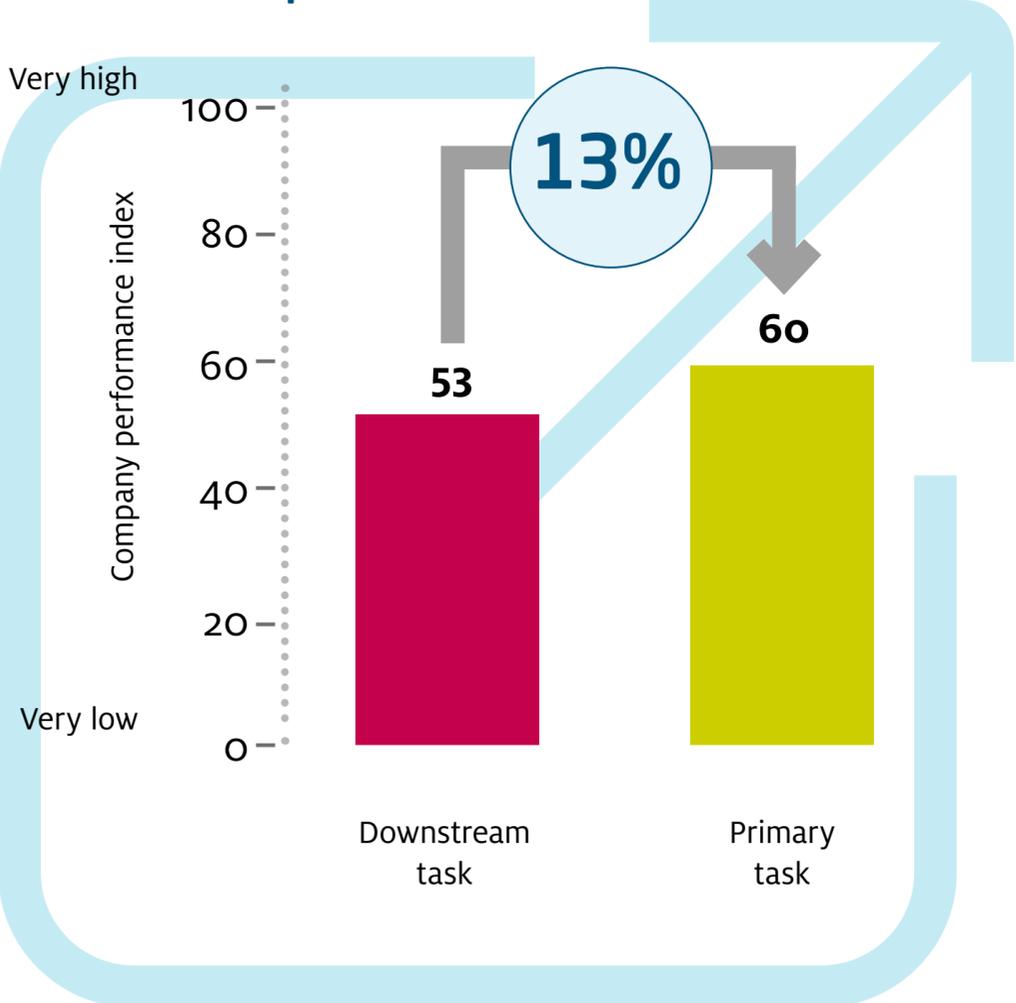


Key factor for success: Process cost optimization

Key factors for Purchasing success



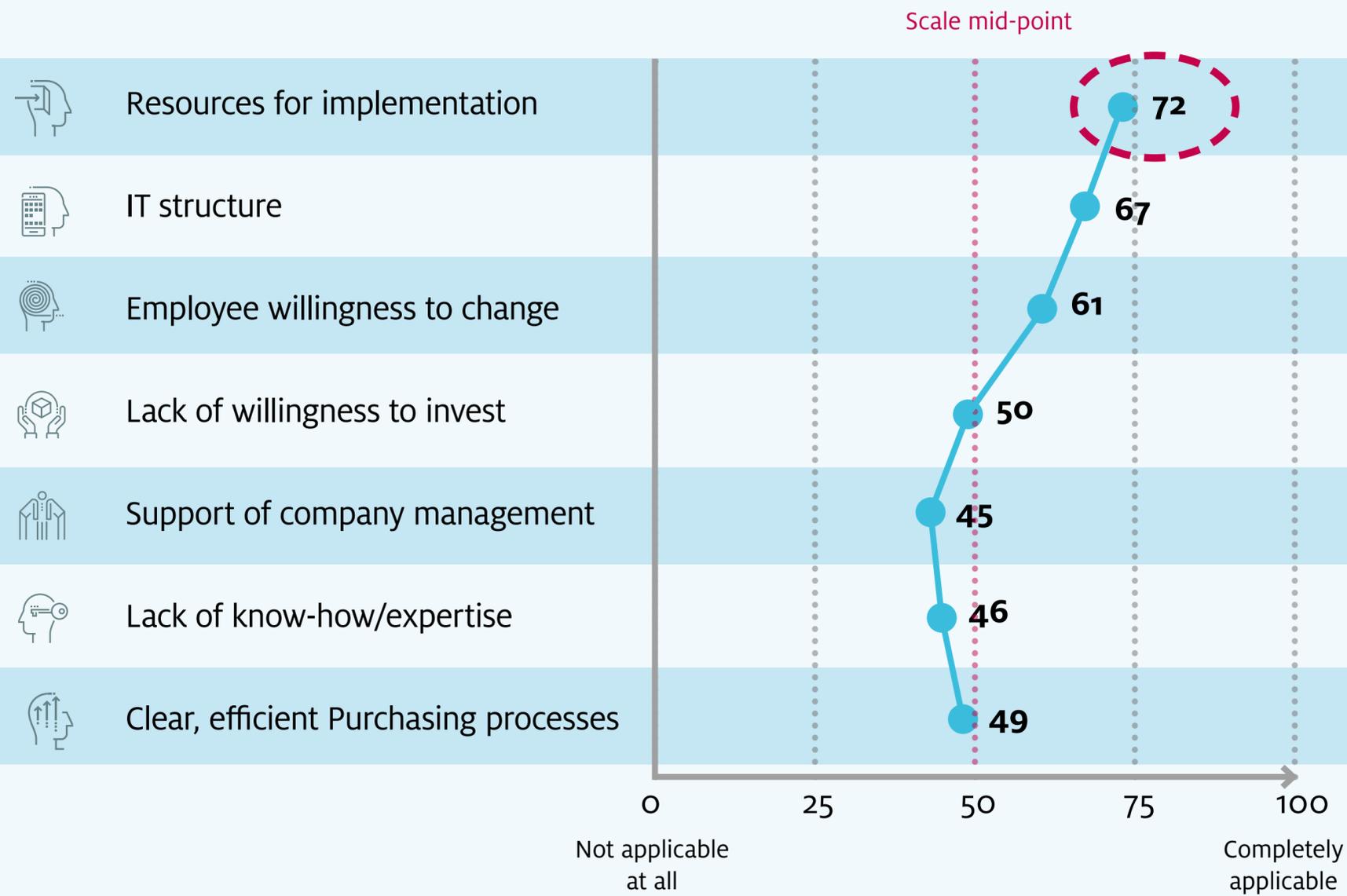
Process optimization



Process cost optimization has a direct influence on company success – efficiency boost with improved processes: 13%

Main obstacles are lack of resources and IT structures

