



Science For A Better Life

Procurement Organization

Evolving models

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Agenda

- Introduction to organizational models
- Development of models at Bayer
- Implementation at Bayer CropScience
- Evolution: where is it heading?



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Introduction to organizational models

Development of models at Bayer

Implementation at Bayer CropScience

Evolution: where is it heading?



Looking at Procurement Organization from a research angle

Situational factors can be manifold – typical distinction being made between external and internal "contingencies"



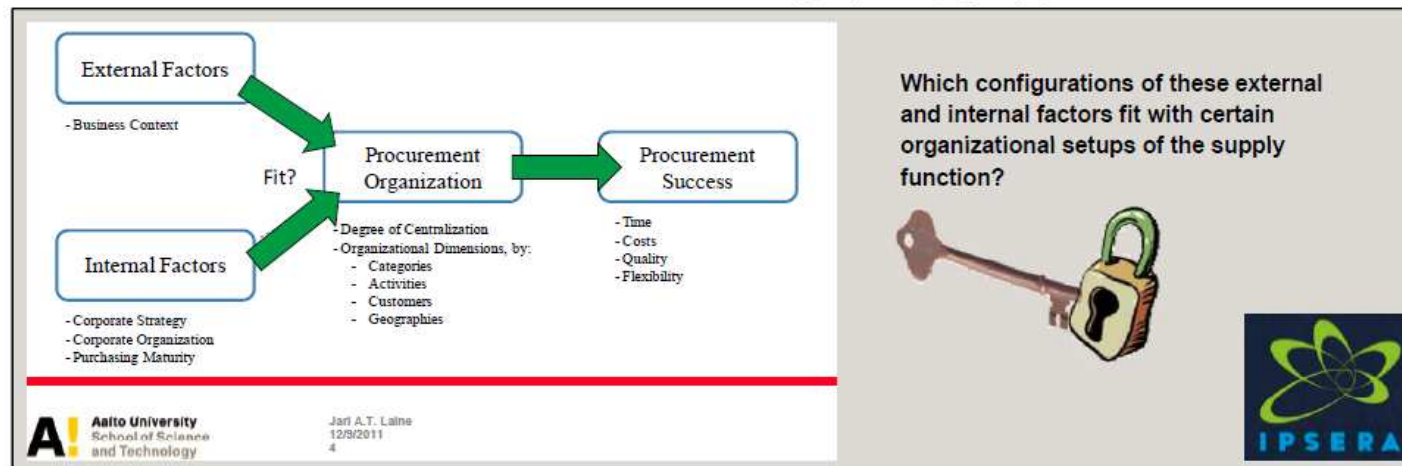
Example Bals et al. (2011)

Typical internal contingencies:

- Procurement strategy (explicit or implicit) and its relation and alignment to the corporate business strategy
- Purchasing maturity
- Competences of the procurement staff
- Connections between intra- and interorganizational actors
- Targets, metrics and incentives as means of measuring and rewarding procurement performance
- Organization size

Typical external contingencies:

- Operating environment in general (market type, size, share, growth)
- Type and nature of demand
- Maturity and renewal rate of product(s)
- Type and nature of competition
- Type and number of customers
- Political influences (e.g. changing environmental standards)
- Balance of bargaining power with main customers, position in supplier portfolio (e.g. Kraljic)



Jun.-Prof. Dr. Matthias Ehrgott

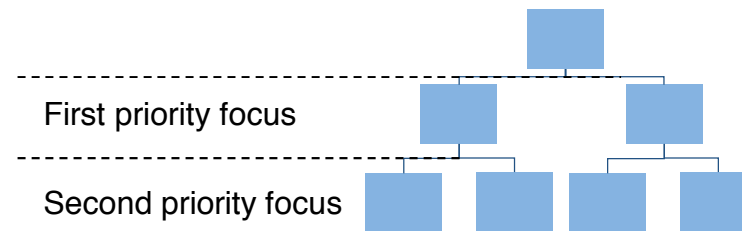
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Three questions need to be addressed by an organizational model

