



EMBEDDING PROCUREMENT

THE WHOLE ORGANIZATION NEEDS TO THINK ABOUT PURCHASING

Global competition is increasingly placing pressure on manufacturers to reduce costs, driving them to examine their procedures for obtaining components, which makes up more than 60 percent of their costs on average. Traditional cost-cutting techniques – like benchmarking, volume bundling, and supply-chain process optimization – have centered on the purchasing function. Trouble is, much of the low-hanging fruit has already been harvested. So continuing with traditional efforts is unlikely to boost performance much further.

To achieve greater value out of the supply chain, solutions need to go beyond the chief procurement officer. Manufacturers need to embed procurement throughout the company and its supply ecosystem, a policy known as holistic value sourcing. The aim is to ensure that decisions taken throughout a product’s life are made with purchasing in mind, meaning that all functions in an organization think about component procurement as part of their work. Such an approach can help mobilize the entire supply system to boost both innovation and overall performance.

CROSS-FUNCTIONAL SOURCING

Decisions over components start early on, at the engineering research-and-development stage, where early production costs can be reduced and the manufacturer can make decisions about what to buy and what to make itself. Increasingly, manufacturing is being moved to emerging markets, especially Asia, Eastern Europe, and Mexico – an option that in and of itself is likely to have a substantial impact on performance. Global expansion leads manufacturers to acquire competitors to further enhance geographical presence and scale, and integrate them into their

own production processes. The results are global, cross-linked supply chain networks, which can yield cost reductions – but whose complexity generates risks such as quality problems, production disruption, logistics breakdowns, and even financial default.

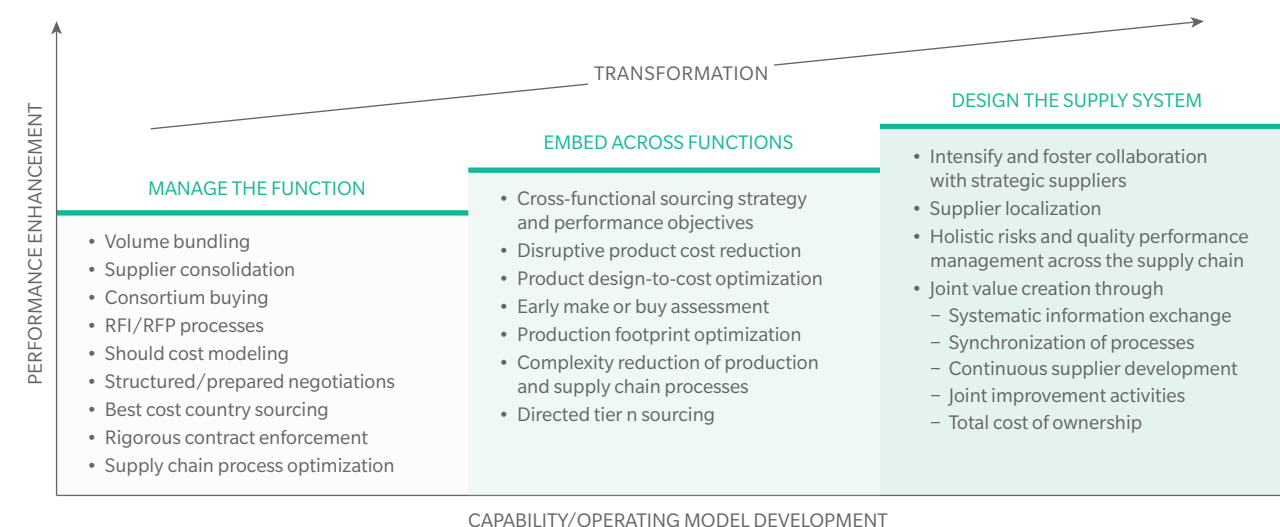
To address these challenges, procurement needs to be aligned with the company’s overall global strategy. Sourcing objectives should be shared across different functions. For example, product cost reduction objectives must be aligned globally between engineering, manufacturing, and purchasing departments. Frameworks and ways of working with suppliers should be cascaded to all functions, not just purchasing. And personnel should be rotated through different functions to promote collaboration and knowledge transfer. All this should be done while trying to reduce the complexity of production processes and the supply chain.

Beyond decisions over where to source individual components, a manufacturer needs to identify strategic partners based on their potential to differentiate the company’s offerings and achieve competitive cost levels. This requires engaging across different functions of supplier partner organizations. The company needs

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Exhibit 1: Holistic value sourcing
Evolving approaches to procurement can create value throughout an organization



Source: Oliver Wyman

to align suppliers with its vision so that the supplier partner can be considered an extension of the manufacturer itself, with a clear understanding of how the supplier can contribute to value creation through innovation and how to best integrate activities along the value chain. This requires systematic communication and information exchange, which should concentrate on sharing plans and performance data, offering direct access to corporate leaders, and jointly creating value. In the end, this will illustrate the benefits that both parties can achieve through their long-term collaborative relationship (see Exhibit 1).

BEYOND SAVINGS

Procurement scope and goal setting need to go beyond savings and risk reduction. Focusing on the entire supply system drives growth via open innovation, gets products to market faster, supports international expansion, and sparks development of new products and services. For example, strategic suppliers can innovate on key components by introducing new materials, specifications, and processes. Joint research and development activities may yield unique capabilities – in which case the collaboration should include an agreement that ensures a degree of exclusive access to major innovations. Digital technology can

play an important role, synchronizing the procurement ecosystem to promote joint improvement opportunities, reduce risk, and enable mutual growth.

Excellence in the purchasing department drives improvements through a “procurement push.” By contrast, embedding procurement throughout an organization creates a “corporate pull,” which turns procurement into a strategic means of achieving overall business targets. The impact of a well-designed framework can be transformational, improving mutual profitability, driving innovation, accelerating products’ arrival on the market, improving service and product quality, and reducing operational and reputational risk. It implies corporate-wide shared objectives and, ultimately, C-level responsibility – and is something manufacturers must start on today.

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