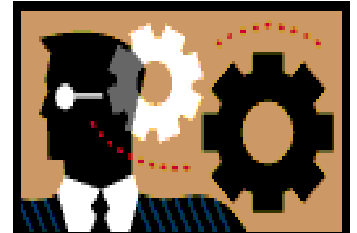




Welcome to Transform, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



Mastering Collaboration

Collaborations strategic value proposition can unlock the door to innovation and sustainable growth, CEO's and CPO's must turn the key

A guide for CEO's, CFO's and CPO's on how procurement can play a lead role in partner collaboration to secure a competitive advantage over competition

What's in it for you? Discover why developing a collaborative capability will support sustainable growth and higher margins, and why making Supply Management a Core Competency (SMCC) will provide competitive advantage over your competitors

Reading time: 15 minutes

Introduction:



In today's challenging environment, aggressive cost control sits at the top of the CEO's and the CPO's agenda across all industries. But aggressive cost cutting didn't stop GM and Chrysler going into bankruptcy. Competitors were simply better at bringing products that customers wanted to buy to market. These competitors were better focused on the issues that deliver competitive advantage and drive growth in market share and margins.

'**Procurements Golden Triangle**' of cost optimisation, Innovation and collaboration provides a framework for delivering competitive advantage. CEO's need a procurement function that is more value-orientated, and entrepreneurial. Arms length procurement practices will not provide the breakthrough, as GM has learned. Instead collaborative networks with the right partners holds the key.



Why Collaborate

Competition and globalisation has increased the complexity of relationships significantly and the focus is increasingly on external resources to create value. Managing collaborative relationships has become a key differentiator between leaders and laggards and the key component is capability in collaboration to provide:

- Increased efficiency up and down the extended supply chain
- Higher levels of innovation
- Agility and faster time to market
- Optimised costs within the various members of the supply chain
- Competitive advantage

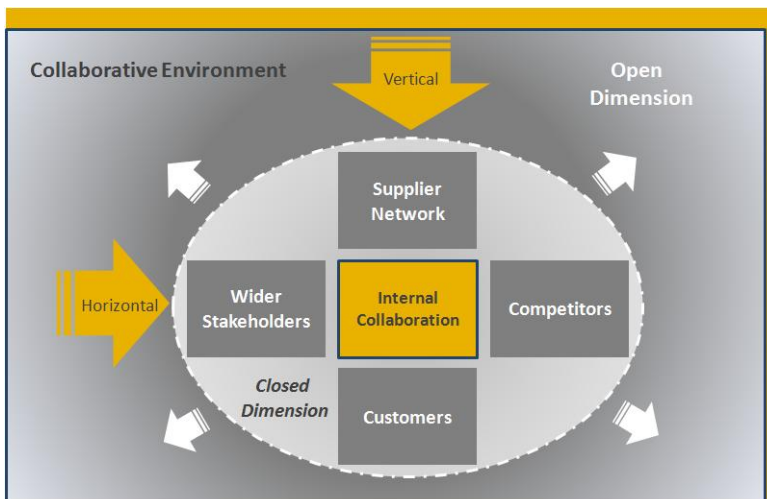
Yet in order to reap the rewards of collaboration, CPO's must manage it both effectively and selectively, across a wide range of internal and external stakeholders.

The Collaborative Environment

Purchasing Practice models the collaborative environment across two dimensions; the Open Dimension and the Closed Dimension. Procurement must aim to play a key role in both dimensions. The Open dimension describes the increasingly important open innovation process whilst the Closed Dimension describes collaboration along two axis; vertical and horizontal. Procurement should seek to be the natural partner in each dimension and across both axis. Such an approach requires a radical change in the culture and the vision of most companies in the way they manage their relationships:

- Internally
- With Customers
- With Suppliers
- With wider stakeholders
- Competitors

To succeed in the collaborative environment CPO's must find new, efficient ways of enabling employees, partners, suppliers and customers to collaborate, often across countries on a local, regional and global basis.





Closed Dimension

Internal Collaboration - Only by integrating and aligning with the business can procurement maximise its strategic value. Procurement must be capable and ready to help shape business strategy and then to ensure that the supply management strategy is fully aligned. CPO's must therefore find new ways of integrating with their internal partners to better; work together, share knowledge to improve results, make processes more efficient and effective, and manage information.

“Managing collaborative relationships has become a key differentiator between leaders and laggards.”

Setting up effective governance structures is a critical task to facilitate procurement's proactively discussing business plan inputs and contributing to formulation of business unit strategies.

Customers - Collaborating with customers is about understanding their needs and finding better solutions to fulfill them. Collaboration with customers is the key to developing successful service solutions. In addition to facilitating solutions that meets customer need, this involvement also strengthens relationships which in turn can lead to increased loyalty, and mutually benefit.

