

# Strategy & Purchasing



Managing Partner of Clarans  
ESME Engineering Degree  
M.A. in Expert Consultancy  
+33 (0)6 86 08 92 63

[guy.elien@clarans-consulting.com](mailto:guy.elien@clarans-consulting.com)



- Partner in charge of the “Purchasing practice”, *Clarans consulting*.

- 30 years of operational expertise in Purchasing and Supply-Chain, Governance and business review, within international groups.

Fields: utilities, engineering, vehicle equipments and chemicals.

- Speaker-Expert at the *Ecole Polytechnique Feminine* and for the Master for International Purchasing, *University of Paris XI Jean Monnet*



## Publications

- Strategy & Purchasing
- Energy in Europe
- Sustainable Development and Purchasing
- The alternative potential of Small and Medium-Sized businesses
- Transaction processes and financial security laws
- Supplier relationships, chosen relationships
- Ethics in Purchasing

# Table of Contents



**1** Introduction to strategy

**2** Purchasing

**3** Building the blocks

**4** Monitoring the strategy

**5** Rolling out the strategy



# Introduction to Strategy



1

# Introduction to strategy...

To be competitive, a company has to:

- learn
- increase its skills pool
- innovate better, more rapidly and more often than competitors.

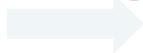
To ensure its growth and long-term development, a company needs to:

- choose anticipatory behaviors (strategic thinking) and
- not limit itself to adaptive behaviors.

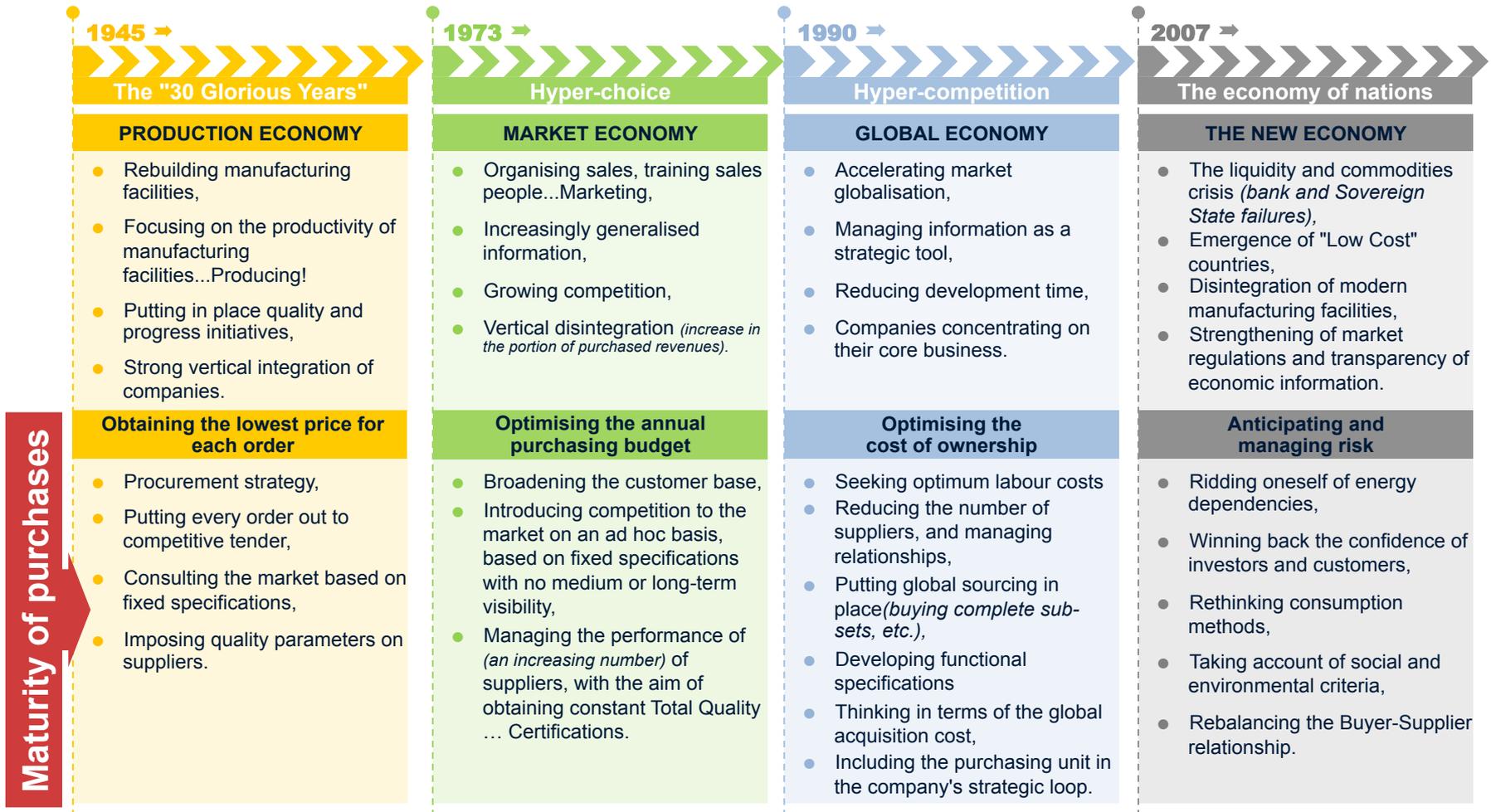
- Choosing to anticipate means preferring three complementary levers:
  - ▶ **Innovation**, the main source of growth
  - ▶ **Co-operation**, to incorporate its environment into its strategy
  - ▶ **The relationship with the local area**, to reduce uncertainty.



**Strategy** refers to the idea of a **bet** on an unknown and random future  
Need to anticipate and adapt to unforeseeable events.



# The major stages



Companies increasingly dedicate financial resources to "core" business activities  
 External expenditure (Purchasing) represent between 30% to 70% of company revenues (TO), with a constantly rising weighting.

## The corporate environment is evolving

- Exchanges are becoming increasingly international
- Huge increase in communication tools
- Legal constraints are growing
- Products' life-cycles are getting shorter
- More attention is being paid to social issues
- Supplier ranges are changing
- Salespeople are becoming more professional
- "Sustainable Development" is ramping up
- Communication is a dominant factor

# Companies are evolving

- Permanent need for differentiation (innovations, competitiveness)
- Obligation to respond to external constraints (investors, legislators, etc.)
- Permanent obligation to improve results
- Protection of their procurement
- Securing strategic supplier relationships
- Strengthening ethics rules (transparency, integrity)
- Paying more attention to internal resources - RSA
- Managing their reputational risk

# Defining strategy

The art of coordinating all the actions of all political, military, economic, financial and moral forces... to wage a (military or economic) war, manage a crisis or keep the peace.

By extension, this corresponds to drawing up an approach, defined according to one's strengths and weaknesses, taking into account threats and opportunities (marketing, industrial and financial strategy), with the aim of achieving a medium-term goal.



**At the company level, strategy is a skilled combination of aligning its own abilities with the expectations of external relationships within the social and economic environment.**

Strategy is the art of...

...allocating resources, to create a sustainable competitive advantage for oneself on the battlefield of economic competition.

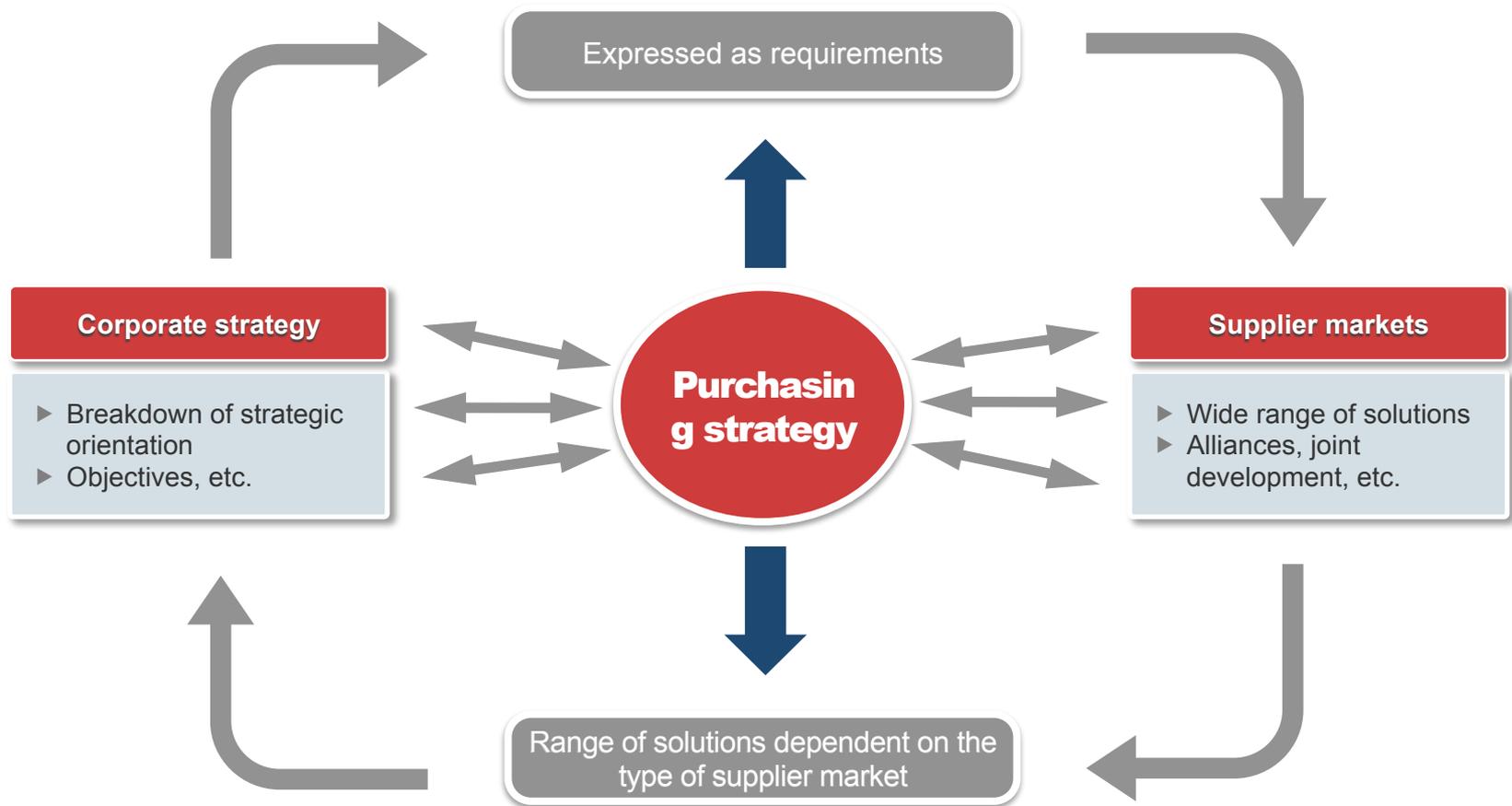
... choosing between competitiveness and differentiation.

...discovering areas where there are no competitors yet, before others do.

... doing better than one's competitors, without necessarily having more resources.

# Corporate strategy

as a basic premise for implementing a  
"Purchasing Strategy"





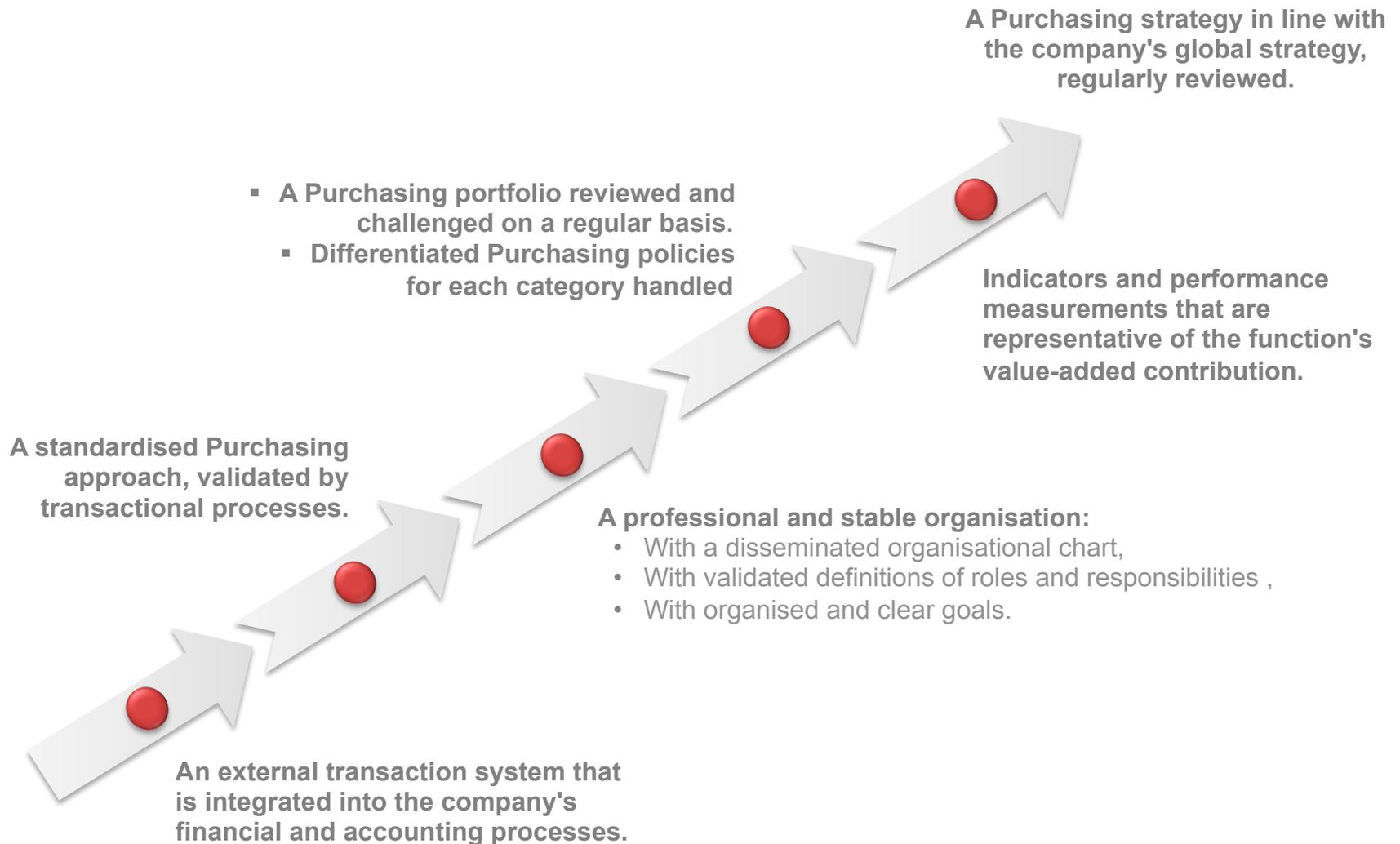
# Purchasing





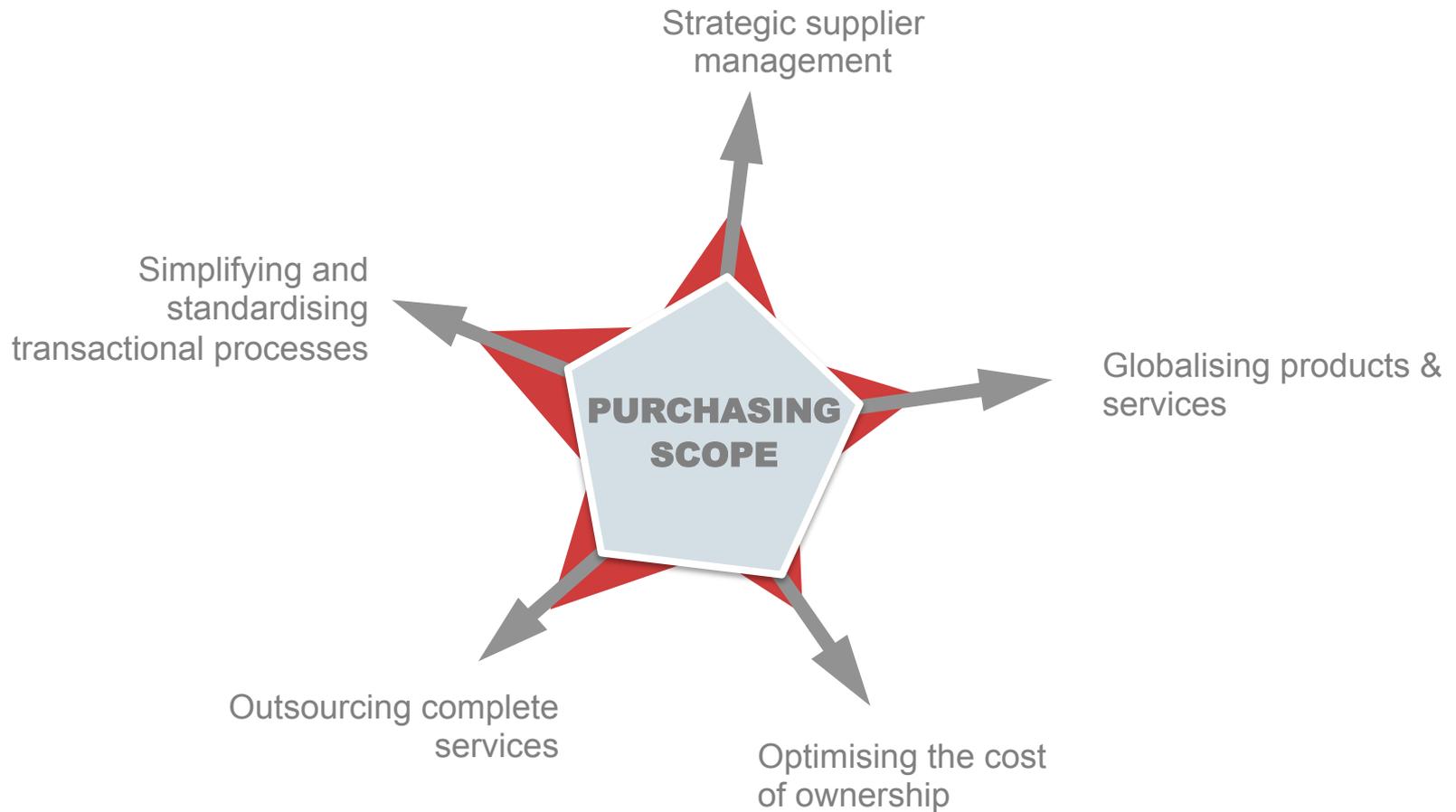
A support function for companies who want to evolve, according to developments and constraints of their market and environment.