These are the greatest obstacles for Purchasing



 Lack of resources, inadequate IT infrastructure and high resistance to change are the greatest obstacles.

 Willingness to invest present at 50 per cent of companies.

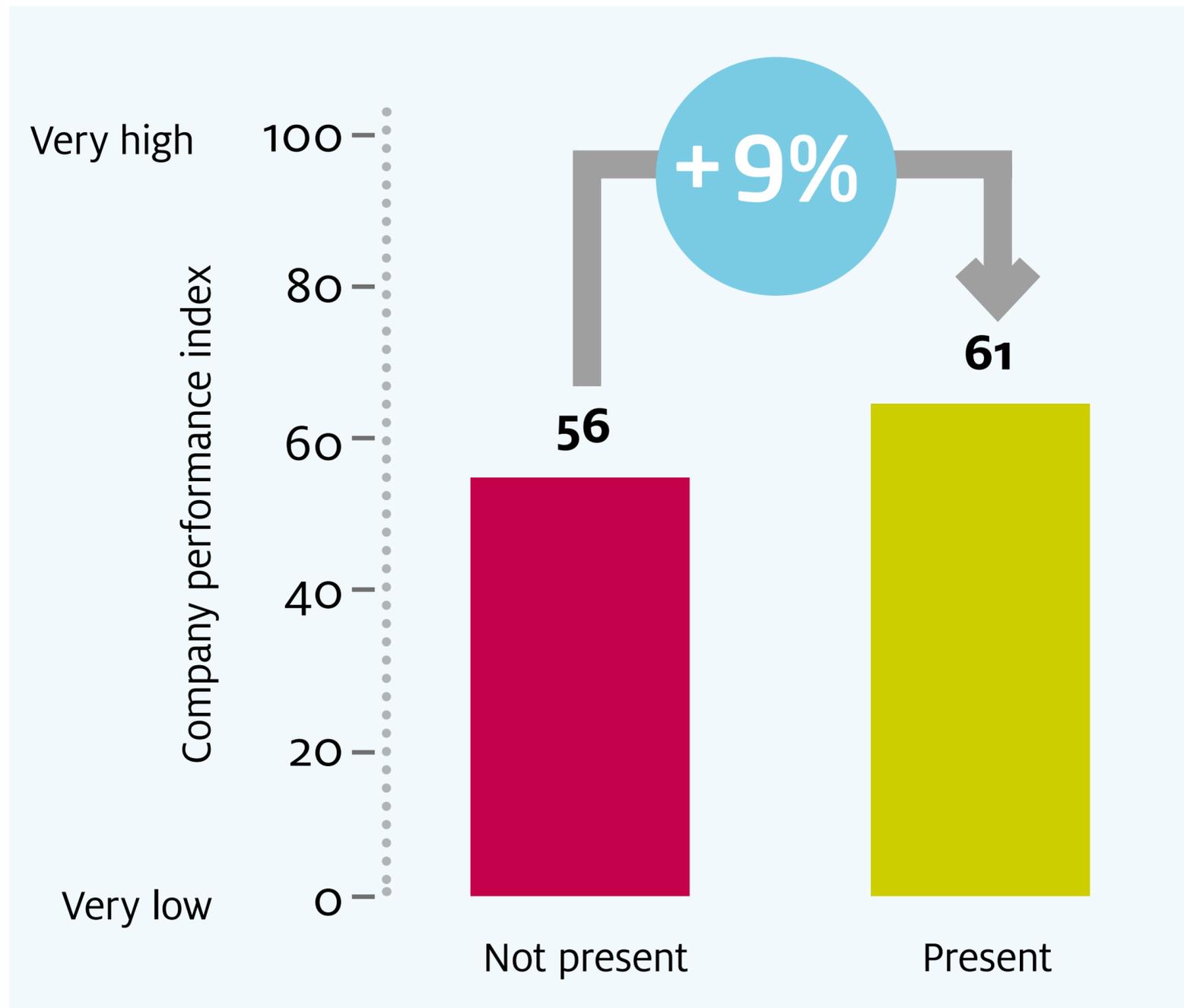


Required financial resources can be generated through internal optimization.



