



FIFTH-GENERATION PURCHASING

— WHEN PACE MEETS POWER —

HERVÉ LEGENVRE & BERNARD GRACIA

TABLE OF CONTENT

The Authors	06		
Welcome to this book	08		
FIFTH-GENERATION PURCHASING	13	MODE 1: TACTICAL BUYING	53
First-Generation Purchasing	16	Interview with Detlef Schultz	56
Second-Generation Purchasing	16	Interview with Emmanuel Erba	58
Third-Generation Purchasing	17	Interview with Jean-Philippe Collin	60
Fourth-Generation Purchasing	17	Digitalisation and Purchasing	62
Fifth-Generation Purchasing	18		
A CHANGING BUSINESS LANDSCAPE	21	MODE 2: CONSOLIDATION	69
From Standardisation to Personalisation	22	Interview with Philippe Armengaud	72
From Vertical Integration to Dynamic Ecosystems	23	Gouvernance Charter	74
Towards the End of Economies of Scale?	24	Interview with Emmanuel Erba	76
The Diminishing Power of Brands	25	Sourcing Strategies: Why & What?	78
From Hierarchies to Distributed Teams	26		
From Philanthropy to Sustainable Growth	27	MODE 3: COLLABORATION AND ALLIANCES	81
		Interview with Klaids Lafon de Ribeyrolles	84
THE FIFTH-GENERATION FRAMEWORK	29	Interview with Philippe Armengaud	87
1. Tactical Buying	40	Attracting Innovation from Suppliers	88
2. Consolidation	42		
3. Collaboration & Alliances	44	MODE 4: AGILE ADVISOR	91
4. Agile Advisor	46	Interview with Philippe Armengaud	94
5. Competence Centre	48	Interview with Jean-Philippe Collin	96
6. Exploration	50	Using Personas and User Journeys	98

MODE 5: COMPETENCE CENTRE	103	INNOVATION WORKSHOPS	177
Interview with Klaids Lafon de Ribeyrolles	106	Organising an Innovation Workshop	180
Interview with Angus McIntosh	108	Interview with Philippe Armengaud	186
Searching and Selecting an Innovation Partner	113		
MODE 6: EXPLORATION	117	WORKING WITH START-UPS	189
Interview with Detlef Schultz	120	Interview with Jean-François Baril	191
Interview with Jean-Philippe Collin	122	Interview with Olivier Hersent	193
Four Ways of Structuring Innovation	126	Interview with Quentin Sannié	196
		Interview with Cédric Mangaud	198
A DYNAMIC PERSPECTIVE	131	SUSTAINABILITY	201
Interview with Lily Xu	134	Interview with Patrick Carminati	203
		Sustainability and Purchasing	206
INNOVATION	137		
Purchasing Takes on Design Thinking	148	LEADING THE TRANSFORMATION	211
		Interview with Jakob Mainert	214
USER-DRIVEN INNOVATION	153	Interview with Elvire Regnier-Lussier	217
Interview with Andressa Reis	155	Interview with Aurélien Rothstein	219
Cracking the Code of Stakeholder Collaboration	157	AFTERWORD	223
ECOSYSTEMS	161		
Thinking in Ecosystems	164	THEY HAVE CONTRIBUTED TO THIS BOOK	224
Interview with Jérôme Fauquembergue	174		
		INDEX	230

THE AUTHORS

HERVÉ LEGENVRE



As the Director of the EIPM Value Creation Observatory, Hervé conducts research on innovation and purchasing and on how new technologies are changing industries. Hervé blends the best of academic and practitioner thinking to create a unique learning experience and engaging content. He continuously looks to identify the trends that will shape the business world in the future. He acts as a Juror for the EIPM-Peter Kraljic Awards and regularly speaks at in-company and public events.

He believes that companies' competitive edge will increasingly be co-created with suppliers, as innovation needs to be seized from the outside. He builds on his wide knowledge of invention, innovation and business excellence to create new tools and practices that help connect everyone to what matters most in a fast-changing world.

Previously, Hervé led the EIPM Executive MBA Programme and the European Foundation for Quality Management (EFQM) European Excellence Award. Hervé also worked for Renault Consulting where he led major change initiatives.

BERNARD GRACIA



Bernard is the founder and President of EIPM. He collaborated in the launch of one of the first postgraduate programmes in purchasing in the world and has been at the head of several pivotal milestones for the profession.

He is an expert in corporate purchasing strategy, acting as a consultant and training engineer for multinational organisations and developing research activities for universities and companies.

His professional know-how, combined with his friendly and communicative personality, has made him in demand as a conference speaker worldwide.

Bernard believes in the strategic value of purchasing beyond its contribution to the improvement of company profit. He coined the expression “Values for Value”, which highlights the importance of sharing common human, ethical and social values in an ecosystem in order to create value together.

WELCOME TO THIS BOOK

We tend to see management as a continuous quest towards better practices and improved performance. In this book, we take the alternative view that management must continuously adapt to its environment.

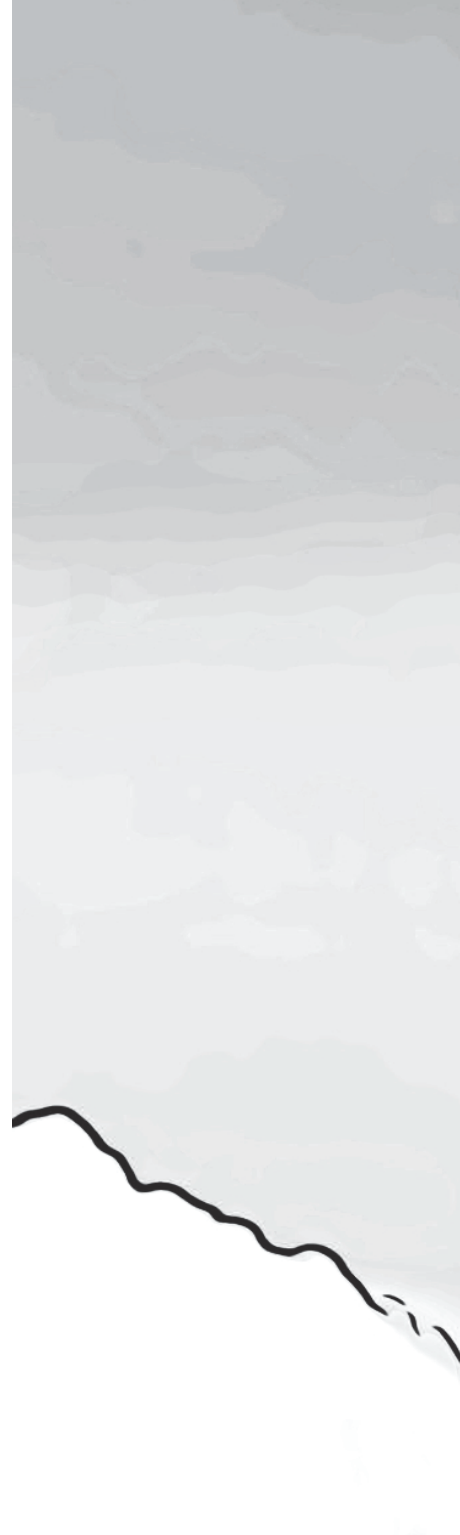
Excelling at purchasing is very different in a vertically integrated company, in a company that steers a global supply chain or in a company within a fast-changing ecosystem.

