Procurement innovation vital to growth
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Procurement innovation vital to growth

Increased competition, more demanding customers and the uncertain economic environment have placed innovation at the heart of many companies’ growth strategies.

Over the last five years organisations have placed a major emphasis on cutting costs to remain in business. Maintaining these cost cutting initiatives whilst sustaining customer satisfaction requires innovative thinking.

As the economy begins to show signs of recovery, many organisations are now returning their focus to growth which relies on support from the supply base. Innovation is essential to satisfy growth in a sustainable way, to remain competitive and, importantly, maintain cost control.

Traditionally, departments responsible for innovation such as R&D and Marketing have worked independently from the rest of the organisation. There is now a need for functions such as procurement to become more innovative to improve top and bottom line performance.

As part of the study a survey was conducted among over 400 purchasing directors coming from France, Benelux, UK, Ireland, Scandinavia, Germany, Switzerland, Austria and Russia. The objective was to understand how to drive the focus on growth; we identified that nearly two thirds of respondents have a focus on innovation.

This paper is a summary of the findings and recommendations from that study. Should you wish to read the full version it is available on request.
Red Paper | Sourcing

Back to basics

Since 2008, the economy has been shaken either from natural disasters such as the Japanese earthquake of 2011 or earth shattering financial decisions creating a high degree of uncertainty in the markets and supply chains of almost every industry.

Improving the top line performance for organisations in these times is riddled with unpredictability and procurement has limited impact on this. However, adopting innovative practices in procurement directly impacts bottom line performance.

This, coupled with the fact that 44% of our survey respondents said their purchasing budgets have stagnated, means that purchasing has had to go back to basics.

In 2012, the companies who took part in our survey gave top priority to the following areas:

1. Increased profits: either through reducing costs, finding new markets or increasing market share;
2. Supplier management: improving communication with the supply base, identifying strategic suppliers vital to their supply chain and improving supplier performance to share subsequent savings;
3. Controlling risks internally and externally:
   - Internally improving the identification and management of risks leads to better control of risks and minimises any unpleasant surprises.
   - Externally create stronger relationships leading to better communication and a better awareness of potential issues/upcoming risks and opportunities.

The survey results show emerging priorities, such as skills development. Companies recognise the importance of having a skilled purchasing workforce and the subsequent savings gained from a better trained and capable team.

Going back to procurement basics, such as closer working with partners to define requirements and ensuring a low cost of acquisition through improved processes and training, has ensured sound foundations on which an environment for innovation can be built.

The maturity of the purchasing function also has an important role to play in innovation. As a procurement function matures, the level of cross functional collaboration increases, its knowledge of the constantly evolving supply market improves and the vision of future trends and suppliers develops.

BearingPoint has developed a model which can be used to assess the current maturity of the procurement function within an organisation, to improve the bottom line performance and drive innovation.
As well as procurement maturity the study validated the purchasing function’s contribution to innovation is also highly dependent on:

1. The level of exposure of the company to innovation;
2. The integration of the purchasing function into the business.

BearingPoint’s purchasing Integration Innovation (P2I) model represents this alignment. Our study shows that when dealing with innovation, purchasing departments can be categorised into five “classes”. The target is attainment of the Visionary class.

<table>
<thead>
<tr>
<th>Class</th>
<th>% of participants</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>The Inactive</td>
<td>4</td>
<td>Companies in markets that are not driven by innovation and lacking a structure to lead innovation. Major representatives of this class are purchasing departments of the public-sector.</td>
</tr>
<tr>
<td>The Learners</td>
<td>17</td>
<td>A desire to contribute to innovation, however, their contribution is still far behind their full potential. This is particularly the case for medium-sized companies.</td>
</tr>
<tr>
<td>The Legalists</td>
<td>36</td>
<td>Innovation but only when it is the answer to regulatory constraints. This class is characterised by a lack of proactivity.</td>
</tr>
<tr>
<td>The Opportunists</td>
<td>12</td>
<td>Purchasing departments which are already contributing to innovation in a proactive, structured way.</td>
</tr>
<tr>
<td>The Visionaries</td>
<td>31</td>
<td>The purchasing function is perfectly integrated in the innovation process. A mature structure exists for purchasing to support the innovation process.</td>
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By using these models to determine the current purchasing maturity and P2I class, organisations are able to identify and understand the current barriers to purchasing’s contribution to innovation. This in turn will help define a roadmap to become more innovative, increasing competitive advantage and helping to establish innovation into procurement business-as-usual activities.

How to innovate in procurement

In a business context, innovation is the application of a new idea or process to create value unique to that organisation. Application of new thinking in conjunction with continuous improvement can mean the difference between beating the competition or survival.

In our survey, innovation is an area of importance clearly identified by procurement directors. For 48% of procurement directors interviewed, innovation is equal to value creation, alongside gaining competitive advantage and the development of new markets.