# The function's stages of maturity



# Purchasing

The Purchasing function evolves to adapt to these changes



# The Purchasing function's Role

## ■ Contributing to improving the company's results

- ▶ Understanding and globalising requirements
- ▶ Harmonising internal processes (familiarity with the information)
- ▶ Implementing appropriate techniques
- ▶ Reducing global direct and indirect costs

 **One of the main contributors to profit margin**

## ■ Securing the company's upstream relationships

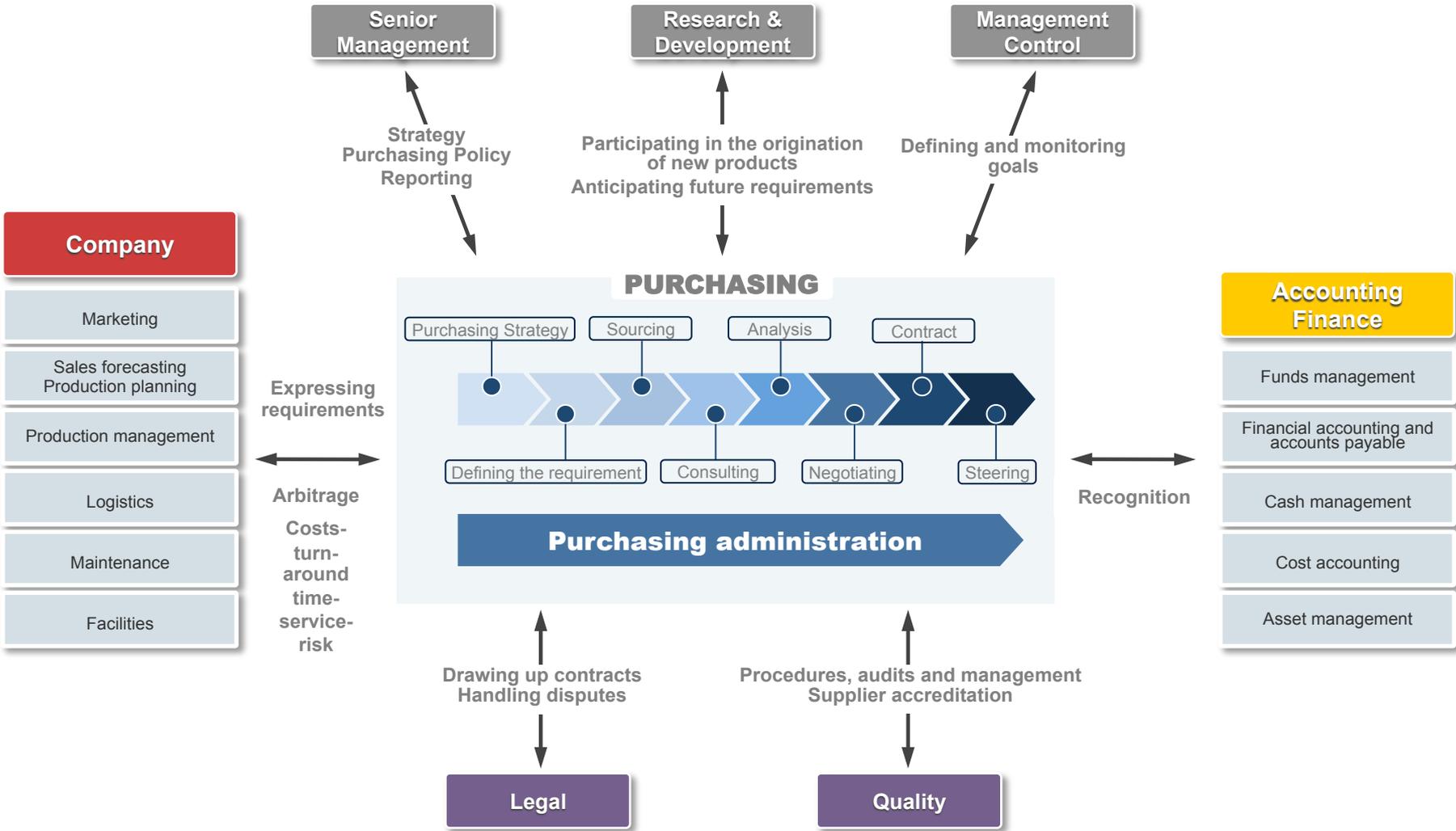
- ▶ Periodical benchmarking and assessment of suppliers
- ▶ Negotiating commercial agreements (framework agreements)
- ▶ Implementing appropriate techniques (Co-design, Co-origination)
- ▶ Monitoring operating and financial relationships

 **Guaranteeing the stability of supplier relationships**

# Strategic positioning



# Internal interfaces



# Why do we purchase?

- **To Consume**
  - ▶ Investments
  - ▶ Overheads
  - ▶ Services, sub-contracting
- **To Integrate**
  - ▶ Manufacturing
  - ▶ Sub-contracting
- **To Re-sell**
  - ▶ Trade



**3 different end goals // 3 specific purchasing approaches.**

# What do we purchase?

- "Industrial" products, services and amenities that can be:
  - ▶ Identified
  - ▶ Codified
  - ▶ Measured
- Non-codifiable products, services and amenities that are:
  - ▶ Too intangible
  - ▶ Absolutely non-recurring
  - ▶ With no direct impact on profitability



**The way they are handled operationally will be different, but specific policies will need to be drawn up for each of them.**

# The function's challenges

## ■ Profit

- ▶ Impact of purchasing strategies on the operating margin

## ■ Security

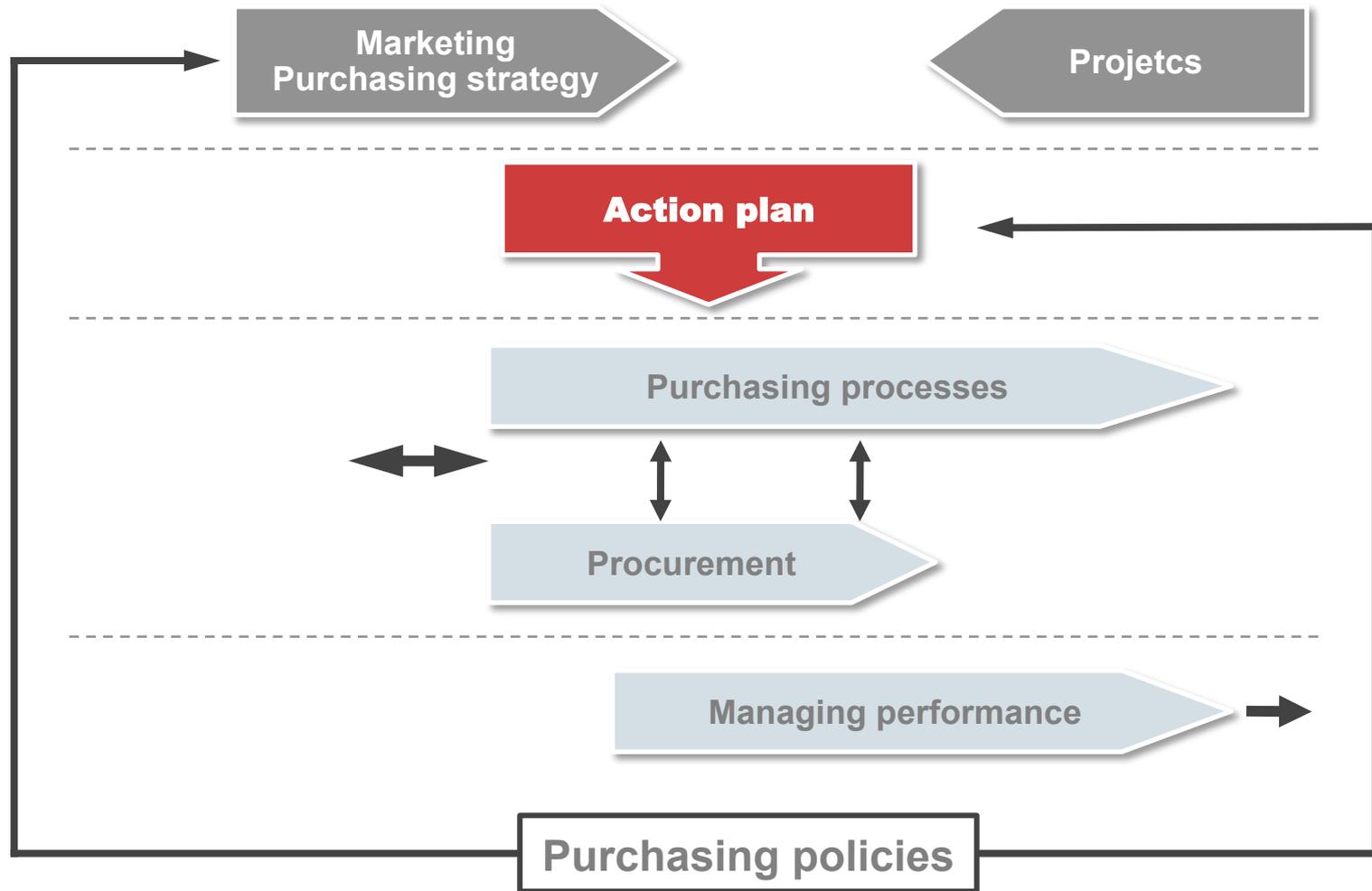
- ▶ Procurement (risk management)
- ▶ Quality
- ▶ Sustainability (innovation)

## ■ Service

- ▶ Responsiveness
- ▶ Quantitative response to requests

## ■ Image

- ▶ Communication and ethics
- ▶ Transparency





# Building the blocks for strategic issues

3

# Purchasing Strategy

The "Purchasing Strategy" conveys the resources to apply in order to optimise the function's contribution to the company's global performance

- ▶ It structures the relationship between the company and its suppliers
- ▶ It is expressed in terms of:
  - ☒ Performance objectives
  - ☒ Means and resources to apply
  - ☒ The related roll-out method

**Implementing  
a Purchasing  
Strategy  
enables the  
company to:**

- Watch
- Anticipate
- Consolidate new forms of internal & external relationships and coordinate resources
- Be reactive and take opportunities
- ➔ Winning the confidence of shareholders and financial analysts, etc.



**...It is also an internal communication and motivation tool.**



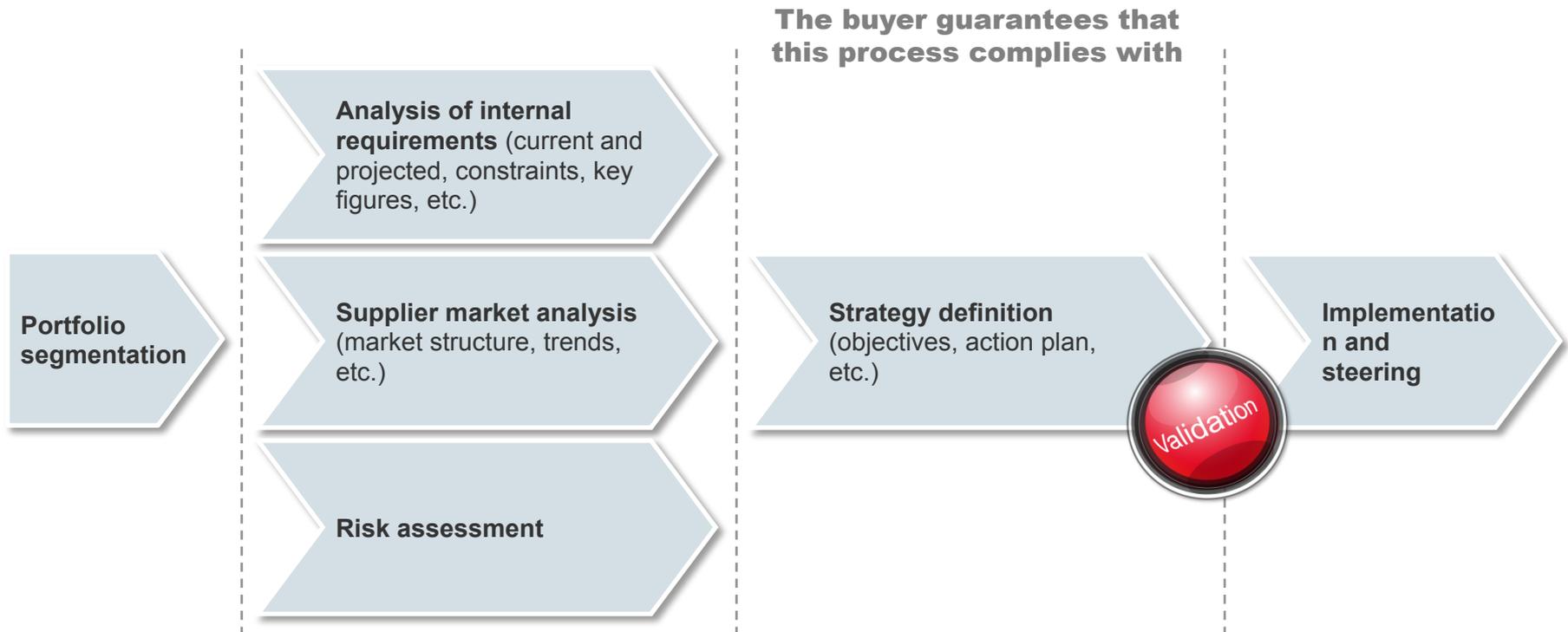
# Purchasing Strategy

Drawing up a purchasing strategy requires answering a few questions...

- **Who are we?**
  - ▶ What's our role ?
  - ▶ How are we organised?
  - ▶ What are our medium-term goals?
- **What type of purchase do we make?**
  - ▶ Why do we purchase?
  - ▶ What do we purchase?
- **What are our challenges?**
  - ▶ Financial
  - ▶ Risks linked to procurement
- **Who will handle them?**
  - ▶ Organisation
  - ▶ Purchaser profile
- **What kind of relationship do we manage with the market?**
  - ▶ Tactical Purchasing or
  - ▶ Strategic Purchasing?
- **What is the expected targeted cost?**
- **From where should we purchase/procure?**

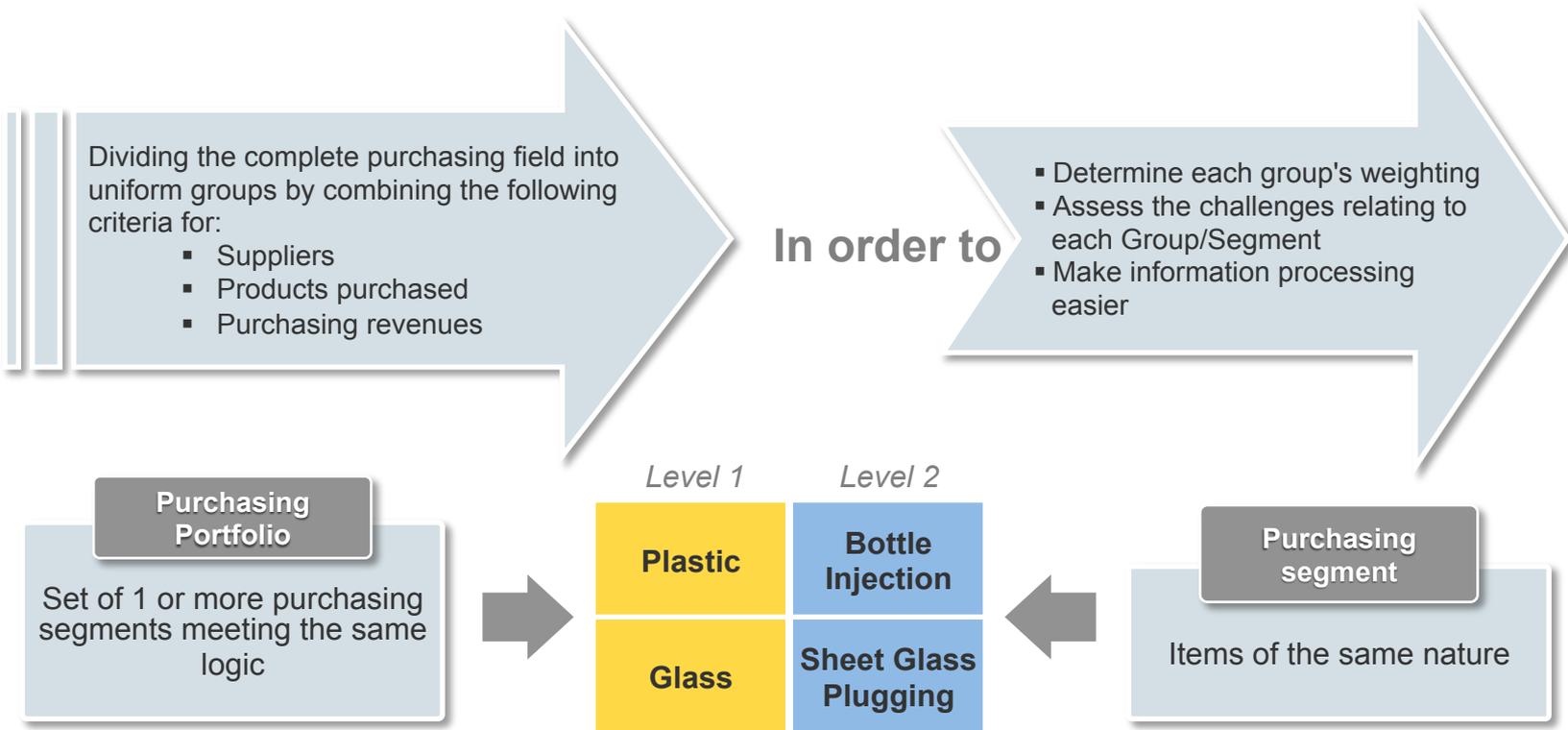
# Purchasing Strategy

...And breaks down into four main steps



**To build a consensus around realistic and achievable targets, every contributor has to get involved.**

# Portfolio segmentation



## Segmentation:

- is always linked to the company's specific business
- evolves over time, to adapt to internal and external changes.

