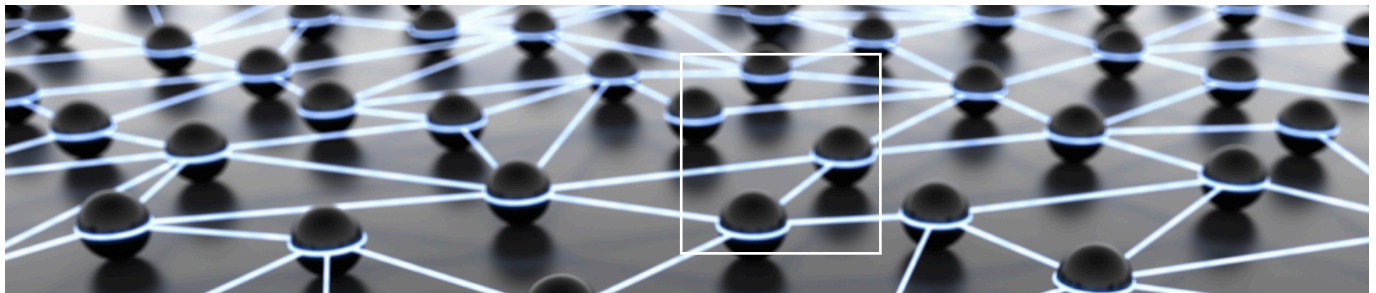


# Networked Procurement

*Networking as future strategy delivers measurable higher and sustainable value for your company*



Due to the increase in economic tension companies have optimized the organization, processes and systems in procurement over the last years and achieved related savings. Nevertheless companies are realizing that they have not yet reached the full value-added potential in procurement. The underlying reason being the low degree of networking of procurement with other functions, which often can be explained through the amendable qualification of procurement employees and the resulting lack of acceptance for procurement.

Arthur D. Little has developed the “**Procurement-Network-Management (PNM)**”-solution to tackle above issue. The PNM Solution enables companies to sustainably achieve the full value added potential through highly qualified and networked procurement employees leading to the acceptance of procurement as strategic and long term partner within the firm. The PNM Solution is academically supported by the chair of logistics management of the University of St. Gallen (LOG-HSG).

## 1. The absence of investments into employees impedes sustainable structural optimization

Companies have consistently structurally improved procurement over the past years - hereby mostly referring to individual measures that aimed at optimizing prices and conditions. Organizational procurement structures were adapted, procurement information and management systems were established and category as well as supplier management processes were introduced. However in most cases development and qualification of employees in regard to required functional skills and social competences were strongly neglected. Without this the sustainability of every structural optimization in procurement is not given.

## 2. The vision of interconnected procurement

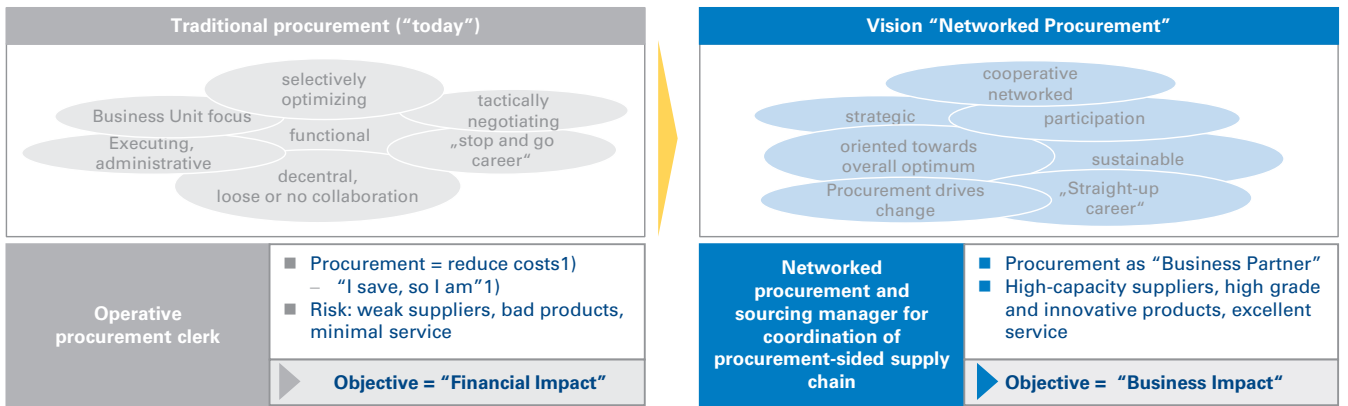
Procurement employees were traditionally viewed as operative purchasing clerks. However, with the introduction of strategic category and supplier management as basis for the continuous and sustainable optimization of procurement their role has drastically changed. The Networked Procurement employee evolves to a strategic business partner who functionally leads and actively involves interface partners in the process of optimizing the supply chain on the procurement side (see figure 1 overleaf).

