



## ***Project report “Consulting”, from February to August 2021***

**Initial situation: What is the order? Who is the client? Which industry is it? What is the situation?**

A management consultancy, which had received the order from a market-leading automotive supplier for BMW, VW, Daimler, and others in Germany, hired the consultant for seven (6 plus 1-month extension) months.

In the preliminary discussion with Human Resources and the Vice-President of the production plant in Shanghai, it was agreed to bring the purchasing area up to company standards and, using compliance rules, assess whether the purchasing director is suitable to lead the company into the future. After all, there have been allegations of bribery, poor quality of purchased components, delays in purchasing appointments, and unreasonable prices for parts, tools, and services.

**Solutions: How did you approach the task? What were the challenges? What obstacles have been overcome? Which methods were used for this? Which new processes have been initiated?**

The consultant met one-on-one with internal customers and work colleagues at the purchasing director's level, recording the current and desired status in a master plan and a PDCA (plan-do-check-act) overview. Working groups were created once priorities were set to address the individual items. The consultant held the meetings, summarized the results, and pushed the internal and cross-departmental implementation.



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### **Direct material purchasing (DM):**

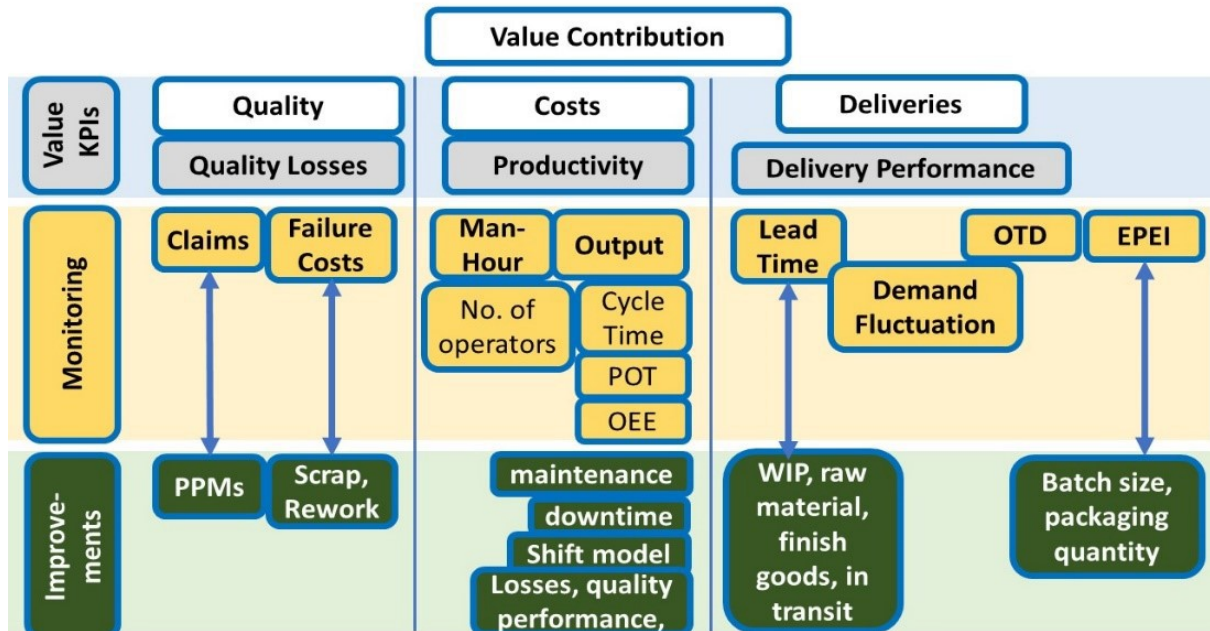
Procurement was strictly operational here. There is little to no research for new suppliers, the footprint is not optimized, and long-term agreements and supplier development are not established.

The central purchasing department in Shanghai knows the buyers in Asia by name, but they do not have a dotted line and, therefore, no decision-making authority.