# Portfolio segmentation

## General criteria

<b>The company's area of activity</b>	→ Industry, services, trade, public sector
<b>The type of market to address</b>	→ Competitive, buyer, local, etc.
<b>The company's general policy</b>	→ To do it in house or to contract out
<b>Destination of the purchase</b>	→ Production, consumption, trade
<b>Type of purchasing</b>	→ Standard products, specific products, skills, capacity, trade
<b>The criticality of procurement</b>	→ The level of risk run by the company
<b>The type of relationships built by the company</b>	→ One-off, sustainable
<b>Products and/or services</b>	→ The business portfolio

# Portfolio segmentation

## "Product" criteria

<b>Valuing the challenges</b>	➔	ABC classification per product
<b>Inventory and classification</b>	➔	Number of codes per family and purchasing segment
<b>The range of suppliers</b>	➔	Distance, reliability, openness, maturity, etc.
<b>Technical complexity</b>	➔	As the product's sophistication increases, the openness of the market decreases
<b>Mastering specifications</b>	➔	Are needs expressed clearly in terms of functionality and quality requirements?
<b>The quality assurance system</b>	➔	Are there QA relationships in place with suppliers?
<b>The product life cycle</b>	➔	Origination, industrialisation, maturity, decline?
<b>The type of supplier relationship</b>	➔	Collaboration, balanced relationships, distance, etc.

# Analysing requirements



Analysing purchasing requirements involves a **quantitative** and **qualitative** knowledge of each family and segment.



## Quantitative

- Amount of purchase, Unit price, suppliers, cost of labor, raw material impact, quantities
- Current conditions of purchase (payment, discount)
- Stocks: Just in Time/ no stock policy / important
- Breakdown per Trade unit
- Number of references / segments / brands



## Qualitative

- **CURRENT**
  - Technological issues
  - Process
  - Strategic aspect of the product
  - Logistics
  - Service
- **PROSPECTIVE**
  - Brand strategy
  - Marketing plan

# Analysing requirements



Analysing the product involves thorough questioning, which is essential for drawing up an effective strategy.

## Technical issues

- The product is highly standardised
- It can be manufactured internally
- The project is subject to accreditation procedures
- The project is subject to rapid technological developments
- The buyer is free to issue specifications,
- Safety standards are high...

## Process

- The launch cost of the product requires heavy investments
- The internal cost of changing supplier is high
- Only a few suppliers are familiar with the product's manufacturing process
- The manufacturing time is significant...

## “Strategic” nature of the product

- The product is a key component of the finished product (in terms of image, or quality etc.)
- The product is critical for the manufacturing process
- The product has an impact on the development time
- The product weighs heavily on the company cost structure.

## Logistics

- The purchase forecasts are not very reliable
- Transport costs are high
- Procuring second-tier supplies is difficult
- The procurement cycle is long...

## Service provided

- Quality is critical,
- Flexibility is appreciated,
- Security of supply is essential...

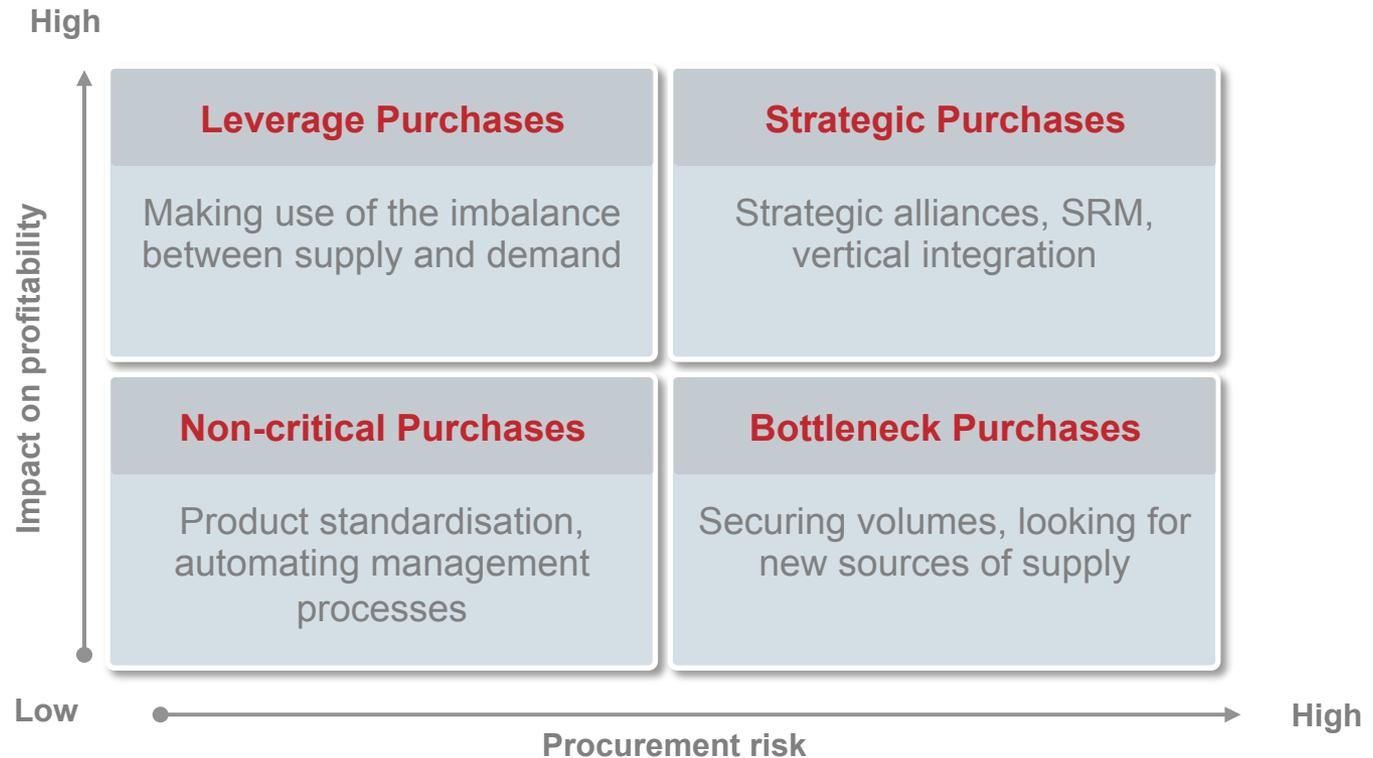
## Prospects for change

- Materials, processes,...

# The different Purchasing Strategies

## Impact on profitability:

- Strategic importance of value-adding expenditure
- Impact of raw materials on total costs and profitability etc.



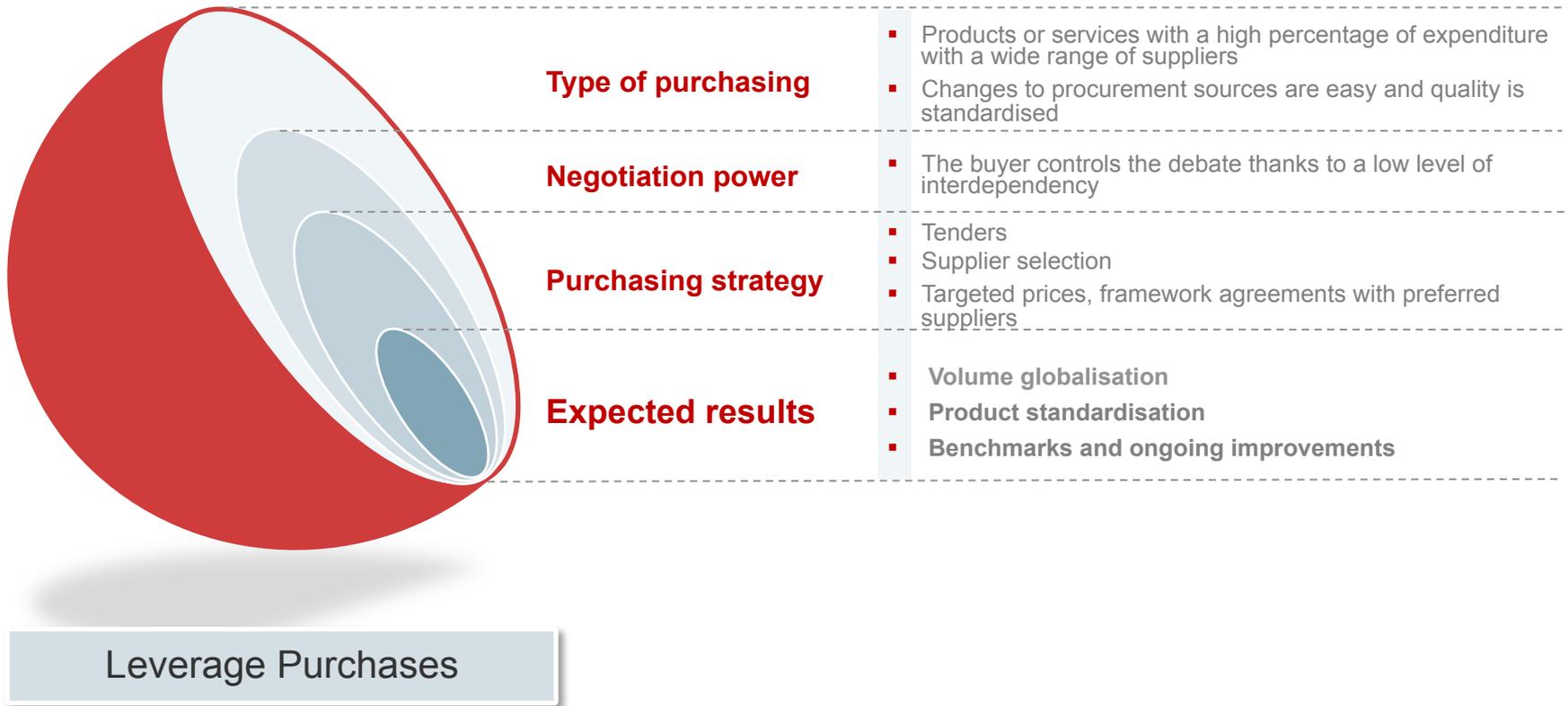
2 Dimensions

## Procurement risk:

- Complexity of the procurement market
- Power of technology and/or replacement materials
- Barriers to entry
- Cost or logistical complexity
- Monopolistic or oligopolistic situations, etc.

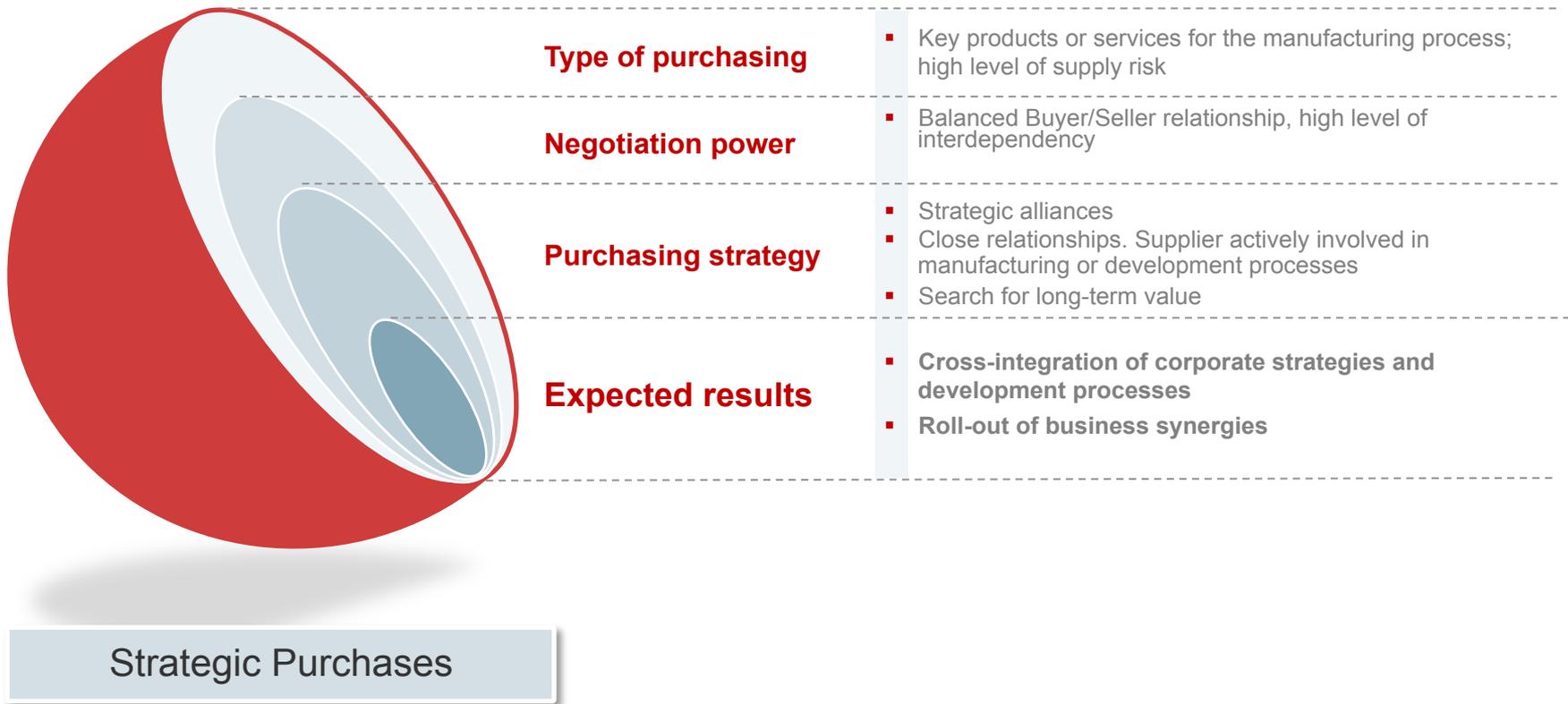
# The different Purchasing Strategies

## Price/Volume Strategy



# The different Purchasing Strategies

## Partnership strategy



# The different Purchasing Strategies

## Pricing strategy



Non-critical Purchases

# The different Purchasing Strategies

## Differentiation strategy



# The supplier market

## Supplier market analysis

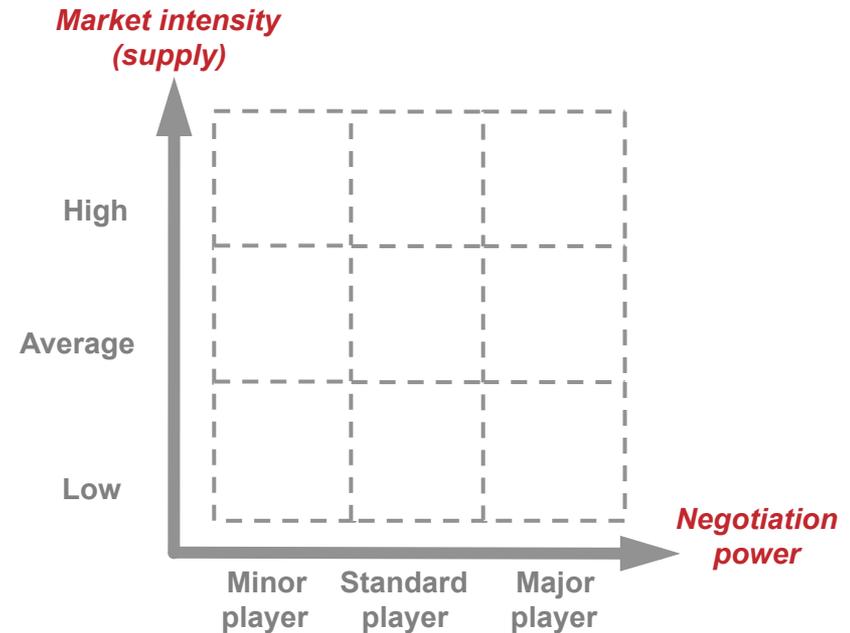
### ■ Supplier characteristics

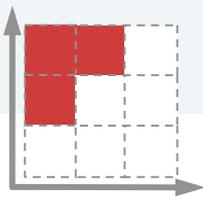
- ▶ Revenues and trend
- ▶ Subsidiary of a larger group
- ▶ Report and performance
- ▶ Financial reliability
- ▶ Size and positioning

