

Purchasing managers between a rock and a hard place New business processes are changing the methods of procurement

Erschienen: Deutsche Fassung in der »NZZ« Nr. 4 vom 6. Januar 2000 / von der Firma Dr. Acél & Partner AG ins Englische übersetzt worden.

Verfasser: Peter P. Acél

Industry buyers are about to lose their right to exist as an occupational group. Commodities and standard components can be sourced through the growing Internet marketplaces and the manufacturers of industrial products have strengthened and differentiated their links with suppliers to such a degree that the purchasing manager's traditional range of duties and work methods no longer fit modern needs. Indeed, the purchasing department is being made obsolete by current trends in procurement.

At first sight e-commerce via the Internet appears to be nothing more than an increase in the efficiency of traditional purchasing rituals in the business-to-business (B2B) arena. Instead of visiting in person or using the telephone to obtain prices and quantities for commodities, metal and plastic parts, computer chips and packaging materials, virtual buying agents negotiate terms through rounds of Internet bidding organised on a world-wide basis.

Price transparency in the e-marketplace

During what may be called a »reverse auction« buyers go directly to potential suppliers or Internet brokers, providing them with the requested products along with all technical specifications, quality requirements, quantities and delivery dates desired. The broker will then locate suitable suppliers and invite them to submit their offers at a specific date. Incoming bids appear concurrently on the screens of both the suppliers and the customer. The various bidders may continue underbidding each other until the most competitive supplier (subject to technical prerequisites and delivery specifications) will finally get the nod from the buyer.

Internet trading is mostly characterised by transparent prices as opposed to the traditional trading methods whereby the first and foremost task of the buyer was to create price transparency. This has been the procurement managers' specific field of expertise to date. Being in touch with as large a number of suppliers as possible they developed special skills and abilities over the years allowing them to form judgements on the various suppliers involved. Starting out from a fixed purchasing budget they tried to win the day by undercutting to the maximum extent possible the price requirements set by their superiors. They negotiated at length for rebates and discounts until they felt sure to have found the supposedly cheapest and best contractors. However, in the era of e-commerce and global sourcing the bargaining skills of a wheeler-dealer are no longer in demand, since the B2B e-marketplace per se provides for a »bazaar-type dealing« environment. E-commerce can therefore be handled by production or technical staff as well.

Increasing dependencies

As early as in the first part of the nineties, i.e. long before e-commerce made its impact on the world's scene, signs began to emerge that the days of the traditional buyers were numbered. The reason for this is the increasing collaboration between vendors and their customers. Owing to the increased competition many companies are focusing on their core competencies. They rely on specialised sub-assemblers for the production

of components, even when such parts are complex and strategically important to the business. Often the choice to outsource part of the manufacturing process is motivated by the desire to increase flexibility, decrease the production and sales risks and lower fixed costs rather than by mere cost considerations.

Unlike e-commerce which is suitable only for the purchase of basic and standardised goods the procurement of complex and customised parts requires the manufacturers to enter into value enhancement relationships with their suppliers, focusing on supply chain management. Over time this will result in true logistics partnerships, with customers and contractors entering into master agreements providing for just-in-time delivery of goods or services. Often the parties agree to collaborate with a view to developing new products. They will frequently decide to communicate online, e.g. by using electronic data interchange (EDI), on a permanent basis.

The driving forces of successful logistics partnerships are the end customers and their markets. Along with a customer's sales growth, sales and profits of manufacturers and their sub-contractors will follow suit almost automatically. In the event of slack sales growth or even losses of market share pressure will be passed to the preceding value step. In a difficult market environment customers usually ask for lower prices or higher quality, which is difficult to fulfil for suppliers. As a result the selection pressure will intensify, with suppliers and contractors able to survive only if they succeed in aligning themselves flexibly and effectively to the changing needs of the consumer markets.

The growing interdependency between customers and suppliers has resulted in new forms of cross-functional Cupertino within companies as well. As procurement strategies are no longer the realm of specialist buyers, managers from various functional areas share the responsibility for developing a lasting logistics partnership. Hence, the company's chief production manager will contribute his or her experience with production processes, which determines the terms and conditions of delivery. The company's lawyers will use their expertise to draw up a master agreement, while the chief financial officer will be responsible for setting the commercial terms.

Misguided efforts

Sadly, in practical terms it can often be observed that many purchasing managers continue to interfere with the growth and flexibility of logistics partnerships. Even today, they will stick fast to a behaviour adopted during the sellers' markets of the 1950s through the 1980s. When placing orders these buyers award contracts to suppliers offering the best prices, while treating attributes such as product quality, reliable delivery dates or short delivery periods as second-line items.

As a matter of fact most purchasing departments are not sufficiently familiar with the requirements of in-house product divisions. Often they do not understand that production planning must be tuned to an ever shorter time scale. Modern thinking tells us that production lots should be aligned with customer orders, i.e. raw materials or components should be pulled from suppliers only to the extent necessary for customised production lots. However, the buyers of the old school are used to ordering large quantities to obtain sales discounts from their suppliers. As a rule this results in overstocked inventories and unnecessary costs along with falling profitability.

With the growing strategic importance of procurement there is a need for functionally separating strategic purchases from operational buying activities. A procurement marketing specialist with excellent skills both in technology and business administration should spearhead the teams that initiate, develop and institutionalise logistics partnerships, whereas responsibility for operation-driven purchases or the release of goods ordered

lies with the production and logistics departments. Those responsible for the latter will aim at high frequencies in their communications with suppliers, while promoting automated procurement release orders. In most Swiss companies production staff is well qualified. Together with the country's socially and politically stable environment this will permit procurement events to shift to the production and logistics units not only for local sourcing but also for global sourcing needs.

Text in German published in the Neue Zürcher Zeitung 1/6/2000

(Translation: Dixit Übersetzungen GmbH)

Peter P. Acél has a PhD in technology from the Swiss Federal Institute of Technology. He is the owner of a consulting firm for logistics management based in Zurich.