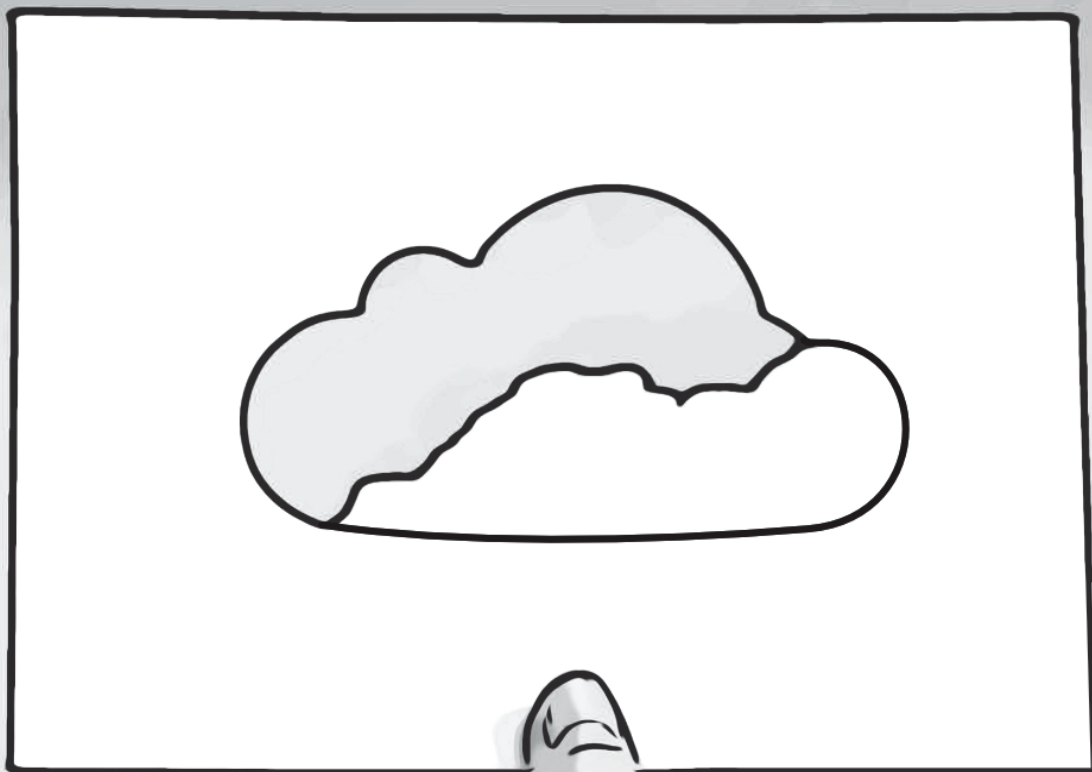
Looking at the history of the purchasing profession, we believe that over the past 10 years a fifth generation of purchasing organisation has emerged. This new generation is capable of simultaneously using pace and power, speed and synergies.

In this book, we describe how the business environment has changed and how purchasing is evolving. We share a vision consisting of six work modes that need to be mastered if one is to be among the purchasing leaders. We provide a wealth of interviews and tools that can help purchasing and business leaders create a vision and reflect on its implementation.

Enjoy the read!

Hervé Legenvre









OUR CALL TO ACTION

This book is an important landmark in the history of EIPM. It is the outcome of five years of extensive research and more than 100 interviews conducted with purchasing leaders. It combines outstanding practices from the winners of the EIPM-Peter Kraljic award with lessons from projects undertaken by professionals from all over the world who have participated in our education programmes. It builds on more than 15 workshops and roundtables in which leading practices were presented and discussed.

At EIPM, we invest in research. We believe that it is essential to be systematic and rigorous in the collection and analysis of what works for purchasing. We strive to look at what the profession does best from different angles.

We trust that this vision can inspire people to do things differently.

Fifth-generation purchasing is our call to action in an open world.

Bernard Gracia

FIRST-GENERATION PURCHASING BEFORE 1870

Before 1870, entrepreneurs conducted economic activities, some by establishing large factories. Even though some products could be sold across different countries, the entrepreneurs' activities were largely confined to a single geographic area. Trading companies were among the few corporations operating across geographies.

For instance, Wedgwood potteries and porcelains could be found on the tables and in the homes of many rich people around the world, but the company's design and production were carried out in Staffordshire, England. At that time, it was often the company's owner who sold and bought products and raw materials on the local, national and international markets. On some occasions, the owner would delegate this activity to a trader or a merchant, but for most companies, sales and purchasing were performed together. There were no dedicated teams in charge of purchasing.

SECOND-GENERATION PURCHASING 1870 TO 1914

Transportation and logistics infrastructure improved over the years, and, around 1880, some large corporations started to emerge in Europe and in the United States. Among these were railroad companies, and chemical and steel producers, which were able to operate on a large scale thanks to developments in engineering and energy. Until the beginning of

the First World War, global trade was not restricted, growing up to 30% of the global gross domestic product (GDP). Some scholars describe this as the first globalisation.

As companies grew and became exposed to large, powerful suppliers, purchasing emerged as a critical business function. The Philadelphia Railroad established purchasing as a department in 1886. In some companies, purchasing managers quickly gained the status of top executives. The first book written on purchasing was released in 1887 by Marshall Monroe Kirkman, who was a comptroller for the Chicago and Northwestern Railroad. His book, entitled *The handling of railway supplies – their purchase and disposition*, elucidates the reasons why purchasing was becoming an important function at the time. As suppliers started to use salespeople, railroad companies had to develop the purchasing function: "Ability to sell at the best figure is a natural art possessed only by merchants, and in order to purchase cheaply, this art must meet its counterpart in the instinct to buy cheaply" (Kirkman, 1887).

The purchasing department also supported product qualification in order to ensure that the goods purchased would deliver the best possible value to the business. In Kirkman's (1887) view, "A shrewd purchasing agent will constantly supplement his knowledge of affairs by intercourse with those who have practical knowledge of the use of the wares he buys. He will be, moreover, constant in testing what he buys; in subjecting it to the most careful comparisons; in discovering in every intelligent and practical way its utility, durability and relative value".

The focus of the newly formed department was on cost. Kirkman (1887) profiled buyers as cost champions: "To be able to buy its supplies at the

lowest possible figure is of enormous value to a company, and a capable purchasing agent, it is probable, can save his employer a greater sum through the exercise of experience and intelligence, than any other officer of like grade". In effect, it was during the second generation of purchasing that negotiation, qualification and cost management became the core functions of purchasing.