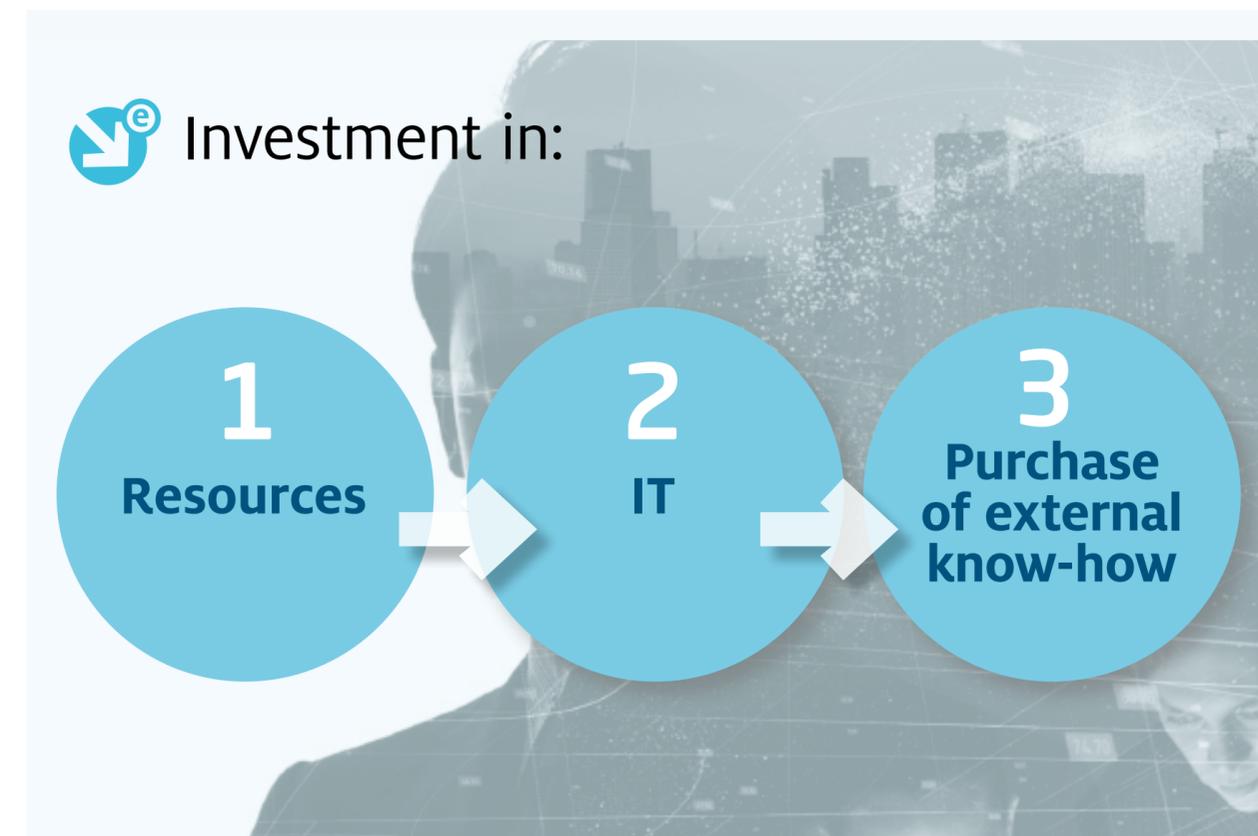
Willingness to invest pays

Success factor: willingness to invest



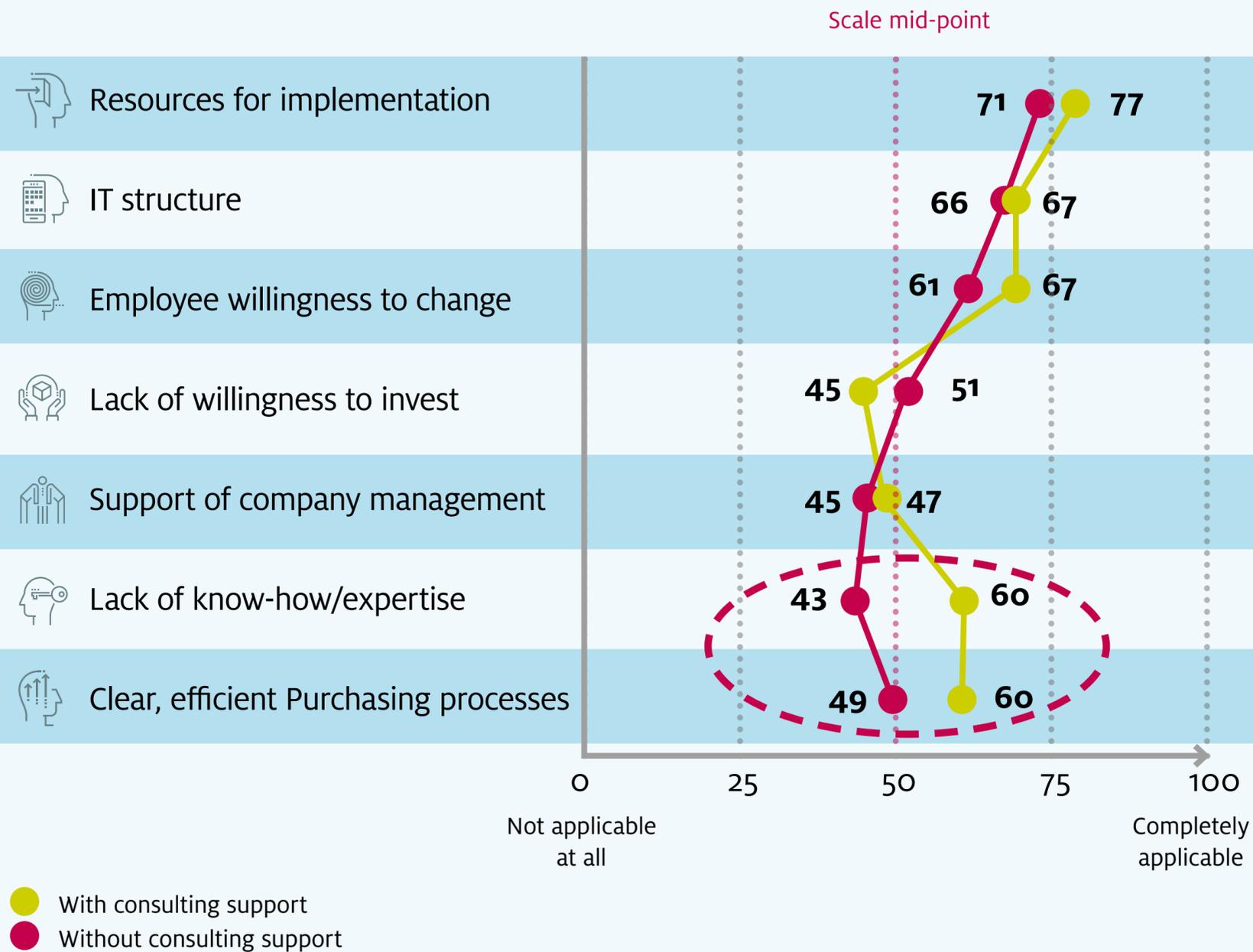
Willingness to invest in IT & resources is a key factor for success.

Higher willingness to invest raises company success by 9 per cent.



