



**Leveraging The Power of Procurement – Forum 2014**

# The Purchasing Chessboard®

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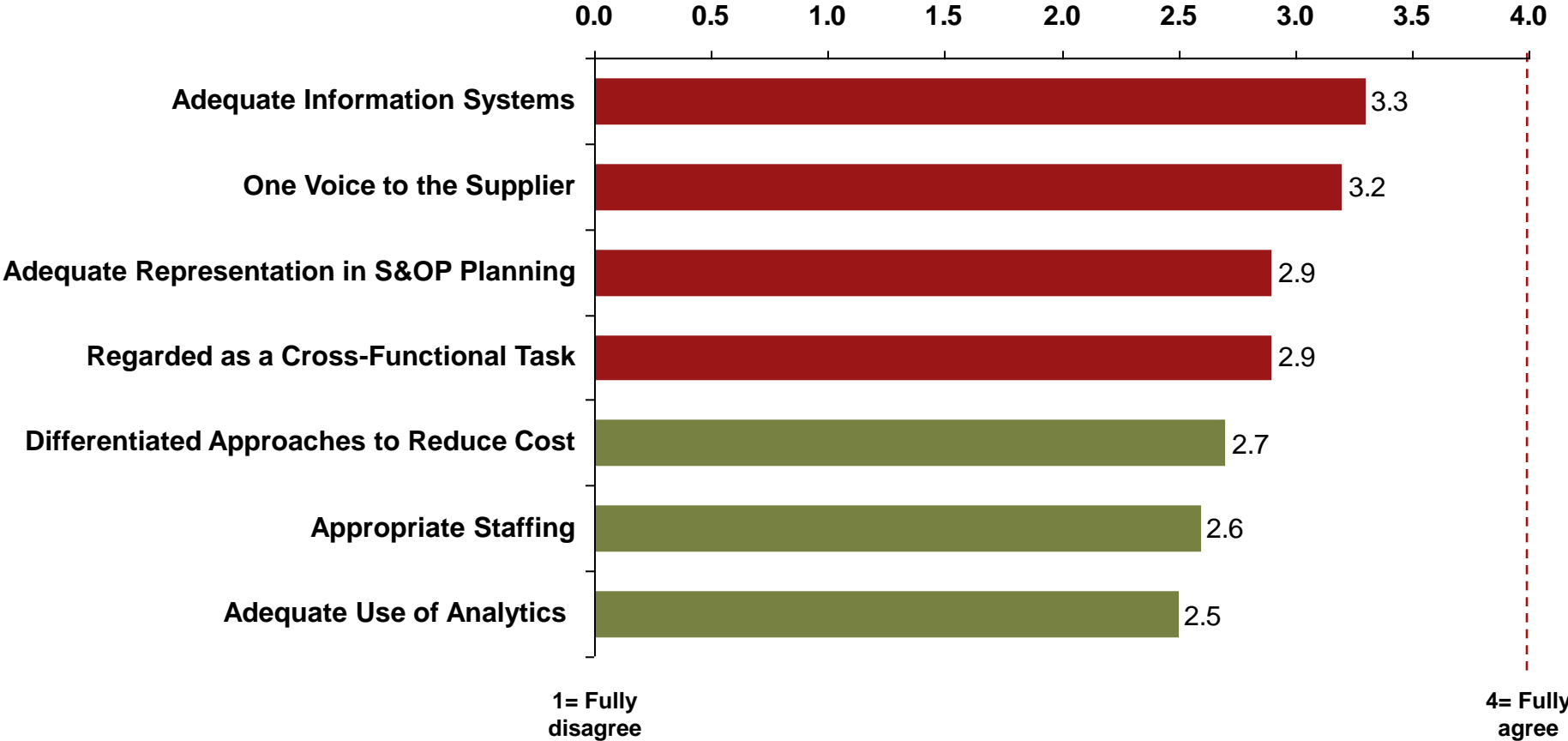
# Introduction to the Purchasing Chessboard®





# 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



We conducted a diligent search for a comprehensive model to describe the challenges of purchasing

