

Material Group Management: Quantum Leap in Sourcing

Material Group Management (MGM) allows for substantial cost cuttings in supply markets. On top of that, the concept is an established tool to reduce all transaction costs in purchasing. Prerequisite for a successful implementation, however, is inter organisational purchasing management across all business units involved. A team approach encompassing and integrating all sourcing activities throughout the organisation is another must if maximum benefits are to be yielded by MGM.

There are manifold motivations to introduce MGM:

- The organisation effectuates prices on the buying markets that are in excess of respective benchmarks
- Different supply market prices apply for the various units of the organisation; the weighted averages of the realised buying prices for comparable products and services again exceeds benchmarks
- High process and transaction costs occur along the supply chain

- Functional structures hampers implementation of efficient processes
- Business units operate equal process differently and thus creating inefficiency and additional costs
- Inefficient production levels and at times incomprehensible make or buy decisions

Introducing MGM is proven to yield multifaceted benefits.

The **organisation** will

- profit by:
- A better understanding in dealing with complexity
- Reduced costs
- Shortened time to market

Also, the **employees** dealing with MGM will benefit by better job perspectives:

- Empowerment
- Clearly defined objectives and tasks
- Steady work load
- Building up specialists know how

Typical Optimisation Approaches

- Integration
- Transparency
- Coordination
- Synchronisation
- Outsourcing/Subcontracting
- Simplification
- Modularisation

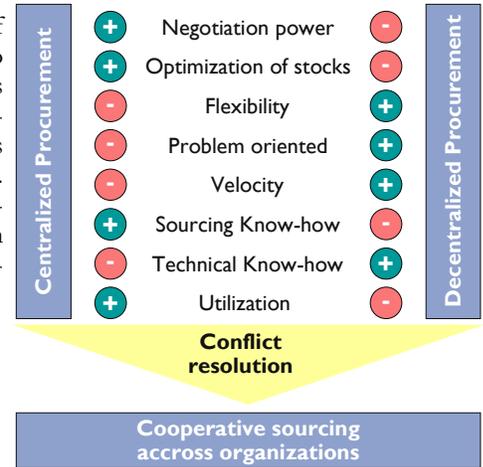
- Business units' purchasing activities bypass corporate sourcing which results in unfavourable supply market conditions along with exaggerated prices
- Corporate guidelines are continuously circumvented or even ignored; at times they are poorly communicated and thus remain ineffective
- Technical specifications are insufficiently standardised
- Inadequate communication in between business units, different IT Systems in place and different standards of material group in use further complicate communication



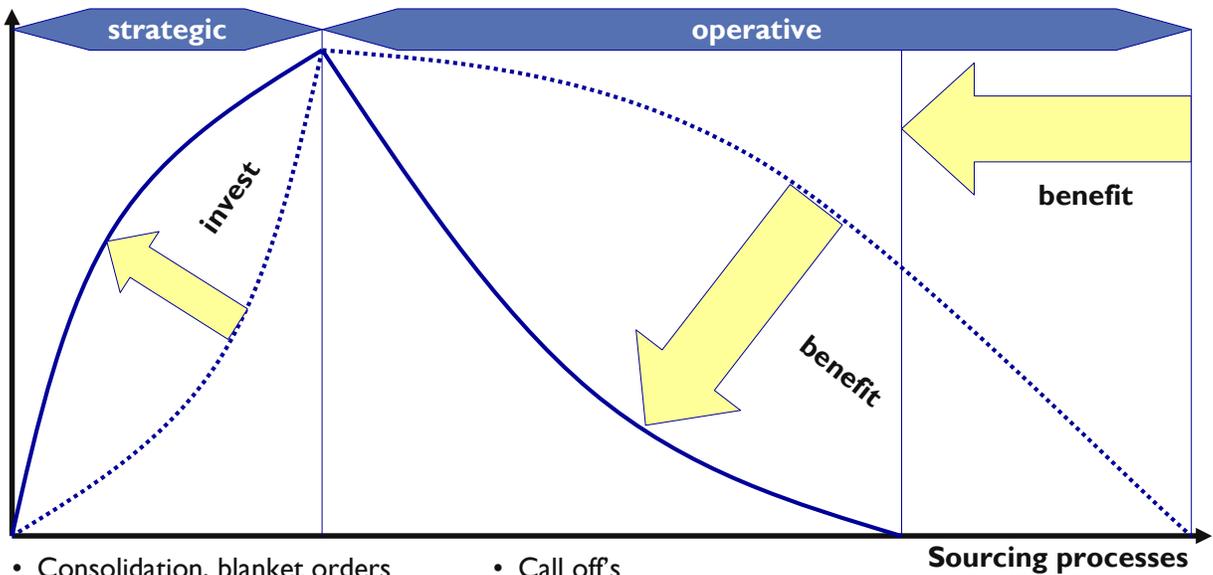
The MGM approach

There are many ways in improving an organisation's efficiency in sourcing. Particularly experiences made in larger organisations have it that both centrally and decentrally set up purchasing have strong points in their favour. Collaborate inter organisational sourcing – the very core of MGM – is based on the synergies attained by strategic and operational purchasing (s. chart below). While the strategic tasks at the beginning of the sourcing process is being executed centrally, the follow up tasks in operational sourcing are being imple-

mented decentrally. Most of the businesses are found to put by far too little emphasis on the strategic side of purchasing which in turn brings about excess operative efforts. Hence, MGM should be applied to put a strong focus on investments in strategic procurement.