### ■ Market characteristics

- ▶ Mature/growing/declining
- ▶ Monopolistic/competitive
- ▶ Geographical network (regional, national, international)

### ■ Technological developments

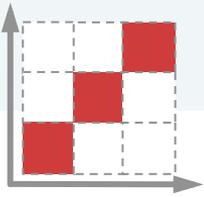




# The supplier market

## Diversified supplier market

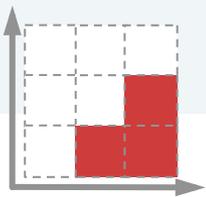
<b>Volume</b>	To be globalised	Maintain or change with caution	To be allocated
<b>Pricing</b>	To keep at the lowest level	Negotiate in an opportunistic manner	Demand reductions
<b>Contractual cover</b>	Contracts	One-off purchases and/or contracts	One-off purchases
<b>New suppliers</b>	To be sought out imperatively	To be selected	Remain in contact
<b>Inventories</b>	To be inflated	Safety stocks	To be kept low
<b>Vertical integration</b>	To be increased or introduced	Choose	To be reduced or not introduced
<b>Substitution</b>	To be sought out actively	Take advantage of good opportunities	Remain in contact
<b>Cost control</b>	Launch a programme	Apply sparingly	To be imposed on suppliers
<b>Transport</b>	Ensure adequate stocks	Optimise sparingly	Minimise costs



# The supplier market

## Balanced supplier market

<b>Volume</b>	To be globalised	Maintain or change with caution	To be allocated
<b>Pricing</b>	To keep at the lowest level	Negotiate in an opportunistic manner	Demand reductions
<b>Contractual cover</b>	Contracts	One-off purchases and/or contracts	One-off purchases
<b>New suppliers</b>	To be sought out imperatively	To be selected	Remain in contact
<b>Inventories</b>	To be inflated	Safety stocks	To be kept low
<b>Vertical integration</b>	To be increased or introduced	Choose	To be reduced or not introduced
<b>Substitution</b>	To be sought out actively	Take advantage of good opportunities	Remain in contact
<b>Cost control</b>	Launch a programme	Apply sparingly	To be imposed on suppliers
<b>Transport</b>	Ensure adequate stocks	Optimise sparingly	Minimise costs



# The supplier market

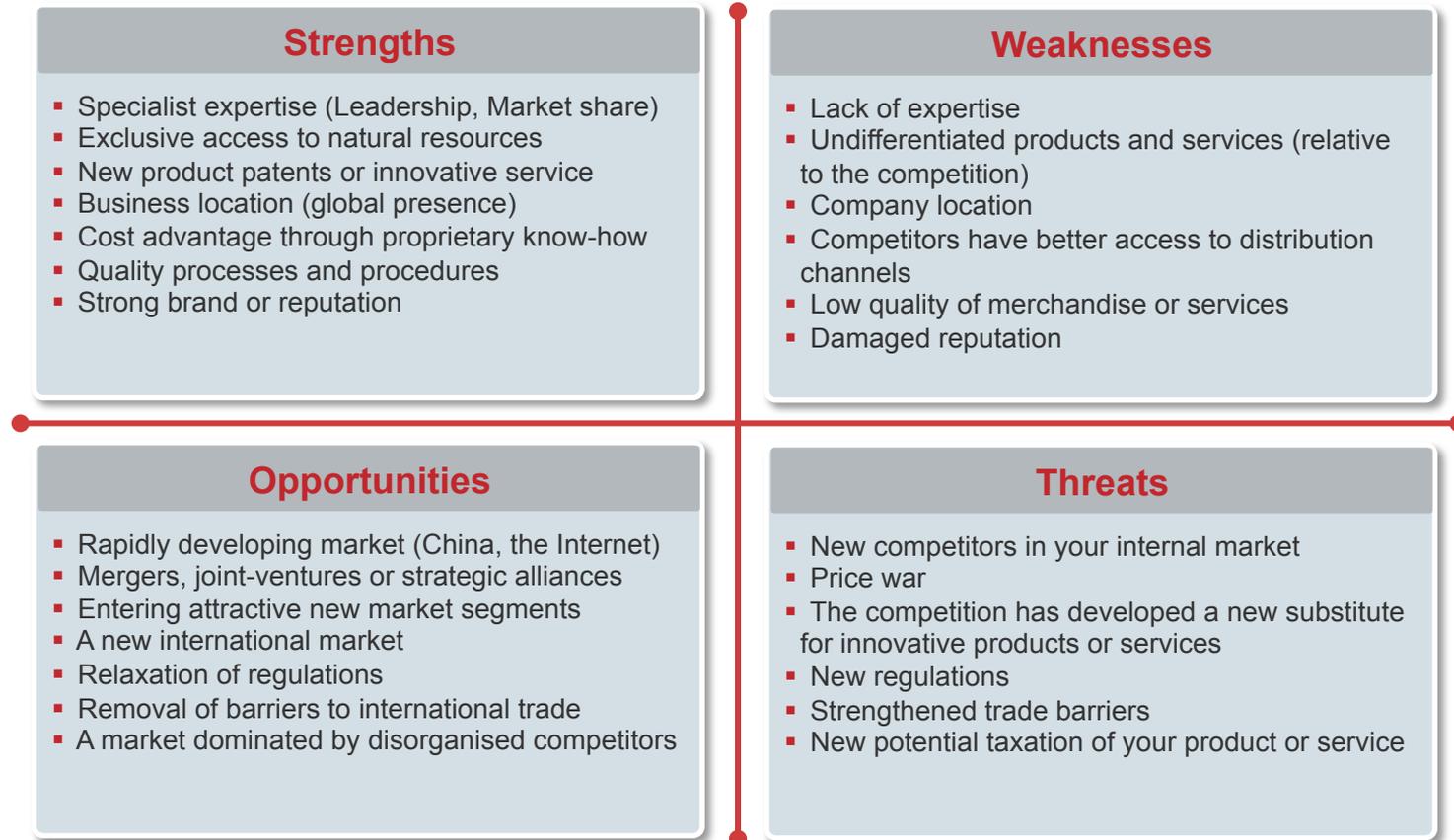
## Supplier market to take advantage of

<b>Volume</b>	To be globalised	Maintain or change with caution	To be allocated
<b>Pricing</b>	To keep at the lowest level	Negotiate in an opportunistic manner	Demand reductions
<b>Contractual cover</b>	Contracts	One-off purchases and/or contracts	One-off purchases
<b>New suppliers</b>	To be sought out imperatively	To be selected	Remain in contact
<b>Inventories</b>	To be inflated	Safety stocks	To be kept low
<b>Vertical integration</b>	To be increased or introduced	Choose	To be reduced or not introduced
<b>Substitution</b>	To be sought out actively	Take advantage of good opportunities	Remain in contact
<b>Cost control</b>	Launch a programme	Apply sparingly	To be imposed on suppliers
<b>Transport</b>	Ensure adequate stocks	Optimise sparingly	Minimise costs

# The supplier market

## Portfolio positioning

### → SWOT Analysis



**The goal:** anticipating weak signals while reinforcing the organisation's awareness of the core assets.

- Risk is inherent to the purchasing act
- Purchasing decisions must be taken with full understanding of the facts
- Limiting this risk assumes awareness of three factors which are inherent to the environment of each purchase segment:
  - ▶ **Market**
  - ▶ **Constraints**
  - ▶ **Suppliers**



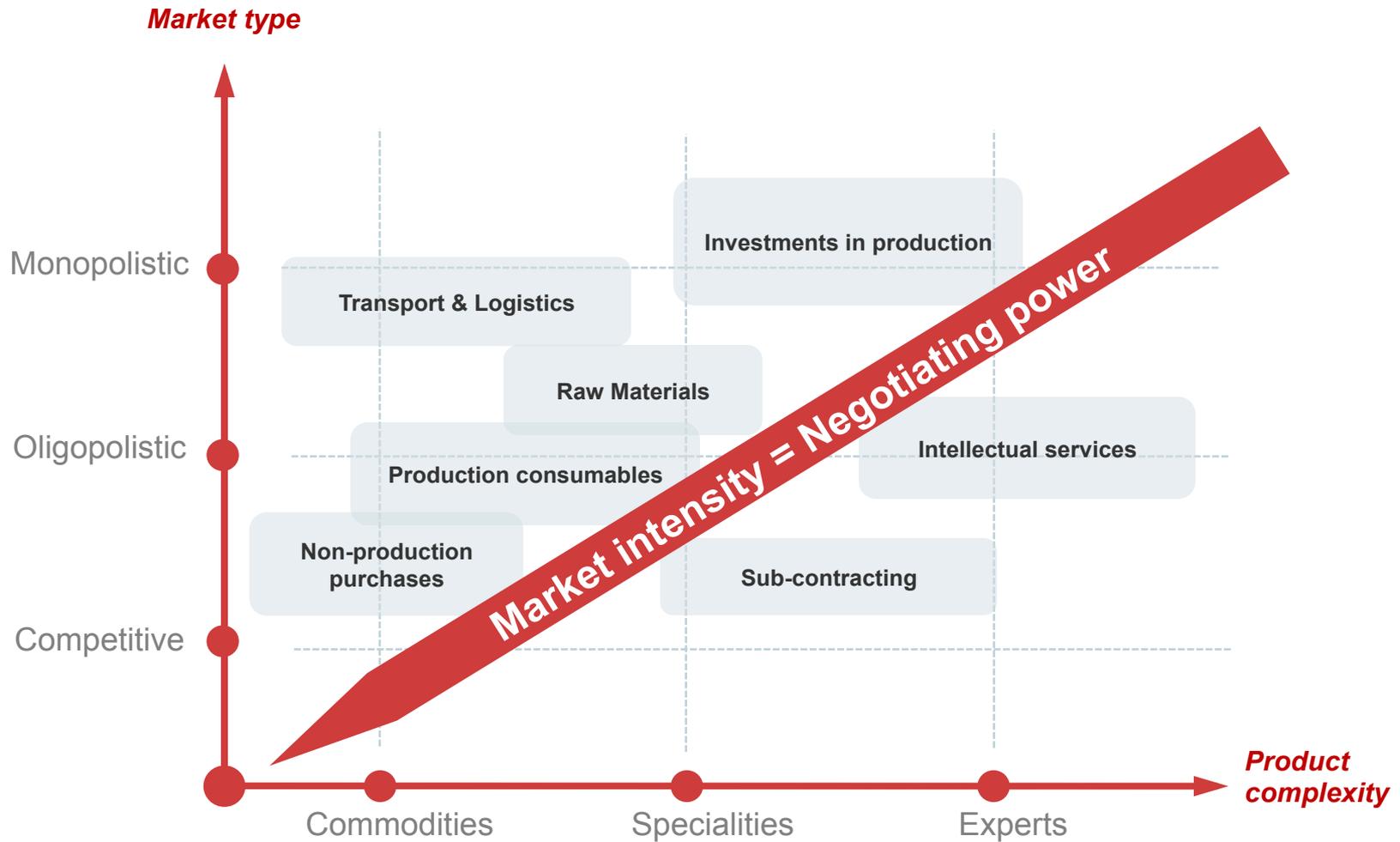
Is made up **with everything offered by the suppliers and requested by the other purchasers**

# Controlling the market

## Assumes:

- A good comprehension of the market segment to be considered:
  - ▶ **Global mapping**
  - ▶ **Main players (Buying and Selling)**
  - ▶ **Major trends (technology, practices, etc.)**
- Identifying and assessing potential suppliers
- Studying and analysing their financial situation
- Assessing their production capabilities
- A clear vision of the products and services on offer
- Familiarity with pricing structures
- Anticipating emerging technologies and substitution products
- Understanding suppliers' motivations
- Awareness of tier-2 suppliers
- Consciousness of geo-political trends
- Understanding countries' economic features

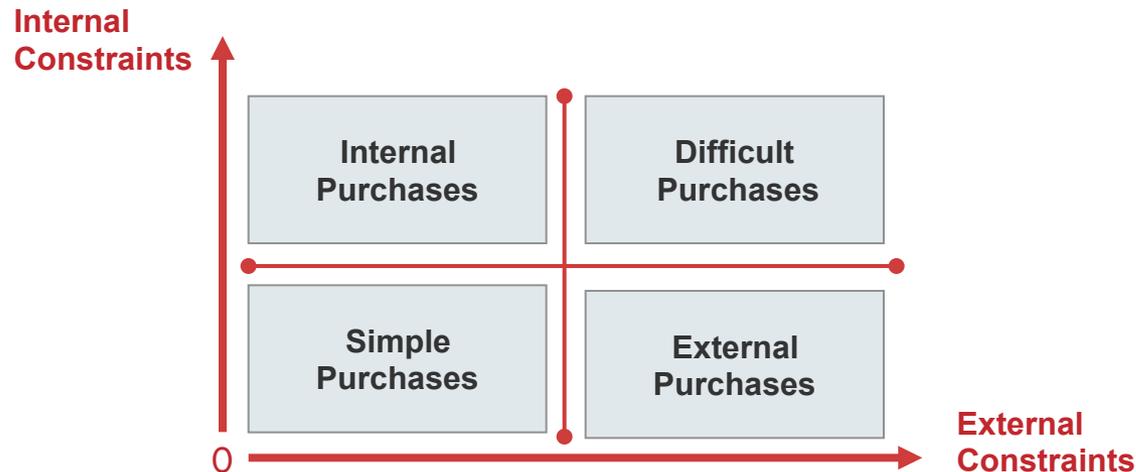
# Controlling the market



# Purchasing constraints

The goal

- Measuring and visualising the gaps between the expressed requirements and supplier ranges
- Two parameters characterise the purchasing constraints:
  1. **Their origin: internal or external**
  2. **Their cause: commercial or technical**



# Purchasing constraints

## Analysing constraints

Analysing constraints enables the type of behaviour to adopt for approaching internal and external negotiations :

- ▶ **Internal purchases:** the expressed requirement is ill-suited to the market supply
  - ⇒ revising the specifications
- ▶ **External purchases:** strong market pressure
  - ⇒ calling the source into question
- ▶ **Difficult purchases:** searching for solutions suited to the specific features of the requirements
- ▶ **Simple purchases:** searching for a balance between supply & demand



**Identification will take place for each consistent purchasing segment that corresponds to a uniform supplier range.**

# Purchasing constraints

## The constraints matrix

### The approach

1. Draw up an inventory of the constraints identified, sort them by type and apply them to each purchasing segment
2. Define the "**k**" weighted index from **0 to 10** for each of them.  
(NB: The *Ks* need to add up to 100)
  - **0**: No impact
  - **10**: Very significant impact
3. Quantify each of the constraints identified:
  - **0**: No constraint, or very low
  - **10**: Very strong constraint
4. Get rid of all the "**0**" constraints
5. Calculate the overall constraint ratio
6. Place it on a chart in order to see the position to adopt and the resources to apply.

# Purchasing constraints

## Internal constraints (example)

#	Type of constraint	Factor (k)	Rating (C)						Total (K*C)	Comments
			0	2	4	6	8	10		
<b>Internal constraints</b>										
1	Imposed supplier	5				x			30	Monopolistic situation/Customer request
2	Imposed Purchasing policy	10		x					20	Strategic supplier/Commercial partner
3	Lack of sales forecasts	10						x	100	New product
4	Geographical remoteness of sourcing	10			x				40	Specific extraction area or procedure
5	Resistance to change	5			x				20	Production/Marketing
6	Imposed and/or regulated market pricing	10				x			60	Monopolistic/Oligopolistic situation
7	Purchasing volume is too low	5		x					10	Small series
8	Restrictive tooling policy	5					x		40	High level of investment
9	Compensation market	10						x	100	Contractual obligation
10	Tight specifications	5					x		40	The product is hard to manufacture
11	Demanding quality assurance plan	10				x			60	Accreditation constraints
12	Product at the end of its life-cycle	5		x					10	No development scheduled/No investment
13	Product is covered by a patent and/or license	5					x		80	Rare compound/Captive product
14	Technology is not mastered internally	10						x	100	Trade/Purchased on behalf of...

Criticality ratio = Sum of (K\*C) \* 10/Sum of (K)

710

Criticality ratio: **71**

# Purchasing constraints

## External constraints (example)

#	Type of constraint	Factor (k)	Rating (C)						Total (K*C)	Comments
			0	2	4	6	8	10		
<b>External constraints</b>										
1	Highly speculative market	10				X			60	Raw materials market
2	Possible shortage for political reasons	10		X					20	Country of extraction is politically unstable
3	Restricted production capacities	5						X	50	Extraction is hard or seasonal
4	Market is tightly controlled by suppliers	10			X				40	Commercial understandings
5	Monopolistic situation	10			X				40	Few suppliers or extraction areas
6	Restrictive legislation	10				X			60	Food-processing product/Compounds
7	Not very ethical commercial practices	10					X		80	Country of extraction is politically unstable
8	Restrictive distribution system	10						X	100	Gaining access to the source is hard
9	Logistics costs	10					X		80	Unfavourable Price/Product relationship
10	High barriers for new entrants	10				X			60	Access to technology is costly
11	Absence of recycling channels	5		X					10	The end-processing of the product is disorganised

Criticality ratio = Sum of (K\*C) \* 10 /Sum of (K)

600

Criticality ratio: **60**

- Quantifying constraints → to clearly position actions
- Weighting → to rank actions
- Assessing their impact → to determine priority actions ...

## Criticality

### CRITICALITY

- ▶ Level of risk run by the company
- ▶ Sum of the risks generated by a set of constraints
- ▶ Level of risks more or less high, even restrictive, and can lead to breakdowns in supply.