## Models to describe the challenges of purchasing



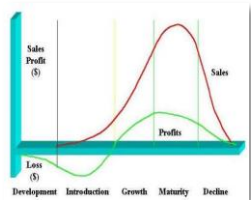
### Client's Situation

- 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



1,000 years



### Key drivers then

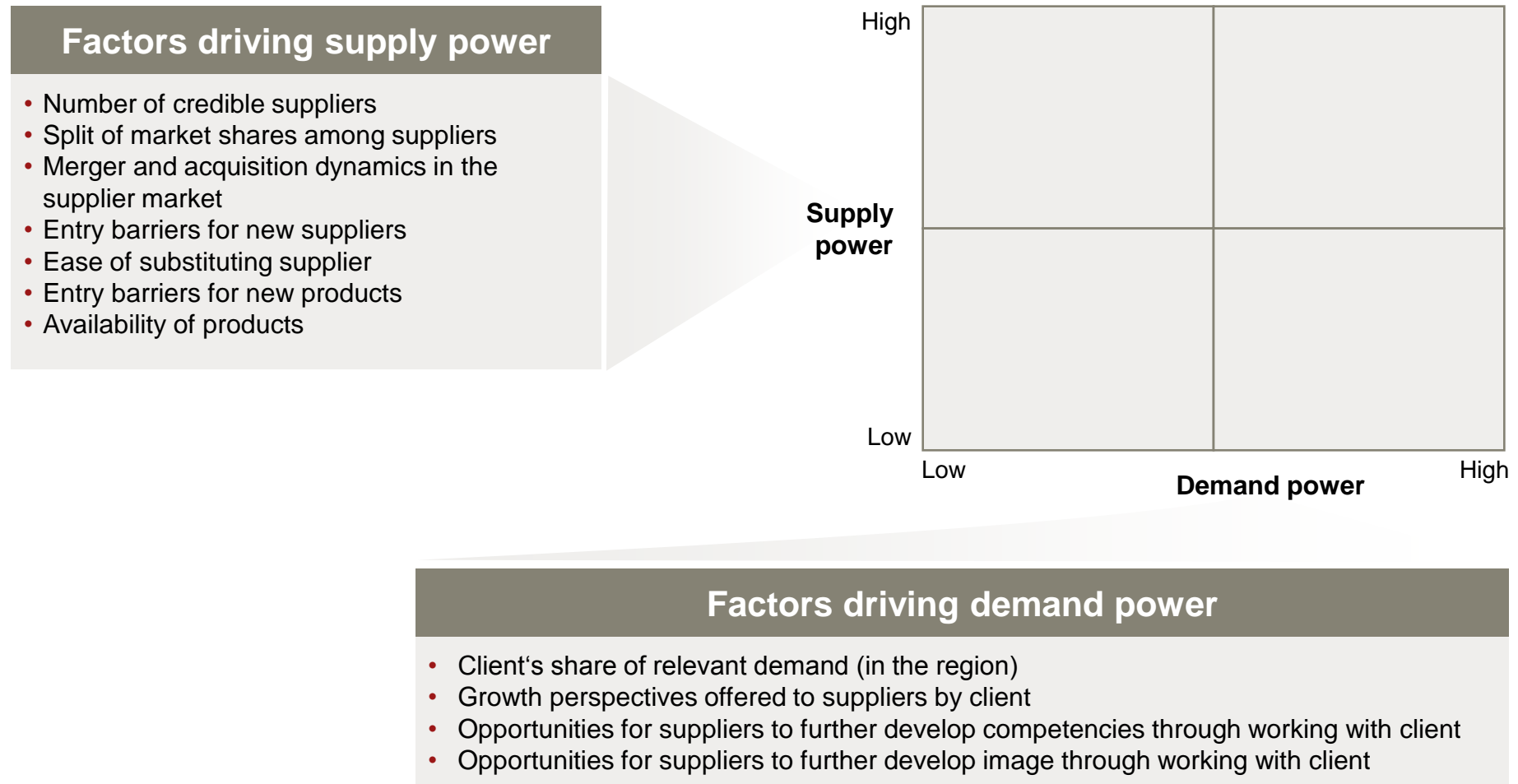
- Demand power
- Supply power

### Key drivers now

- Demand power
- Supply power