Consulting assignment: Know-how transfer & development of efficient processes

Consultancies help the most in these areas



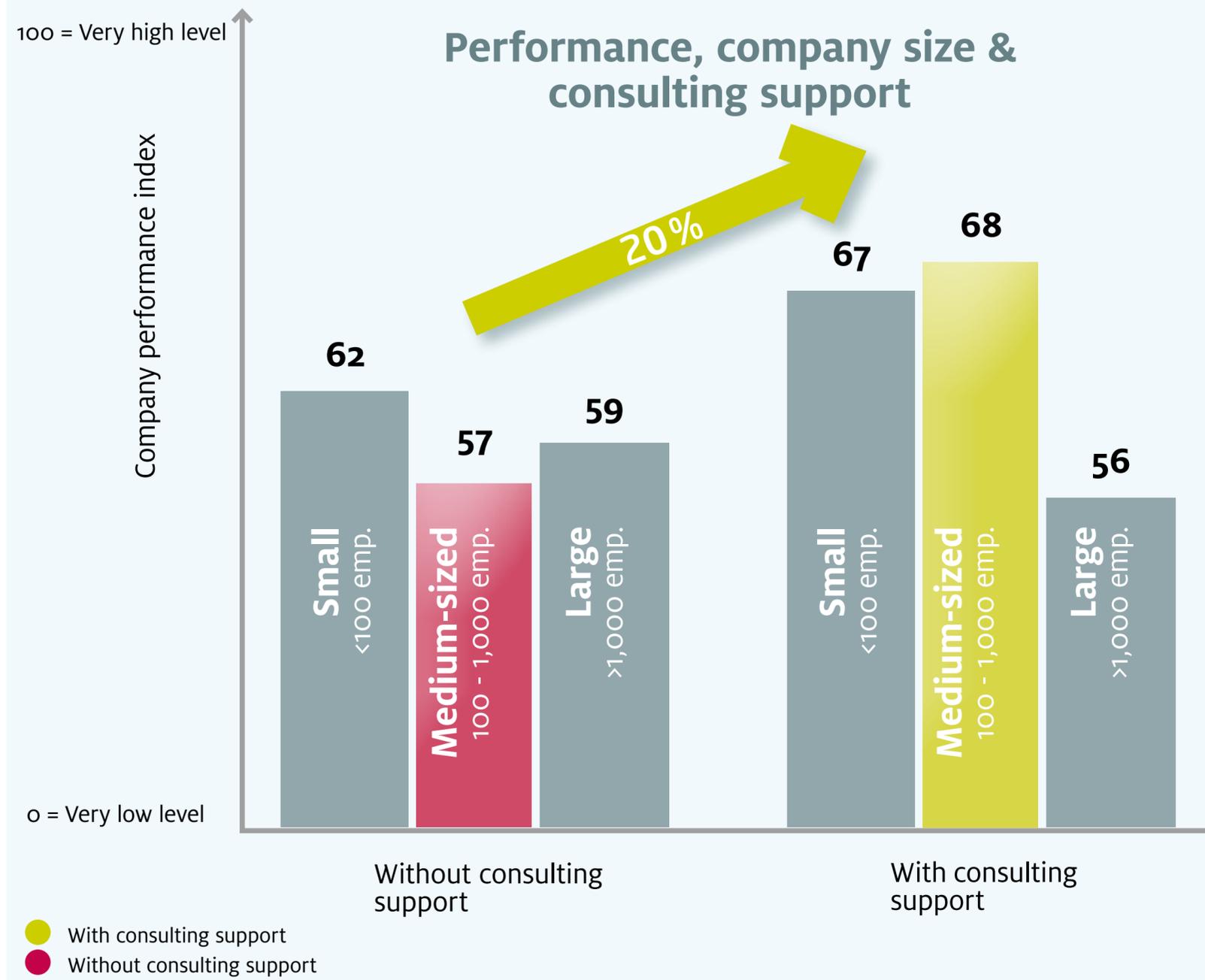
Ⓜ Lack of know-how and expertise, need to develop efficient processes basis for consulting assignment.

Ⓜ Higher level of willingness to invest also means more open for external experts.