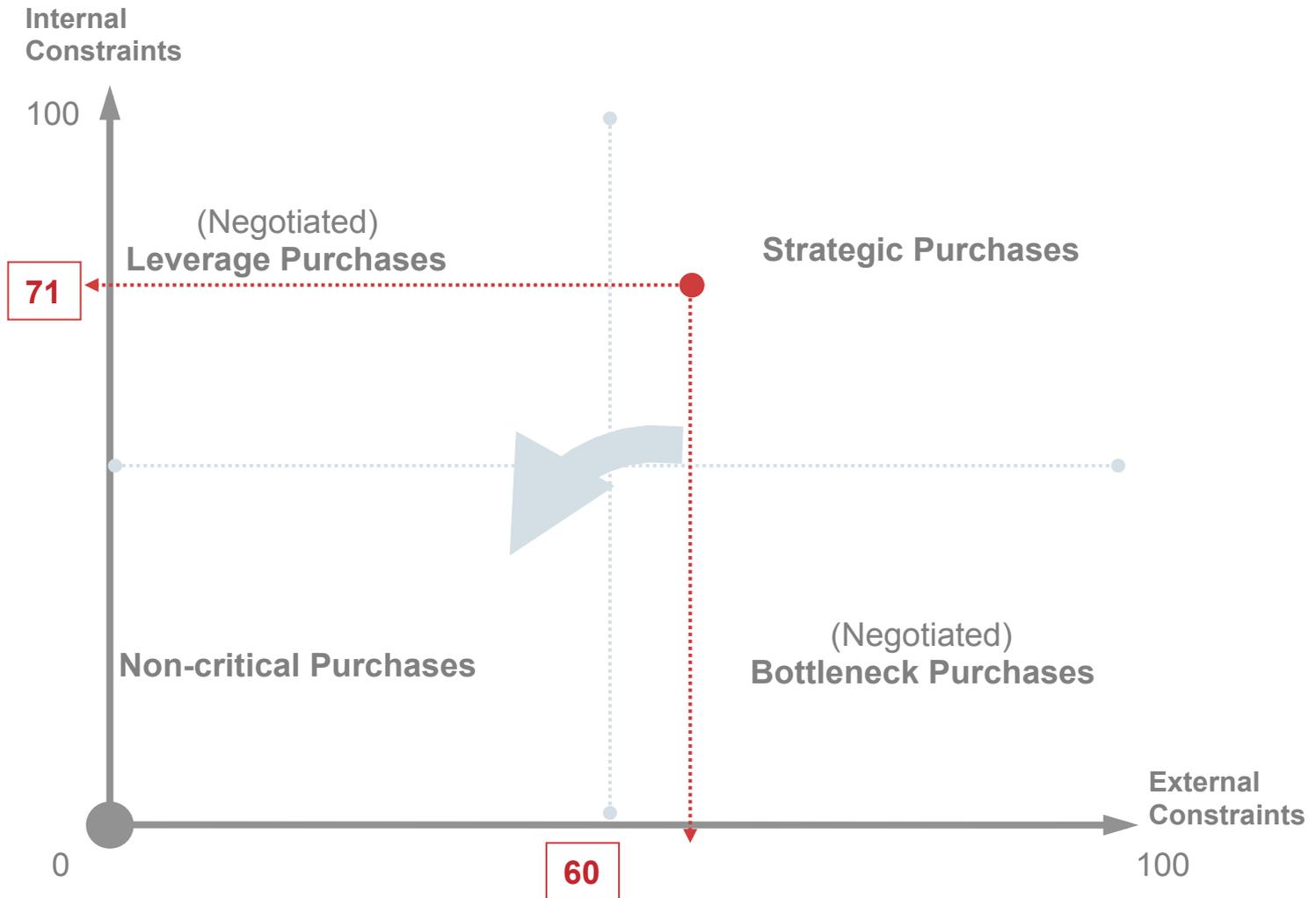
# Purchasing constraints

## A few examples

- **Over-restrictive specifications**
  - ▶ Risk of product failing when used
  - ▶ Serial production is impossible
- **Insufficient product life**
  - ▶ No time to develop a substitution product → Stock-out risk
- **Controlling the technology**
  - ▶ Restricted number of suppliers → Risk of dependency
- **Suppliers' responsiveness**
  - ▶ Poor control of logistical systems and/or after-sales service  
→ Risk of non-compliance with deadlines
  - ▶ Poor control of sub-contractors → Risk of inadequate quality

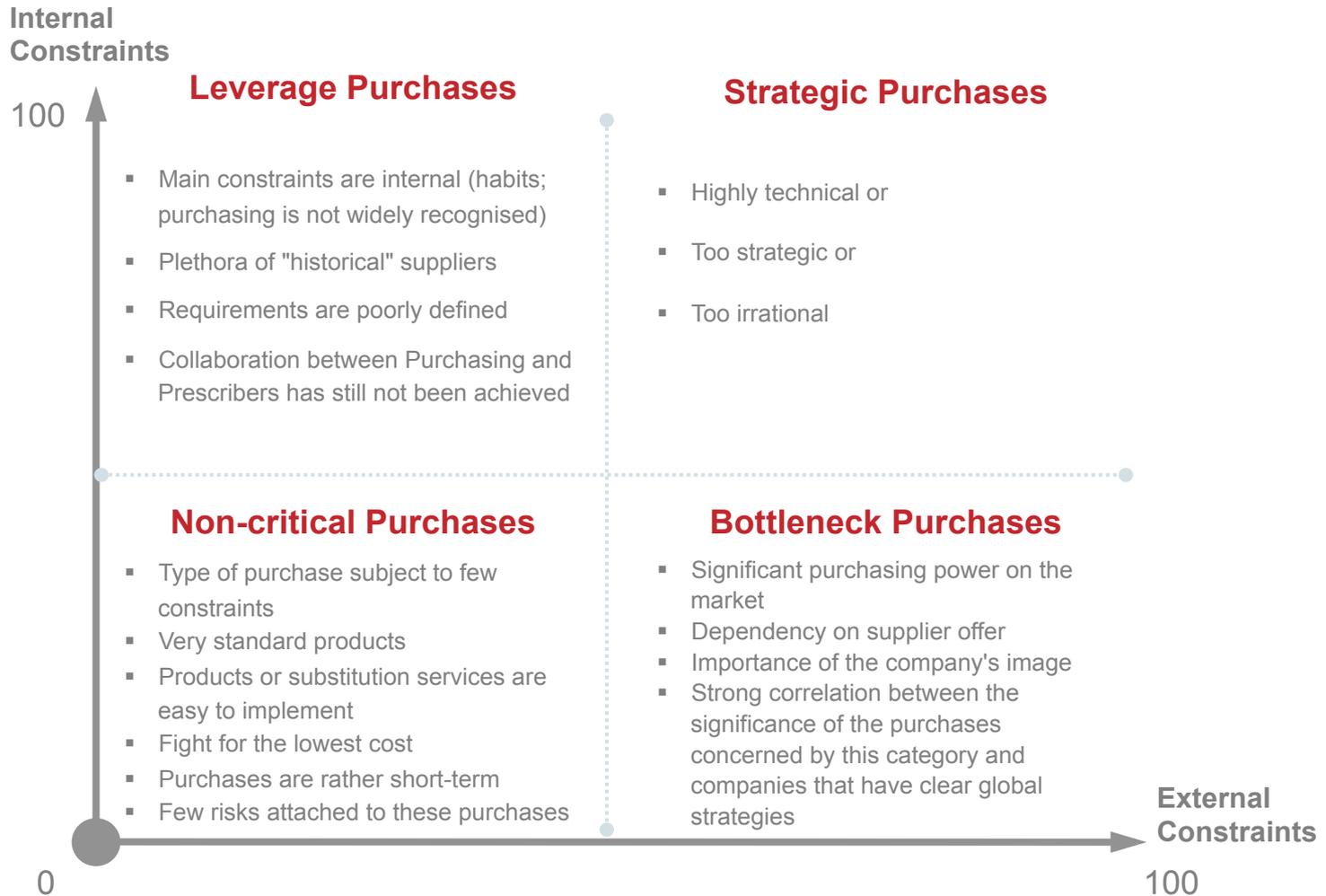
# Purchasing constraints

## Graphical illustration



# Purchasing constraints

## Information chart



## Traditional method

- ▶ Selection of the most relevant ratios
- ▶ Monitoring of their trend over time
- ▶ Comparison with the sector ratios

<b>Commercial profitability</b>	Revenues Gross trading profit Net margin
<b>Financial balance</b>	Fixed assets Cash flow from operations Debt/Borrowings
<b>Inventory management</b>	Number of turnover days Inventory movement/Operating income
<b>Customer and supplier receivables</b>	Customer receivables/Revenues ratio (in no of days) Supplier receivables/Revenues ratio (in no of days)



**Goal: making sure of the long-term relationship with the supplier... and the supply.**

## Scoring

- ▶ Through calculating the following equation:

$$Z = 24R1 + 22R2 + 16R3 - 87R4 - 15R5$$

- ▶ Where R1, R2, R3, R4 and R5 correspond to the following ratios:
  - R1 = Gross trading profit/debt
  - R2 = Investment capital/total balance sheet liabilities
  - R3 = Inventory + receivables + cash & equivalent/total liabilities
  - R4 = Financial expense/revenues (excluding tax)
  - R5 = Personnel costs/added-value

Which allows a direct reading of the risk of default

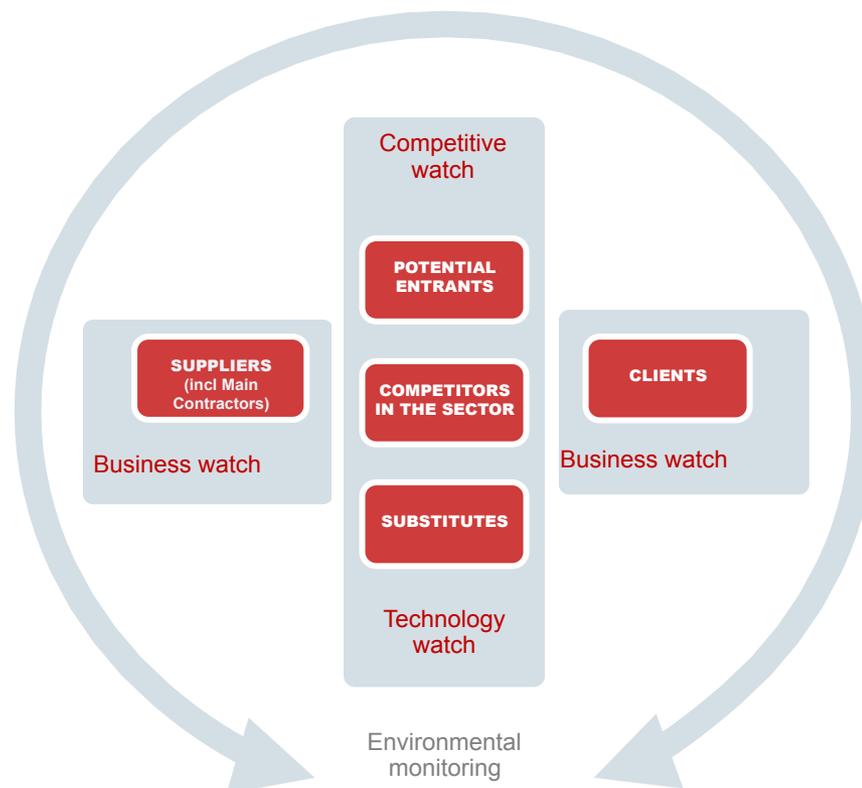
Score	The company's situation	Risk of default
$Z > 10$	Situation is good to very good	Below 30% (if $Z > 16$ , the risk is lower than 10%)
$4 > Z > -4$	Caution zone	Default risk is 30% to 65%
$4 < Z < -4$	Dangerous situation	Default risk is 65% to 90%
$Z < -5$	Failure	Risk of default is over 90%



# Monitoring the strategy



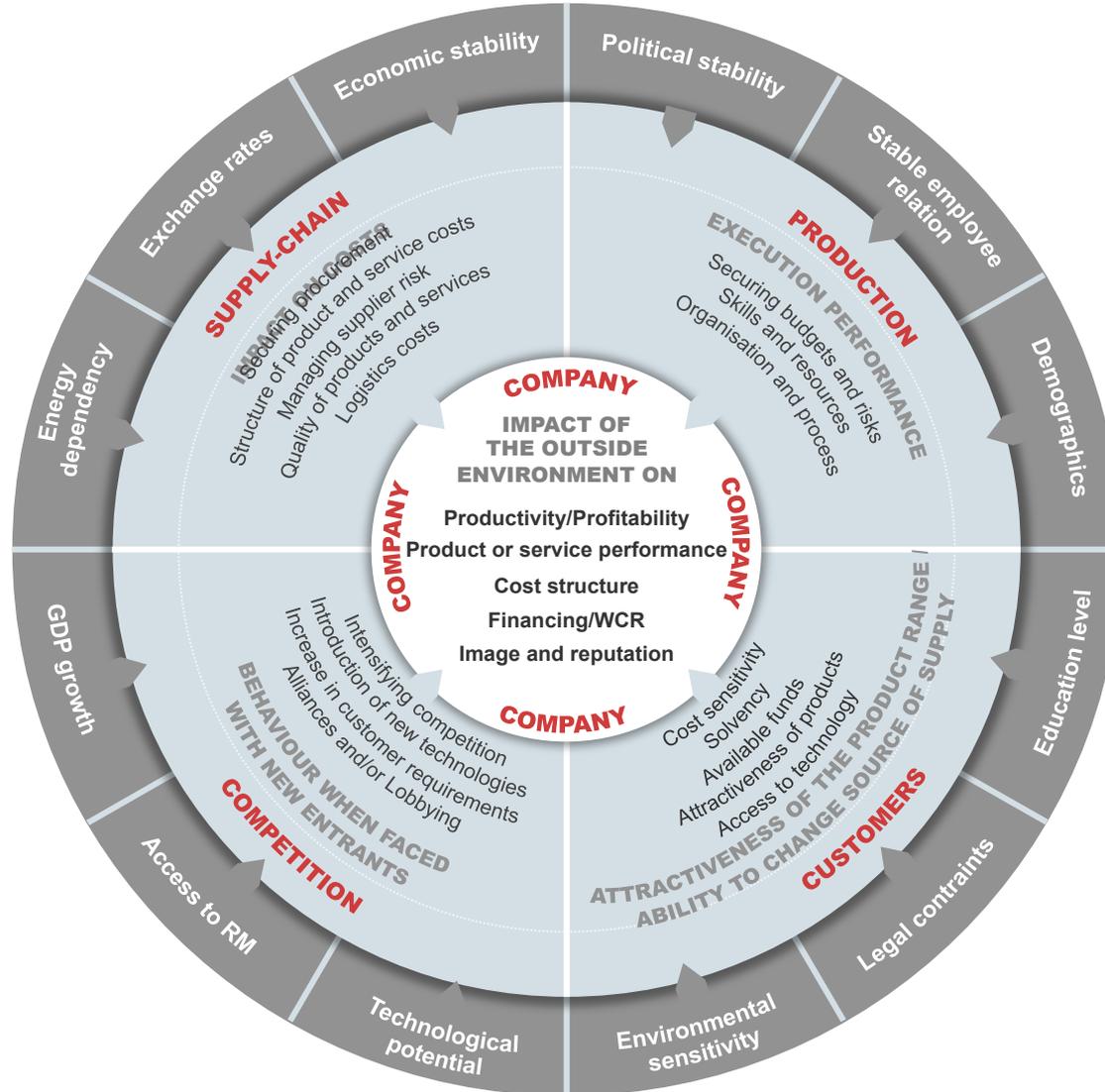
A continual, proactive process for monitoring the company's environment to, at the earliest stage possible, identify emerging technologies that may become dominant in the future.



## Enabling the company to...

- Have the **right information on regulations and standards**
- Identify threats and country risks to adapt and/or **monitor the project environment**
- Use potential **partners** as a support to the company
- Assess **the competitive impact of the technologies** the company masters or seeks to master
- Identify best operating practices to obtain and/or develop a **competitive advantage**
- Look for information about **business opportunities** (technological or commercial partnerships, sourcing, innovations, etc.).

# Scope of investigation



# The information to be gathered

## ■ Open information

- ▶ Daily newspapers, specialist magazines, periodicals
- ▶ Symposia, conventions, conferences, trade fairs
- ▶ Databases, the Internet
- ▶ Documentation centres, patents
- ▶ Firms which specialise in summarising documents
- ▶ Bodies supplying economic and technical data.

## ■ Targeted information

- ▶ Customers, suppliers and sub-contractors
- ▶ Corporate information networks
- ▶ Embassy economic delegations.