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

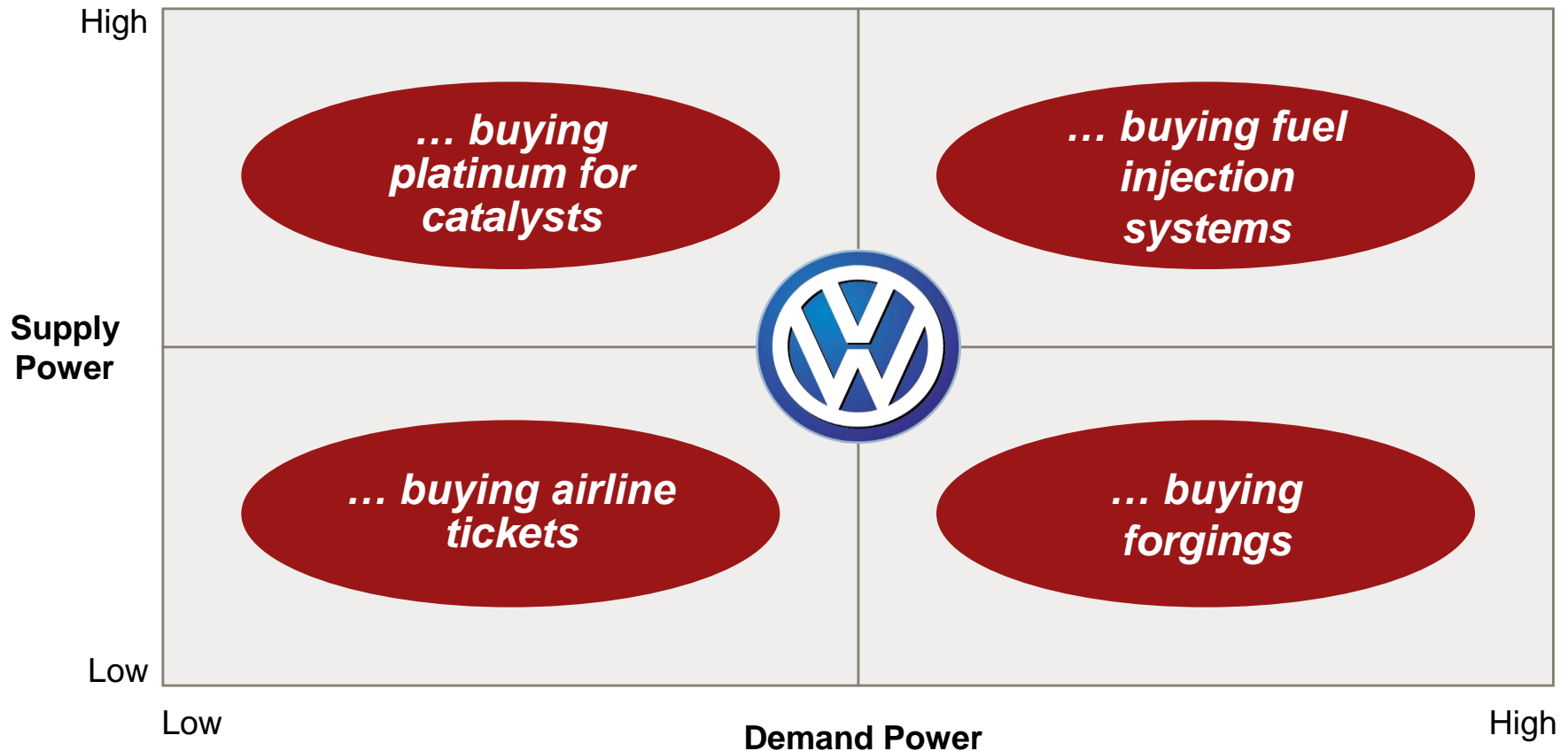
## Demand and supply power



**ATKearney**

# Being successful in purchasing requires profound understanding of demand and supply power

## The playing field

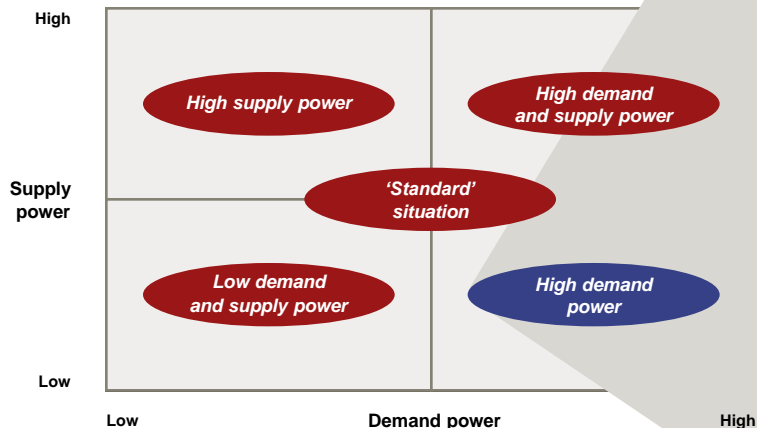






In case of high demand power, target prices are determined and dictated to the suppliers

