

# BUSINESS MARKETING / 02C

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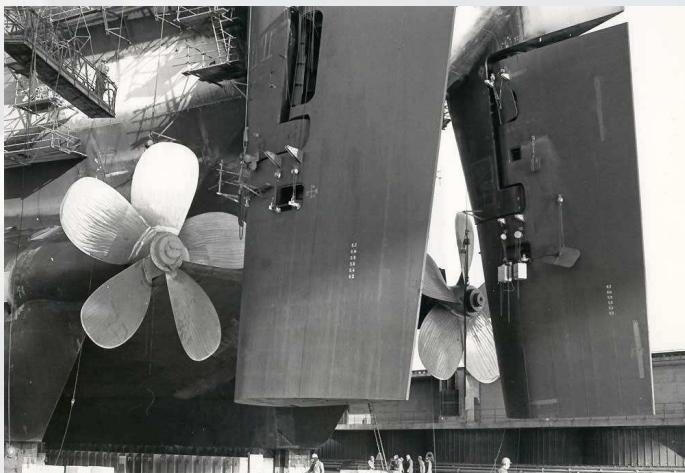
3R Business Development  
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*Based on Dr. W.G. Biemans' Business  
marketing management, Prof. Ph. Kotler's  
Principles of marketing / Strategic marketing  
management and miscellaneous designer's  
lecturing materials*



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## PURCHASING / STRATEGIC ASPECTS



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## PURCHASING / STRATEGIC ASPECTS

### About relationships with suppliers

- **Creating strong relationships with suppliers:**  
When companies drastically reduce their numbers of suppliers, they can establish and focus more on **strategic partnerships** with the remaining suppliers.

As can be seen in the Japanese car industry, the co-operating parties in such partnerships will communicate more frequently and more openly. This commonly involves issues such as forecasts, production planning, cost structures, marketing plans, and more.

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## PURCHASING / STRATEGIC ASPECTS

### About relationships with suppliers

- **Creating strong relationships with suppliers:**

Better, firm partnerships between suppliers and their customers offer various benefits:

- ***lower administration costs***, i.a. by combining daily deliveries and invoices;
- ***lower production costs***, i.a. by outsourcing to specialized suppliers and manufacturers;
- ***lower logistic (supply chain) costs***, i.a. by using JIT and by supply chain improvement;
- ***joint product development***, i.a. by utilizing specialistic know-how from suppliers.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: stages

- **Purchasing as a strategic business function:**

Transforming purchasing into a strategic business function implies that customers should no longer see their suppliers as opponents, with whom they have to bargain every deal, but rather ***regard them as partners in creating maximal value for the end user.***

- **Development stages** in this respect, are:

- ***the passive purchasing situation***
- ***the independent purchasing situation***
- ***the supportive purchasing situation***
- ***the integrated purchasing situation.***

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: stages

- **Characteristics of passive purchasing:**

- purchasing (department) has ***no strategy of its own***, and mostly ***reacts to requests*** coming from other corporate functions;
- much time is being spent on routine chores and solving problems;
- ***many purchasing activities*** are conducted ***by other business functions***;
- purchasing function is ***hardly visible*** within the organization, ***minor communication***;
- choice of suppliers is based on ***price and availability***.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: stages

- Characteristics of **independent purchasing**:

- purchasing dept. applies most recent purchasing methods (such as JIT, vendor rating, outsourcing, co-makership, manufacturing resources planning-MRP), but purchasing strategy largely depends on the corporate strategy,
- aimed at cost reduction and efficiency,
- co-ordination between purchasing and technical departments,
- top-management recognizes the importance of developing professional purchasing, and its contribution to the firm's profit.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: stages

- Characteristics of **supportive purchasing**:

- purchasing supports the corporate strategy by using purchasing methods that enforce this strategy;
- purchasing contributes to activities of other corporate functions;
- suppliers are considered as valuable 'assets' and are chosen with great care and are encouraged in their role as partner;
- markets, products and suppliers are being analyzed and evaluated, continuously.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: stages

- Characteristics of **integrated purchasing**:

- purchasing strategy is completely integrated in the corporate strategy, and is part of an integrated joint effort by similar business functions;
- purchasers are trained professionals, and all the management levels have been trained in the field of purchasing;
- continuous communication between purchasing and other business functions;
- purchasing performance linked to corporate success.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: consequences

- Consequences of this purchasing development:
  - The development from purchasing to the strategic business function as described, is a radical process that doesn't happen overnight. It requires a high level of commitment from the firm's management. This development also has some **major consequences regarding:**
    - the *purchasing situation*
    - the *purchasers*
    - the *buying organization*
    - the *supplier*.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: consequences