The cost reduction potential was not addressed or developed. For example, the consultant trained buyers to conduct detailed cost structure analysis before going to suppliers and negotiating prices. They drove to the supplier and worked together to estimate the direct costs for the calculation by analyzing the manufacturing process from the purchasing of materials to shipping. After the buyers gained this knowledge and carried out further analysis independently, negotiation strategies were trained and practiced in workshops.

A preliminary meeting with the company's general manager resulted in a written agreement to jointly analyze and improve internal production costs and share the savings to gain supplier support. The supplier's current KPIs were measured, and future ones were determined. See fig 1.

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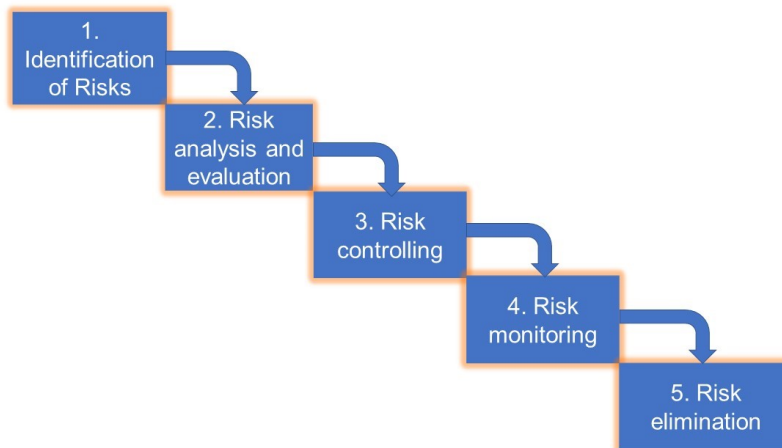
**Fig.1: Value Contribution. What Are the Key Performance Indicators (KPI) for SD Program?**

Does the buyer operate risk management and thus know the risks of his parts? What could he do if his part was classified as a high-risk part?

The higher the risk, the more time they spend at the supplier's manufacturing site to examine whether the planning meets his requirements.

In collaboration with the supplier, buyer, and product quality, the consultant divided risk management into five levels and proceeded step by step for each component. See fig. 2.

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*Fig.2: Risk Management*

The Chinese Corporate Social Credit System (“CSCS”) was unknown to the company’s buyers. Anyone who places orders to black-listed suppliers will end up in the government's target fire. Researching your suppliers, protecting the company and yourself is a must. The consultant searched <https://www.creditchina.gov.cn/> and found one case. The supplier was informed and was not allowed to receive any further orders.

**Indirect material purchasing (IM):**

Buyers of indirect materials, such as tools, machinery, and logistics, struggled with time management. The indirect purchasing of materials was understaffed and was unlawfully neglected. They also had a high turnover rate. The purchasers were pursued and rushed from one appointment to the next, unable to complete their core purpose. The



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individual departments, therefore, made their purchases. “Maverick buying” in HR, services, IT, and marketing without focusing on cost reduction became the regular daily business.

Machines, equipment, supplies, and services were purchased on a strictly operational basis by the buyers, with no strategic purchases made. In addition, there is usually only one supplier on the list of each commodity. The local buyers acted completely freely without consultation or leadership. In the case of joint ventures (JV), cooperation with the central purchasing department was even refused, which did not bother anyone.

The consultant asked himself what could be improved in this department immediately without any effort?

He eliminated “maverick buying” in cooperation with the departments and had buyers concentrate on all essential and urgent purchasing activities.

As a result, the internal processes and duties were prioritized. To comply with their guidelines, the HQ (headquarters) was involved. It turned out that the internal ordering department frequently failed to define the



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technical specifications, causing the acquired product to be rejected as unqualified. A major time-waster and source of problems have been eliminated.

The suppliers, as monopolists, were a critical point. For example, purchases were only allowed at one audited robot company and one that installed automation. Manufacturing Engineers (ME) and buyers had to audit other companies jointly to carry out accurate benchmarks and price negotiations but showed considerable resistance. Were they both in cahoots here?