## High demand power

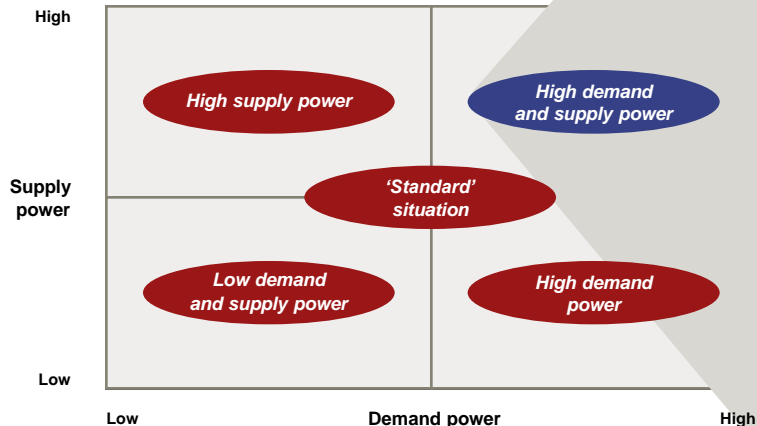


### Levers for cost reduction and value generation:

- 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

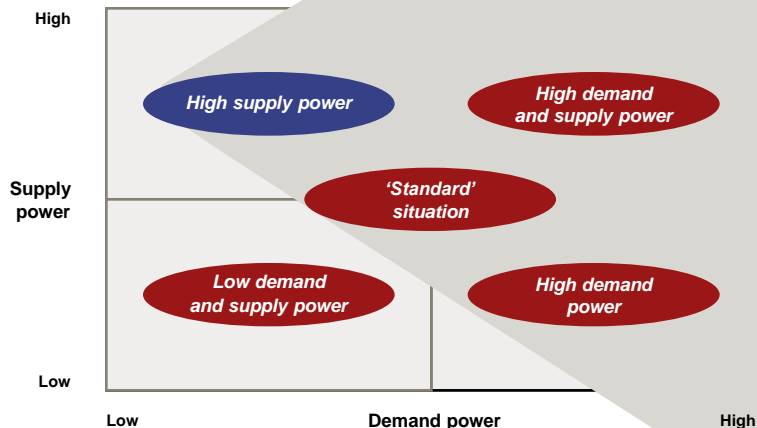


### Levers for cost reduction and value generation:

- Value chain management
- Integrated operations planning
- Value partnership
- Cost partnership