# The intelligence process

## ■ Identification

- ▶ Defining the company's context and expectations
- ▶ Defining the information required
- ▶ Gathering the data (market data, informal information, etc.)
- ▶ Analysis & Summary
- ▶ Communicating

## ■ Operations

- ▶ Processing (process reviews, contract revisions, audits, progress schedules)
- ▶ Cross-validations
- ▶ Use (global corporate strategy, partnership agreements, risk hedges, process review, marketing and industrial positioning)

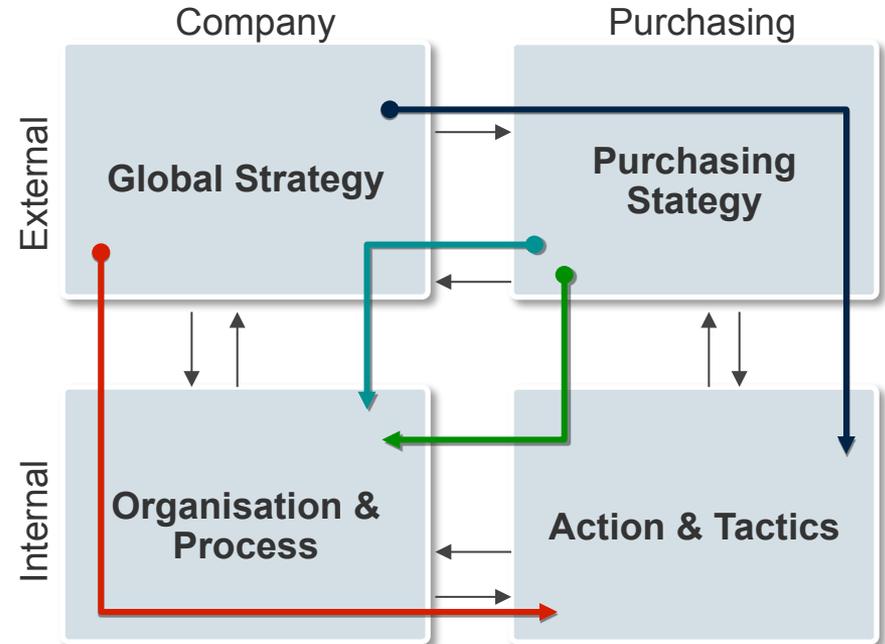


# Rolling out the strategy

5

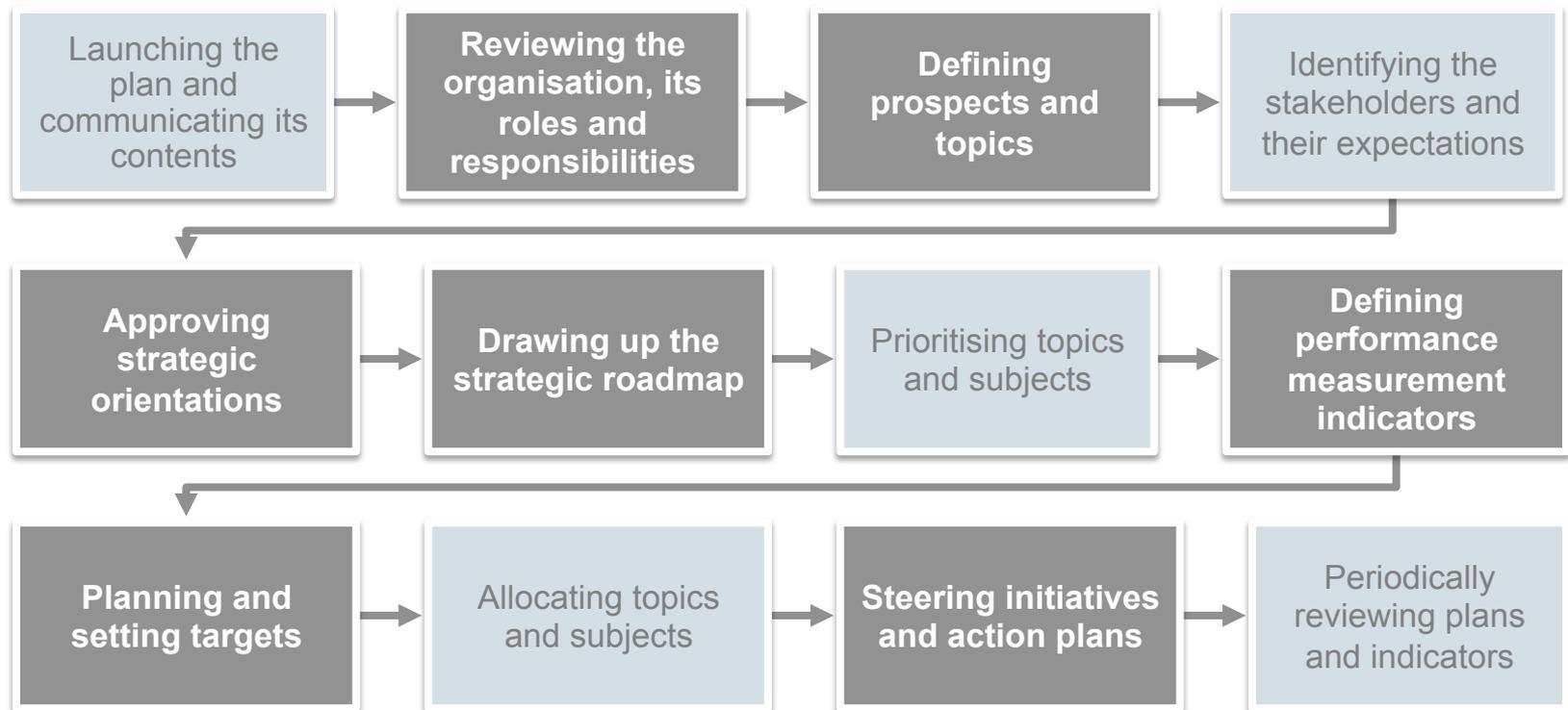
# Drawing up the strategy

- **Components:**
  - ▶ Targets to achieve
  - ▶ Strategic guidelines to be developed according to
    - ☒ Market
    - ☒ Requirements
    - ☒ Services
  - ▶ Impact on the organisation and on processes
  - ▶ Resources to put in place: capital and/or tools and IS
  - ▶ Management and nature of the performance indicators
- **Form: a summary document**, easy to circulate.
- Part of the **"Global Strategy Plan"** implemented by the company.



# Drawing up the strategy

## Operational implementation



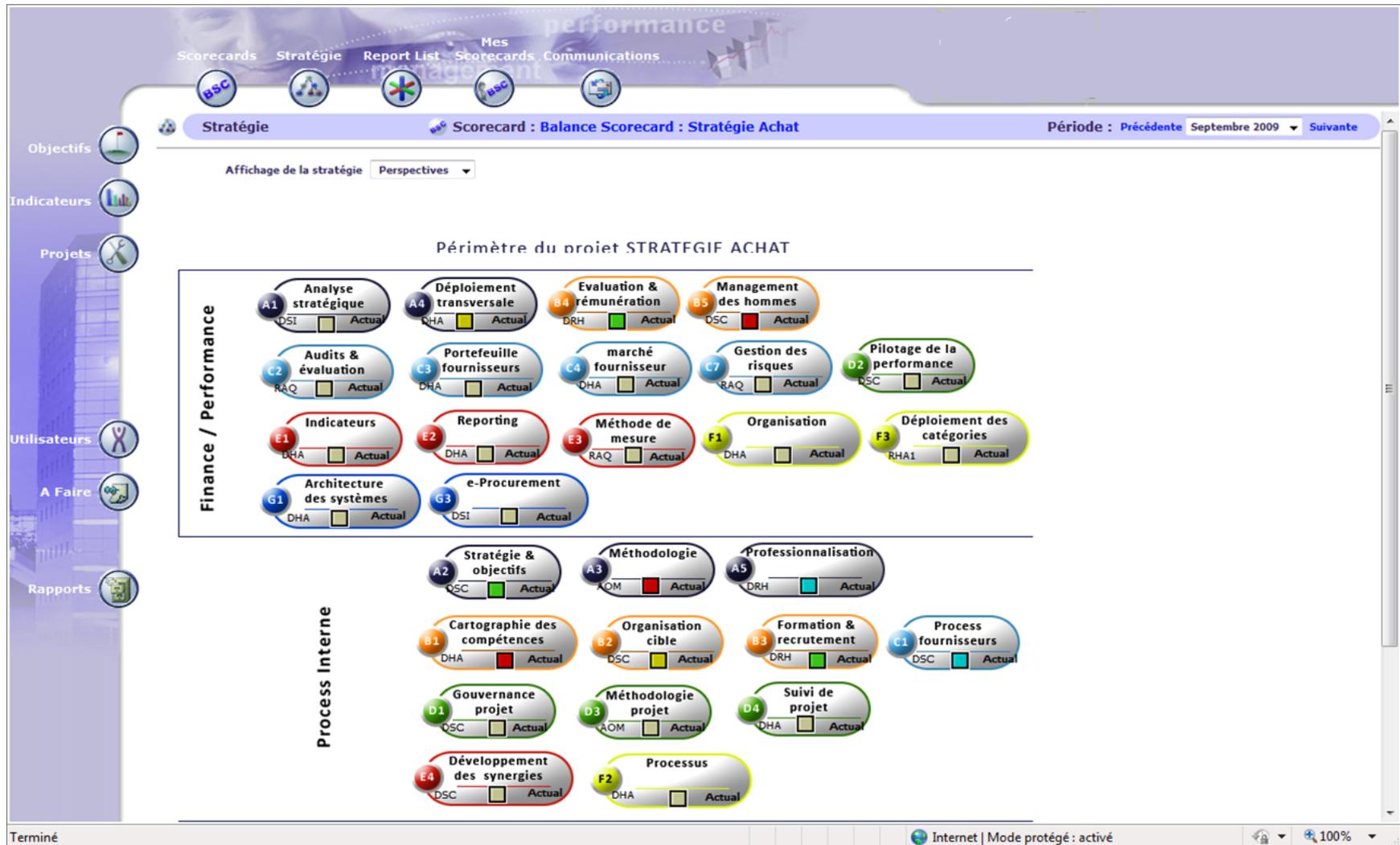
# Drawing up the strategy

## The strategy map



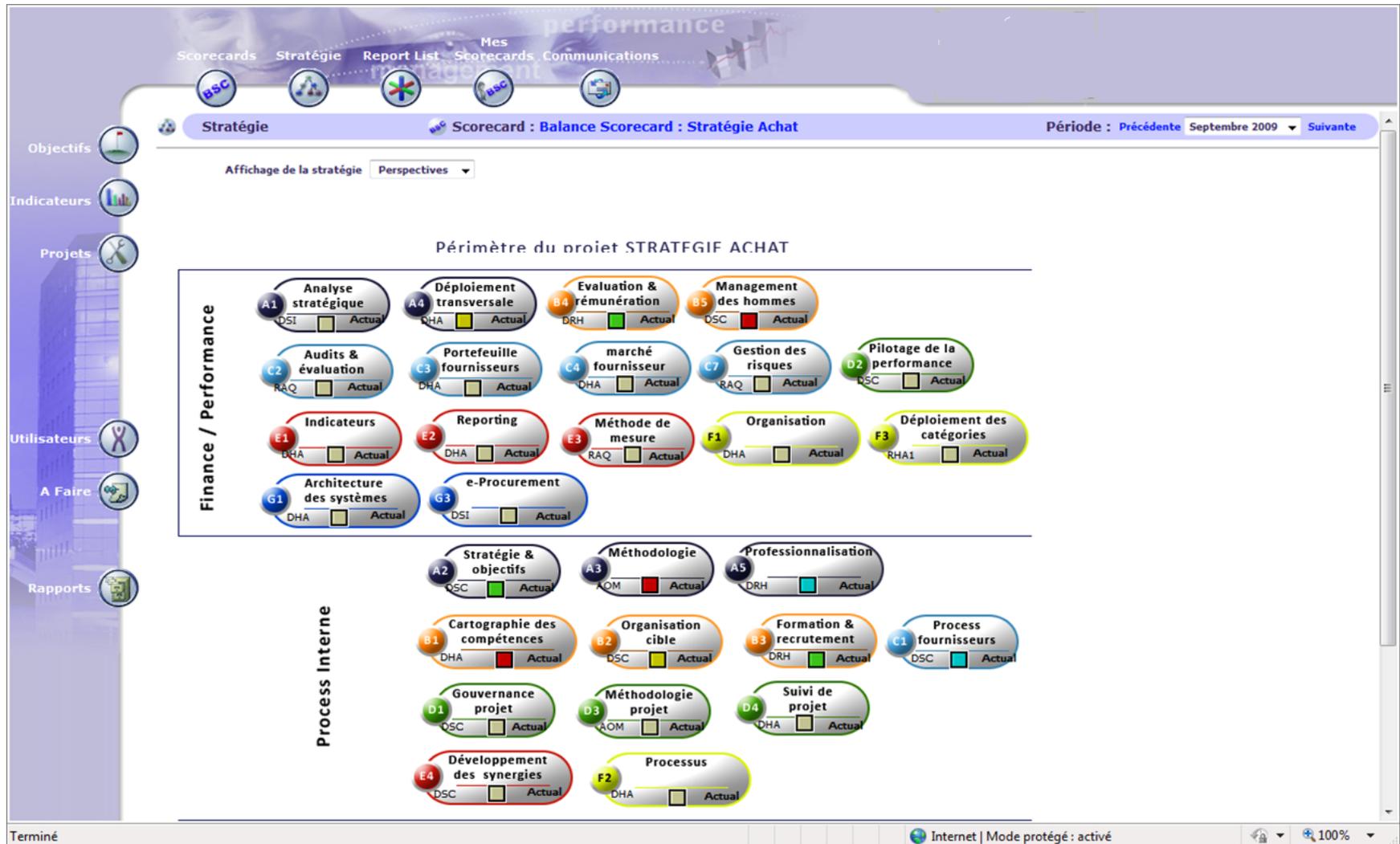
# Drawing up the strategy

## Operating dashboard



# Drawing up the strategy

## Prospect DASHBOARD



# Drawing up the strategy

## Project handout

### Purchasing project handout

Family:       2006      2007      2008      Project head:

Segment:       Revenues (€ '000s):        

Date: **Aug-24-09**

Description of the action:

Aim of the action:

### Implementation planning

Item	Tâches	2008						2009					
		Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	may
A.3.1	Expenditure map			Aug-20	Sep-18								
A.3.2	Breakdown of expenditure by nature				Sep-20	Oct-30							
A.3.3	Inventory of contracts in place			Aug-20		Oct-15							
A.3.4	Gathering the performance indicators used			Aug-20		Oct-15							
A.3.5	Examining the latest supplier evaluations			Aug-20		Oct-15							
A.3.6	Approving the active procurement processes				Sep-01		Nov-15						
A.3.7	Analysing risks and opportunities by purchasing segment						Nov-30						

### Monitoring the gains

Start date:     Expected gain:

End date:

Revenues involved:     As a % of Rev.:

Performance target (%):     Invest:

### Managing the action

Progress: **20%**      Main problems encountered:

Climate: 😊 😐 😞

Next steps:       Who:       When:

# Drawing up the strategy

## Strategic levers

- **Competition** (looking for new suppliers)
- **Internationalisation** (looking for imports)
- **Critical mass** (impact of the company on the market)
- **Vertical integration**
- **Co-operation/partnership**
- **Planning** (communicating medium and long-term requirements)
- **Globalisation** (aggregating identical requirements)
- **Target cost design** (looking for customer satisfaction)
- **Product standardisation and/or simplification of the specifications**
- **Industrial disinvestment** (Make or Buy)
  - ▶ Relocation
  - ▶ Externalisation

Attracting the interest of new suppliers to broaden the customer base, through:

- ▶ Identifying the challenges (Kraljic's matrix )
- ▶ Awareness of the market (Business Intelligence)
- ▶ Technology and commercial watch actions
- ▶ Identifying new sources (local, regional or global)
- ▶ Assessing and accrediting prospects
- ▶ Managing the cost of change



**With the globalisation of trade flows, foreign suppliers have to be part of the buyer's strategy.**

# Drawing up the strategy

## Critical mass - Vertical integration

- **Critical mass:**  
**taking advantage of volume to obtain better purchasing conditions and to simplify commercial transactions through...**
  - ▶ Familiarity with the purchasing potential
  - ▶ Standardising requirements
  - ▶ Co-ordinating consumption
  - ▶ Reducing the number of suppliers
  - ▶ Dropping the number of orders
  
- **Vertical integration:**  
**controlling upstream industrial tasks through...**
  - ▶ Internal development in the company
  - ▶ External development (purchasing or investing in another company)

### Consolidation of medium and long-term requirements through:

- ▶ Incorporating forecast requirements
- ▶ Assessing execution uncertainties
- ▶ Communicating and sharing information (internally & externally)

**Designing products & services which meet necessary and adequate qualitative and functional expectations at the lowest possible cost.**

**Implementation is achieved through...**

- Drawing up functional specifications
- Defining a target cost
- Analysing the value of each part or unit
- Studying and analysing proposals for improvement
- Achieving cost transparency
- Optimising and sharing productivity gains

Meaning: **externalising resources**

**Implementation through...**

- Drawing up functional specifications
- Structuring and controlling costs
- Studying whether to Make or to Buy

### Definition:

**Co-operation between two** or more, **complementary companies**

### Expectations:

- Globalising volumes → Better commercial terms
- Changing the status of the buyer's position → More services
- Greater integration of common processes → Higher Quality
- Contribution of additional skills → More product differentiation
- Resource synergy → Access to innovation



**To a certain degree, this mode of collaboration runs contrary to the aims of any party who has chosen to obtain competitive advantages.**