Medium-sized companies benefit from external know-how the most

Use of consultancies in medium-sized companies

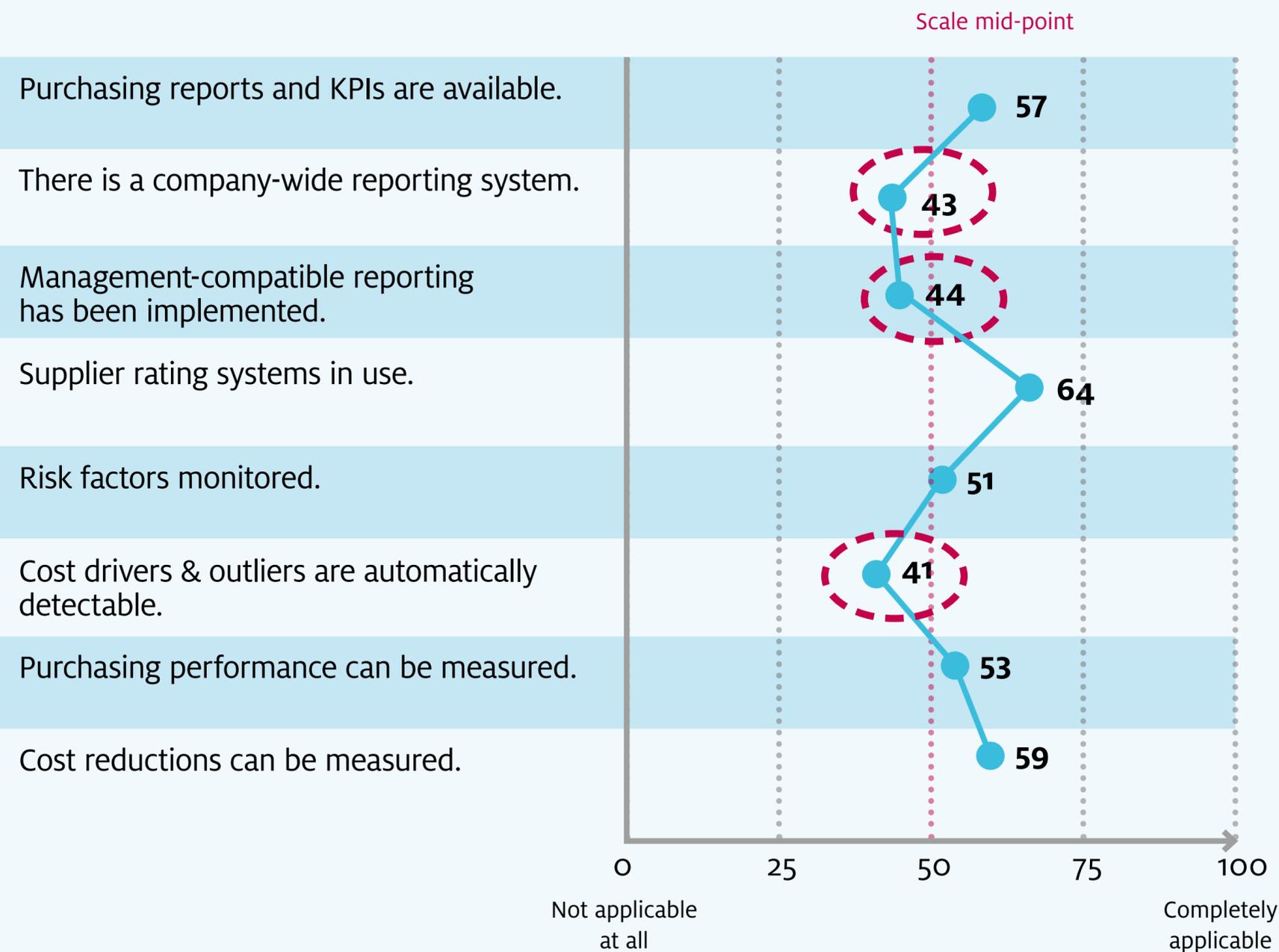


- Medium-sized companies: competitive advantages through external know-how and resources.
- Companies with 100-1,000 employees: increase in company success by 20 per cent.
- Average improvement potential through consulting: 7 per cent.



Lack of cost transparency in Purchasing

Purchasing reporting in medium-sized companies

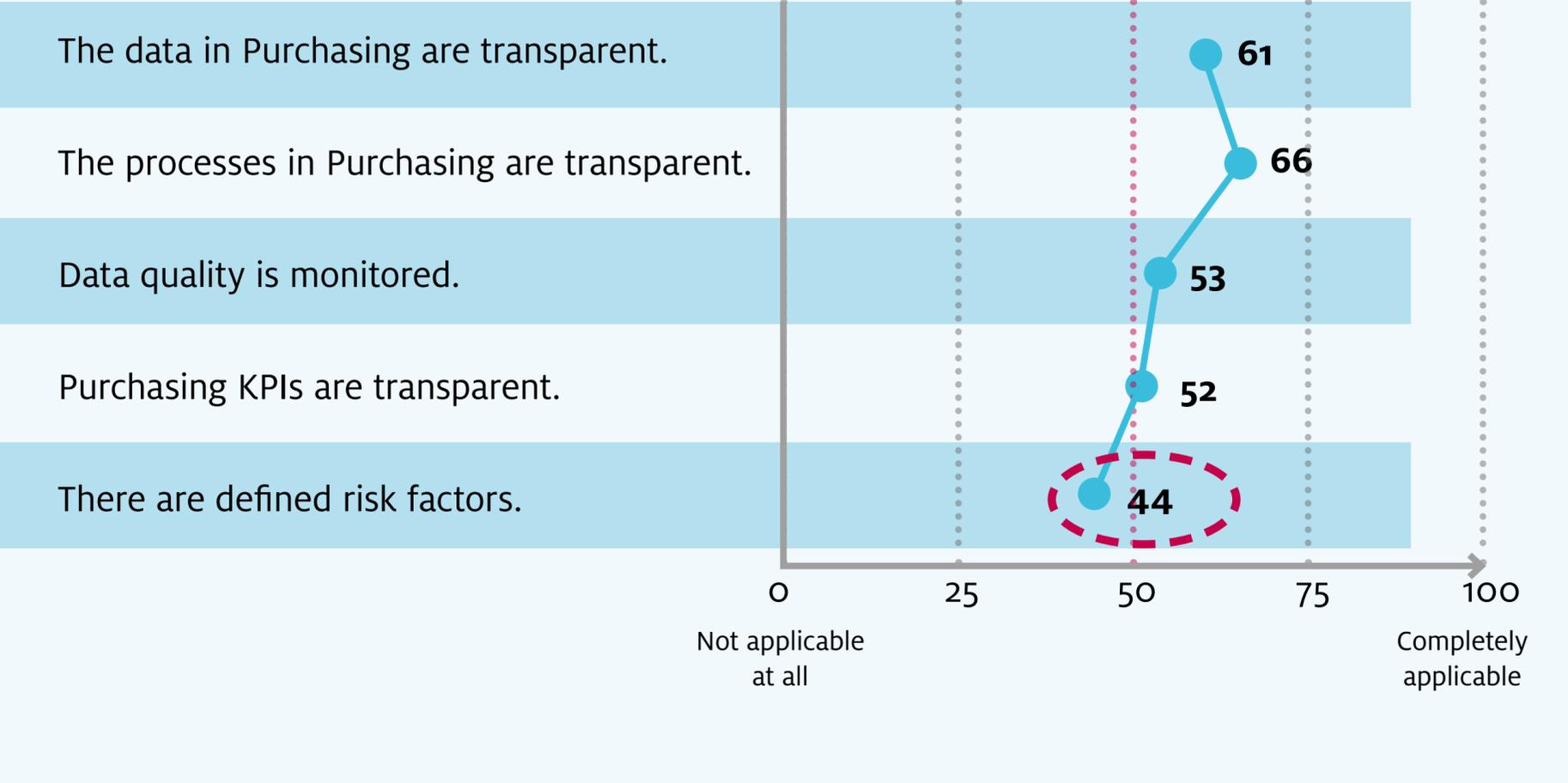


-  Pent-up demand due to lack of resources and inefficient IT structures.
-  Company-wide & standardised reporting seldom implemented.
-  Automated detection of cost drivers often not present.