# Unilateral dependency on suppliers requires new rules of the game

## High supply power situation

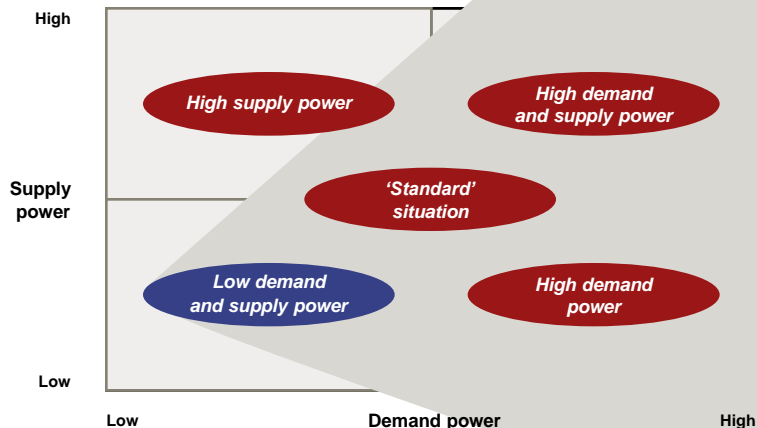


### Levers for cost reduction and value generation:

- 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



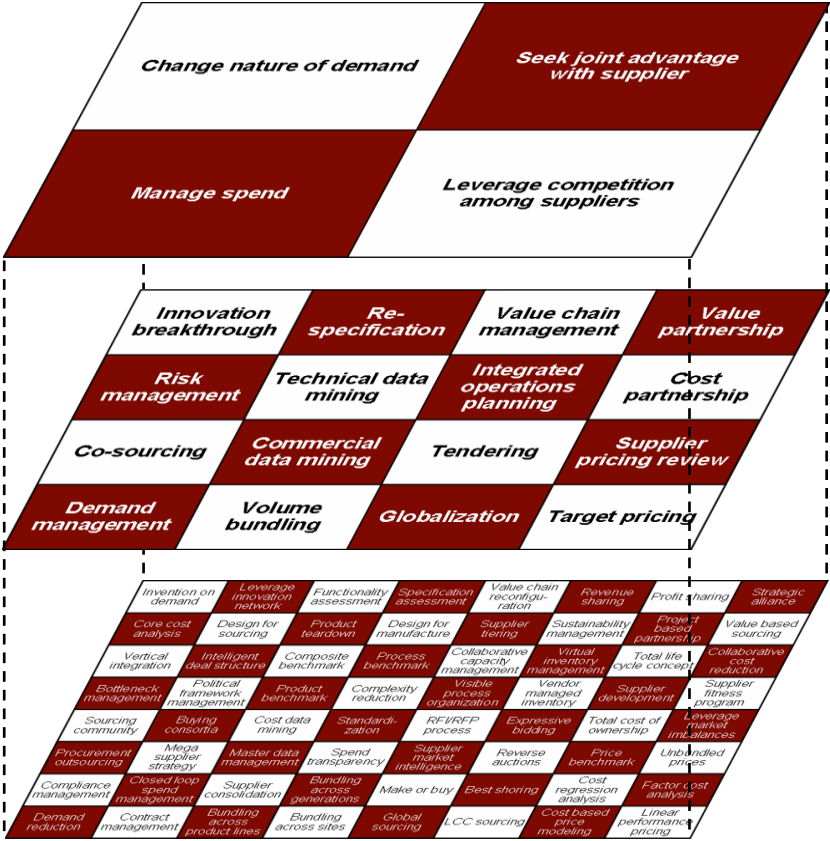
### Levers for cost reduction and value generation:

- 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

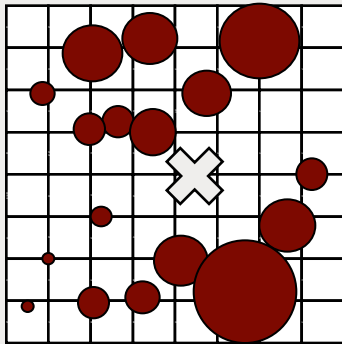
# The Purchasing Chessboard®

<b>Supply power</b>	High	8	Invention on demand	Leverage innovation network	Functionality assessment	Specification assessment	Value chain reconfiguration	Revenue sharing	Profit sharing	Strategic alliance
	7	Core cost analysis	Design for sourcing	Product teardown	Design for manufacture	Supplier tiering	Sustainability management	Project based partnership	Value based sourcing	
	6	Vertical integration	Intelligent deal structure	Composite benchmark	Process benchmark	Collaborative capacity management	Virtual inventory management	Total life cycle concept	Collaborative cost reduction	
	5	Bottleneck management	Political framework management	Product benchmark	Complexity reduction	Visible process organization	Vendor managed inventory	Supplier development	Supplier fitness program	
	4	Sourcing community	Buying consortia	Cost data mining	Standardization	RFI/RFP process	Expressive bidding	Total cost of ownership	Leverage market imbalances	
	3	Procurement outsourcing	Mega supplier strategy	Master data management	Spend transparency	Supplier market intelligence	Reverse auctions	Price benchmark	Unbundled prices	
	2	Compliance management	Closed loop spend management	Supplier consolidation	Bundling across generations	Make or buy	Best shoring	Cost regression analysis	Factor cost analysis	
	Low	1	Demand reduction	Contract management	Bundling across product lines	Bundling across sites	Global sourcing	LCC sourcing	Cost based price modeling	Linear performance pricing
			A	B	C	D	E	F	G	H
			Low							High
			<b>Demand power</b>							

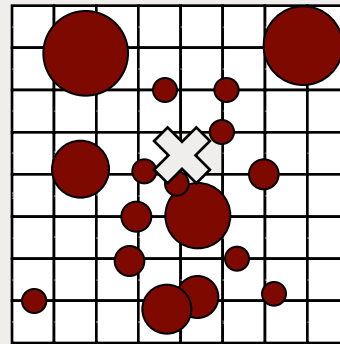
# Applying The Purchasing Chessboard® yields highly specific profiles