# Drawing up the strategy

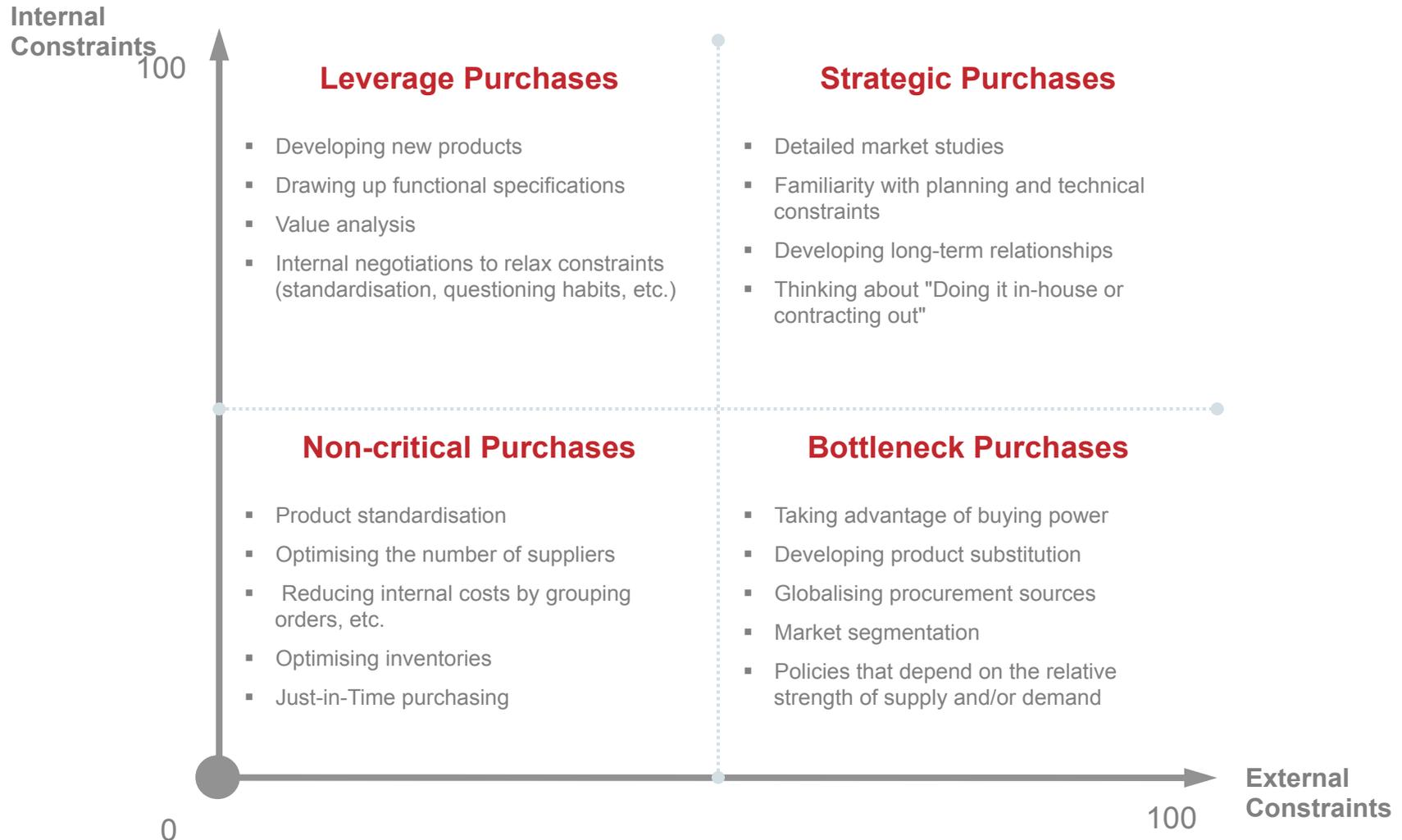
“Make” or “Buy”

**Is...**

- **Admitting that**
  - ▶ The company does not know how to do everything
  - ▶ Doing everything weakens its competitive position
- **Deciding whether or not to commit financial resources**
  - ▶ Creating new production capacity
  - ▶ Managing new (technical, commercial and human) risks
- **Asking oneself questions**
  - ▶ Do we have the best resources?
  - ▶ Does this form part of our global strategy?
  - ▶ Can it be sub-contracted?
- **Checking that this activity**
  - ▶ Can generate distinctive Added-Value over the longer term
  - ▶ Needs to be monitored to maintain a competitive advantage
  - ▶ Can be reincorporated or moved if the partner defaults

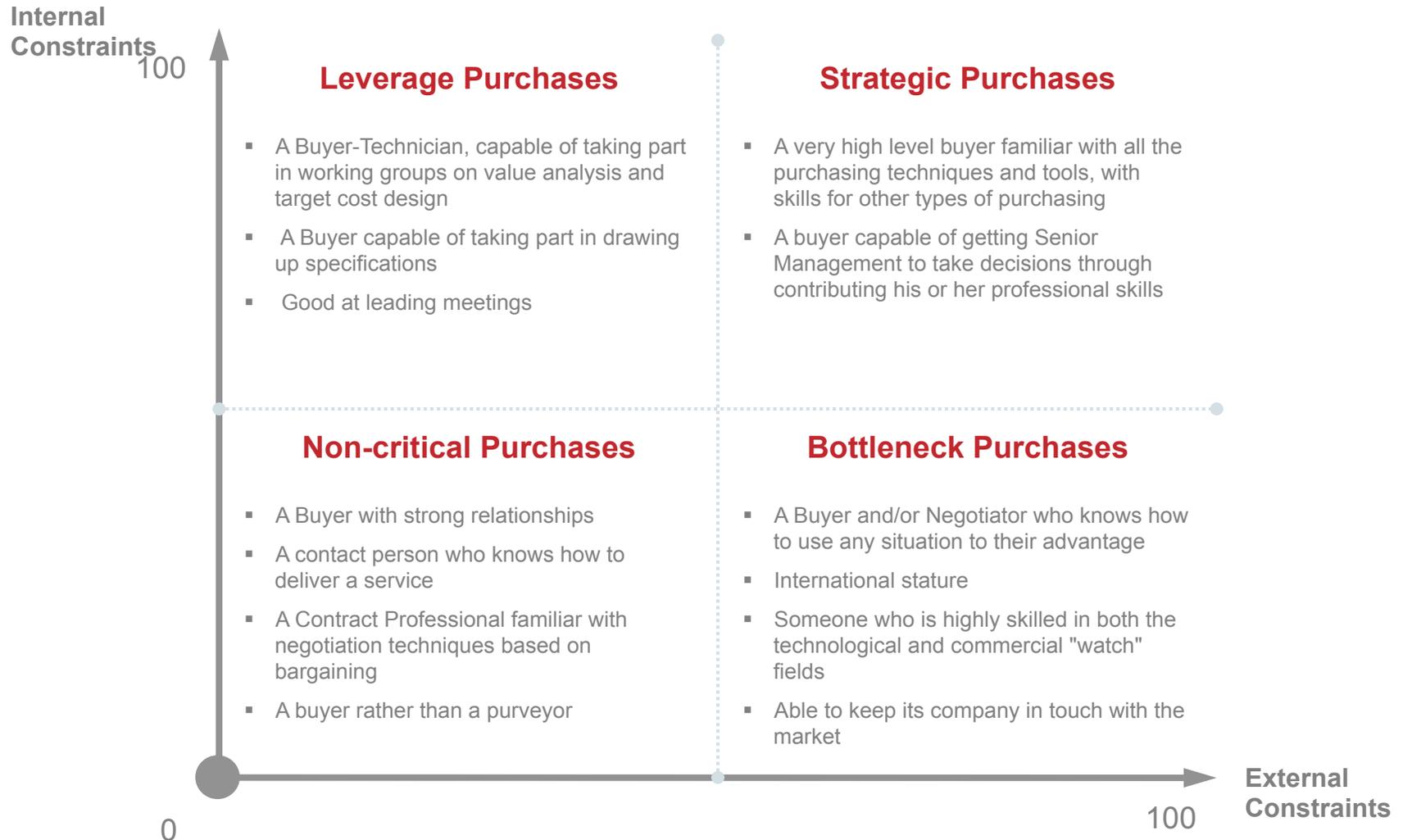
# Drawing up the strategy

## Differentiated strategies...



# Drawing up the strategy

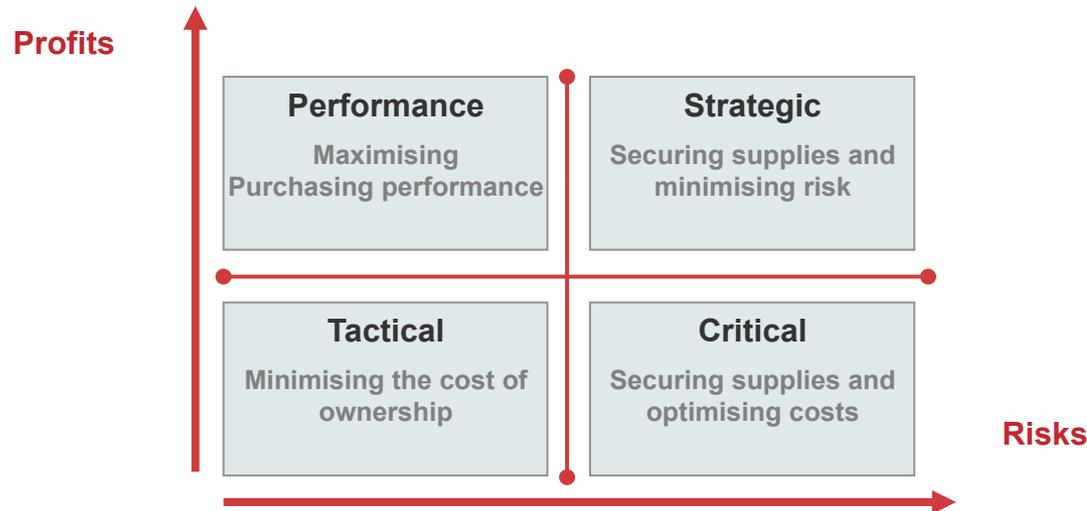
... For different Buyer profiles



# Drawing up the strategy

## Operating strategy

- It is important to establish the stances to take, in order to balance one's positions, based on performance and risk constraints.



- ▶ Each strategic area is to be analysed with two operating parameters:
  1. Nature of the product or service (standard/specific)
  2. Frequency of the purchase (recurrent/one-off)