THIRD-GENERATION PURCHASING 1914 TO 1980

With the First World War, many countries started to establish trade barriers in order to protect their nascent industries and avoid dependence on foreign economies. Even though industrial activities were undergoing rapid development, economies remained fragile and faced a deep crisis in the 1920s and 1930s.

In each country, national champions emerged in different industries. Many of these companies were vertically integrated, as it was difficult for them to rely on a robust network of suppliers. Vertical integration helped to limit the risks of depending on fragile external sources of supply. Vertical integration also facilitated the rationalisation of companies' rapidly growing production activities as they adopted the scientific principles of management. A well-known case of vertical integration was in the production of the Ford Model T. Henry Ford wanted to bring everything under one large roof so that he could control supply and optimise the flow of production from start to finish. He even owned a rubber plantation and mines to secure the supply of rubber, coal and iron.

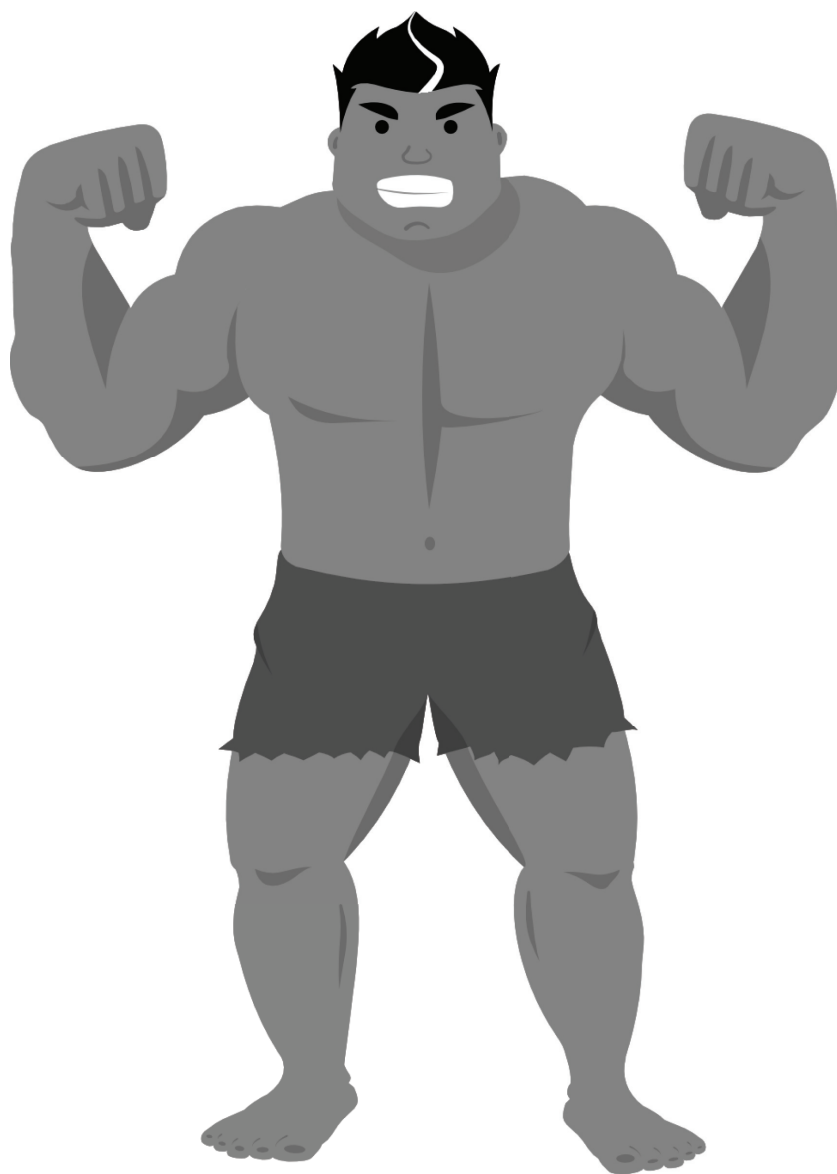
Because of this vertical integration, purchasing lost some of its importance. Raw materials were difficult to obtain, and their purchase was generally managed at the top of the company. The purchasing management function was therefore relegated to clerical and operational activities.

Over the years, companies further rationalised their activities. Raw material production was often outsourced to specialists. After the Second World War, global trade started to grow again. With the economic turmoil of the 1970s, the pace of growth slowed for many Western economies, leading to trade liberalisation and greater international competition.

FOURTH-GENERATION PURCHASING 1980 TO 2008

The introduction of container shipping ignited a revolution in logistics, while information technology (IT) took its performance to the next level, feeding international competition. During the 1980s, the growing market share of Japanese products around the world forced companies to dedicate significant attention to quality issues. In fact, operational performance measured by the triptych quality, cost, and delivery (QCD) became central to every company.

As companies started to expand their activities across different countries, they started to focus more on their core business and outsource the majority of their non-core activities. For instance, Renault, the car manufacturer, abandoned the bicycle, agriculture and truck markets to focus on automotive products, and began to rely increasingly on suppliers for automotive



HOW DO WE COMBINE
.....
PACE AND POWER?
.....

THE FRAMEWORK IS MADE UP OF SIX WORK MODES:

WORK MODE	AMBITION
TACTICAL	Here, the ambition is to ensure that prices and transaction costs are kept to a minimum, while users benefit from a great experience and stakeholders benefit from business advantages. Shared service centres, outsourcing, automation platforms and digital solutions are classic ways of achieving such a goal.
CONSOLIDATION	Here, the ambition is to achieve cost optimisation, while enhancing the value offered across the business. The challenge is to respond to diverse needs across the demand side with a single solution.
COLLABORATION & ALLIANCES	Here, the ambition is to create business opportunities out of long-term relationships with strategic partners. This requires the orchestration of close alignment and joint projects across companies.
AGILE ADVISOR	Here, the ambition is to respond to diverse and rapidly evolving business expectations. This requires organisations to establish strong relationships with stakeholders and to strike the right balance between anticipation and acceleration.
COMPETENCE CENTRE	Here, the ambition is to advise the business on opportunities coming from the supply side. This requires knowledge and access to rapidly changing markets.
EXPLORATION	Here, the ambition is to contribute to teams in charge of innovative, exploratory projects. This requires organisations to assemble innovative solutions from external partners in order to seize new business opportunities.

The next pages provide an overview of the six work modes followed by in-depth descriptions.

