Leveraging The Power of Procurement – Forum 2014

The Purchasing Chessboard®

John Blascovich
Partner
A.T. Kearney, Inc.

November 17, 2014
Introduction to the Purchasing Chessboard®
An A.T. Kearney survey shows that CEOs see purchasing gaps in meeting the challenges of today’s market.

200 CEOs survey on their company’s purchasing

- **Adequate Information Systems**: 3.3
- **One Voice to the Supplier**: 3.2
- **Adequate Representation in S&OP Planning**: 2.9
- **Regarded as a Cross-Functional Task**: 2.9
- **Differentiated Approaches to Reduce Cost**: 2.7
- **Appropriate Staffing**: 2.6
- **Adequate Use of Analytics**: 2.5

*1= Fully disagree, 4= Fully agree*
We conducted a diligent search for a comprehensive model to describe the challenges of purchasing

Models to describe the challenges of purchasing

| Client’s Situation | • Post merger integration  
|                    | • Turnaround  
|                    | • Growth  
|                    | • …  |
| Expected Deliverables | • Cost reduction  
|                       | • Innovation  
|                       | • Time to market  
|                       | • …  |
| Product Life Cycle | • Development  
|                    | • Introduction  
|                    | • Growth  
|                    | • …  |
| Type of Industry | • Industrials  
|                | • Consumer goods  
|                | • Services  
|                | • …  |
We found that an ancient concept works best to describe the challenges of today’s purchasing

Understanding demand and supply

Key drivers then
• Demand power
• Supply power

Key drivers now
• Demand power
• Supply power

1,000 years
From a strategic perspective, the factors driving demand and supply power determine the interaction with suppliers

Demand and supply power

Factors driving supply power

- Number of credible suppliers
- Split of market shares among suppliers
- Merger and acquisition dynamics in the supplier market
- Entry barriers for new suppliers
- Ease of substituting supplier
- Entry barriers for new products
- Availability of products

Factors driving demand power

- Client’s share of relevant demand (in the region)
- Growth perspectives offered to suppliers by client
- Opportunities for suppliers to further develop competencies through working with client
- Opportunities for suppliers to further develop image through working with client
Being successful in purchasing requires profound understanding of demand and supply power

The playing field

<table>
<thead>
<tr>
<th>Supply Power</th>
<th>Demand Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>
Standard RFI/RFP sourcing has been deployed effectively at most companies around the globe

“Standard” situation

RFI/RFP sourcing

High

High supply power

High demand and supply power

‘Standard’ situation

Low demand and supply power

High demand power

Low

Demand power

High
In case of high demand power, target prices are determined and dictated to the suppliers

**High demand power**

- **High supply power**
- **High demand and supply power**
- **‘Standard’ situation**
- **Low demand and supply power**
- **High demand power**

**Levers for cost reduction and value generation:**
- Leveraged competition
- Globalization
- Supplier pricing review
- Target pricing
In case of high demand and supply power, a partnership-based approach yields the best results for added value

**High supply and high demand power**

<table>
<thead>
<tr>
<th>Supply power</th>
<th>Demand power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

**Levers for cost reduction and value generation:**
- Value chain management
- Integrated operations planning
- Value partnership
- Cost partnership
Unilateral dependency on suppliers requires new rules of the game

High supply power situation

Levers for cost reduction and value generation:
- Innovation on demand
- Risk management
- Re-specification
- Technical data mining
For pure commodity products and services, demand- and contract-management are the most effective levers.

Low supply and demand power

Levers for cost reduction and value generation:
- Co-sourcing
- Demand management
- Commercial data mining
- Volume bundling
To help buyers master the tools of their trade, we developed The Purchasing Chessboard®

Framework to select sourcing strategies

- 4 basic strategies
- 16 approaches
- 64 methods
- Supported by comprehensive training material
- Backed up by sanitized benchmarks from > 500 purchasing projects in the past 3 years
The Purchasing Chessboard®
Applying The Purchasing Chessboard® yields highly specific profiles

**Client case examples**

<table>
<thead>
<tr>
<th>Construction equipment maker</th>
<th>EPC company</th>
<th>Automotive supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Construction equipment maker" /></td>
<td><img src="image" alt="EPC company" /></td>
<td><img src="image" alt="Automotive supplier" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiber producer</th>
<th>Refractory producer</th>
<th>Gear box maker</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Fiber producer" /></td>
<td><img src="image" alt="Refractory producer" /></td>
<td><img src="image" alt="Gear box maker" /></td>
</tr>
</tbody>
</table>
The Purchasing Chessboard® for a construction equipment maker
The Purchasing Chessboard® has proven highly useful to manage the skill profiles of buyers

**Command of methods**

- **Experts from other functions who are buying**
  - Typically 8-15 methods used
  - Usually covering several commodities
  - Full command of 64 methods
  - Responsible for narrow scope of sub-commodities
  - Accumulates depth of commodity knowledge

- **Individual buyers**
  - Typically 3-5 methods used
  - Usually focused on the specifics of the commodity in focus

**Desired profile of buyers**
Buyers in full command of The Purchasing Chessboard® by far exceed the traditional perimeter of purchasing.

Cross-functional competencies needed
Based on the positioning in the Purchasing Chessboard® the timing of savings realization can be derived

**Timing aspect of the Purchasing Chessboard®**

<table>
<thead>
<tr>
<th>Benefits within 12 months</th>
<th>Benefits within 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits today</td>
<td>Benefits tomorrow</td>
</tr>
</tbody>
</table>

---

**Introduction to the Purchasing Chessboard®**
Summary

“The Purchasing Chessboard ...”

- ... responds to every possible challenge in the supply market
- ... assigns the right method to optimize material costs in every possible supply market situation
- ... can be used for development of purchasing strategy as well for operational optimization of material and services costs
- ... is a compilation of insights and experience from more than 500 purchasing projects performed worldwide over the past three years
- ... has been used successfully in a wide range of industries and countries