Suppliers - Collaboration with suppliers aims at improving the performance of the entire supply chain. Its time horizon focuses longer term and for this reason it must be separated from the tactical activities of SRM. Key suppliers must be brought into the decision-making process, to capture innovation, improve processes and transparency to help resolve supply chain issues.

Wider Stakeholders - There are strong business reasons to develop long-term, collaborative relationships as part of a Corporate Social Responsibility (CSR) strategy. These relationships are founded on core corporate values and business strategy and aim to secure reputation capital, based on sound relationships with stakeholders and communities. Success results in attracting and retaining the best employees, enhanced loyalty from customers, investors, and business partners and translates into improved margins and sustainable growth. Well known examples includes Federal Express' success in building employee commitment and loyalty, while British Petroleum builds strong community relationships.

Competitors - Collaborating with your competitors is a double-edged sword. It can however, be a smart strategy as long as both parties benefit without compromising each parties competitive position in the industry.



Whilst procurement and supply chain collaboration between non competing organisations such as the recently announced collaboration between PepsiCo and Anheuser-Busch for the joint buying of indirect goods and services in the US, are not uncommon. Collaboration between competing organisations is still rare in the procurement world.

“The most successful companies collaborate systematically by understanding their customers’ needs and working with the best suppliers to meet them.”

Learning and studying your enemy can pay dividends but CPO’s will rightly ensure to protect knowledge that is core to their competitive competencies. Procurement, Inventory Management, Transport & Logistics and Technology requirements are classic examples where collaboration could bring tremendous benefits in carefully considered circumstances.

Open Dimension

Here CPO’s must enhance their functional capability to analyse external markets beyond that which most procurement functions conduct supply market analysis. Market scanning for new sources of innovation becomes a key capability in this dimension.

Procurement is ideally placed to lead on providing the processes and tools to manage this growing ‘seeker – solver’ model for collaboration and innovation which still requires the familiar concepts of . transparency, fairness and due diligence.

Effective Collaboration

Major collaboration activities are based on sharing complementary goals, philosophy, purpose and best practices in order to achieve and effectively exploit common results.

Collaboration is dependent upon mutual benefit and so trust becomes a key component of an effective relationship. The goal for collaboration is to:

- Create value for the customer
- Do so at a lower cost than alternative methods
- Establish a competitive advantage relative to competition

The most successful companies collaborate systematically by understanding their customers’ needs and working with the best suppliers to meet them. They also maximise enabling capabilities and minimise restricting behaviours and weaknesses. See Fig.2



Segmentation

Clearly not all customers and suppliers can be considered for collaboration. Customers and suppliers must be segmented to determine appropriate relationships and levels of collaboration which can range from 'arms length' to 'strategic partner' at either end of the relationship spectrum.

This strategic approach to managing customers and suppliers seeks to gain competitive advantage by leveraging stakeholder talent, knowledge, experiences, and resources through the customer/supplier relationship. All parties benefit by becoming more end customer-centric.

Ultimately, by having a better understanding of customer's needs than competitors and translating each parties product development and selling processes to meet these needs they can gain significant competitive advantage.

Fig.2 Enablers	Road Blocks
<ul style="list-style-type: none">▪ Enterprise commitment	<ul style="list-style-type: none">▪ Late involvement
<ul style="list-style-type: none">▪ Shared objectives	<ul style="list-style-type: none">▪ Immature procurement organisation
<ul style="list-style-type: none">▪ Resource commitments	<ul style="list-style-type: none">▪ Poor organisation structures
<ul style="list-style-type: none">▪ Efficient information flow	<ul style="list-style-type: none">▪ Company culture and lack of trust
<ul style="list-style-type: none">▪ Regular contact	<ul style="list-style-type: none">▪ Misaligned incentives

Integration

Integration has become a key differentiator of high performing supply chains. It is about the alignment and interlinking of business partners, both up and down the supply chain and internally with other business functions within your organisation in the following areas:

- Organisation
- Processes
- Knowledge management
- Information sharing
- Work flow
- Technology





Integration is best achieved through strong governance which provides unified objectives, clear roles and responsibilities and eliminates duplication and non added value activities. Business systems and automation can be a key enabler for effective integration both internally and externally, by enabling information flows between business partners.

Collaboration for Competitive Advantage

Capability in collaboration is a key source of competitive advantage. Innovations are now increasingly brought to market by extended networks of collaborators, coordinated by the seeker organisation. The most successful companies collaborative strategies and practices used to achieve greater business value include:

1. Recognising collaboration as a strategic capability,
2. Organising effectively for collaboration,
3. Investing over the long term to develop collaborative capabilities.

This Collaborative approach can generate new options to create value that competitors cannot easily replicate. It aims specifically at creating a gap between the organisation and its direct competitors to create sustainable competitive advantage, improved margins and sustainable growth, by exploiting capabilities to their own advantage rather than for the benefit of the industry as a whole.