The machine and tool maintenance division delegated all repair and maintenance activities to external suppliers and incurred high yearly costs. Intentions for improvement were met with significant resistance here as well. The topic gained enormous momentum through teamwork and exchanges between buyers and production managers. New suppliers were benchmarked, new prices were negotiated, KPIs and RASIC were set.

The buyers in DM (direct material) and IM (indirect material) took on project and series purchasing. Here, a differentiation in the JDs (job descriptions) became necessary, which increased the qualification in



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purchasing and ensured more reputation and importance in the value chain.

#### **Logistic**

The consultant created an overview of transport companies, consignment warehouses, department stores, packaging, and the associated prices in the logistics area. New KPIs were defined, and the responsible logistics employees were included in the purchasing process. It turned out that, with the knowledge of the purchasing director, they were reloading from small to larger trucks while driving to the customer to increase profit.

#### **Quality**

The quality area was divided into purchasing, sales, and production; there were constant arguments and blame between these areas. The consultant brought everyone around one table and created a RASIC approved by the HQ and all parties involved. The task now was to solve the customer's quality problems with workshops and get to the root of the matter.

Customers regularly requested reports and wanted to see progress before placing further orders to the company. Suppliers were visited,



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affiliations improved, tools were fixed, and decision-making processes were made faster due to the partnership. Supplier development and risk analysis were introduced, and the over-authentication of the finance department was abolished. For the first time, the quality engineer in sales showed the courage to address and coordinate suggestions for improvements to customers before costly activities were started at supplier sites and in their production.

Because the sales prices were not competitive based on the purchase pricing, the sales department was unsatisfied with the procurement. "Templates" were diligently filled out, but their numbers were not questioned or improved. After enhancements, alternative material and manufacturing concepts were developed through cross-departmental workshops from purchasing, finance, production, and sales, which the consultant initiated. These various traditional and innovative solutions were presented to the customer for decision-making. The introduction of supplier development and a reliable cost structure analysis in purchasing enabled prices to be negotiated with the customer and essential contracts to be concluded.

The ice was broken from the start in one-on-one discussions with the accountable employees. The consultant and employees discussed their



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concerns, requirements, plans, and wishes calmly and comfortably. This personal closeness, the consultant’s coaching mentality, and professional competence were well received, and he was fully supported in his implementation activities.

#### **Results: Which goals were achieved? Are the employees and clients satisfied? What are the remaining challenges?**

The purchasing director eventually quit, and the consultant handed over his role to a successor with purchasing experience. Monthly meetings involving the VP, HR, purchasing director, and consultant were held to discuss the progress and select the future steps.

Even if the organizational structure stayed the same for the time being, the team spirit should be further improved through practical and cross-departmental workshops. Added to this is the regular communication required by purchasing to make its decisions transparent and prevent rumors and unrest. The quantity and "footprints" could be optimized through a combined examination of all vendors, resulting in lower prices and workload. (see Fig.3)

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**Fig. 3: Supplier Performance Evaluation**

The direct and indirect material buyers in the individual production sites and JVs of the company in China were given a “dotted line” with authority to issue directives from central purchasing. Supplier contracts were updated, and suppliers' standardized agreements were not accepted. The Steering Committee consisting of VP, Sales, HR, Production, Purchasing, and Finance made quick and effective decisions. A learning organization with a “high performance” culture emerged.

The path to "best-in-class shopping" was also described, and the individual steps were further defined:



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- How do you optimize product groups through digitization?
- How do you get from pure procurement activities to a supply chain business organization?
- Define which parts need single sourcing, dual sourcing, or multiple sourcing
- Define which parts require unit sourcing, modular sourcing, or system sourcing
- Define which parts need local sourcing or global sourcing
- The supporting processes of supplier management, purchasing control, and risk management permanently accompanies the core process.
- Strategy definition, selecting a product group strategy instead of a pure purchasing strategy. The core processes differ for the purchasing method and the product group strategy.
- A commodity/material portfolio shows the importance of the different materials for the company depending on the procurement difficulties.
- Install supplier management and put it into operation: Develop a step-by-step plan with specifications and measures for each vital supplier.
- After the classification, the supplier is integrated into the company processes and procedures in 5 stages.
- Supplier Relationship Management (SRM) must be established and put into operation.

