

## Creating Global Synergies From Decentralised Business Units

a report by

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In today's competitive global marketplace, international companies are under mounting pressure to improve their business in order to achieve higher financial goals. Typically, they have two options: raise prices and risk losing customers or lower costs and become more competitive.

One of the most efficient means of cutting costs is to become a better purchaser of goods and services. A global company can use its buying power to leverage greater value and reduced costs from its suppliers. The challenge is to harness that power and have the various work groups within a company collaborate for the benefit of everyone.

By sharing resources and best practices of its varied departments, a company can reap big benefits when it buys its goods and services as a single entity using defined processes. By creating open, on-going dialogue between departments, easier, quicker and less costly cross-unit new product launches can be realised.

As a result of this collaborative resource-sharing approach, team member knowledge levels can be enhanced, challenging the skill levels among all groups. You will gain a wider view of the entire marketplace to capture better or new sources of materials. Finally, purchasing becomes a process, not a function, leading to increased value for the goods or services you produce.

### The Global Landscape

By way of acquisition and/or natural growth, today's global companies often operate as independent, decentralised business units. In this instance, local or regional operations are often not in sync with what another part of the company is doing in another location (whether that location is in the same country or not). Often, there is little or no collaboration, sharing of information or a problem-solving network. Integration is often spoken about and perhaps achieved on some level, but rarely does it happen with purchasing.

This is a highly ineffective way to do business from a purchasing perspective. Some companies find that

they have several suppliers providing the same product or service. Yet, in other instances, the same supplier might have multiple contacts at various points in the same company's supply chain. Each business unit might do its own purchasing. By working independently of each other, the company realises no economy of scale, faces greater supply chain limitations and is bogged down by inefficiencies. This process often opens the company to exploitation by the supply base.

While it is easy to see the benefits of combining decentralised business units together to maximise their buying influence, the tough part is knowing how to achieve this goal.

### Purchasing Becomes Strategic

To effectively get decentralised business units to work together for greater purchasing efficiencies, the company has to change how it views purchasing. No longer can purchasing be seen as a transaction where people process orders, track inventory and put out fires as they happen. Purchasing has to be viewed as a strategic process that has set goals, long-term plans and a focus on reducing costs and adding value.

### Top Management Key to Becoming a Strategic Purchaser

Changing a global company to become a strategic purchaser requires the leadership of top management, a company-wide commitment to share ideas and expertise and a defined goal.

Once there is an internal drive for changing how the company purchases, it must be supported at the C-suite level to garner acceptance and adherence. Senior management – a CEO, CFO, board director – can wield the influence and power to change how the company purchases and sustains that change into the future. They are also looked upon to be the internal leaders of the change, providing guidance and commitment. Also, a C-level individual can provide staffing guidance, commit resources and set organisational goals.

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### Developing Cross-functional Internal Purchasing Teams

Assembling global teams centred on commodity or spending category is the first step in focusing an organisation towards strategic purchasing change. Consequently, in order for these teams to drive and establish cost-effective product/service programmes going forward, they must incorporate cross-functional company resources, including individuals from engineering, purchasing, materials, operations and other functions within the company, which are vital to the success of the team.

A sponsor, typically a senior-level individual, provides overall leadership to the team. The team then determines its working leader, co-leader, secretary and functional sub-team groups. Each team member needs to be assigned clear roles, responsibilities, authority and accountability. Also, a mechanism must be established for reporting back to senior management on the progress made by each project team. It is also important that each team act like a team – everyone must be in agreement as to how to collectively look at data, examine situations and challenge current opportunities.

Further, each team must create its own charter to identify and outline its expectations, mission, commitment, process, deliverables and the goal of the overall programme. This document answers the questions: What are you trying to accomplish? What is the timeframe? And who is responsible? The charter solidifies top management endorsement and establishes the team's internal leadership.

As teams take shape, there are inherent challenges in getting people from different cultures to work together. The cross-functional team members must be sensitive and respectful to different cultures that will comprise the team. Open, honest communication is the best policy when different cultures are working together. The team members soon realise that they are one company, and all benefit from their action.

### Getting the Teams Focused on Purchasing

The team then embarks on a research and data collection exercise. The research phase is important for the team to fully understand the issues, what is happening in the local markets versus the global market, what is spent with what suppliers, and other mitigating factors in the purchasing process. The team will make general recommendations from the data they uncover.

The next step is for the team to begin examining recommendations for feasibility, risk and

opportunity. Those options that are potentially suited to lead to the desired improvement are tested versus any established criteria.

There needs to be a solid return on investment, total cost of ownership and cost/benefit analysis done for each option before it becomes a strategic recommendation built around five-year plans. The team and sponsor deliver the best recommendation to senior management for final approval before it is introduced throughout the company.

### From Recommendation to Reality

Recommended strategies must not be a one-shot occurrence or have a one-year impact. The goal is to create sustainable improvements and savings. The first year to 15 months of implementing a new purchasing strategy will be mostly tactical. Companies will ask suppliers to show them a commitment to working with them in pricing, delivery, quality and other measurable criteria. Greater strategic changes are to be expected in the second or third year of the programme.

Often, the solution centres around establishing a single-source provider and leveraging what the company spends with that one supplier. The supplier also has to change how it does business to meet the requirements set forth by the company. In order to establish a preferred supplier relationship between companies, suppliers need to be willing and open to establish criteria for sharing their data, have structured plant inspections and meet other set performance criteria. Ideally, the supplier will be motivated to work with the company by the consolidation of buying volume with their business. In addition, a briefing with any supplier not chosen as the preferred supplier should leave the door open for a future relationship in the event that market or other factors change.

There is a level of risk in that if the supplier does not fulfil their stated obligations, the company can choose to work with the supplier to correct deficiencies or the supplier might have to be replaced. What path the company decides to take relies on a variety of factors, such as time invested, likelihood that there would be improvement and the risk associated with terminating the relationship. Leaving a preferred supplier may lower the company's leverage with the next supplier. Before ending the relationship with any supplier, the new supplier must be on board and performing to standards.

The results of this first year of cost savings need to be analysed against the stated goal. Often, there is a great deal of momentum created and the teams should feel excited about the positive effect they had on their

company. The key is to keep that momentum going, ensure that the processes put in place are continued and that the team has its goals set for continuing to get the cost out of the buy.

### **Bridging the Gap Between Year One and Year Two**

The consequence of 'one and done' initiatives is that these type of programmes absolutely kill employee morale and make the next important programme that much harder to implement. For strategic purchasing to be truly effective, a long-term strategy must be developed and followed. Otherwise, any benefits received in year one will wither away in year two.

Sustaining change is the domain of senior management. Top executives that committed to the initial programme need to keep that commitment going after the first year. The teams developed in the first year must evolve together to constantly analyse new market trends, data and results to continually improve the purchasing initiatives as outlined in the five-year plan. New ways of working together need to

be addressed. Discussions around future new products in the development cycle need to be planned for. The job isn't done, it's only just beginning.

In year two and beyond, quantifiable mechanisms must be put into place by senior stakeholders to drive future strategic goals. A central procurement figure or body needs to direct the plans of future commodity strategies and management of supplier relationships. This central figure or entity will not only plan and implement the strategic process going forward, but will develop the necessary policy and procedures to be followed by the global procurement groups.

### **Think Globally, Act Locally**

The benefits of bringing together decentralised business units to maximise the purchasing process is one of management's best tools for becoming competitive in today's tough marketplace. When managed correctly, investments in time and effort in the upfront planning process will deliver increased value and cost savings that go directly to the bottom line. ■