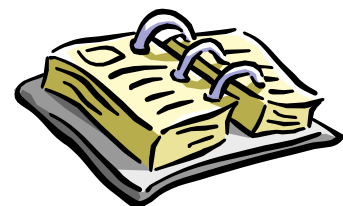
Procurements role

Procurement can contribute to securing competitive advantage which can be achieved by focusing on their organisations generic strategies around overall cost leadership, differentiation, or a combination of the two. CPO's should seek to achieve best practice status on multiple dimensions of excellence:

- Product/Service: Design, experience, look, touch, feel etc
- Differentiation: Product, Service, Brand
- Marketing Advantages: Distribution cost, route to market
- Cost Advantages: Cost of goods and services, administration expenses, eg. Dell, Wall Mart
- Financial Advantages: Mergers and acquisitions, cash flow

Procurement strategies can add value to create competitive advantage in each dimension if they are; valuable, rare, costly to imitate, not substitutable.

Visit the Buying Magician Blog:
['Procurements Golden Triangle'](#)





An organization's competitiveness is largely determined by its ability to develop strategies that maximise its ability to capture opportunities and minimise risk in external markets. Something we call Supply Management as a Core Competency (SMCC). Managing critical partner relationships therefore makes capability in collaboration a core skill.

Collaborative Sourcing

The Purchasing Practice Collaborative Sourcing Process seeks to reposition relationships to gain competitive advantage. Our 5 step process: Source, Capture, Isolate, Exploit, and Manage & Improve describes the steps necessary to secure a competitive advantage:

Step 1 - Source: Open innovation, supplier collaboration networks and lead suppliers are all potential sources of innovation and therefore collaboration. By market scanning, up and down the value chain, assessing market trends and value drivers, procurement can develop strategies to include both demand-side and supply-side collaboration opportunities.

Step 2 - Capture: Collaboration should involve senior level sponsorship to generate an enterprise commitment, so it is important to approach collaborative relationships with a full enterprise-level strategy. CPO's and their organisations can facilitate the capture of innovation pre, during and after procurement, capturing ideas, through the procurement cycle and systematically evaluating and prioritising them.

Step 3 - Isolate: Procurement must understand the business requirements, build relationships, negotiate terms, facilitate the evaluation process, and draw up a contract that secures exclusivity of ideas if they are successful, for a limited period of time.

Step 4 - Exploit: The exploitation plan should consider the entire lifecycle of a new product or service etc; essentially treating it as a "profit cycle". Most collaborative initiatives focus on the front end of the cycle—on generating innovation that creates initial value. Leaders recognise that this is just the start of exploiting the full value of collaboration.

Step 5 - Manage & Improve: Leaders also recognise that the initial value may be eroded over time if it cannot be refreshed quickly and cheaply, if it cannot be utilised cost-effectively, and if other "downstream" activities are not aligned at the outset. The best collaborators therefore align the entire value chain.

"The Purchasing Practice Collaborative Sourcing process seeks to reposition relationships to gain competitive advantage."



Strategies & Tools

Strategies	Tools
Product & service development	Shared data bases and calendars
Solution Sourcing	Document sharing - wikis
Complexity reduction	Event Scheduling
Aggregate procurement	VoIP – Audio Conferencing
Collaborative planning, forecasting and replenishment	Video conferencing
Supplier development	White boarding

Conclusion

Collaborative capabilities create new business opportunities which in turn creates growth. Together with cost optimisation, these capabilities create the ‘golden triangle’ for procurement that supports growth. These capabilities present a significant opportunity for CEO’s and CPO’s alike who must develop them as part of an overall SMCC capability.

By developing a more customer centric approach to procurement to understand their requirements better than your competitors and fulfilling these requirements through a more capable, efficient supply chain companies can secure a sustainable competitive advantage.

This article is the last of a series covering growth, innovation and collaboration which we hope has stimulated thought and more importantly action.

Related articles: [The Growth Game](#)

[Innovation Centred Procurement \(IPC\)](#)

For More Information

Purchasing Practice Inc can work with your organization to develop a strategic procurement capability that will add value and positively affect your top and bottom line. To learn more, call 1-778-988-1052 to arrange a free consultation, or visit us at www.purchasingpractice.com





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Purchasing Practice –*Corporate Procurement made simple*

Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.



We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

We can help your organization “*make change happen*” in procurement. Our services include:

Transformation Management: We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

Spend Analysis: We provide spend transparency to our customers as part of our broader service offering, and this data can then be utilized to perform an opportunity assessment on the mapped data, pointing out potential areas for savings.

Opportunity Assessment: By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

Sourcing Management: Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

Category Management: We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

Supplier Relationship Management: We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Mergers & Acquisitions: We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

Private Equity: Working across your portfolio of companies we will drive value from procurement across business units

Interim Procurement Solutions: We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

Call us on 001 778 988 1052 (North America) or on +44(0) 1525 403862 (UK) or alternatively email us at info@purchasingpractice.com to schedule a consultation.

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