

OPTIMIZING SUPPLIER INTEGRATION

Purchasing Is a Matter (Not Only) of Profit

The ingredients for a good product need not all come from a single producer. Advanced companies these days are improving their own stability and flexibility by utilizing high-performing suppliers. The manufacturing industry currently generates 50 to 70 percent of its value added externally. Highly skilled purchasers are therefore in demand. And it's no longer sufficient just to look for the best price.

□ DAVID SELBACH

A simple question reveals the status that purchasing has at many companies: Do purchasing specialists know their suppliers personally? Quite frequently, the answer is “No.” Hardly surprising: At some companies the average travel budget for a purchasing specialist is barely €400. Per year. This means that purchasers spend considerably more time at internal meetings than with their business partners, with whom they should be holding in-depth discussions.

This state of affairs can have negative consequences if an overseas supplier, for example, turns out to be unreliable and forgets to send a crucial component on time. If it then has to be sent by air instead of by sea—in the worst-case scenario via an aircraft specially chartered for that purpose—additional costs can reach or even exceed €100,000.

For Olaf Langanke, Principal at Porsche Consulting and specialist in the area of lean purchasing, these examples are not theoretical, but are part

of his day-to-day experience. As he notes, “The first thing the majority of purchasers think about is reducing material costs. Too often they fail to consider the need for reworking or replacement, supply problems, cultural issues, or financial risks.” But large reserves of efficiency are waiting to be utilized precisely here. Langanke and Project Manager Fabian Piontek have compiled a list of the most important questions pertaining to purchasing. Using the following checklist, company managers can assess the maturity of their purchasing departments:

Lean purchasing at Porsche Consulting

For the past 16 years, Porsche Consulting has been working on supplier management and on supply chain optimization. It started with the supplier program at Porsche AG. It now works with aircraft manufacturers, electric vehicle producers, DIY stores, and mail-order companies to help them define their purchasing strategies, to optimize their purchasing processes, procurement controlling, and risk management, and to set up the appropriate organizational structures. Its lean purchasing experts hold supplier workshops, and if needed even assist in negotiations with suppliers.

WHAT RATING DO YOU HAVE IN THE EYES OF YOUR SUPPLIERS?

AN EARLY WARNING SYSTEM

that immediately sounds an alarm in case of delays and creates time to implement countermeasures is the most important component of systematic risk protection. And it is thus a prerequisite for lean purchasing processes. Companies that don't find out that deliveries will not be arriving until shortly before the deadline are constantly in a position of managing shortages.

HOW DO YOU RESPOND TO PROBLEMS IN YOUR BUSINESS RELATIONSHIPS?

REALISTIC SPECIFICATIONS

form the foundation of a good supply relationship. The supplier cannot be held responsible for delivery delays if goods are not ordered on time.

ARE YOUR PARTNERS ON TRULY SOLID FINANCIAL GROUND?

ASSESSING THE LOYALTY

of a partner has become difficult now that suppliers are no longer just around the corner but may in fact be overseas. Nonetheless, companies need to know what the supplier's priorities are.

Those unfortunate enough not to be at the top of the supplier's list are often confronted with delays and product errors.

It is essential that companies clarify their importance to each of their suppliers. They should endeavor to enhance their company's rating. Better communication is frequently the key.

HOW LONG DOES IT TAKE BEFORE YOU ARE NOTIFIED OF DELAYS?

ONE IN FIVE COMPANIES

does not evaluate their suppliers. Large companies at least rate them according to performance—based on punctuality, quality of goods, and service level. But only one third of these companies discusses the results of their evaluations with their suppliers and draws consequences from them. A supplier that slips from status "A" to "B" should be warned and requested to undertake appropriate measures.

And "C" suppliers should not be awarded further contracts.

DO YOU EXPECT TOO MUCH OF YOUR SUPPLIERS?

THE PARTNER'S ASSETS

are particularly critical in economically difficult times. Credit agencies all too often provide inadequate information. Professional purchasers form their own picture of important partners and, if necessary, seek out more financially stable candidates.

This enables them to avoid the risk that a supplier will drop out due to insufficient funds for pre-financing of orders. Systematic purchasing management thus also means keeping track of the business partners' liquidity and in turn their ability to provide goods and services. →



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WHOM DO YOUR SUPPLIERS DO BUSINESS WITH?

MOST EXECUTIVE OFFICERS

and managing directors have the feeling that their purchasers are not tough enough in their negotiations. This is a damning disclosure. Because if this assessment is correct, purchasing departments regularly invest too little expertise, time, and care in achieving the best results for their companies. But every euro negotiated in a purchasing agreement is a euro that goes directly to the bottom line.

WHO ACTUALLY DETERMINES THE PRICES?

COMPETENCE

in foreign languages—its value for purchasers should be self-evident in view of the continuing advance of globalization. But even at well-known companies, quite a few purchasers are not proficient in other languages. And yet firms can internationalize their supply chain only to the extent that their purchasers are in a position to keep up linguistically. Companies should hire employees with foreign language skills for key markets such as those in the Far East—and provide continuing education for existing employees. Up to now, the average amount budgeted for this purpose has been a mere €1,160 per person/year.

HOW DO YOU SHARPEN YOUR FORESIGHT?

PRECISE KNOWLEDGE

about subsuppliers and subcontractors is just as important as knowledge about direct suppliers. And yet information about these companies is often rather sparse. Especially for technology companies, it is crucial to know the source of each component of a product and who manufactures it. If necessary, right down to the last nut and bolt.

DO YOU HAVE CONFIDENCE IN YOUR PURCHASERS' SKILLS?

IN-HOUSE COST ESTIMATIONS

of what a component should actually cost are rarely made in purchase departments. Instead, purchasers invite offers, calculate an average or market price based on these offers, and use this as the basis for negotiations with the supplier. This can lead them to overpay. Or they may miss out on the opportunity to have a good supplier become more productive and thus more favorably priced—which makes both supplier and customer more competitive.

DO YOUR PURCHASERS SPEAK THE RIGHT LANGUAGE?

FLEXIBILITY AND FORESIGHT

are hallmarks of the expert purchaser. For the next global economic slump is surely coming. A good purchasing manager should have a strategy on hand for the event that suppliers drop out—and another strategy for making flexible adjustments to the supply chain if there is a significant drop in sales. ←