Proactive risk management is neglected

Structures in Purchasing



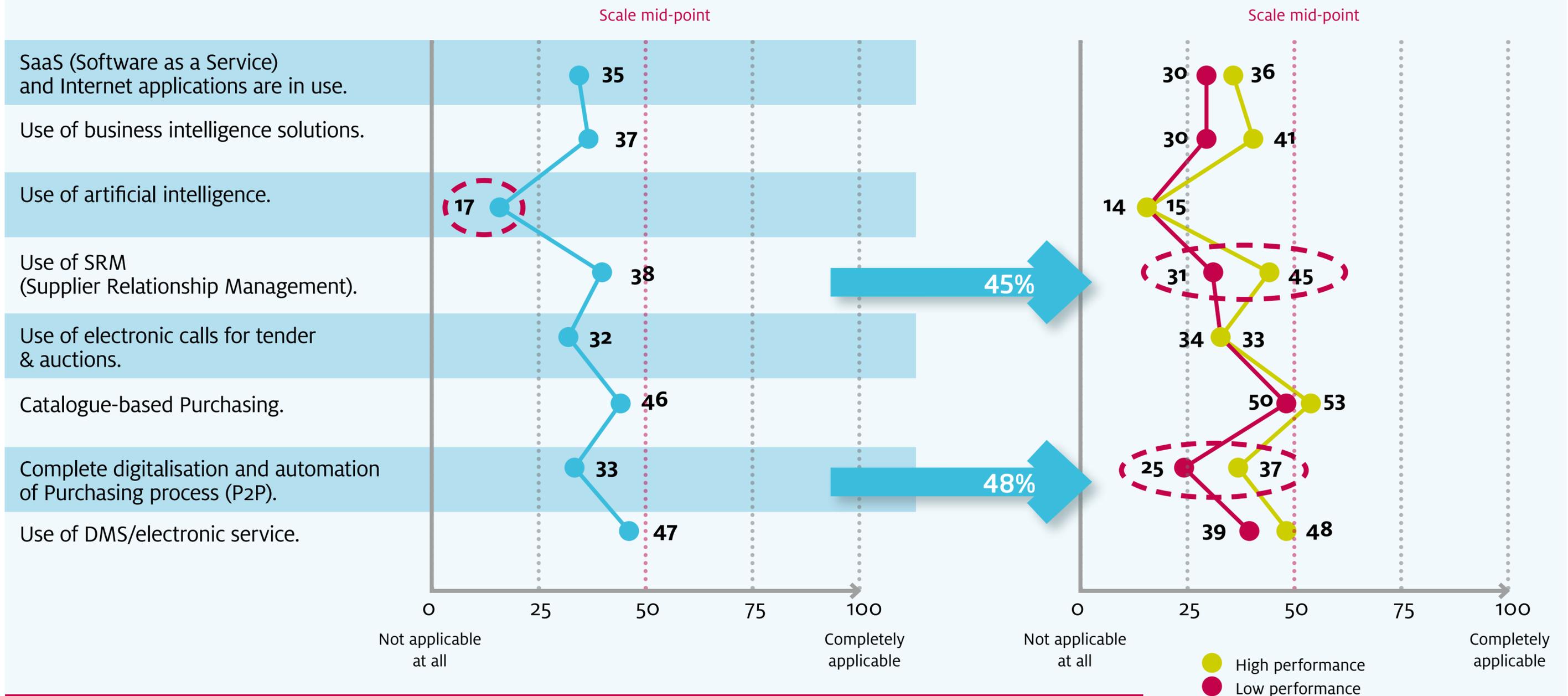
Long-term risk management at only 44 per cent.

Further professionalism via investment in external resources and IT.

Aim: Establishment of short-term supply security and long-term risk management.

Potential of IT tools seldom tapped to the fullest extent

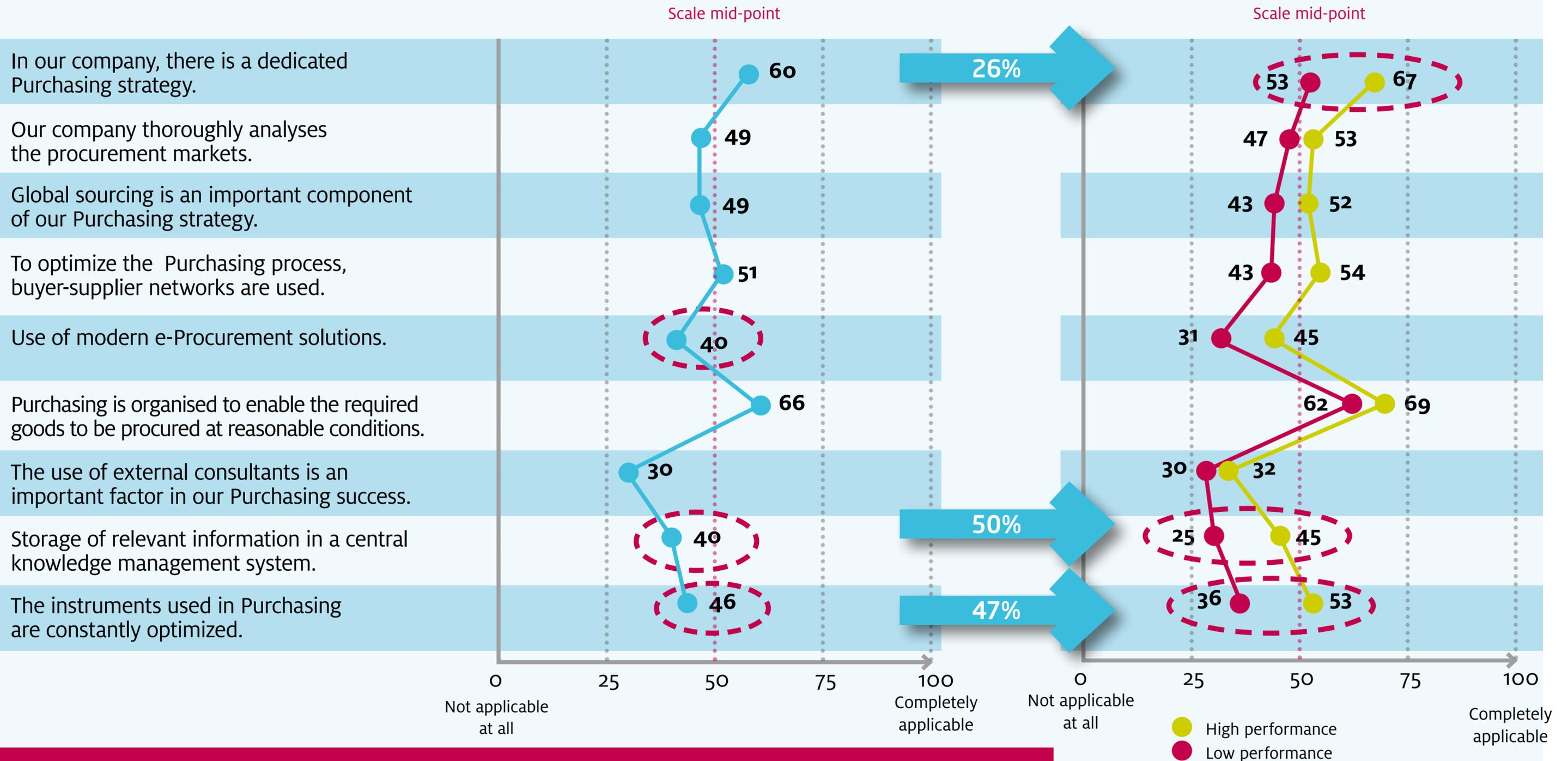
IT tools in Purchasing



Analogue Purchasing due to lack of IT structures.
Benefits from process costs: P2P and SRM particularly effective.
Potential from KI seldom tapped.