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- It is imperative that the buyers take a deeper look into the value stream of each supplier to gain a deeper understanding of the supplier conditions (see Fig. 4)

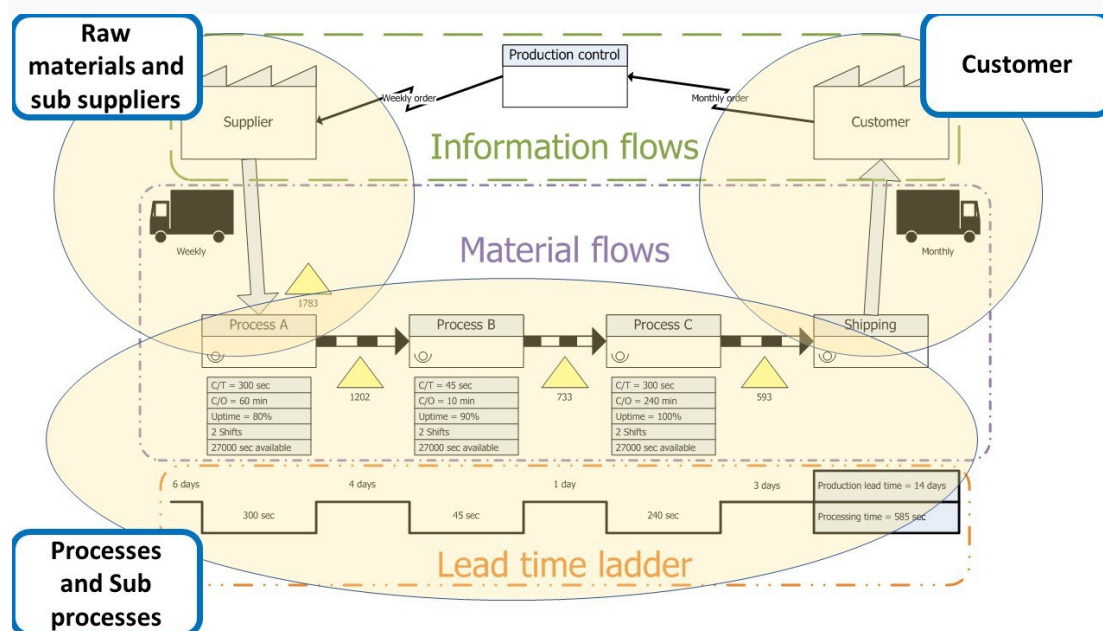


Fig.4: Value Stream Analysis

## How do I optimize product group purchasing through digitization?

How do I get from a current ineffective manual to a digitally integrated purchasing process to eliminate the daily time wasters in purchasing?

Solutions were worked on in workshops initiated by the consultant. See figs 5 and 6.

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What was needed was a digitization roadmap in purchasing, starting with the standardization and automation of processes and transparent networking with suppliers.

This could be done, for example, through the following actions:

- Electronic / digital RFQs, e-auctions, robotic process automation
- Workflow systems such as Procure2Pay (e.g. [www.ariba.com](http://www.ariba.com), [www.kissflow.com/procurement/](http://www.kissflow.com/procurement/), [www.sgh-asia.vn/purchase-to-pay-p2p/](http://www.sgh-asia.vn/purchase-to-pay-p2p/), [www.gep.com/](http://www.gep.com/)), Source2Settle,
- digital supply and contract management,
- Knowledge management / databases,
- cognitive procurement



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Fig. 5: Inefficiency based on missing integrated digitalization