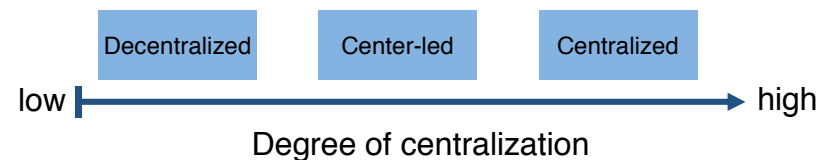


Questions to be addressed by an organizational model

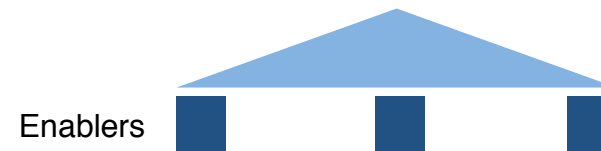
1 Which dimensions dominate the organizational set up?



2 What is the degree of centralization?



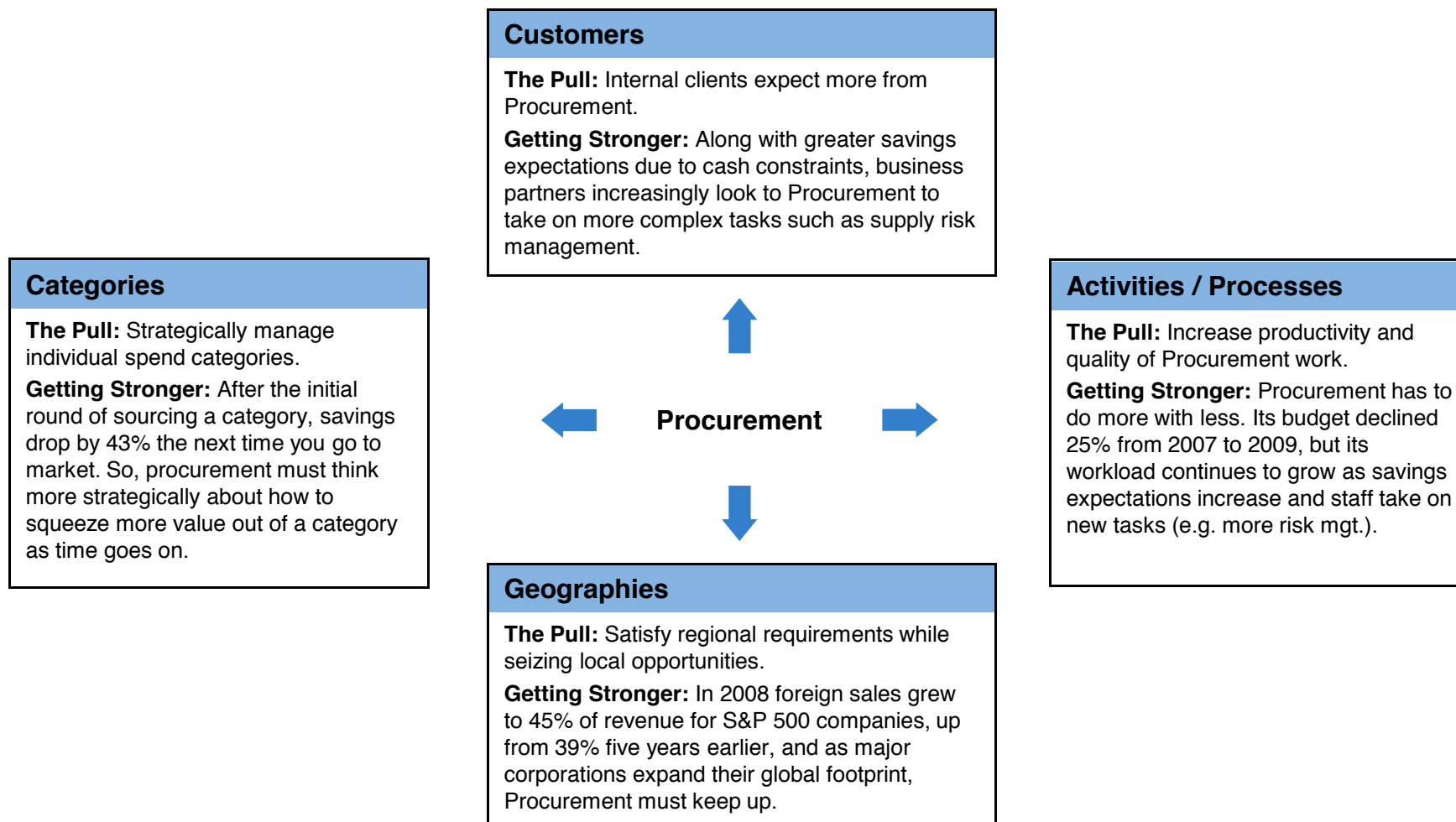
3 Which “enablers” can support the strengths and compensate the shortcomings of the organizational set up?