- Consequences of this purchasing development regarding the **purchasing situation**:
  - The purchasing department will gain **more interest from the top-management**. Purchasing will take place in a **more decentralized way**, due to the necessary and detailed knowledge regarding products, markets and problem areas. As such, the purchasing dept. will maintain **more elaborate contacts** with other dept.'s, such as marketing, production and finance. Furthermore, purchasing will be dealt with by highly qualified staff with **greater authority to take decisions**.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: consequences

- Consequences of this purchasing development regarding the **purchasers**:
  - particularly involving requirements purchasers will have to meet, like **multi-disciplinary requirements, knowledge concerning commercial, technical and logistic aspects**, constant monitoring of **technological developments among suppliers**, and the ability to develop and to maintain **relationships with suppliers**. Strategic purchasing bears a lot of **resemblance to account management**, and is also referred to as **reverse marketing**.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: consequences

- Consequences of this purchasing development regarding the buying organization:
  - Top-management will have to position purchasing as a major business function, which will involve more commitment regarding internal business processes. Furthermore, the number of suppliers and what they are offering, will have to be thoroughly evaluated, usually resulting in a drastic reduction of the amount of suppliers. Tight relationships will have to be developed with the remaining suppliers, possibly involving financial, technical and/or managerial support.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing development: consequences

- Consequences of this purchasing development regarding the supplier:
  - Suppliers can no longer keep on acting in a product-focussed manner, but will have to concentrate more on the surplus value they should deliver to end-users. This means that suppliers will have to position their customers according to the value that their customers are looking for. Also, suppliers will have to analyze their 'customers profitability', perhaps resulting in conducting more business with less customers, possibly through account management.

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## PURCHASING / STRATEGIC ASPECTS

### Value of the supplier relationship

- Value of the supplier relationship:
  - Obviously this value consists of the difference between the benefits and the costs of the relationship (partnership).

Major benefits involve the availability of the products and services offered by suppliers, and the obtainability of technical and commercial knowledge from the suppliers (and possibly from the supplier's own business network partners, as well !).

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## PURCHASING / STRATEGIC ASPECTS

### Value of the supplier relationship

- **Value of the supplier relationship:**
  - **Types of advantages** regarding relationship:
    - **lower costs:** lower costs of production due to customized adaptation to the customer's production process; lower R&D costs thanks to exchange of knowledge; administration costs due to more efficient consultation; lower costs of stocks thanks to JIT.
    - **higher revenue:** due to positive effect on quality and performance of the customer's end-product; contribution to the product development and its improvement.

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## PURCHASING / STRATEGIC ASPECTS

### Value of the supplier relationship

- **Value of the supplier relationship:**
  - **Types of costs** regarding relationship:
    - **direct purchasing costs:** price of product or service; logistics costs concerning transportation and handling; administrative costs of order processing.  
*All these costs directly influence the outcome of purchasing.*
    - **direct costs regarding relationships:** costs of adjustments to customer's internal processes; costs of training and development of suppliers.  
*These costs involve the maintenance of partnerships with specific suppliers.*

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## PURCHASING / STRATEGIC ASPECTS

### Value of the supplier relationship

- **Value of the supplier relationship:**
  - **Types of costs** regarding relationship (cont'd):
    - **indirect costs regarding relationships:** structural costs of managing the purchasing organization; costs of communications and administrations systems; costs of supplier analysis and evaluation; costs of storing and warehousing.  
*These costs are made in view of the development of the customer's purchasing skills, and are not caused by a single supplier.*  
*They are the result of the partnerships, not the number of transactions.*

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

- Determining the position regarding suppliers:

- The positioning in relationship to suppliers depends on the organization's **own purchasing needs** and on the **value that suppliers are willing or able to offer**.

The **main issue** here: with which suppliers should business be conducted, and: what kind of partnership (relationship) should be expected?

And:

- what kind of value is being pursued?
- which suppliers will deliver which values?
- which suppliers are capable of delivering this?
- which suppliers offer the best values?

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

- Determining the position regarding suppliers:

- Obviously, various relationships will occur and be developed with various suppliers.

Some suppliers will merely deliver their products based on **detailed specifications and within agreed upon blanket contracts**.