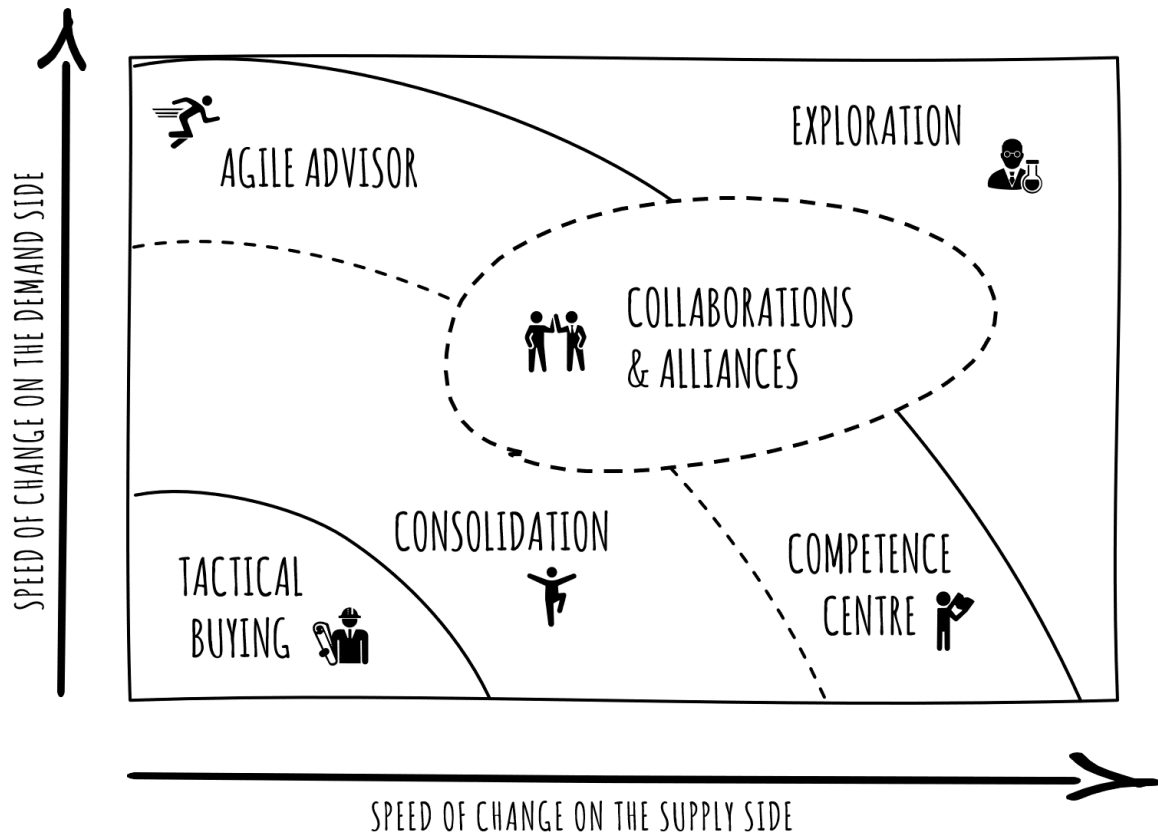


Figure 2: The six work modes in fifth-generation purchasing

1. TACTICAL BUYING

.....



MOTTO IS: SIMPLIFY!

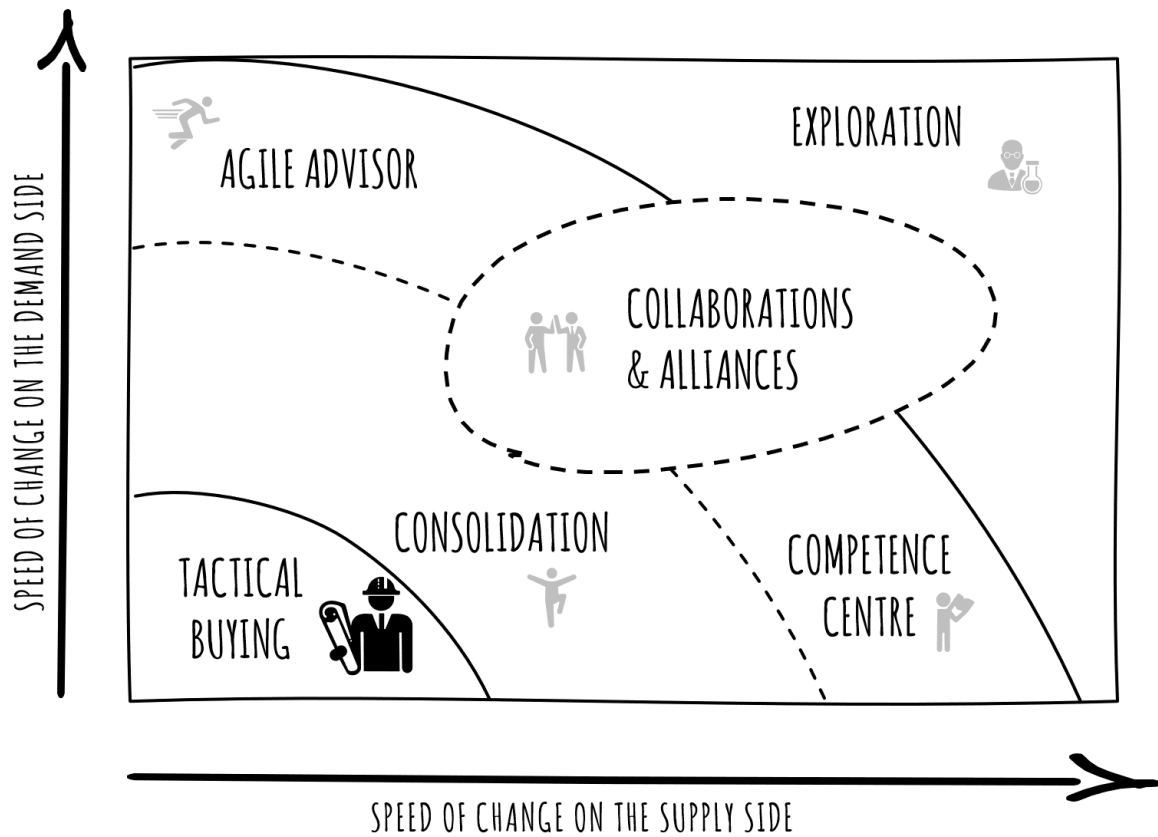
This is the foundation of an ambitious vision. As a purchaser, you need to gain efficiency and create a great user experience through outsourcing, automation and innovative platforms.