Hence “**Procurement-Network-Managers**” (PNMs) are a key factor for successful category management they establish and

coordinate cross-functional procurement teams which in turn take responsibility for specific category strategies. The cross-functionality of the teams enables the usage of the complete optimization lever spectrum including extensive value creation levers as e.g. make-or-buy decisions, the development of platform strategies in connection with modularization and standardization or also technical de-contenting/- specification. Recent studies conducted by Arthur D. Little reveal that procurement alone can only utilize 30% of all optimization levers. It depends on interface partners and their functional expertise for the remaining 70%.

Thus requirements for procurement employees ascend considerably. Aside from often already excellent skills concerning operative procurement processes a more holistic, strategic view in procurement is becoming of increasing importance. PNMs need to be able to achieve transparency and a holistic understanding of the procurement categories and volumes they are responsible for. Furthermore superior knowledge of the procurement markets and of methodical tools regarding strategic category management is essential. Best Practice approaches pertaining to topics such as make-or-buy, category strategy development and optimization lever portfolio, strategic provider management, total-value-of-ownership (TVO) concepts, life cycle management, crowd sourcing as well as innovation models for procurement are increasingly becoming every day tools of the strategic procurement employee. She/He needs to know them

Figure 1. The change towards interconnected procurement



**Successful category management is the key to transforming towards "Networked Procurement"**

1) O-Tones of interface partners: "Buyers want lower prices, at all cost"; "Buyers are loaded with testosterone"; "Procurement is the architect of its own island"  
Source: Arthur D. Little

inside out to establish himself as fully-fledged business partner among equals across all firm levels and divisions (see figure 2).

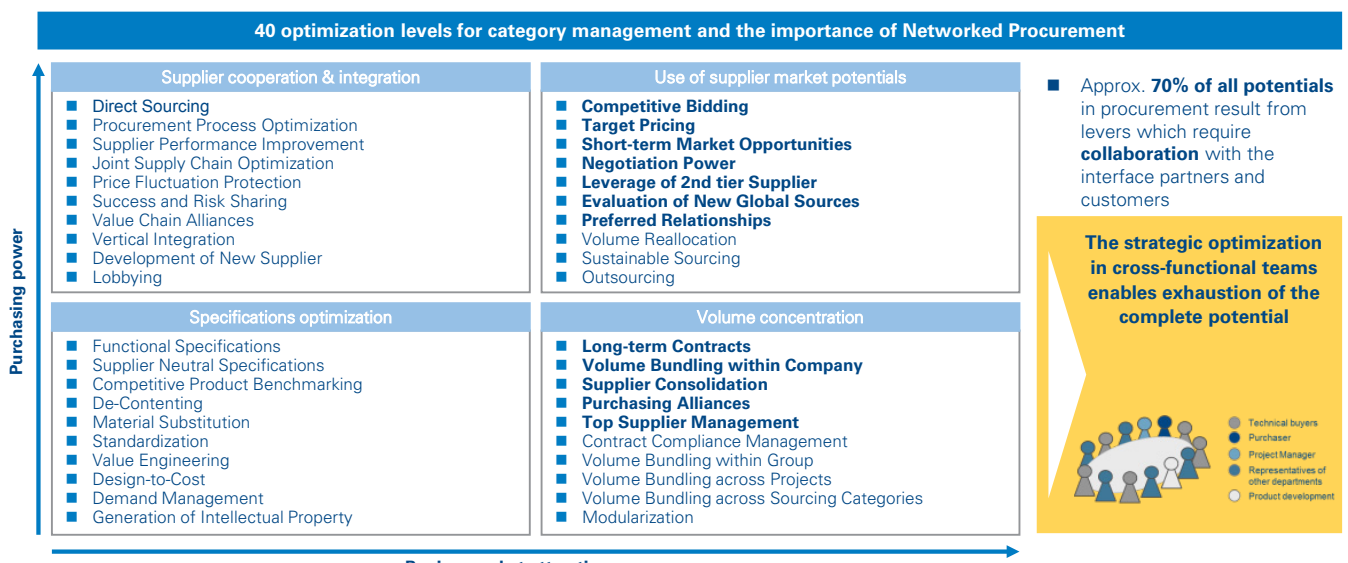
### 3. The procurement-network-manager as visionary and integrator

In the role as strategic business partner procurement increasingly resumes a leadership function. The functional departments of a company have individual, partially contrary objectives regarding procurement. It incumbents upon Procurement to ingrate the diverse perspectives into a clear vision, motivate the cross-functional partners towards superior performance and participation in the development of the category strategy. The absence of disciplinary responsibility of the PNM poses a great challenge towards management and leadership of the cross-functional teams.