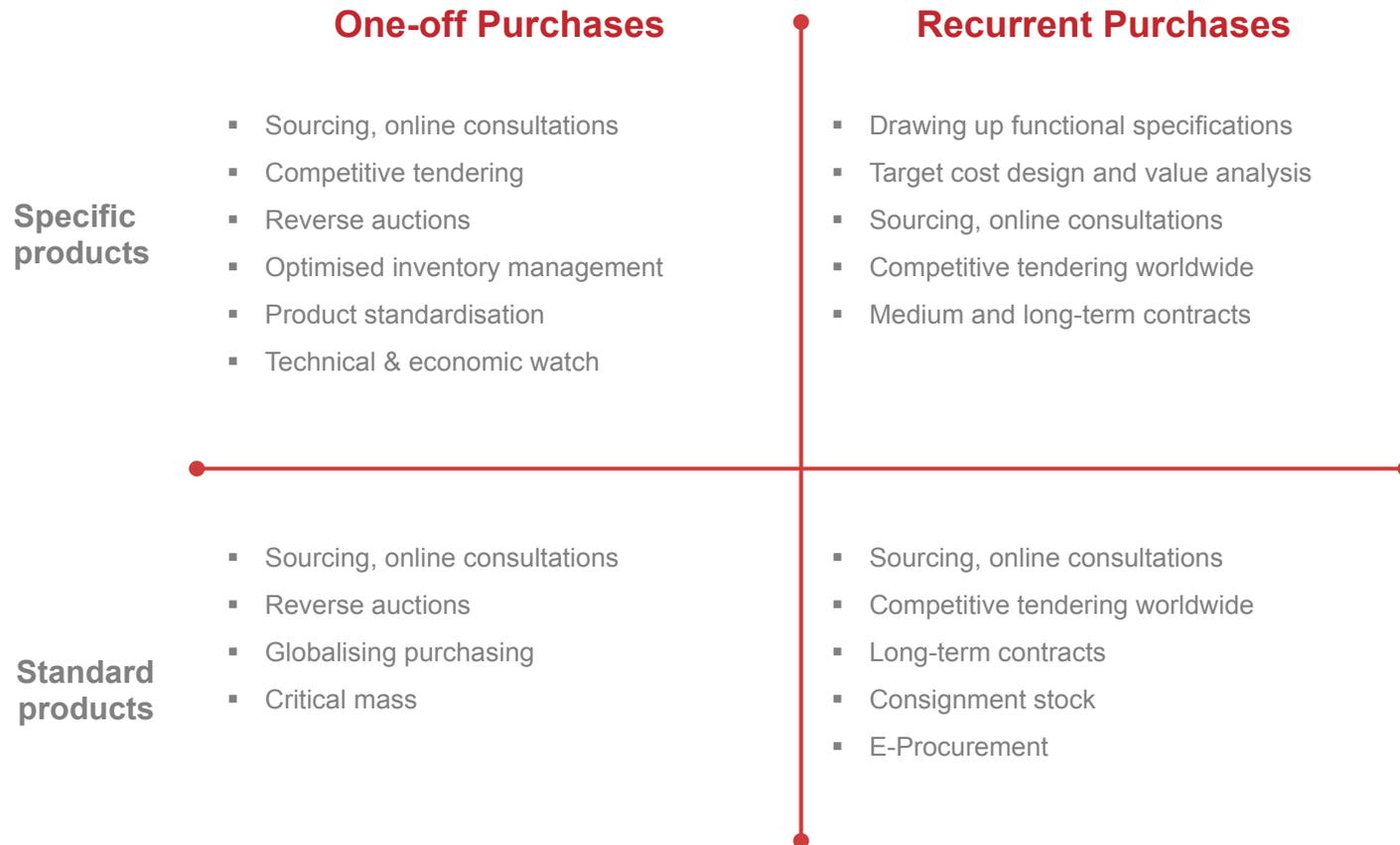
# Drawing up the strategy

## Differentiated strategies



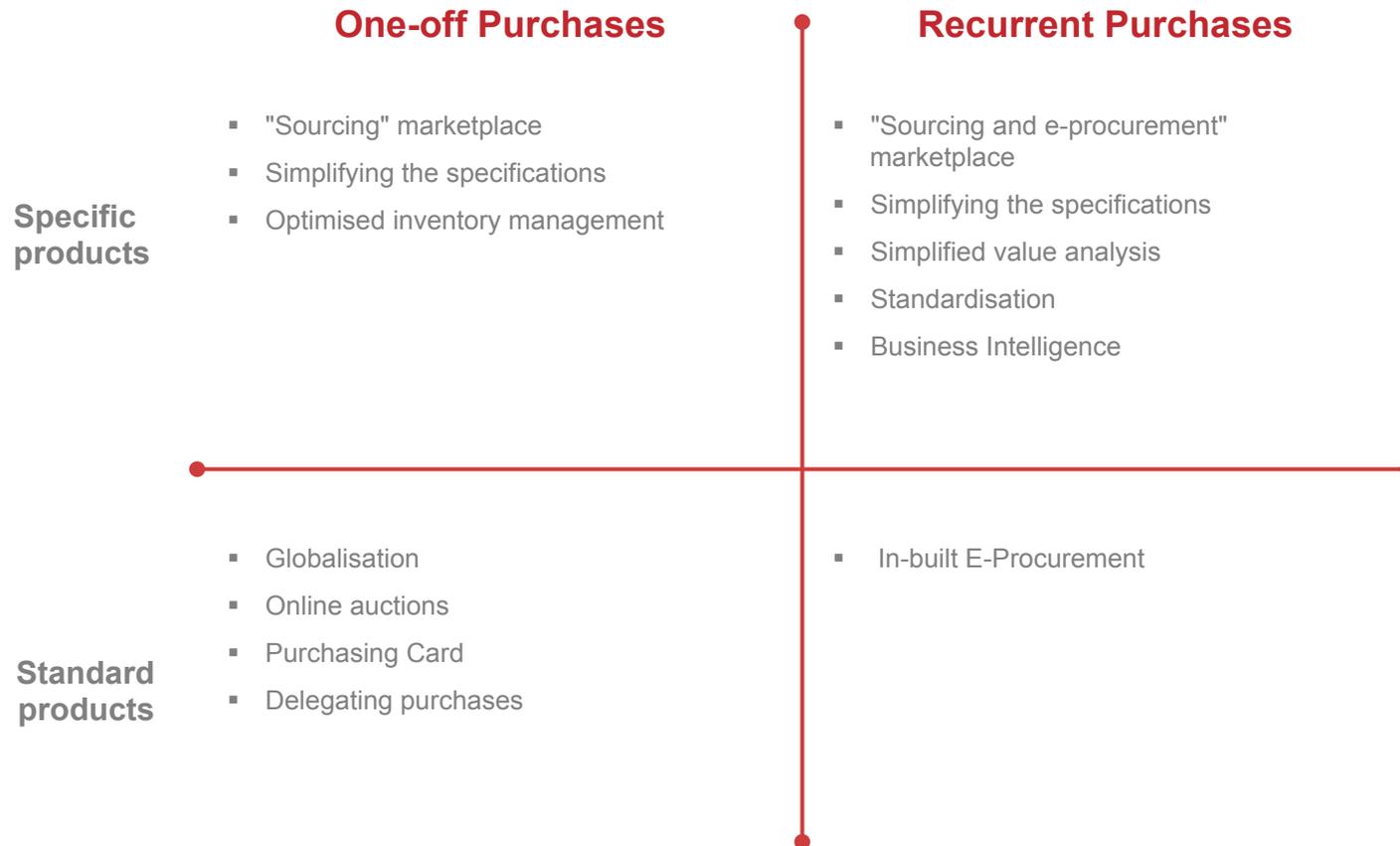
# Drawing up the strategy

## "Performance" area productivity levers



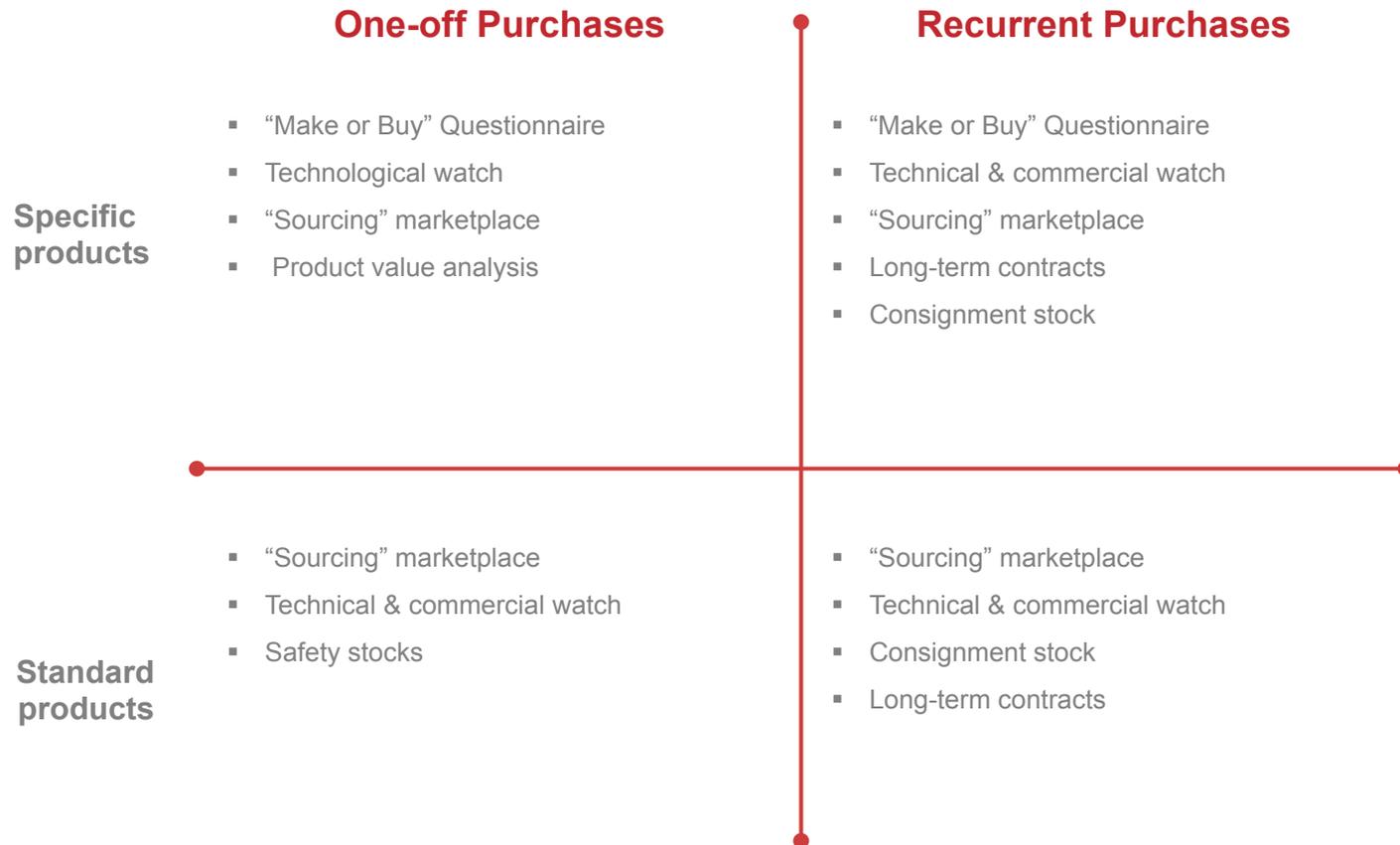
# Drawing up the strategy

## "Tactical" area productivity levers



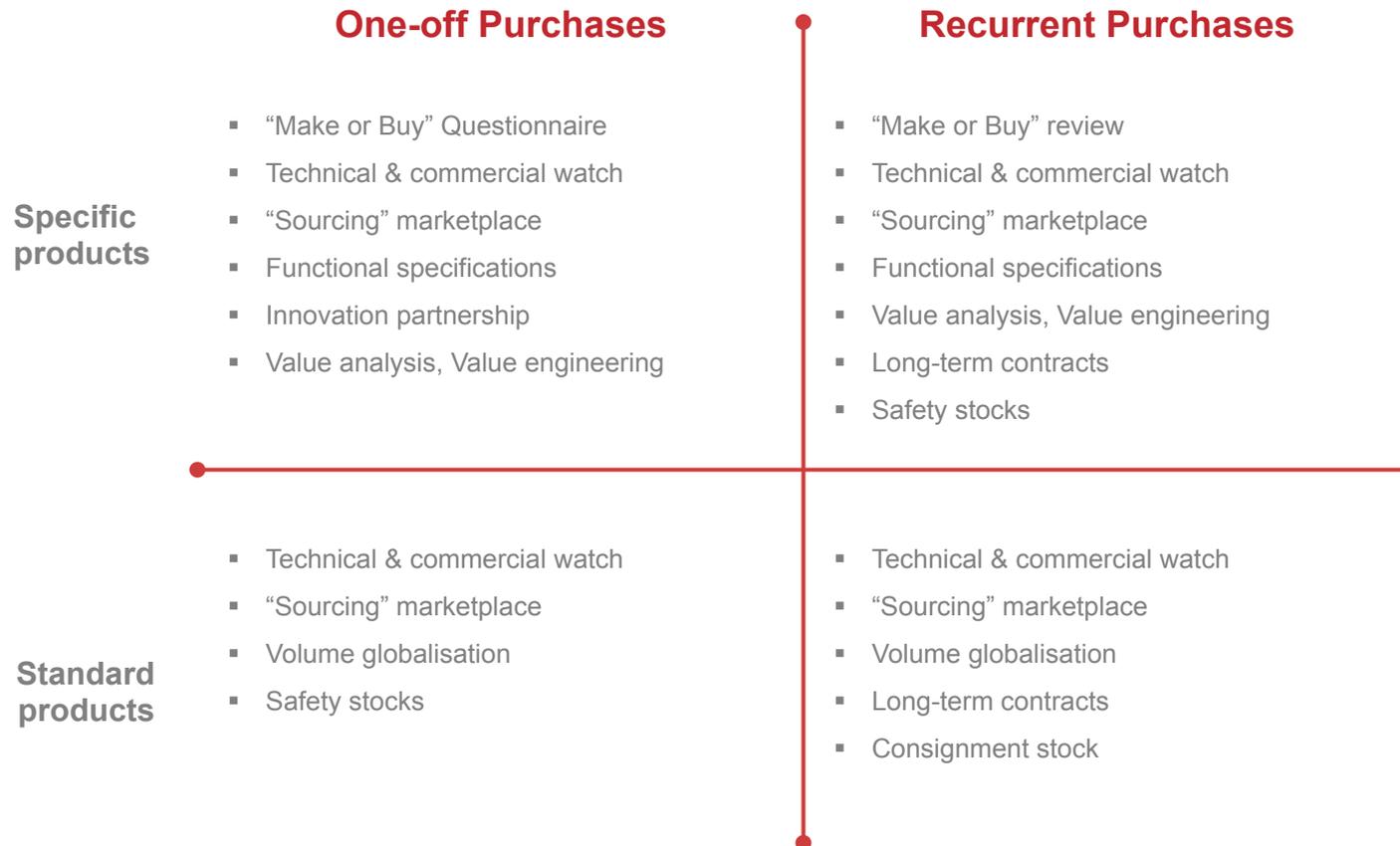
# Drawing up the strategy

## "Critical" area productivity levers



# Drawing up the strategy

## "Strategic" area productivity levers



Compulsory involvement in the process for at least **three fundamental reasons**

1. Checking the consistency of the Strategic Purchasing plan to the global Strategy
2. Formalising the legitimacy of the purchasing initiatives to be launched
  - ⇒ Towards suppliers
  - ⇒ Internally (declared sponsors)
3. Communications initiative

# Implementation and management

## Important steps

- **Drawing up a detailed action plan which can be announced**
- **Putting in place an organisational structure tailored to the challenges**
  - ▶ Allocating resources
- **Developing tools**
  - ▶ Formalising agreements
  - ▶ Project management
  - ▶ Measurement and analysis
- **Approving and monitoring adjustments to deliverables**
- **Putting a communication plan in place**
  - ▶ for internal customers
  - ▶ and partners

### Must

- ▶ Be simple and attractive to look at
- ▶ Have a known and recognised origin
- ▶ Be understood and shared by a majority of people
- ▶ Have a defined goal (stability or progress)
- ▶ Stand the test of time
- ▶ Apply to relevant periods
- ▶ Undergo a critical examination, at each development stage
- ▶ And cover the organisation's spectrum of responsibility



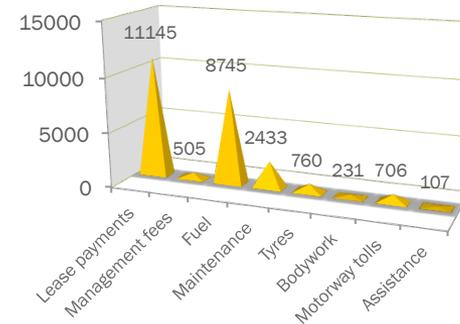
# Implementation and management

## A few indicators

Spent by category	12 months saving (in M.€)	Archieved savings 2007	Actual saving 2008	Carry over 2008-2009	Carry over 2010	Carry over >2010
PC	13,184	3,820	3,300	1,120	3,955	0,989
Telecom	11,050	5,820			1,192	1,048
Vehicules	22,160	3,990	3,320	1,100	10,952	2,738
Offices Supplies	3,200	2,540			0,528	0,132
Temprary staffing	2,600	1,780			0,656	0,164
Travel	1,570	1,510			0,048	0,012
ITPS	5,700	3,180	2,500		0,016	0,001
Training	1,400	0,380	0,610	0,080	0,210	0,060
Copiers & Fax	11,200	0,400	1,810	0,700	6,682	1,658
Courrier	0,466	0,250	0,210		0,005	0,001
PPF	0,677		0,420	0,140	0,094	0,028
Tools	2,470		1,660	0,780	0,024	0,005
Paper	0,230	0,005	0,110	0,020	0,076	0,019
Extension Telecom	3,352		1,430	1,340	0,456	0,116
Copiers high volumes	0,635		0,630	0,005	0,000	0,000
Car rental	1,375		0,270	0,130	0,780	0,195
SFD	0,520		0,230	0,200	0,086	0,024
Controls	0,420				0,336	0,084
Sotware	3,325		0,200		2,500	0,625
Rebates	1,630	0,290	1,300		0,072	0,018
<b>Total</b>	<b>87,164</b>	<b>23,965</b>	<b>18,000</b>	<b>5,615</b>	<b>31,668</b>	<b>7,917</b>

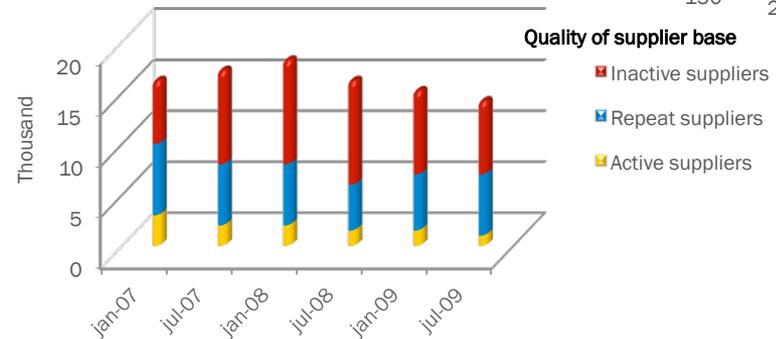
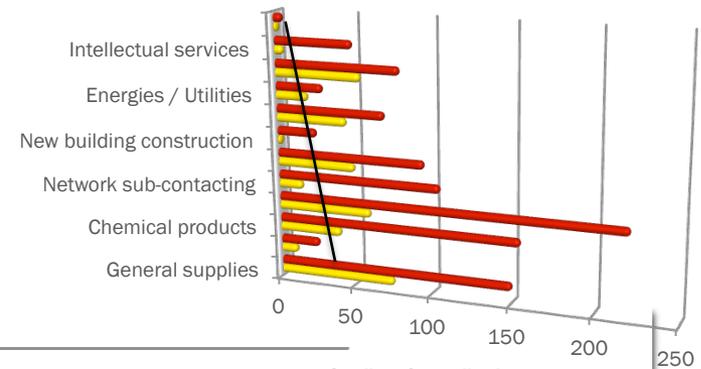
  

By Division	12 months saving (in M.€)	Archieved savings 2007	Actual saving 2008	Carry over 2008-2009	Carry over 2010	Carry over >2010
Business 1	25,164	10,570	4,202	1,387	7,180	1,795
Business 2	0,600	0,201	0,070	0,024	0,005	
Business 3	19,200	2,872	4,854	1,956	2,614	1,904
Business 4	8,200	3,125	1,530	0,564	2,385	0,596
Business 5	31,000	6,321	6,782	1,360	18,230	3,307
Business 6	3,000	0,876	0,562	0,324	1,254	0,314
<b>Total</b>	<b>87,164</b>	<b>23,965</b>	<b>18,000</b>	<b>5,615</b>	<b>31,668</b>	<b>7,916</b>



Category breakdown

- Under FWA
- Annual Spent



# Implementation and management

## Performance measurement

### → Strategy

- Rolling out the defined strategy
- Capitalising on organisational lessons

### → Organisation

- Individual and team roles and responsibilities
- Identifying and building teams

### → Targets

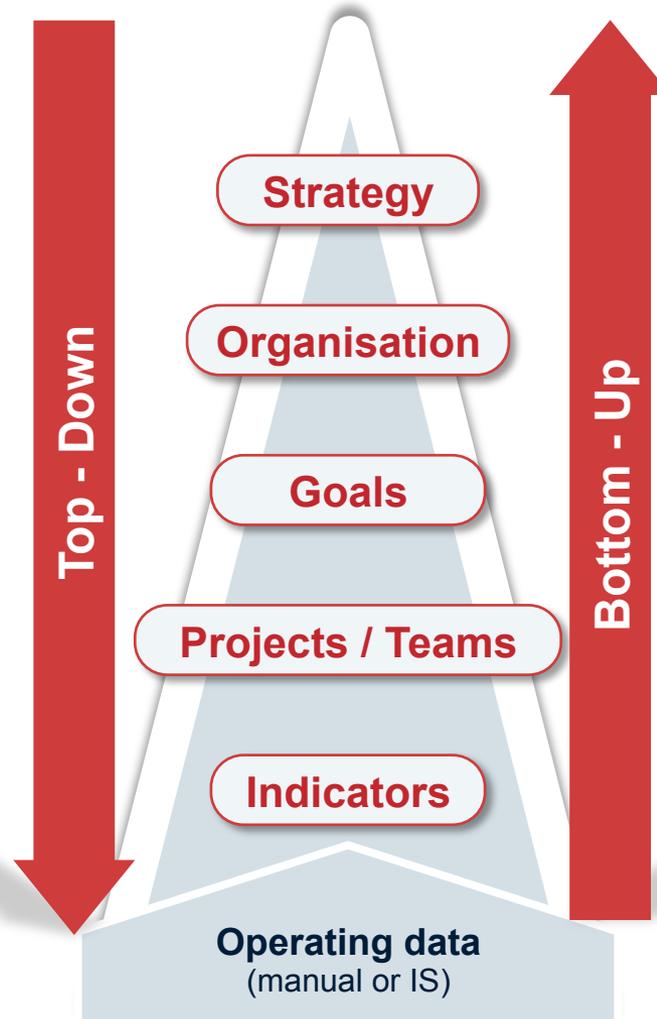
- Formalising and allocating the targets

### → Individual and team projects

- Action and execution plans
- Targets & roll-outs

### → Indicators

- Constructing indicators
- Measurement and reporting



### → Targets

- Measuring and monitoring the targets
- Adding to and/or adapting the targets

### → Projects and teams

- Approving interdependencies between projects
- Monitoring projects' progress

### → Indicators

- Performance measurement
- Validation and repositioning

# Implementation and management

## Monitoring and providing support

- **Performance updates, intended for:**
  - ▶ Various internal players
  - ▶ Partners and suppliers
  
- **Including**
  - ▶ Details of the guidelines adopted
  - ▶ The results generated relative to the defined targets
  - ▶ An assessment of success rates and constraints
  
- **Communications**
  - ▶ Transparent and regular situation updates
  - ▶ That provide the real action plan trends



**Bring the strategies to life and adapt your resources to the way they develop.**

- **Building a "Strategic Purchasing Plan" involves**
  - ▶ Understanding
  - ▶ Analysing
  - ▶ Ranking & Mapping
  - ▶ Deciding & Guiding
  - ▶ Acting based on three principles:
    - ⇒ Making people understand (Communicating)
    - ⇒ Making people comply with
    - ⇒ Making people live with
- **The Strategic Plan:**
  - ▶ The first essential step in a professional purchasing process
  - ▶ An index that represents a company's purchasing maturity



**The basis for all other actions you will have to take.**

**Guy ELIEN**

Senior Partner  
ESME Engineering Degree

[guy.elien@clarans-consulting.com](mailto:guy.elien@clarans-consulting.com)



55 Avenue Marceau  
75116 Paris

Tel : +33 (0)1 56 60 59 06  
Fax: +33 (0)1 56 89 26 27  
[www.clarans-consulting.com](http://www.clarans-consulting.com)