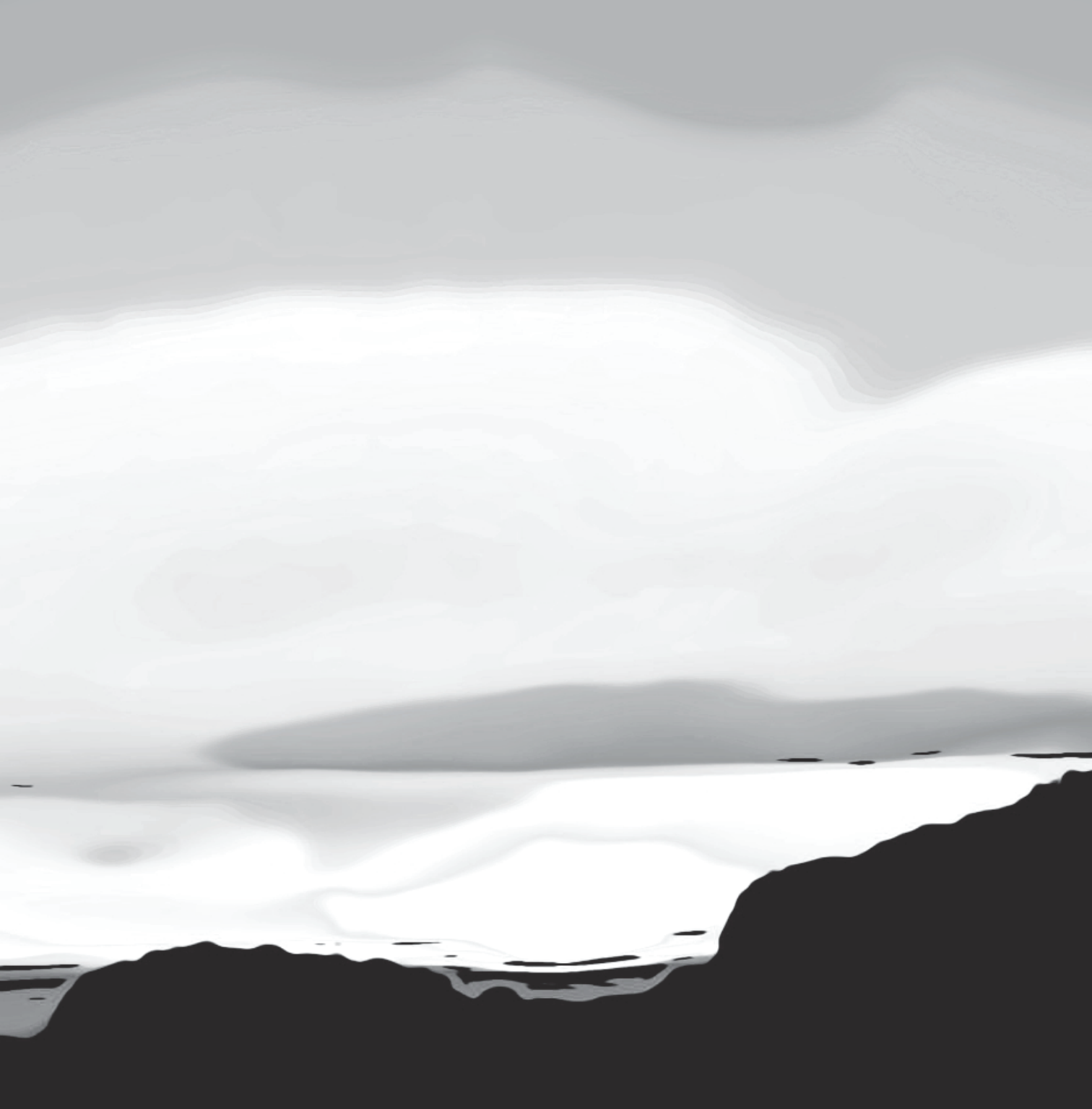
ON THE BUSINESS SIDE, YOU NEED TO:

- Create a simple and user-friendly experience.
- Lead the implementation of change.
- Monitor the outcomes.

ON THE SUPPLIER SIDE, YOU NEED TO:

- Take advantage of new technologies and new business models.
- Act as the architect for solutions.
- Swiftly integrate suppliers into your processes.







MODE 6: EXPLORATION

Here, the ambition is to contribute to teams in charge of innovative, exploratory projects. This requires organisations to assemble innovative solutions from external partners in order to seize new business opportunities.

EXPLORATION

.....

Here, the ambition is to support teams in charge of innovative or exploratory projects. This requires assembling innovative solutions from external partners in order to seize new business opportunities.

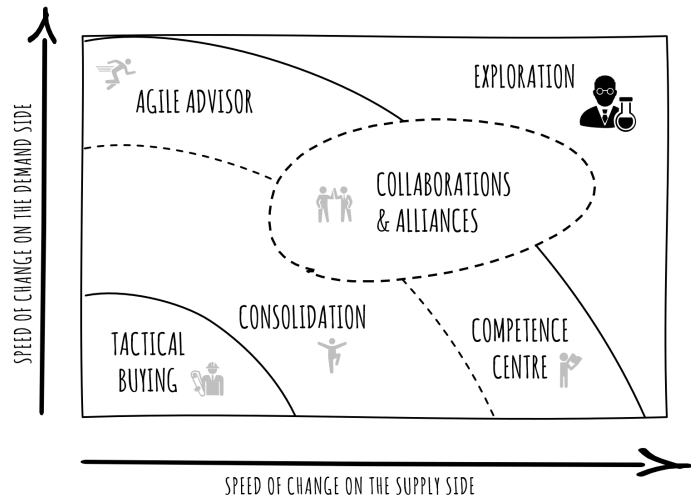
In this work mode, most initiatives will be developed on an ad hoc basis. Indeed, some exploratory projects are very short, while others may last for years. Some projects need dedicated resources, while others may be pursued in parallel with other activities. In any case, such projects require an entrepreneurial spirit and an ability to view risk in a positive light.

In this section, Jean-Philippe Collin explains that we need to be able to innovate not only within but also beyond a specific category context. He shares examples that shed light on what exploratory means in practice. In another interview, Detlef Schultz shares his vision of procurement, describing an information powerhouse that excels at innovation and acts as an external talent manager.

We conclude this section by describing four different ways to structure innovation activities within purchasing.

MOTTO IS: FAIL FAST! LEARN FAST!

As a purchaser, you need to find innovative solutions that respond to emerging challenges.



ON THE BUSINESS SIDE, YOU NEED TO:

- Understand the business agenda.
- Join innovation teams.
- Develop proof of concept first.
- Look at opportunities and risks with a business mindset.

ON THE SUPPLIER SIDE, YOU NEED TO:

- Build a vision of tomorrow's needs.
- Work closely with suppliers to test their solutions.
- Scale up the most promising solutions.

INTERVIEW WITH DETLEF SCHULTZ

What might be the ultimate ambition of a CPO today?

Let's assume you did a brilliant job of digitalising on the tactical side. Let's assume you are the master of using robots and artificial intelligence. Let's assume you have a full suite of e-tools and associated processes fully under control. Then you can start asking yourself: What is my role now as many things are done automatically? Many people will say you need to manage the personal relationships! Ok! Agreed! We need the personal relationships with the supplier. But, why would we need a procurement person to manage these relationships? Why can't the relationship be managed by the functional partner, by an expert or by representatives from a division? So, why do we need procurement? I believe the only reason you need procurement tomorrow is because procurement has a unique position and opportunity where internal and external information come together. As such, procurement can become an information powerhouse in the company. If you don't have a similar vision for your organisation, then I question the reason for your organisation's existence. There is no value if you can be replaced by a machine sooner or later. So, there must be something you provide to the company which justifies your existence. In my opinion, there can only be business insights and business foresights, which help create competitive advantages. If you can get on that level, you are a respected and sought-after business partner in the company. You sit with Executives to discuss the budget and innovation. Why? Because you can gather information that others are not able to get as fast as you do. And with better use of artificial intelligence

you can create insight – and impactful briefs which empower Executives to make better decisions. I am a passionate procurement person because there is an enormous role to play for us in the future. When I started my career, procurement was nothing from a status point of view. And that changed. And it will change even more as we get better at providing business insights.

