No. 91, July 2014 ISSN 1869-8360

MANDAT CONSULTING GROUP

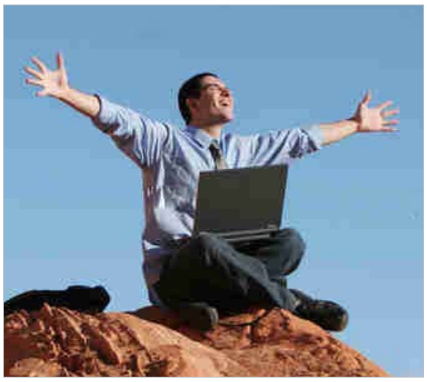
MANDAT GROWTHLETTER®

Growth Focus: Purchasing

CEO-Tip *of the Month*

by Guido Quelle

"Purchasing is the Key to Success"—A Myth.



How often, and in how many countless meetings, have we already heard it? "Purchasing is the key to success."—a platitude that, despite its constant repetition, becomes neither more correct nor more palatable.

Growth does not come from Purchasing; it comes from Sales. And no matter how many sophisticated Purchasing concepts, Purchasing department structures, Purchasing processes, Shared Service Centers or negotiation techniques you introduce, nothing's going to change that fact. A company that doesn't sell anything doesn't need to purchase anything; a company with no Sales intelligence doesn't need Purchasing, Marketing, Accounting, Controlling, or a Senior Management. Turn out the lights, lock the doors; it's time to call it quits. That's what business looks like without Sales to promote growth.

The argument that good Purchasing can cure all ills is above all preached in those companies where price pressures are dominant. The higher the (subjectively felt or actual) price pressures, the more passionately this argument is made. But that doesn't make it any more true, because companies that can only generate growth from Purchasing, i.e., by using lower purchase prices, are evidently incapable of marketing and selling their products for suitable prices; in essence, a higher level of Purchasing expertise is used to compensate for a lack of Sales intelligence. Statements to the effect that we're all working in a highly competitive environment and can't simply raise our prices, but instead have to drop them, are more often than not simply a poor excuse. They also ignore the fact that, though customers certainly can at times react adversely to price hikes or companies who don't lower their prices when their competitors do, the very same customers can be open for true innovations. But where are these innovations?

Purchasing is significantly easier than selling. Those who do the purchasing are in a position of power; they can put their negotiation skills to full use and play with contingencies. The classic example: the grocery retailer that consistently plays hardball—until at some point a key vendor decides they've had enough and quits supplying them, with dramatic consequences. In contrast, those doing the selling are always faced with the following: In B2B negotiations, they sit across the table from purchasers, who make the most of their position as customers and are well aware that they can simply change vendors whenever they choose. Salespeople have to establish a relationship, and usually have to find a suitable mix of price, product and services if their goal is to find a deal everyone will be satisfied with.

The prospects aren't any rosier in B2C business, where price-comparison search engines deliver a high degree of transparency. But what would happen if companies put more emphasis on aspects like convenience, ease of use, additional services, and security? What if, for example, when faced with a customer's (=a purchaser's) statement: "I can get this TV 100 euros cheaper online," instead of responding with, "We have to pay for our staff, rent and electricity, and that all costs money," the sales staff at the local electronics store said: "Okay, but if you just spend another 50 euros on your purchase, we can deliver the TV, mount it on the wall if you like, connect it to your Dolby surround-sound system, measure the placement for your speakers and program the TV so you can enjoy it right away."?

Of course, despite the undisputed importance of Sales, we shouldn't forget that good purchase prices are also essential if you want to stay competitive, especially in the commodities field. And some of our client projects also focus on professionalizing their Purchasing, as many Purchasing departments squander a great deal of potential. In order for it to work, Purchasing also calls for an efficient structure and solid negotiating skills. But steady growth? This type of growth comes from the top, the very first lines of the profit-and-loss statement; and those are delivered by Sales.