Also compare: Procurement Strategy Council



Procurement functions face the challenge of satisfying four - increasingly demanding - organizational pulls



Source:PSC, Fit for Purpose: Designing the right structure and learning to live with it (2009)

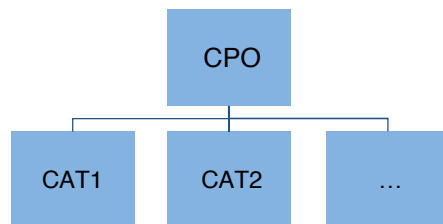


Generally, all of these “pulls” can be reflected in the organizational structure of procurement functions

Dimensions of organizational structures (1/2)

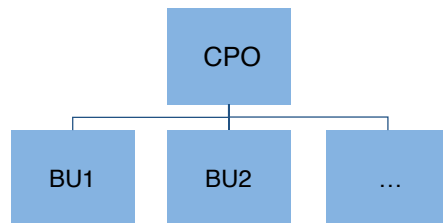
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A Categories



- Major focus of this type of organization is to
 - develop procurement expertise in all relevant categories
 - be accepted as expert from the business partners

B Customers



- Major focus of this type of organization is to
 - respond to the (specific) demand of the individual business units in the best possible way
 - to be involved in more complex tasks (e.g. risk management)
 - to be involved into the process as early as possible

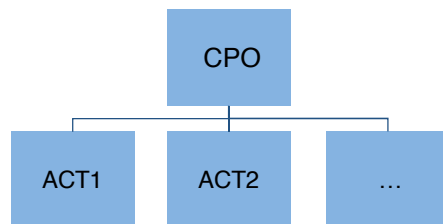


Generally all of these “pulls” can be reflected in the organizational structure of procurement functions

Dimensions of organizational structures (2/2)

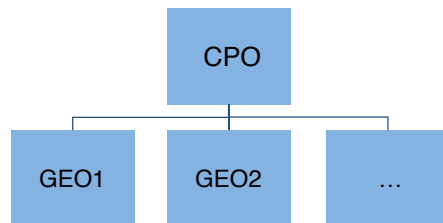
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C Activities / Processes



- Major focus of this organizational type is to
 - maximize the process efficiency and minimize process costs
 - execute well established methodologies along the sourcing / purchasing process
 - ensure an environment of clearly defined roles and responsibilities

D Geographies



- Major focus of this organizational type is to
 - respond to the (specific) demand of different regions in the best possible way

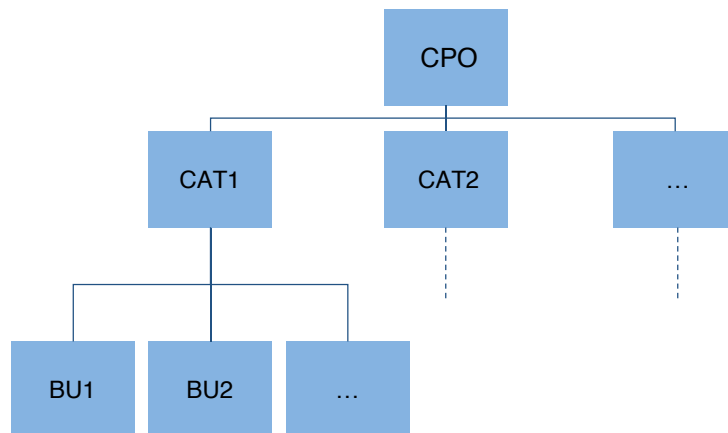
The Categories-Customers-Model combines category expertise and closeness to the business