Emotional intelligence, meaning the combination of personal and social competence, becomes the decisive factor of success. It separates the average or good buyer from the great and gets to be more important with increasing responsibility. Emotional intelligence as basis for leadership competence empowers the PNM manager to win over the relevant partners from the functional interface departments for joint, long-term objectives. It also empowers her or him and respective a High Performing Team to make the best decisions for the company under the total-value-of-ownership (TVO) principles.

As a result the PNM managers work together with the cross-functional teams among equals at optimizing the complete value chain and achieving sustainable exhaustion of the complete value adding potential.

Figure 2. Exhaustion of the complete value-adding potential in procurement through interconnectivity



Bold= lever, which procurement can completely or extensively implement on its own  
Source: Arthur D. Little

### 4. Organizational prerequisites have to be met

However, the qualification of procurement employees by itself is not sufficient. Depending on the respective maturity level of the existing organization, basic concepts of a Networked Procurement organization have to be implemented or else the procurement employee as sole visionary and representative of the Networked Procurement vision will face the same fate as Don Quichote.

Important success factors for the establishment of a Networked Procurement organization are:

- Company wide accepted and shared vision of Networked Procurement
- Training of demand carriers and representatives of the functional interface departments („interface partners“) in terms of functional and social competencies. Thus ensuring that all functions have a mutual understanding of the objectives and possibilities of a Networked Procurement and enabling successful collaboration within high performance teams.
- Support of the endeavor by means of continuous change-management to secure behavioral changes with all employees and stakeholders.
- Governance-structure for interconnected procurement, meaning the introduction of cross-sectional committees with decision authority, lead buyer structures and cross-functional PNM teams.
- Establishment of a best in class category strategy development process as standard for the PNM teams

### 5. Sustainable strengthening of procurement through PNM – Solution

The demand-oriented Procurement Network Management development program combines proven contextual components with new, innovative approaches. The program takes place in three phases.

The project will be initiated in **Phase 1**. This encompasses project planning, the inclusion of the strategic procurement standards for the integration into the PNM qualification program, as well as a “purchasing performance excellence“ analysis for the assessment of the networking degree and necessary flanking measures.

**Phase 2** starts with the customer-friendly adaption of the PNM program regarding levels of education, contents and target groups. Arthur D. Little and LOS-HSG recommend opening the program for operative procurement employees and interface partners. The focus of the highest level of education lies in the development of “high potentials“ in procurement to PNM „Black Belts“ and an optional Train-the-Trainer qualification.