The innovation process requires tight internal and cross-functional collaboration. Therefore, the involvement of functions other than the departments traditionally in charge of innovation, e.g. R&D and marketing departments, is key to success. Providing the right skills and training is also critical. In addition, the purchasing function’s knowledge of the supply market, its vision of future trends and suppliers’ innovative solutions as well as its transversal position are assets to share with the other innovation stakeholders.

Cross-functional collaboration is the bedrock on which to build solid foundations for purchasing’s contribution to innovation. Whilst one function makes savings/improvements and meets their objectives, the effect may have negative implications to the performance of other functions, potentially wiping out the initial savings gained, as detailed below.

“Innovation is the fuel of continuous improvement. It is the exploitation of opportunity to create market differentiation & competitive advantage.”
– Source: Measuring Innovation – BearingPoint Study

Fast fact

48% of procurement directors interviewed identified innovation as equal to value creation, alongside gaining a competitive advantage and the development of new markets.
Linking procurement to other functions’ objectives in the value chain as well as developing the correct skill set is an enabler to promote innovation opportunities through creation of aligned, agreed and shared objectives as shown in the example below:

Aligning functional objectives across the organisation ensures all functions are pulling in the same direction so that the gains in one area do not wipe out gains in other areas of the organisation.

Linked procurement provides the transparency for strategic decisions such as make-or-buy or global sourcing. This coupled with the increased information flow within the supply chain provides a significant contribution to the company’s success.
Barriers to procurement’s contribution to innovation

As can be seen in our survey, purchasing directors face numerous barriers when trying to embed innovation ranging from macro (economic, technical and organisational) to micro barriers (the complexity of existing workload and relationship structures).

The study shows that over a third of purchasing directors interviewed said they needed to deal with current budget constraints, with 29% of purchasing directors having identified a lack of support from other functions as a main barrier to their procurement innovation goals.

From our experience barriers often exist which effect procurement, the most common are:

<table>
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<tr>
<th>Procurement Barrier</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Poor communication across functions</td>
<td>Procurement left out of discussions until the last minute leading to higher costs, more effort and potentially sub optimal deals</td>
</tr>
<tr>
<td>Low knowledge of markets and suppliers</td>
<td>Opportunities for savings are missed and trends not identified and leveraged</td>
</tr>
<tr>
<td>Slow/ineffective decision making</td>
<td>Revenue and Cost saving opportunities missed</td>
</tr>
<tr>
<td>Collaboration across the business</td>
<td>Limited or no economies of scale and therefore leverage with suppliers or ability to collaborate and sharing of sourcing/supplier issues internally</td>
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It is generally accepted that contributions from other business functions are necessary for innovation to thrive and succeed. Our study highlights that most companies are now starting to drive cross functional initiatives, creating opportunities for the purchasing function to adopt and contribute to an innovative approach. Below are some of the most popular initiatives:

1. **Risks and regulations**: the purchasing function can contribute by identifying innovative solutions to transform constraints linked to the control of risk and regulatory compliance into a competitive advantage for the business;

2. **Operational excellence**: the purchasing function can be a proactive source of creativity and collaboration with internal clients and suppliers to enhance existing processes and reduce costs through the identification and introduction of new materials, technologies and alternative solutions;

3. **Differentiation**: being involved in the company’s product and service roadmaps and tightening collaboration with internal clients and suppliers to become business partners.
Empower procurement to achieve competitive advantage

As with any project, making these cross functional initiatives succeed requires a clear strategy and leadership as well as senior management sponsorship and well-defined, tangible benefits.

Below are some solutions to remove procurement barriers in the quest for high performance and an improved bottom line.

<table>
<thead>
<tr>
<th>Procurement Barrier</th>
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<th>Opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor communication across functions</td>
<td>Procurement left out of discussions until the last minute leading to higher costs, more effort and potentially sub optimal deals</td>
<td>Earlier engagement with customers (internal or external) to define detailed requirements ensuring less effort and cost invested in making changes at a later date and negotiation sub optimal deals</td>
</tr>
<tr>
<td>Low knowledge of markets and suppliers</td>
<td>Opportunities for savings are missed and trends not identified and leveraged</td>
<td>Improved training e.g. Commodity training based on past and future trends rather from learning on the job leads to increase ability to spot and act on opportunities</td>
</tr>
<tr>
<td>Slow/ineffective decision making</td>
<td>Cost saving opportunities missed</td>
<td>Improved accuracy and visibility of data to seize greater opportunities along with improved agility to external circumstances</td>
</tr>
<tr>
<td>Collaboration across the business</td>
<td>Limited or no economies of scale and therefore leverage with suppliers or ability to collaborate and sharing of sourcing/supplier issues internally</td>
<td>Shared objectives and goals leading to effective cross function communication, efficient use of procurement resources, economies of scale, leverage with suppliers, lessons learnt and contribution to continual improvement</td>
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Solutions to the above barriers are not independent of each other. For instance collaboration cannot be improved if communication is still poor. Also, speed of decisions cannot improve if the decision makers are not given the correct information based on the knowledge of procurement.
Innovative procurement in action