1

Details: Categories - Customers (*tiered*)

Organizational Model



Main Characteristics

- Procurement expertise in each spend category and underline of importance of category specific strategies
- Good responsiveness to shifting business needs and early involvement by business units
- Tiered structure clearly states the hierarchy of consistent category strategies vs. special business demand
- Good control over spend (including leverage of spend across different business units)
- No special focus on regional/local needs
- No special focus on processes, methodologies and split of activities

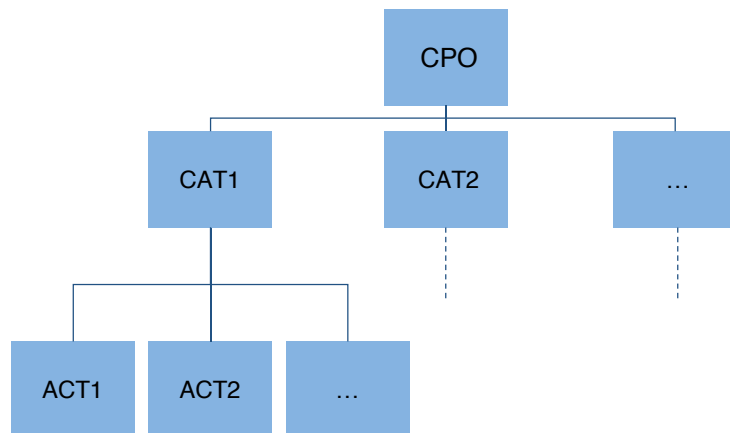
The Categories-Activities-Model aims to deliver category expertise to the business efficiently & effectively



Details: Categories - Activities (*tiered*)

1

Organizational Model



Main Characteristics

- Procurement expertise in each spend category and underline of importance of category specific strategies
- Special focus on clearly defined roles & responsibilities on activity level and stringent processes ensure an efficient and effective organization
- Tiered structure underlines the overall importance of consistent category strategies
- No special focus on specific business or regional/local needs