Efforts



- Consolidation, blanket orders
- Call off's
- Faster and partially automated processes
- Less suppliers and orders
- Preparation of information

Pay back time of any investments in the vicinity of MGM is often found to be less than one year. The imminent and measurable benefits are:

- Reduction of sourcing process costs
- Better buying market conditions
- Stronger buying power
- Enhanced service level from supply side

Collaborate inter organisational sourcing is only implemented for selected material groups and services based on cost – benefit issues as well as flexibility and response time. Competent and interdisciplinary teams are charged with selection and evaluation of material and service groups. The material group management teams themselves are selected depending on purchasing volume and specific know-

how required. To each team, a material group manager is designed as owner of the respective sourcing processes. Imperative for a successful collaboration within the teams are

- Flexible inter organisational coordination of all purchasing activities
- Maximise on potential synergy effects on all levels (Know how, collaboration, logistics, warehous-

- ing)
- Decentral operational sourcing based on framework contracts
- Collaborative process framework, empowerment
- Set up MGM as a self regulating learning system
- Keep motivation for MGM high by assigning and redirecting benefits to all business units involved

Strategic Sourcing Models

First of all, strategic sourcing is about getting a clear picture of what sourcing alternatives are available to the organisation with all the pro's and con's inherent to the respective models. On top of that, a thoroughly structured approach is needed for identifying the most fitted sourcing alternative for a given organisational set up. As obvious and simple this might sound, in many organisations, both of these prerequisites are still not on the agenda of the board.

Sourcing is no more no less always a make or buy decision. Business activities, services or products can be provided internally or externally. There are two principal aspects to make or buy:

- Externalising of resources
- Externalising of responsibilities

This results in four major sourcing alternatives:

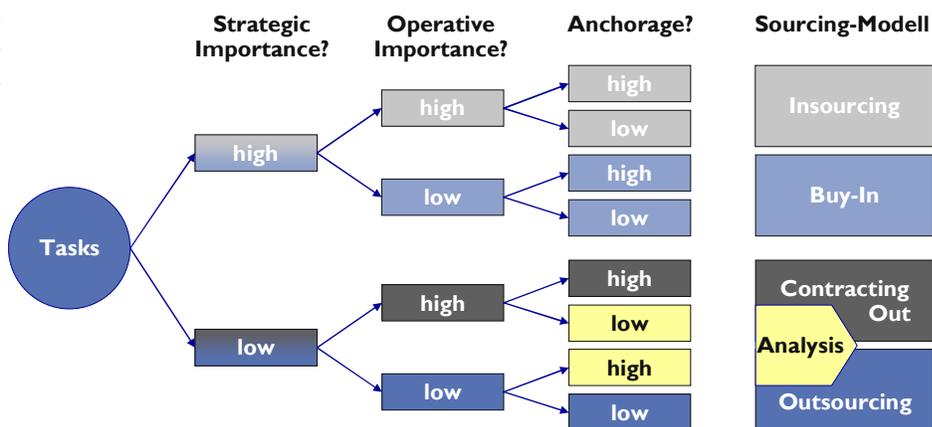
- Insourcing
- Buy – In
- Contracting – Out
- Outsourcing

Which is the best fitted sourcing model for the organisation?

For many industries and businesses, market requirement has led to increasing cost pressure. Hence, cost savings are the order of the day. In the long run, however, emphasis has to be put on other objectives, too: Improvement with regards to service level and quality, and in ever more volatile market conditions, something like flexibility becomes an important differentiating factor. Another concern when it comes to

evaluating the optimal sourcing model is the inherent risks. The best fitted sourcing model, therefore, depends on a variety of factors which have to be evaluated with respect to the specific situation of the respective organisation. These factors can be grouped in four major clusters:

- Activity
- Organisation
- Market
- Time



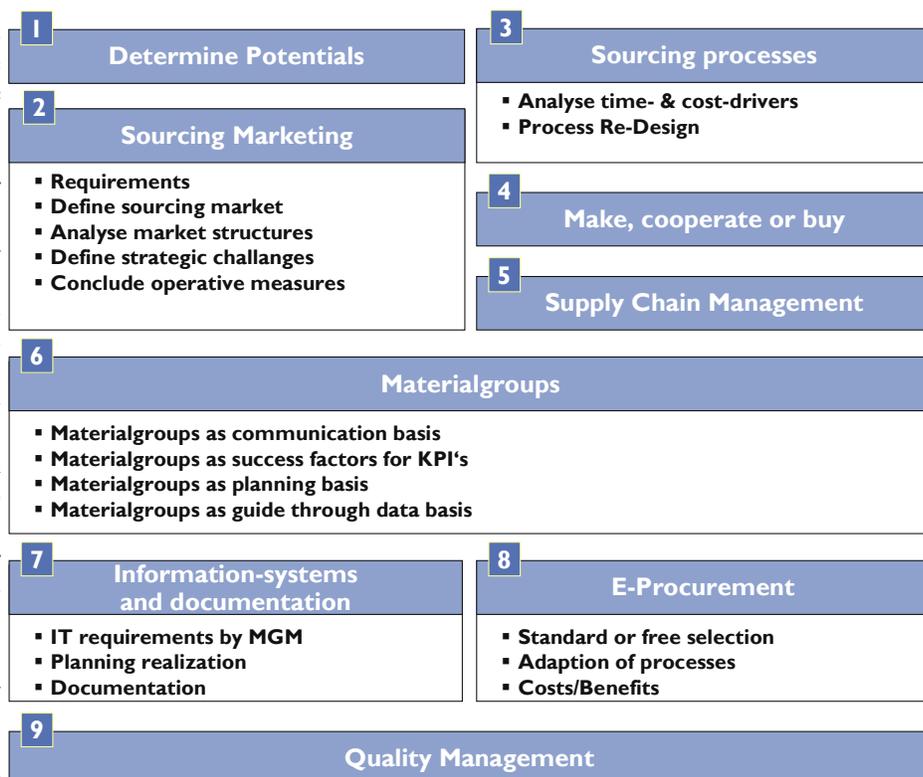
Analyse tasks

Proceedings

Within the concept of MGM each team is assigned various tasks depending on the peculiarities of products and services. The basic tasks however, consist of:

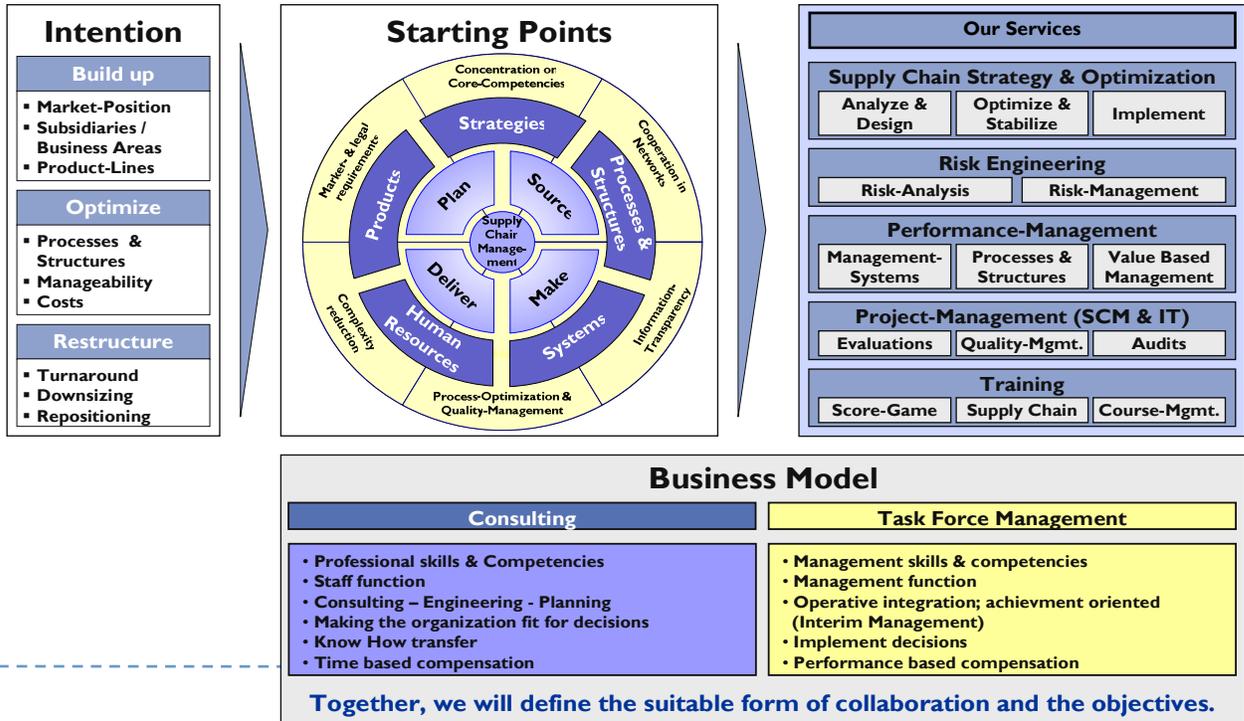
- Procurement of one material group for various business units
- Coordination of inventories and material flows within one group
- Analysis and design of sourcing processes for a given material group including all interface impacts, e.g. evaluation of automatised procurement orders etc.
- Ongoing optimisation of information flow and communication of material- and supplier data
- Analysis and strategy definition per material group of relevant supply markets
- Make, cooperate or buy optimisation
- Set up and maintain value added partnerships with suppliers

For a successful implementation, proceedings as shown in below chart may be applied:



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