If we combine the data we can access throughout the whole company with future trends, market information, intelligence on sustainability and innovation, then we can build amazing information powerhouses.

How can we help the business build its vision of the future and leverage innovative suppliers?

Here, we need to start from the foundations. We need to first look at how we find the right supplier with the right innovation. And this starts with the segmentation of your suppliers. I see many people who make the mistake of defining as strategic suppliers the 10% of suppliers that combine 80% of spend. This might have some value, but by doing this, you neglect all the companies that might come with disruptive ideas; you neglect start-up companies who can bring innovation to you. You can't even find these companies, as you don't even talk to them or know where they are. But, suddenly a competitor gets in touch with them, and here I lose my entire leverage because others are faster than me in working with them. There is a difficulty in figuring out how to deal with small suppliers and define them as strategic. A couple of things. First, you need to treat those innovation drivers differently from your "standard" suppliers. If you want to work with start-ups, innovative agile companies, you need to treat them differently. To be honest, if you start with a non-disclosure agreement and then send them a 180-page contract, those guys

don't even have a layer some time. This is all new to them. The more failures I had in this area, not only in identifying but also in treating this totally different type of suppliers, the more I came to the conclusion that you need to do this completely separately. Maybe you have a category which you call innovation. Maybe you have a team that does nothing but work with these small upcoming innovative suppliers. Maybe they use a totally different set of processes and tools. In Vodafone, the Procurement company has started a joint venture with the Luxembourg government to host start-up companies and act as an accelerator. This is one process among others. In general, in procurement, we need to admit that we have been weak on the innovation side.

How do you help build the company of the future?

Many traditional procurement categories that deal for instance with software or hardware used to have fixed borders. But now, they are opening, merging and intermingling. Software and hardware become one. This is a first step of a complete transformation of how we work. Companies in the future will be built around core teams. They will have satellite teams flying around them that will work until a project is completed. And finally, you will have marketplaces that will help you buy whatever you need, whenever you need it. This will change everything. It will fully reshape how we deliver a business vision. This will require new forms of collaboration and require procurement to radically change its ways of working. In this context, scale will not always impact on price. If someone develops something new for you, they don't care about scale. They don't care that you are a big company. It will become more a give and take process. It will be about creating mutual benefits. We will work with them because we can develop joint marketing strategies and joint commercialisation strategies.

This will require totally new skills in procurement. And, by the way, all this is in line with the wish of the young people who don't want to work for a company for 25 years. They want the true work-life balance; they are independents; they work different projects with different companies. So, this brings me to something important – the role of human resources management and procurement will merge. We will fight for external talent not only for the core team, but also for the ones in these satellites. Procurement will become a recruiter. It will need to make sure that the company is attractive to people working outside of the company. We will play a key role in helping to gain access to talent and finding the right way to build the collaboration with them. The CPO will therefore become an orchestrator of external talent. They will bring in the tuba, the flautist and the lead violin. Isn't it attractive?

INTERVIEW WITH JEAN-PHILIPPE COLLIN

Can all innovations be addressed within an existing category in an organisation?

We need both innovations at the same time: some innovation emerges within existing organisation frames and some innovation comes from a broader perspective. There are different types of innovation. Many innovations are embedded within a category. When we help the HR team use social media professional solutions for recruiting, this takes place within an existing category. Another innovation we worked on in Sanofi was to source energy through edging techniques and co-generation projects. This can easily take place within the existing organisation. There is a lot of advantage of performing such innovation, as it does not require you to extract yourself from the existing organisation framework. This requires developing a culture where people are encouraged to explore what innovative practices could be adopted within categories. Most innovations will come from this. Technology innovation can come from unexpected sources, but business model innovation can often be fostered within a given category. You don't need to go the moon. You can simply encourage it category by category. This is important as you can tell everyone that they can contribute to innovation. This is key to avoid creating a divide between the ones who innovate and the ones who don't. There is a lot of benefit here.

So, what should you do when you need to look beyond the existing organisational framework?

Sometimes, you must solve problems that go beyond existing categories. Here, what I have been preaching in Sanofi is to dedicate 5% of our resources to open innovation. If you have 800 people, this means that you can have 40 people who work on issues, concerns or challenges that do not belong to a specific category. You dedicate them to initiatives where they can explore opportunities well beyond traditional boundaries. Let me share a few examples. If you take digital media, you need to combine a CRM, a Media and an IS perspective. If you look at a co-generation, you need to look beyond the energy category and consider waste management and the sourcing of energy production equipment. For clinical trials, you find new opportunities if you also look at drug monitoring (pharmacovigilance) throughout the full life-cycle of a drug. Having one person in charge of such initiatives is important as they can adopt cross-category perspectives and sometime this allows you to have a single point of contact on a specific matter for the business. It further pushes the business consciousness of purchasing and moves it beyond the traditional category management scheme, which may sometimes be seen as academic and rigid.

Can you describe what these people do in practice?

There are three stages they can contribute to: building a vision, developing a mid-term plan and executing a plan. Let me take the case of biological products for the first two. A few years ago, we realised in Sanofi that 80% of our new drugs would be biological products, which means less chemical or bio-chemical products. But we realised that this was going to require processes very different from existing ones. At that time, the questions Sanofi

needed to answer included: Should we build our own factories? Should we acquire factories? Should we outsource this? I decided to assign one person to an initiative that would look across different issues, including clinical trials, manufacturing and packaging for biological products. The person was not the biological products buyer, but this person was our interface with the business for biological products. This person was able to understand the full picture and to synchronise all activities within procurement. He was helping the business to develop its strategic vision. He was bringing business intelligence, market intelligence and advice. He introduced new partners capable of building factories in Asia for us. He was challenging the business and advocating external options to optimise the return on capital employed. In the planning phase, he coordinated a diversity of procurement and external resources.

And for the execution stage?

Here, I can take another example which is about managing relationships with start-ups or innovation units within big companies. Innovation can require rapidly onboarding a start-up. Most buyers are not used to working with start-ups. They are used to established companies. How can procurement avoid operating with the classic fully compliant but slow process? Here, we had a person fully focusing on the execution aspects of this, making sure that procurement was able to move at the right pace while guaranteeing the right level of compliance. When we started to work with a six-person company capable of performing sophisticated Internet searches supporting drug monitoring (pharmacovigilance) activities, we made a rapid go no-go analysis in line with the pace of the business. And this is not just about start-ups; when we started to work with major players in AI-based decision-making platforms, we had a rather similar process.

Did you have to look for solutions coming from unfamiliar industries?