Stay on course: Purchasing strategy as reason for success

Structures in Purchasing



Critical factors for success: Transparency, knowledge transfer & further development of the tools used.

Lessons learned: Summary

Company efficiency increases by 13 per cent due to process optimization in Purchasing. Long-term investment in **resources** are necessary.

Process optimization
13%

A 20 per cent increase in **company performance** using external **consulting support**. An external viewpoint helps with **processes, know-how** and **expertise**.

External experts
20%

Sixty per cent of Purchasing departments do not pursue active **risk management**. They often lack the necessary **resources** and **IT structures**.

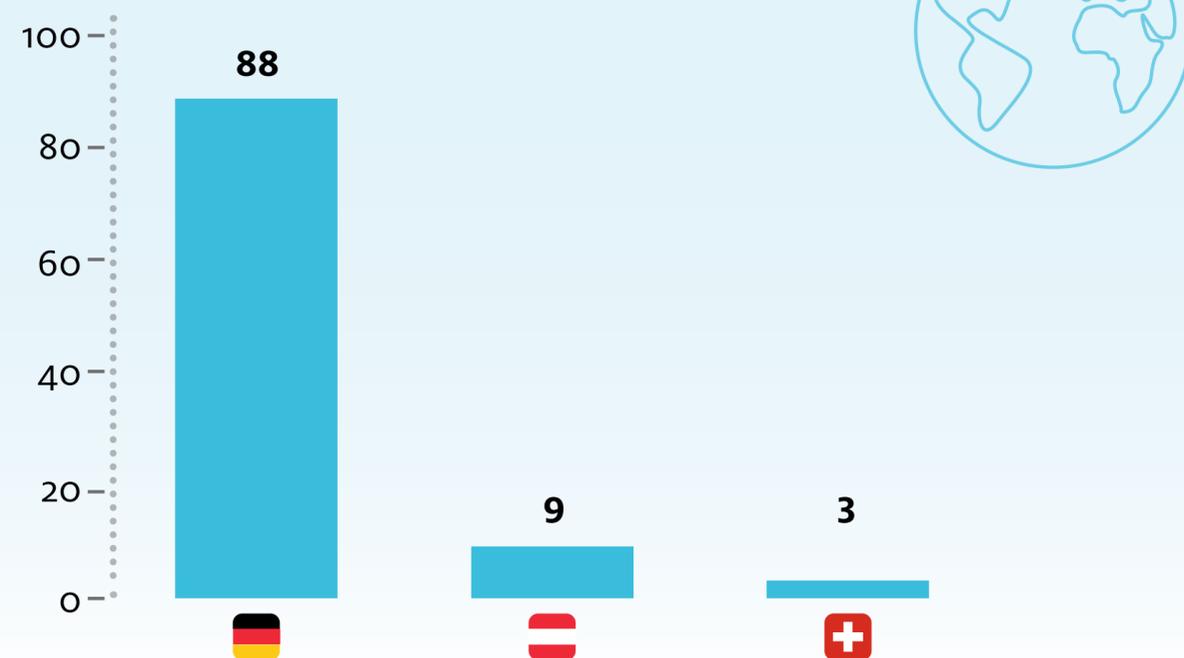
Risk management
60%

Fifty-six percent still regularly pursue **maverick buying**.

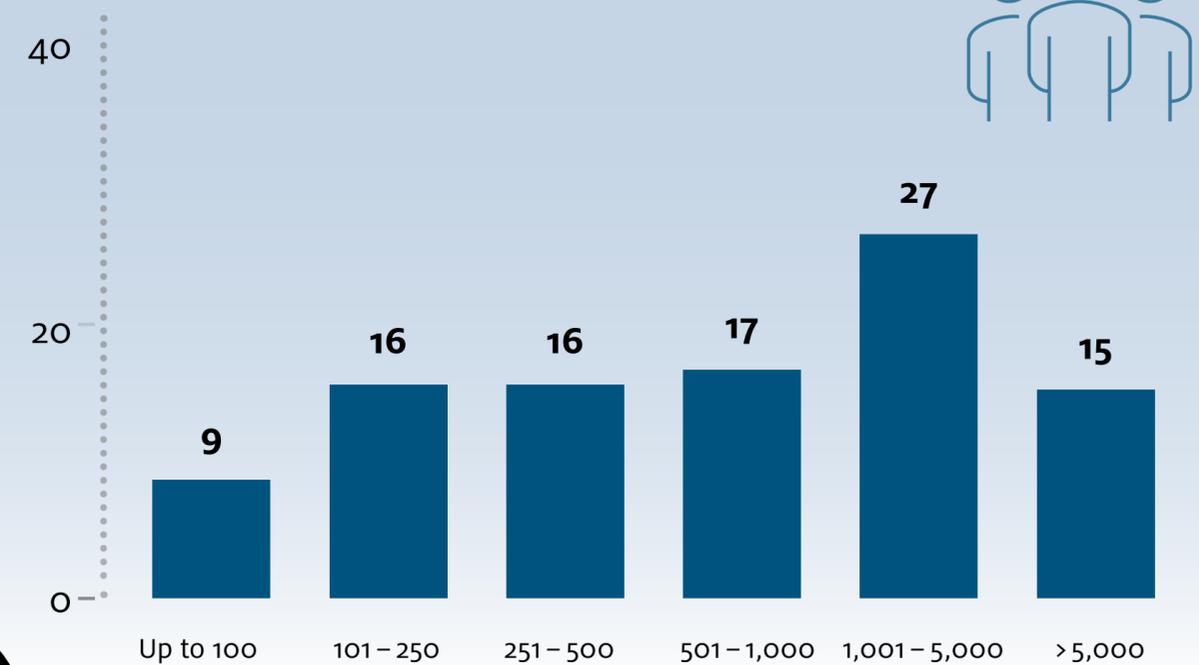
Maverick buying
56%

Sample: Head of Purchasing in manufacturing

Country (in %)