Strategy & Leadership

by Guido Quelle

Quality in Purchasing —The Criteria Are What Count

In my book "Profitable Growth: Release Internal Growth Brakes and Bring Your Company to the Next Level," in addition to chapters on Sales, Marketing, R&D, Logistics, support departments and so on, there is of course also a chapter on the Purchasing department. After all, Purchasing is one of the central departments at manufacturing and trading companies, because—supposedly—that's where they either make their money (though that's not actually true) or throw it out the window (something we see much more often). The title of the chapter is: "Is your Purchasing department rewarded for being bean counters, or for delivering quality?".

The chapter title and the title of this article indicate what aspect counts most if Purchasing is really meant to promote growth: the criteria used to measure its success. In addition, we need good old-fashioned common sense and suitable expectations.

I can fondly remember how a consulting assignment for a listed company came about. We had already fixed the terms and submitted a reasonable offer; everyone involved was in agreement that we were the right ones to take on the project and lead their team to success. Then came the unavoidable: The person in charge told me that the Purchasing department would be in touch. I said, "Purchasing? Why?". His answer was that it was just how things were done. So I decided to wait, and sure enough: A few days after handing in the offer, I received a call from someone who identified himself as a member of the Purchasing department, then proceeded to tell me he had looked over the offer and found it too expensive. Back then we used a daily rate and he claimed that even "the big companies" (here he was above all referring to McKinsey, which had a few dozen consultants working there) charged less per day. I said: "Aha." He went on to say that we could potentially receive plenty of future assignments if we were willing to come down a bit on the price now. My response: "Really? Such as?"—and he suddenly ran out of things to say. Of course he did; after all, he couldn't just make up assignments from thin air. Having the classic "carrot" dangled before my nose was never something I was particularly fond of.

Although the person I was talking to was perfectly courteous, the conversation was starting to bore me, so before I started to get angry about the wasted time, I simply said: "You know, why don't you discuss this with the person in charge of the negotiations instead? He and I have already agreed on the terms, and I don't have anything further to add." We ended the call politely and a few days later we received confirmation for the assignment—under the originally agreed-upon conditions, of course.

The only goal the person who called me had was to lower the price, because that's what he was paid to do. But what did he expect? That I had already included a buffer in the price? Was that the game? You set the price a bit high, the purchaser calls you back, you go back and forth, and in the end you (the service provider) grudgingly agree to reduce your fees, even though you actually planned to do so from the start, just so the purchaser can feel like he "won?" No thanks; my time is too valuable.

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Needless to say, the same games are played when it comes to purchasing goods or materials. What they all have in common is that they imply a negative basic attitude: The vendor, the service provider, the partner is too expensive, can still come down a bit, has to be put under pressure, calculated their price too high, and is the one who has to offer the best conditions. This is a terribly negative way to approach what is supposedly a partnership.

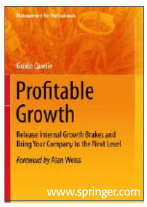
We worked with one of our client companies to very successfully reorganize its core processes, uncovering considerable potentials. In the process, Purchasing was also "slightly grazed," because we determined that its efforts to boost profits were so extreme that staff—in some cases without the knowledge of the Senior Management—haggled with vendors down to tenths of a cent (though admittedly, given the product volumes they were dealing with, this amount was certainly financially relevant). For some projects Purchasing kept several vendors dangling as long as possible, even telling them they had the order, only to pull the plug just before the start of production and switch to the lowest-bidding vendor. But the supposed financial advantages, which could be clearly calculated and put Purchasing in a good light, were promptly wiped out, because the vendors learned from their mistakes and no longer took the company's promises seriously. The result: When contacted by the company again, they simply told them they already had their hands full with other assignments. Many of them preferred more reliable customers and chose to set aside their capacities for the ones who actually kept their word. At times this called for flexibility, e.g. when a product was especially successful and needed to be restocked. But I'll give you three guesses how those vendors who had been duped more than once reacted. That's right; when they got the call, the answer was: "Sorry, we have more pressing business."

Pursuing the wrong criteria does more harm to a professional Purchasing department than good. Even worse: It does the whole company more harm than good. When is Purchasing ever held accountable for the long-term success of seminars (and here I'm talking about real benefits, not inane smile sheets)? And when is Purchasing ever judged on the basis of how successfully it expands on vendor relations, on vendor reliability, or on making it possible to do and expand business with vendors on a foundation of true partnership? My hat's off to any company that introduces these factors as its assessment criteria.