Innovation does not always come from start-ups indeed. When, in Sanofi, we were looking at solutions for pen injectors for diabetes drugs, we investigated opportunities in the automotive industry. We looked well beyond the existing sourcing base for a set of technical capabilities that matched our requirements. We had meetings with an automotive equipment manufacturer and a major player in the contract electronic manufacturing sector. We started by organising workshops that helped bridge the distance between the teams on both sides. When they saw our existing product, they quickly realised that opportunities existed, and they went ahead. R&D teams were surprised and cautious, but rapidly discussions focused on the right questions and we made progress all together. Now, this company is developing solutions for different companies in the health sector.

Can you provide other examples where you really changed perspectives to make innovation happen?

Yes, when I was working in the automotive industry, we started to discuss with a major tyre manufacturer about low-friction tyres. Everyone from their side and our side was starting to discuss exclusivity, which was not going to help such an innovation to become a standard and reach its full potential. So, because of my experience in the consumer electronics industry, I suggested we should look at it from a different angle. As we still wanted to have a first mover advantage, we designed a contract where we would get a financial reward when they were selling the solution to other clients. Sometimes innovation requires you to look at a situation from a different angle, which often leads to some interesting business model innovations.

Innovation is not only about technology; business and process innovation may play a far bigger role in setting up the right value chain. Purchasing needs to lead the band and coordinate other functions and stakeholders who might be risk adverse.

Any final advice?

Maybe we could end with more generic views, including harnessing collective intelligence, active sharing of knowledge, developing proof of concept, taking ownership.

We also need to remember that innovation does not grow by chance; it requires appropriate governance, specific tools and techniques, and dedicated resources, while maintaining an appropriate balance with the day-to-day business: a balancing act in terms of people and business management!

FOUR WAYS OF STRUCTURING INNOVATION ACTIVITIES IN PURCHASING

The impact of innovation on purchasing structures in organisations is a topic of increasing discussion. Certainly, it is essential to dedicate resources to innovation. But, this can be done through different means. The following four paragraphs describe some of the most common set-ups encountered.

1. EMBEDDED IN EXISTING TEAMS

Here, innovation is part of the value proposition of any purchasing team inside the company, either as a category team, a BU purchasing team or another set-up. This way, every team can and should contribute to innovation. Such teams must have the freedom to explore new ways of doing things. They need some autonomy. They should be able to adopt the right practices that match the situation. Some people might be more inclined to do this than others, but in the end, it is a part of the team's contribution to the business performance. Ideally, you would expect this set-up in any purchasing organisation.

2. DISTRIBUTED

A distributed set-up means that you can ask people from across the whole company to take time out of their daily jobs to help you on a project, for a few hours, a few days or maybe even longer. This can be key, as they may have unique expertise to help you solve a problem. For instance, if you are dealing with a supplier that uses technologies or business models that are unfamiliar to you, you should be able to obtain help from the people across the organisation who have the necessary experience. This can be accomplished informally to a certain extent; communication tools can rapidly help you to find the right person in the human network. Some companies have made such arrangements more formal, using knowledge management tools such as Peer Assist. This set-up works best in fast-changing or knowledge-intensive industries. However, every purchasing organisation should aspire to achieve this type of networking to some degree.

3. SEPARATE TEAMS

Innovation teams have begun to emerge in purchasing. Here, we are not talking about people in central positions who are in charge of helping teams with innovation-related projects. A separate team in this case means a group of people dedicated to a specific innovation requirement. This could be a team handling the relationships with companies from outside of the industry or the relationships with start-ups. Separate teams can be established on an ad hoc basis because unfamiliar suppliers need to be approached differently from traditional suppliers. In a way, such teams help to protect the supplier from the classic process if it might hinder the establishment of a good relationship. Separate teams are not needed in all purchasing organisations. But where they exist, they can really help with doing things differently.

4. TEMPORARY INITIATIVES

A temporary initiative is best described by a person who is given a special project for 4 to 18 months. Often, innovation does not follow the classic segmentation that has been established. Innovation can be about creating new linkages across categories. Industry 4.0 combines production equipment, software and services, for instance. Here, one person is appointed to be in charge of such a project. This person acts as a single point of contact for the business and the lead on the relationship with innovative suppliers. He or she supports company decision-making in any way relevant – from make vs. buy analyses to operational activities. Later, these activities can sometimes be transformed into a new category or a specific team. As you evolve in an innovative industry, you need to establish such temporary initiatives when relevant. It may be necessary to remove some people from a classic job and assign them to a temporary project. While this will require taking some of your talent out of their existing job, from a career evolution point of view, it is a great way to offer people a new, interesting assignment.

HOW THE FOUR SET-UPS CAN HELP YOUR DECISION-MAKING

Figure 7 can help you to match the four set-ups with some common situations. Note, that this represents a guide for decision-making, not a normative model.

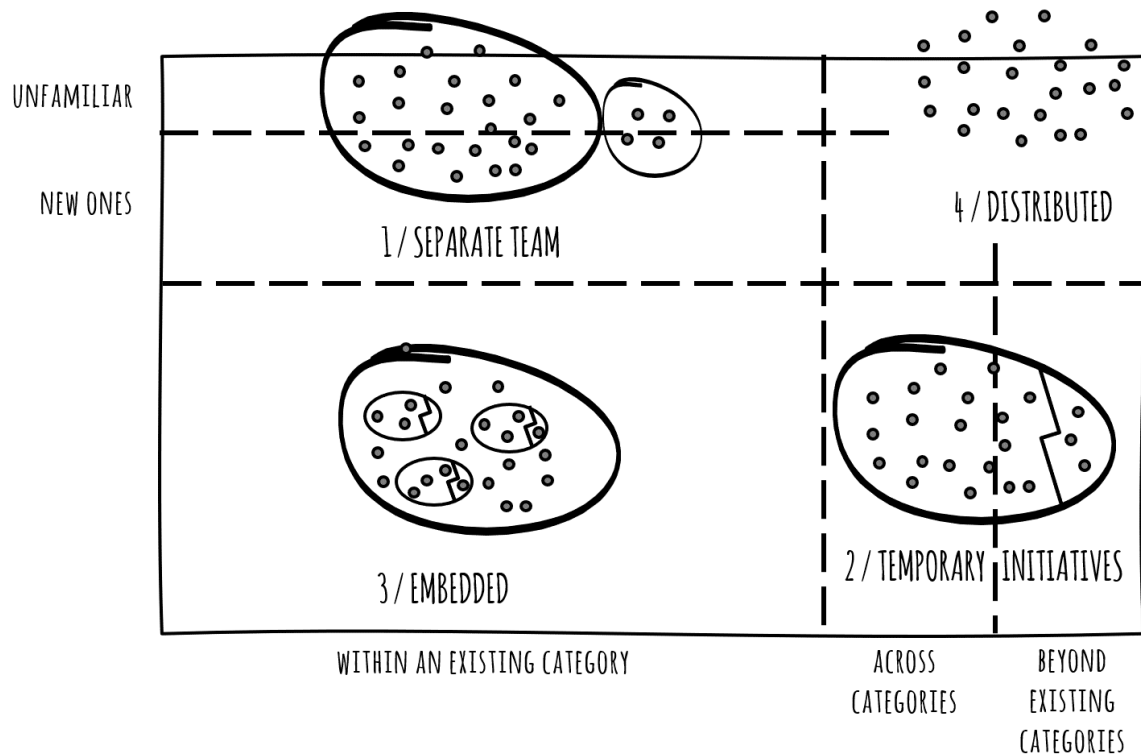


Figure 7: The four innovation set-ups in practice

LESSONS

So, in the end, what can you learn from this about structuring innovation activities in purchasing?