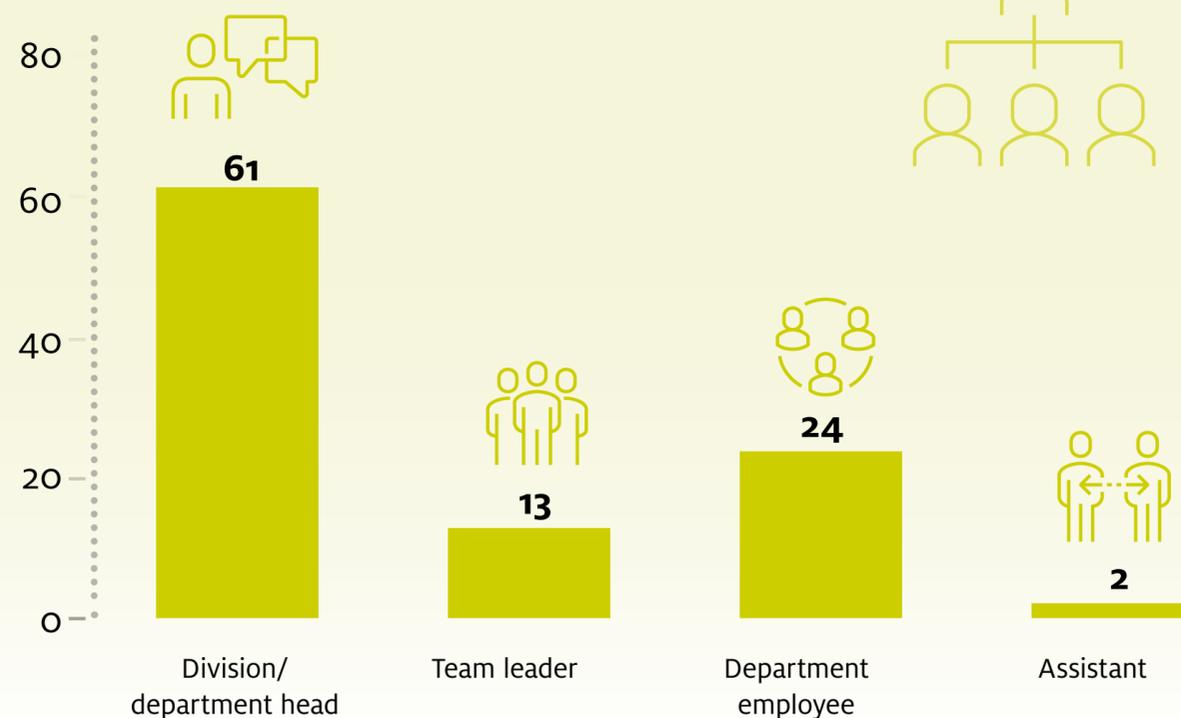


Employees (in %)

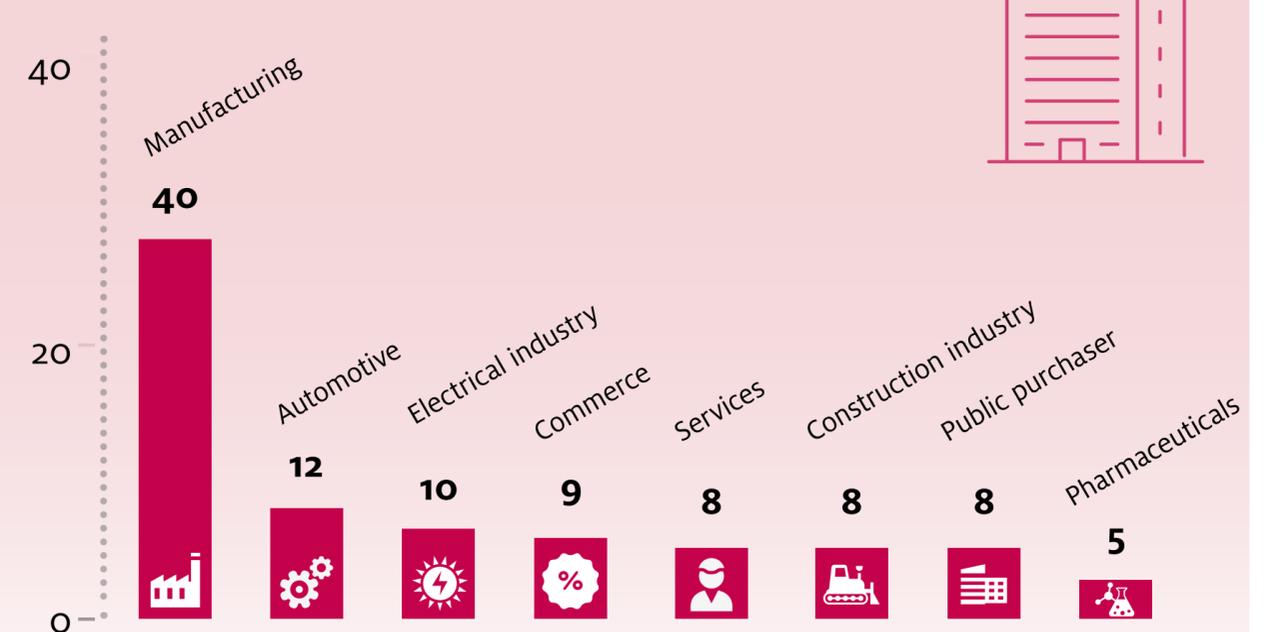


n=203

Position (in %)



Sector (in %)



About Expense Reduction Analysts

Established in 1992, Expense Reduction Analysts is a specialized cost and supplier management consultancy focused on delivering improved business performance to clients of all sizes in both the private and public sectors. Operating in over 25 countries with more than 650 consultants, Expense Reduction Analysts provides deep industry expertise in a wide variety of expense categories, such as Logistics, Facility Management, Operational and Medical Supplies, Corporate and Personnel Services, Banking and Financial Services, as well as Telecommunications and Information Technology.

Expense Reduction Analysts' clients include thousands of mid-sized companies and many well-known names. To find out more, visit www.expensereduction.com