Other suppliers will seek solutions in order to comply with, and to **connect to the product development process** of the customer.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

- Determining the position regarding suppliers:

- A clear realization of the relationship with a supplier can differ considerably, and will mainly depend on **the following 2 positioning factors**:

- the product's influence on the financial results***: tends to be **higher**:
    - as more money is involved in buying it, or
    - as it forms a significant part in the cost-price of the final product, or
    - as its price elasticity increases, or
    - as it has more effect on the quality of the final product, and/or
    - as it has more effect on the growth of the customer's company.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

- Determining the position regarding suppliers:
  - Suppliers positioning factors (cont'd):
    - *risks concerning supply*: tends to be higher:
      - as there may be less firms supplying the product, or
      - as more competitors are needing it, too, or
      - as it becomes more expensive to switch to other suppliers, or
      - as the product brings along a high stocking risk (such as ageing, deterioration, theft), and/or
      - as there may be too few substitute-products.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

- Determining the position regarding suppliers:
  - The combination of these 2 factors leads to a commonly used, so-called **purchasing portfolio** (*Peter Kraljic's matrix*), in which products (or services) can be classified according to the following **4 categories**:
    - **leverage products**
    - **strategic products**
    - **routine (or non-critical) products**
    - **bottleneck products**

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

- Determining the position regarding suppliers:
  - **Purchasing portfolio categories:**
    - **leverage products** (high purchasing volume, various alternatives at hand, ex.: computer cases and power units for a PC manufacturer);
    - **strategic products** (high purchasing volume, few alternatives at hand, ex.: MS Windows pre-install on PC's, or chipsets and CPU's for a PC manufacturer);

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

- Determining the position regarding suppliers:
  - Purchasing portfolio categories:
    - ***routine (or non-critical) products*** (moderate to low purchasing volume, a large amount of alternatives at hand, ex.: soldering tin, power units, flat cables etc. for a PC manufacturer);
    - ***bottleneck products*** (moderate to low purchasing volume, almost no alternatives at hand, resulting in a strong interdependence on the supplier, as can happen with monopolistic suppliers, such as public utilities and governmental facilities for a PC manufacturer).

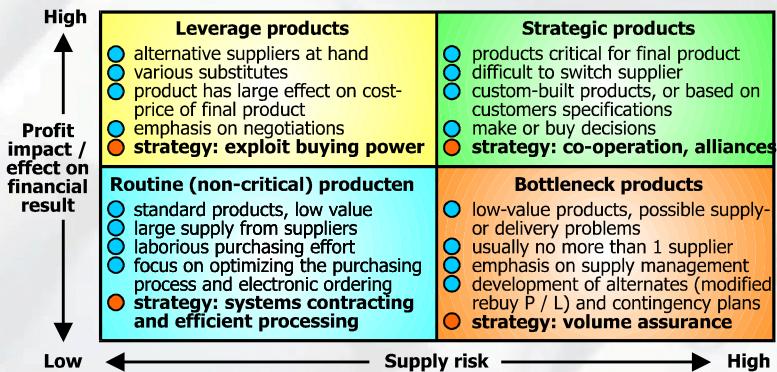
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## PURCHASING / STRATEGIC ASPECTS

### Purchasing position regarding suppliers

#### ● Purchasing portfolio (Peter Kraljic's matrix)



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## PURCHASING / STRATEGIC ASPECTS

### Purchasing or outsourcing?

#### ● Considerations regarding purchasing or outsourcing

- Whether or not to outsource activities often depends on one or more of the following considerations:

- focus on core activities (core business)***
- costs reduction***
- quality and/or service improvement***
- lack of own expertise, means, staff***
- insufficient own capacity***
- continuity (quality) assurance***
- greater organizational flexibility.***

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing or outsourcing?

- Considerations regarding purchasing or outsourcing

- *Focus on core activities (core business)*

Some management consultants, like *Tom Peters* and *Robert Waterman*, preach the 'stick-to-your-own-business' principle. Their research, resulting in their best-selling '*In search of excellence*', showed that better performing companies (43!) were the ones that concentrated on their core tasks (*core competencies*).

Obviously, their advice was to follow a strategy in which all non-core tasks should be shed, or in case these would be too important for the primary process, be outsourced.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing or outsourcing?

- Considerations regarding purchasing or outsourcing

- *Costs reduction*

This is often a consideration to start outsourcing, requiring a thorough knowledge about the transactional costs. These transactional costs mainly depend on:

- the *frequency of transactions* (more often is usually more expensive);
    - the *level of transaction-specific investments* (like special equipment, switching costs);
    - the *external and internal uncertainty* (such as regarding delivery or price fluctuations of components).