There are many examples where innovative procurement has contributed to the ultimate success of well-known businesses, such as:

**Sollers: innovative solutions and methods implemented by the purchasing department**

Sollers is a leading Russian automotive company offering a full range of services from the production of vehicles to sales and aftermarket services. In 2011 they produced 300,000 cars and had a turnover of RUB 69.5bn, Sollers manages its own production facilities and manufactures Russian off road cars UAZ, Korean cars SsangYong, passenger and commercial cars FIAT, Japanese trucks ISUZU, as well as engines. The company actively develops international cooperation projects for joint production of new cars with Ford Motor Company, Mazda Motor Corporation and Mitsui & Co.

Using prior experience the supplier development director developed and implemented his own innovative supplier quality assessment system at Sollers. The system incorporates best practices of major players in the automotive industry and the supplier development director’s own experience with a deep understanding of Russian business specifics.

One area of procurement innovation is IT technologies. In 2012, Sollers was recognised to have made the most significant contribution to the development of the Russian IT industry. IT projects are an important part of the corporate business strategy of Sollers and are widely used as a tool for business performance improvements including automating its vehicle assembly facilities. In the procurement area, the company carries out automation projects for purchasing and warehousing logistics, material handling, “Just In Time” and “Just In Sequence” approaches, integration of MRP and MES systems, with order management through the dealers’ portal. Thanks to its advanced planning system, the company can make timely adjustments to assembly plans based on information about parts available in stock. This approach helps reduce the volume of work in progress as well as operational costs.

Purchasing Innovations are implemented by Sollers Group in a collaborative and cross functional way. The Innovation committee often shares the best practices with the IT committee. Sollers run regular supplier conferences to identify opportunity for cost reduction through innovation. For example suppliers suggested integrating their MRP systems with the SRM systems of Sollers. To provide greater flexibility for all Sollers implemented a supplier portal with an electronic trading module, reducing the overall cost and improving visibility.

When implementing the innovation strategy, the company uses either a “top-down” or a “bottom-up” approach. In the “top-down” approach, the management formalises the Innovation policy and regulates the process of finding and implementing new solutions in all divisions, whereas in the “bottom-up” approach, a department itself brings innovative ideas to the management with a proposal to implement it. While developing innovative solutions, the purchasing department communicates actively with Marketing and R&D functions. Marketing keeps track of current market demands for new cars and new technical requirements, while R&D develops solutions for their implementation in particular models with further replication in the entire product line. Together with the purchasing function, the sourcing and supplier selection process is carried out. Sollers suppliers are ready to work and grow with Sollers to deliver the required components to meet their requirements. Sollers faces the future with confidence and implements its innovation policy step-by-step.
Conclusion

In the past, procurement cost savings were essential for financial survival. The findings from the study shows that the position is quickly changing to growth with innovative procurement being essential to maintain a competitive advantage.

Once the solid procurement foundations to manage cost have been laid, it takes agile, innovative procurement to keep costs low whilst contributing to an increase in profit and growth.

BearingPoint can help you to define your sourcing strategy as well as assisting you with its operational implementation. Our approach combines vision and pragmatism: we have strong convictions but take into account the key contextual elements that matter to you in order to adapt the target and roadmap of your transformation programme. Our team has successfully managed many purchasing projects for a wide range of customers and we would be delighted to meet with you to discuss your current challenges and how we can help.

If you would like to read the full survey please contact us to request a copy by emailing: uk@bearingpoint.com.
Who We Are

BearingPoint consultants understand that the world of business changes constantly and that the resulting complexities demand intelligent and adaptive solutions. Our clients, whether in commercial or financial industries or in government, experience real results when they work with us. We combine industry, operational and technology skills with relevant proprietary and other assets in order to tailor solutions for each client’s individual challenges. This adaptive approach is at the heart of our culture and has led to long-standing relationships with many of the world’s leading companies and organizations. Our 3500 people, together with our global consulting network serve clients in more than 70 countries and engage with them for measurable results and long-lasting success.

To find out more on how BearingPoint can assist your organisation in improving your Supply Chain and Procurement functions please contact:

UK
Stephen Coy
M +44 (0) 7876 475 998
stephen.coy@bearingpoint.com

Ireland
Geoffrey Bourke
M +35 31 418 1121
geoffrey.bourke@bearingpoint.com

BearingPoint Ltd
UK
16 Great Queen Street
WC2B 5DG London
United Kingdom
T +44 20 3206 9600
E uk@bearingpoint.com

Ireland
Montague House
Adelaide Road
Dublin 2
T +353 1 418 1111
E ireland@bearingpoint.com

www.bearingpoint.com

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