## Client case examples

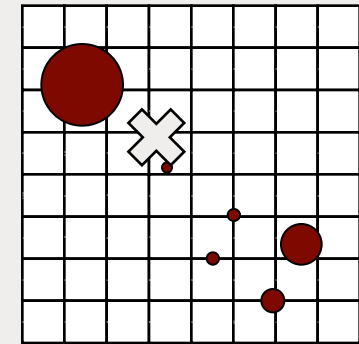
Construction equipment maker



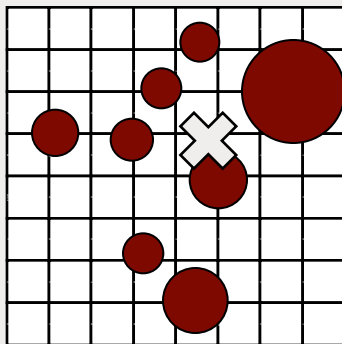
EPC company



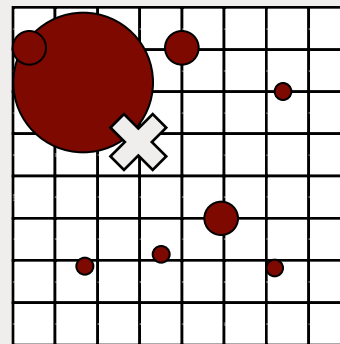
Automotive supplier



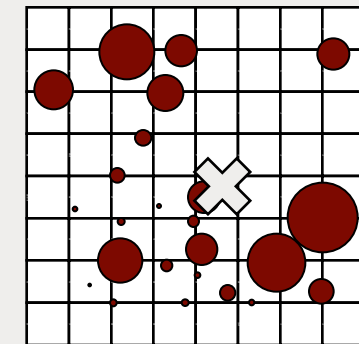
Fiber producer



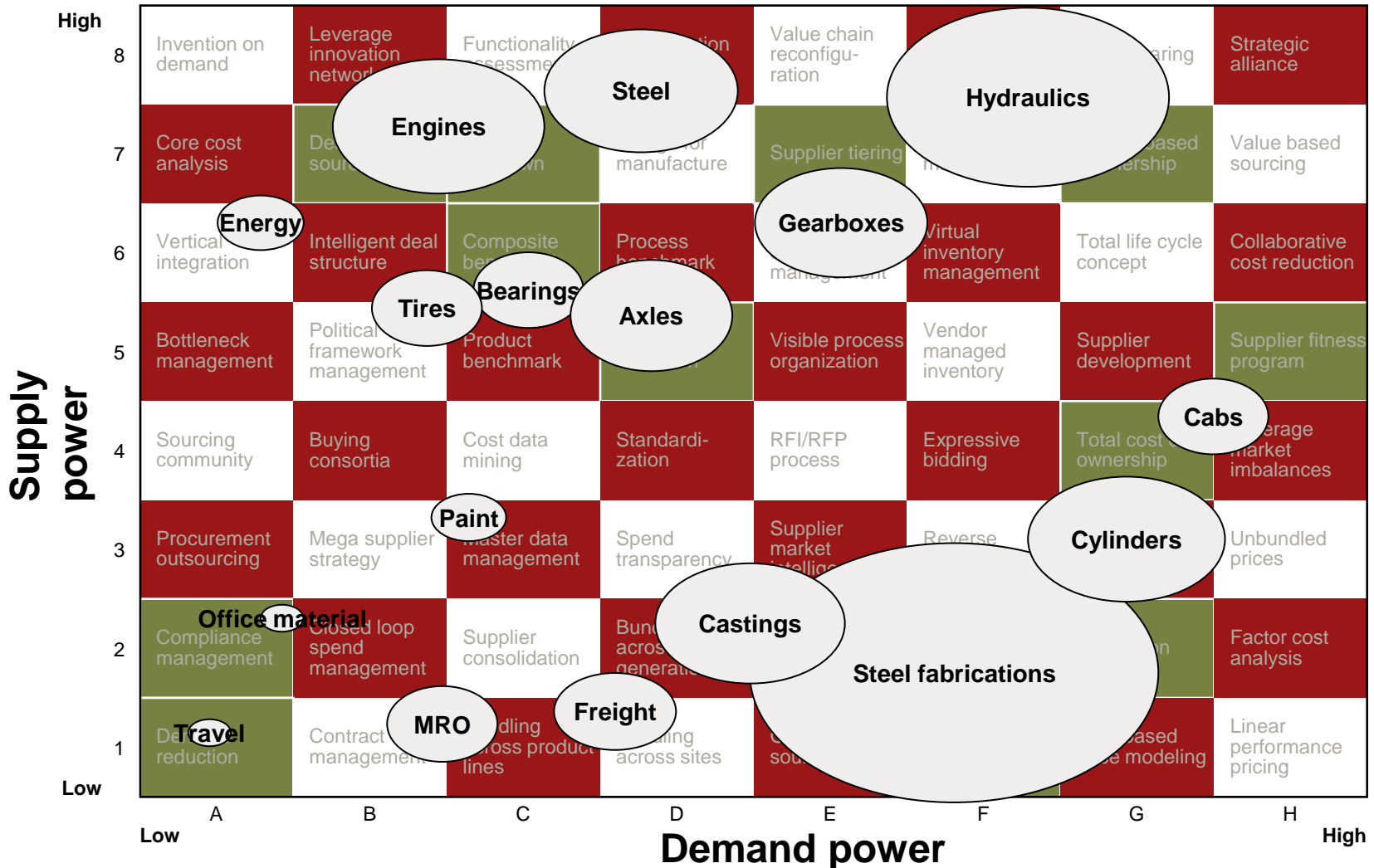
Refractory producer



Gear box maker