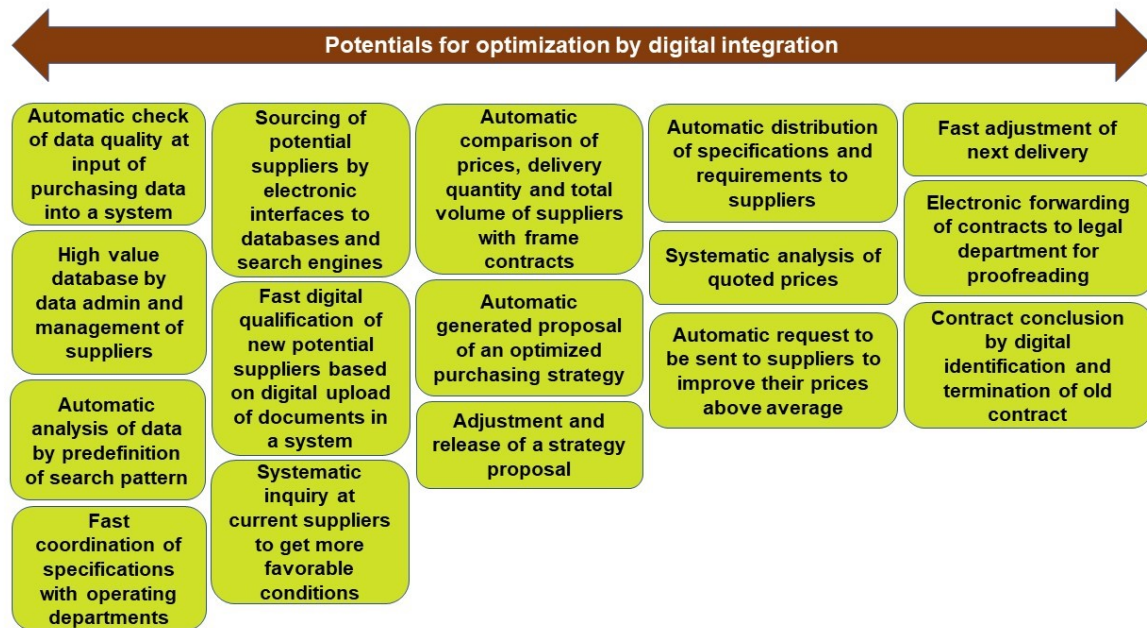


Fig. 6: Potentials for optimization by digital integration

**The answers to the question "What makes us a first-class purchase?" was discussed in workshops as well:**

- Due to the high hierarchical integration of purchasing and active internal purchasing marketing, purchasing takes on more than 90% of the entire procurement volume.
- High process effectiveness and efficiency:
- The automation of the ordering and billing process in connection with the standardization of requirements continues. As the best in class, we write more orders on average than the other buyers and manage a purchase volume that is 30 to 50% higher. Our number of articles and



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suppliers is only half as high as the average. This enables us to reduce costs by 30 to 50%.

- The hybrid form of organization in connection with project purchasing and product group management was installed. We rely on flexible, adaptable structures. We use only a third of our human resources for day-to-day business.
- We regularly carry out supplier evaluations. This has enabled the supplier base to be optimized in a short time. We work on the “one article, one supplier” principle and manage the risk through a good supplier relationship.
- The proportion of purchasing costs in the purchasing volume is below 0.9% in the automotive sector.

The VP and HQ, directors, and the OEM customers were satisfied with the result of the consultant, and their customers ordered again. It is now vital for the new purchasing director to keep up the great work.

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Best regards/此致敬礼

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### **References in Interim General Management & Executive Consultancy:**

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- *General Manager in China for manufacturing, marketing and sales of machines for melting and casting of metals for automotive industry*
- *General Manager in China for manufacturing, marketing and sales of plastic-, metal- and ceramic parts for environmental protection business*
- *General Manager in China for manufacturing, marketing and sales of Electric motors, generators and controllers for e-motion market Asia*
- *Director Asia : Purchasing and Supplier Development of Automotive parts*
- *Cost Reduction Manager Shanghai HQ*
- *Compliance manager for legal Controlling of Beijing Office, reporting to German HQ*
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