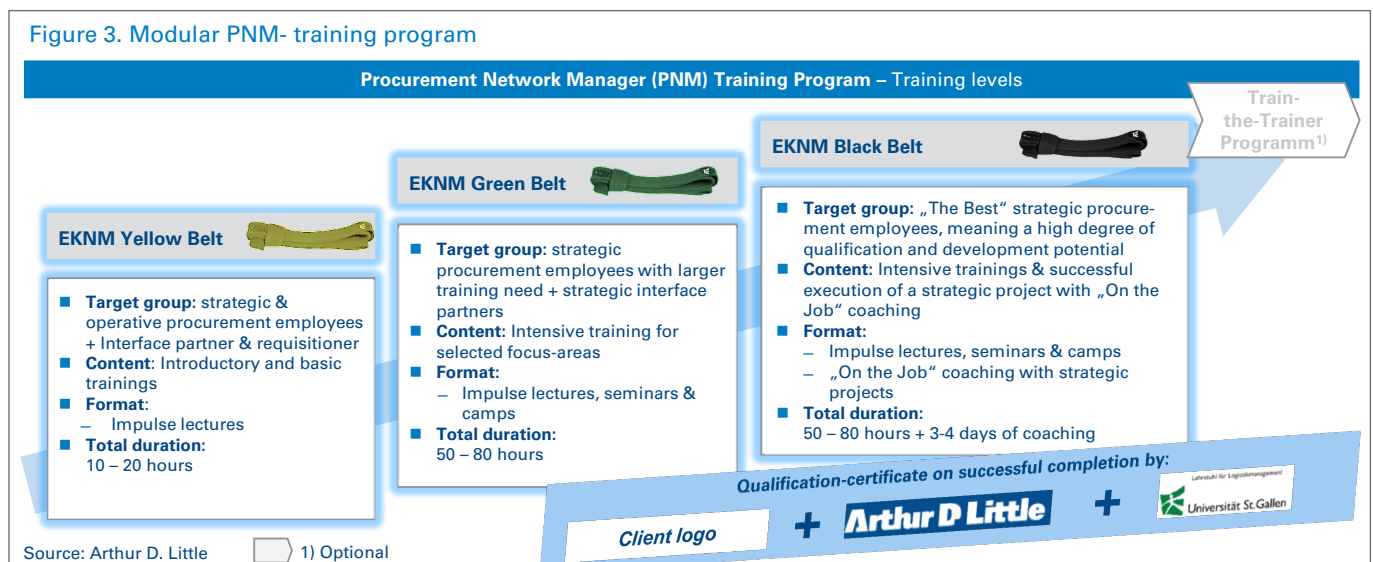
Phase 2 focuses on the survey of demand regarding qualification. This survey is supported by an online evaluation test of the current qualification level of all procurement employees and helps to identify competence gaps in comparison to the entrance requirements for the PNM program and/or targeted job descriptions. This allows a precise assignment of each employee to the most adequate training program. (e.g. PNM *Yellow Belt*, PNM *Green Belt* or PNM *Black Belt*) (see figure 3).

**Phase 3** serves the customer-specific adaption of the training modules and subsequent execution of the PNM qualification measures.

All training content is conveyed in different training formats by selective experts from industry, consulting and academia. This also includes introductory lectures as webinars and interactive basic-/intensive trainings in training camps over the course of multiple days with small groups at attractive training locations.

More than 20 qualification modules regarding functional procurement, management and leadership competencies as well as requirements of the modern PNM manager are available.

The training curriculum listed above is effectively conveyed by means of modern training methods (e.g. practical case stud-

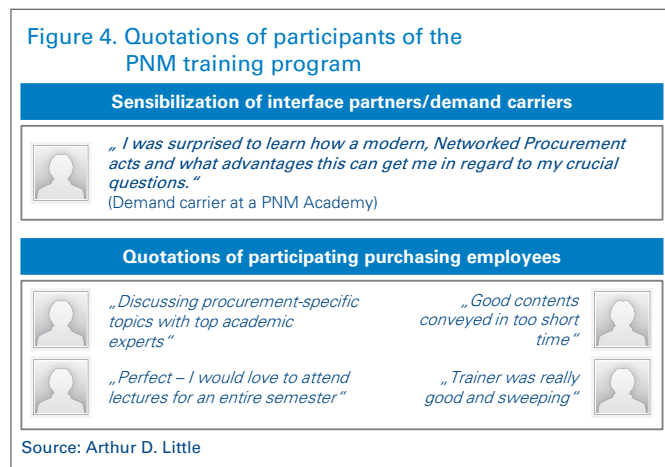


ies, negotiation role games with video recordings, networking games etc.). Team building measures pose another focus of the qualification program and aim at supporting the networking of procurement and the formation of high performing category teams.

The implementation of strategic pilot projects in combination with "on-the-job" coaching through selected experts from Arthur D. Little make qualification measures on the black belt level distinctively special by ensuring the sustainable institutionalization of the conveyed content through specific application in day-to-day business, the establishment of category specific, cross-functional high performance teams as well as instantaneous success in the pilot projects in the sense of added value for the company.

There is an evaluation for all participants after every training program. On successful completion of the program a qualification-certificate is awarded by Arthur D. Little and the chair of logistics management of the University of St. Gallen.

The results above are substantiated by quotations of previous participants (see figure 4):



## 6. Positioning of procurement as strategic value adding partner

The PNM program offers a broad scope of benefits: The demand oriented program with customer-specific adaption and its holistic, "state of the art"- qualification of procurement employees and of the relevant interface partners leads to sustainable exhaustion of the entire value adding potential. Additionally, the motivation and commitment of "high potentials" and employees is increased. On the one hand procurement can position itself as competent, strategic value adding partner. On the other hand the attractiveness of procurement as employer within the company increases as well. The black belt level with instantaneous project implementation will create additional directly measurable added value for the company – PNM finances itself already within the first year.

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