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing or outsourcing?

- Considerations regarding purchasing or outsourcing

- *Quality and/or service improvement*

Considering to outsource certain activities or services to third parties often involves considerations concerning quality or service.

This has to do i.a. with the *critical extent of the activities or services to be outsourced*.

Obviously, in order to render services (and to a lesser degree: in order to manufacture goods), it's crucial that there should be enough qualified staff, who are sufficiently capable of carrying out these activities.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing or outsourcing?

- Considerations regarding purchasing or outsourcing

- *Lack of own expertise, means, staff*

This might happen due to various market developments, i.a. the more rapid development of products and services.

Outsourcing will then mainly occur whenever the organization *would have to heavily invest in equipment and/or training of personnel*, involving too many financial means being extracted from the organization's core activities.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing or outsourcing?

- Considerations regarding purchasing or outsourcing

- *Insufficient own capacity*

This might happen in case of, for example, extra production orders, requiring a certain production capacity, that might be unavailable (temporarily or structurally), or otherwise insufficient.

- *Continuity (quality) assurance*

This might occur in situations in which, for example, an organization faces unstable job occupation due to workplace absenteeism (*sick leave*) or due to other causes.

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## PURCHASING / STRATEGIC ASPECTS

### Purchasing or outsourcing?

- Considerations regarding purchasing or outsourcing

- *Greater organizational flexibility*

This will usually occur in organizations in which the primary process has to be rapidly adjusted to changing conditions in the market.

For instance, when an organization manufactures certain components that should meet such changing circumstances, it could be interesting to outsource these activities. (Consider, for example, companies that outsource their R&D or design development).

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## PURCHASING / STRATEGIC ASPECTS

### Outsourcing

#### ● Kinds of outsourcing

There are various ways to conduct outsourcing, such as:

- régie (directing)
- partial outsourcing
- complete (full) outsourcing
- capacity expansion
- co-makership
- main contracting.

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## PURCHASING / STRATEGIC ASPECTS

### Outsourcing

#### ● Kinds of outsourcing

##### ■ Régie (directing)

Involves outsourcing an assigned set of activities that aren't or can't be clearly specified by the ordering customer, due to the characteristics or the extent of the activities, i.a. resulting from:

- too much time pressure to perform the activities sufficiently;
- the inability to properly determine the extent of the activities;
- relatively small activities;
- long lasting, existing relationships with suppliers.

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## PURCHASING / STRATEGIC ASPECTS

### Outsourcing

#### ● Kinds of outsourcing

##### ■ Partial outsourcing

Involves outsourcing parts of activities, that have been split up.

The ordering customer takes control of the co-ordination and synchronisation of the activities to be carried out.

This could take place in situations in which designing and realization of special installations are outsourced on behalf of the outsourcing organization (ship building, building contractors, and such).

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## PURCHASING / STRATEGIC ASPECTS

### Outsourcing

- Kinds of outsourcing

- **Complete (full) outsourcing**

Involves **handing over the complete execution of an assignment / order to a supplier or a contractor**, as often happens in project development and building contracting.

Of course, the ordering customer will have to specify a detailed plan regarding requirements that must be met, the expected quality level, and must have a clear understanding of the total process involved.

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## PURCHASING / STRATEGIC ASPECTS

### Outsourcing

- Kinds of outsourcing

- **Capacity expansion**

Involves **in- or outsourcing in order to expand the necessary** (production) **capacity in order to meet** the market's demand for certain products and/or (particularly) **services**.

This can be achieved in various ways, such as:

- recruiting temporary workforce, or in case of production, chartering production facilities elsewhere;
- the complete outsourcing of activities.

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## PURCHASING / STRATEGIC ASPECTS

### Outsourcing

- Kinds of outsourcing

- **Co-makership**

Involves an **intensive, long lasting partnership, based on equality, mutual trust and respect**

between the ordering customer and the supplier, at strategic, tactical and operational levels, and in which both parties add value to logistic, quality and development processes, resulting in a joint product.

For example: sunroof manufacturer Webasto's co-makership with various car manufacturers.

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## PURCHASING / STRATEGIC ASPECTS

### Outsourcing

- **Kinds of outsourcing**

- ***Main contracting***

This is the collective term for all kinds of outsourcing contracts, in which ***a significant number and diversity of products and/or (particularly) services are agreed upon***.

Commonly, the contracting supplier will bear certain risks concerning his achievements, such as can be seen in facility services (for example the supplier of a complete provision of services in the area of cleaning, building maintenance and security).