# The Purchasing Chessboard® for a construction equipment maker





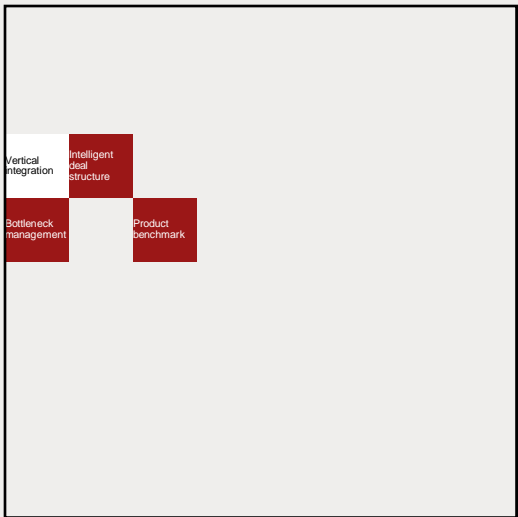


# The Purchasing Chessboard® has proven highly useful to manage the skill profiles of buyers

## Command of methods

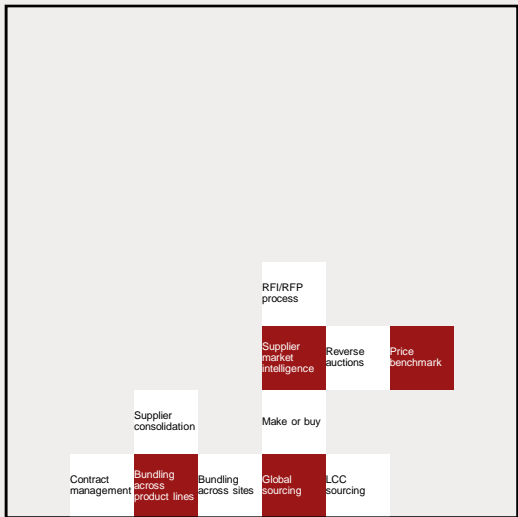
Illustrative

### Experts from other functions who are buying



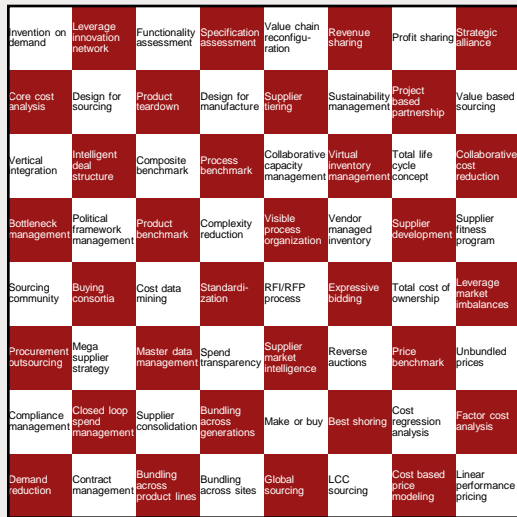
- Typically 3-5 methods used
- Usually focused on the specifics of the commodity in focus