A Purchasing department that is only evaluated in terms of the purchase prices it delivers will automatically focus on optimizing those prices. Of course, this approach operates under the assumption that the quality of products and services, as well as that of the customer-vendor relationship, are just as high with a low purchase price as with a higher one. But that's not true. Or are we really naïve enough to think our vendors won't also work to optimize their own business? That is by the way also the reason why so-called "Supply Chain Management" and "Supply Chain Integration," let alone "cooperation" between customers and vendors don't go nearly far enough if there are no shared targets that the parties work together to optimize. Later this year I'll be giving a talk on this subject during the annual conference of the German Garden Industry Association (Industrieverband Garten (IVG)), something I very much look forward to.

The takeaway: A Purchasing department that is only rewarded for pinching every last penny is more of a detriment than a benefit when it comes to promoting a company's growth. But a Purchasing department that endeavors to build new partnerships; one that maintains and expands networks of dependable vendors; that works together with those vendors to identify potentials in the value chain; and the performance of which is judged on the success of its long-term business relations and not on the success of individual deals can make a considerable contribution to growth. You don't need a bean counter; those days are gone. What you need is a department that supports growth, and that's an order that calls for considerable intelligence.

ABOUT THIS BOOK



Profitable Growth – Release Internal Brakes and Bring Your Company to the Next Level

by Guido Quelle
Springer 2012
184 Pages. EUR 64,15
ISBN 978-3-6423-2786-5

Almost every company wants to grow – at least officially. Shareholders are demanding further growth and no management team would deny that the growth of their company is one of the top issues they are working on every single day. However, there are barriers to growth, and these are not only external barriers. Most often it is not the economy, not the market and not the customer who just "hasn't got it." The main barriers can be discovered inside every company, because growth always comes from within. If the organization is not ready to grow, initiatives to increase market share, to enter new markets, and/or to increase profitability are destined to fail. This book systematically addresses the main internal barriers to growth and provides practical guidance not only for discovering these barriers, but to systematically overcoming them.

Content

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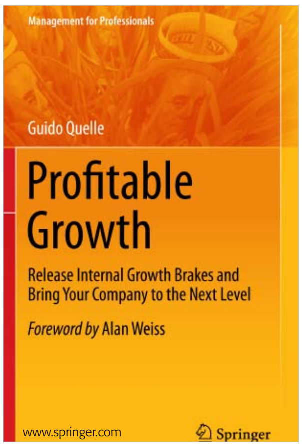
Content

- Innovations as Motors of Growth
- Is Your Organization Ready for Growth?
- Conceptual Expertise of Marketing
- The Growth-Driving Sales
- R&D as an Innovation Plattform
- How Strategic is Your Purchasing Department?
- The Role of Support Departments in the Growth Process
- Non-Profit Organizations
- The Most Effective Strategies for Blocking Growth
- The Motor of Growth

Author

Professor Dr. Guido Quelle, "The Growth Driver," is one of the rare people worldwide who focuses on creating profitable and sustainable growth as an entrepreneur, consultant, author and speaker for more than 20 years. His clients are active CEOs, general managers, senior executives, and entrepreneurs who are committed to consistent growth. With his consulting firm, Mandat GmbH of Dortmund, Germany, he successfully conducted more than 400 projects with 160 renowned private and listed companies. More than 5,000 people were involved just in those projects that he himself managed. Prof. Quelle is always in demand when companies are seeking the support that will enable them to continue on a course of sustained profitable growth.



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www.amazon.com/Profitable-Growth-Internal-Management-Professionals/dp/3642327869

- Springer 2012
- 184 Pages
- ISBN 978-3-642-32786-5

"The nuance that distinguishes this book is the orientation that growth is measured, planned, and pursued in an orderly fashion, never growth for growth's sake. Guido wisely takes the reader through a strategic approach which leads to intelligent tactics, not a frenzied tactical charge that undermines strategy."
Alan Weiss, PhD, President Summit Consulting Group, Inc., Author Million Dollar Consulting and The Consulting Bible

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