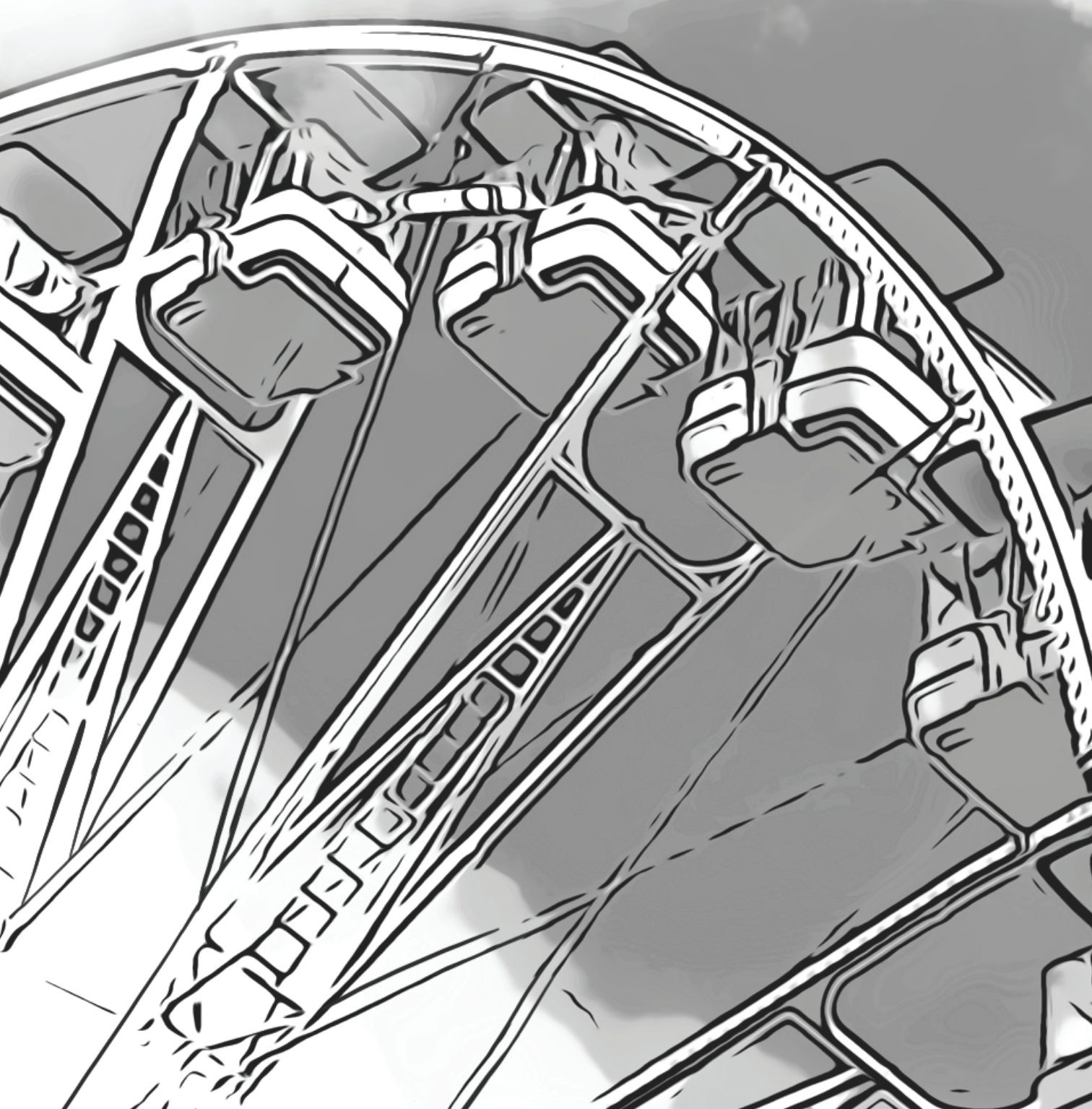
Lesson one: Innovation needs to be everyone's job, but it should be managed in an efficient way at all levels, so that people have both the autonomy and the required support to make it happen.

Lesson two: Innovation requires making tough choices. Regularly, you may need to take some of your best or most promising people out of their jobs to dedicate them to innovation initiatives. You need to have a continuous flow of talent that supports innovation.

Lesson three: Your classic organisation cannot handle everything. It needs to continuously evolve, and you need to create flexibility by establishing special roles and teams that can match the business innovation imperatives as they appear.

Lesson four: Suppliers who are very different from established ones need to be treated with care. They might need special teams to help them deliver the best value.

Lesson five: Build on internal initiatives on innovation. This can be useful for accessing resources, dedicated funds and facilitation capabilities, for instance. In addition, make sure that you keep some slack resources in purchasing so that you can anticipate and react to changes.





A DYNAMIC PERSPECTIVE

This section discusses how the different modes can interact and complement each other over time. It is all about understanding when and how you need to change mode.

THEY HAVE CONTRIBUTED TO THIS BOOK

DETLEF SCHULTZ



On Tactical Buying
& Exploration

EMMANUEL ERBA



On Tactical Buying
& Consolidation

JEAN-PHILIPPE COLLIN



On Tactical Buying,
Agile Advisor
& Exploration

PHILIPPE ARMENGAUD



On Consolidation,
Collaboration & Alliances,
Agile Advisor
& Innovation Workshops

KLAIDS LAFON DE RIBEYROLLES



On Collaboration & Alliances
& Competence Centre

ANGUS MCINTOSH



On Competence Centre

THOMAS ANDRÉ



On Consolidation

FIFTH-GENERATION PURCHASING

Over the past 10 years a Fifth-Generation of purchasing organisation has emerged. This new generation is capable of simultaneously using pace and power, speed and synergies.

In this book, we share a vision consisting of six work modes that need to be mastered if one is to be among the purchasing leaders. We provide a wealth of interviews and tools that help purchasing and business leaders create a vision and reflect on its implementation.

All rights reserved © www.eipm.org

facebook.com/eipm.org

linkedin.com/company/eipm

The European Institute of Purchasing Management

Bâtiment Mont-Blanc 2 – 59, Rue Antoine Redier

74160 Archamps Technopole – France

Phone: +33 (0)4 50 31 56 78

ISBN 9782957195701



9 782957 195701