### Individual buyers



- Typically 8-15 methods used
- Usually covering several commodities

### Desired profile of buyers

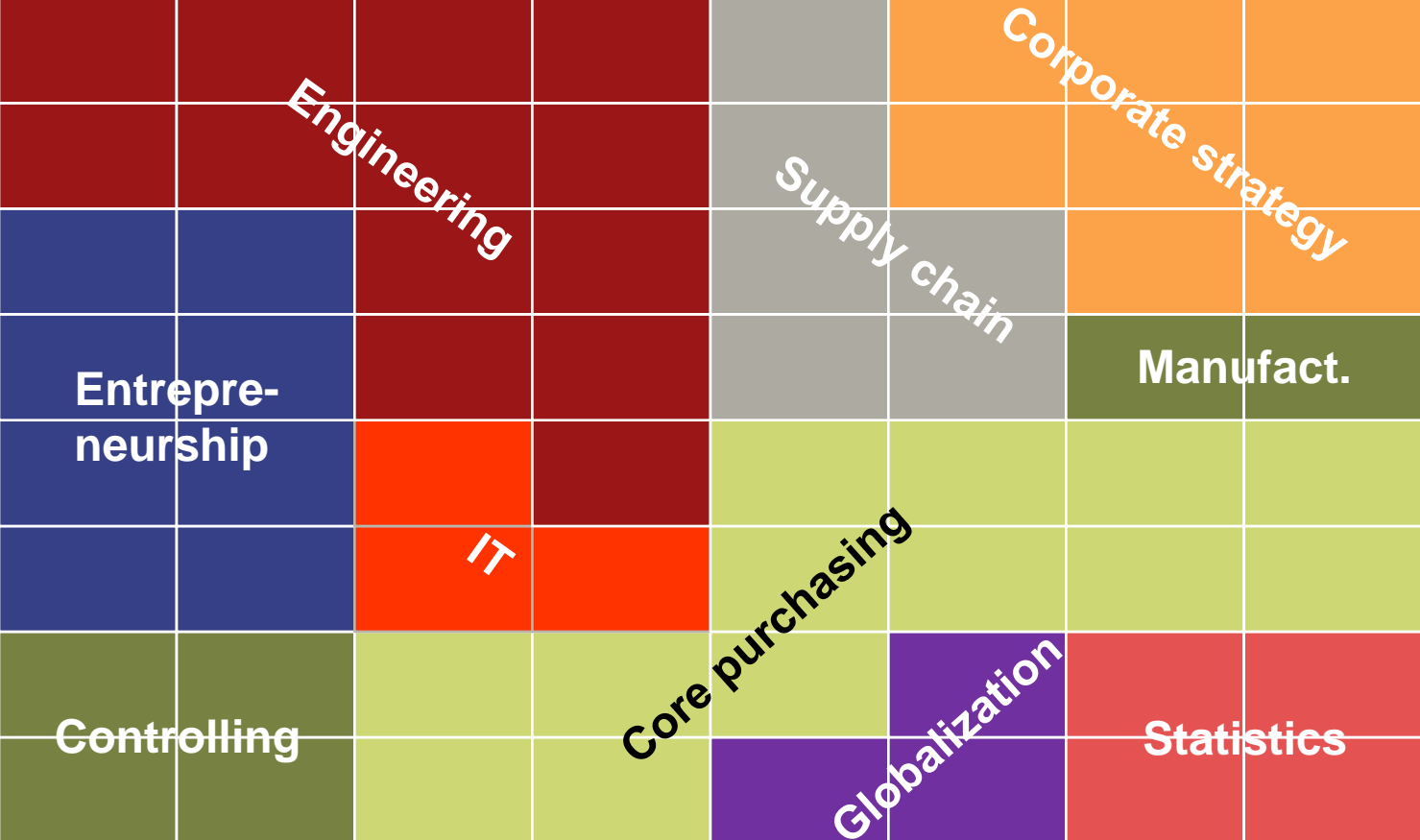


- Full command of 64 methods
- Responsible for narrow scope of sub-commodities
- Accumulates depth of commodity knowledge



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®

	<b>Benefits within</b>				<b>Benefits within</b>		
	<b>12 months</b>				<b>6 months</b>		
	<b>Benefits today</b>				<b>Benefits tomorrow</b>		

# 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



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