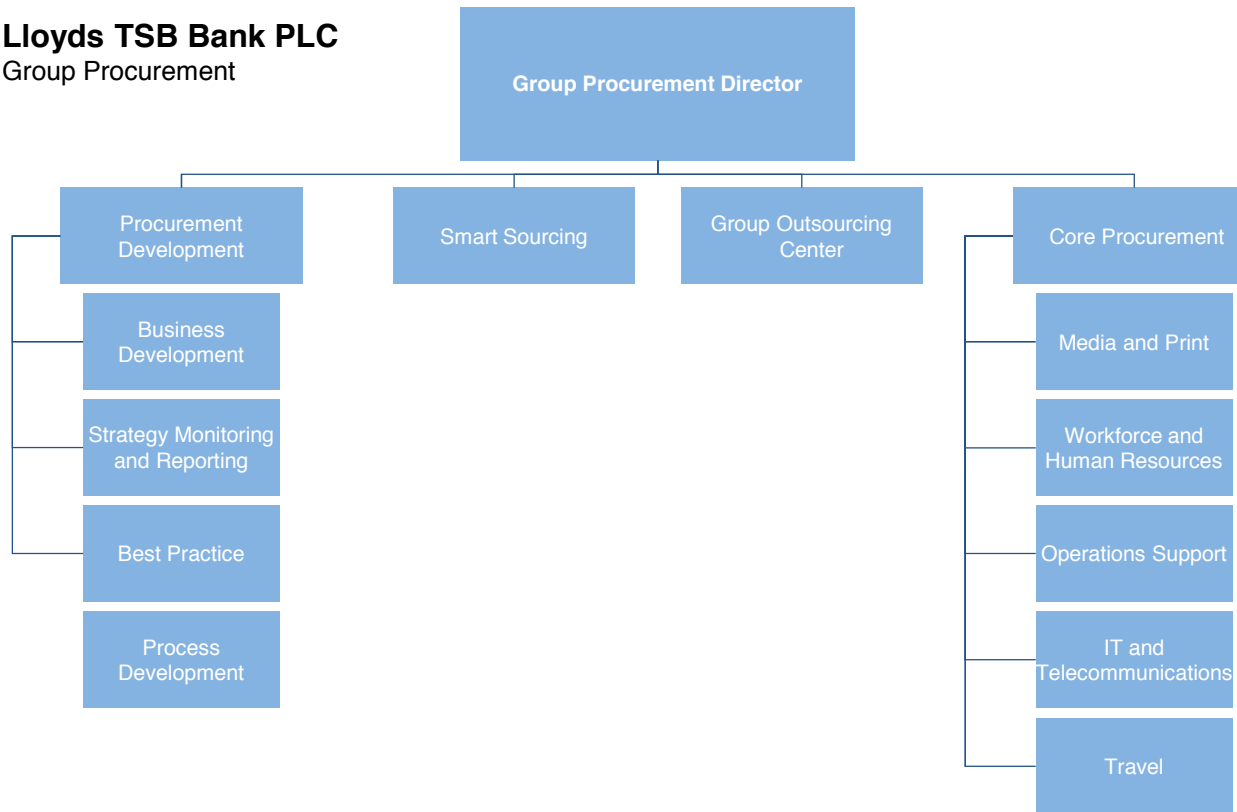


Lloyds TSB Bank employs a Categories - Activities - Model

Example: Categories - Activities (*siload*)

1

Lloyds TSB Bank PLC Group Procurement



Comments

- Special focus on categories and activities (esp. strategic)
- Interesting functions:
 - Group outsourcing center
 - Procurement development

Organizational characteristics

- Number of FTEs: 70
- Number of Distinct Business Units (BUs) Supported: 25
- Number of Countries Supported: 1

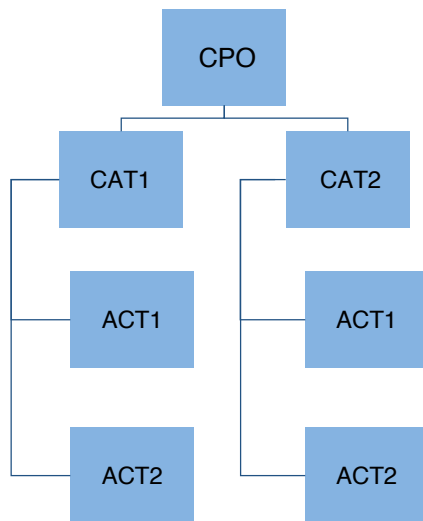


Two dimensional organizational models can be run effectively in three variants...

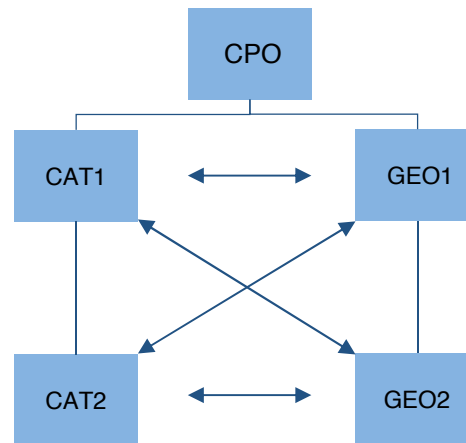
Types of two-dimensional models

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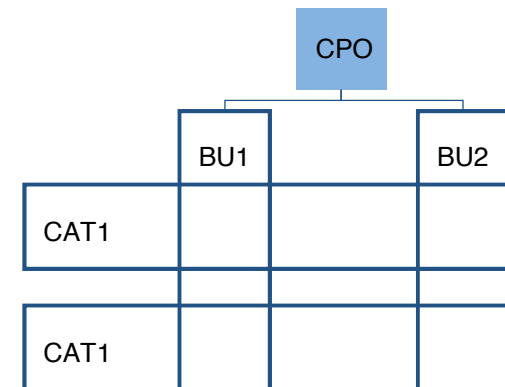
Tiered model



Siloed model



Matrixed model



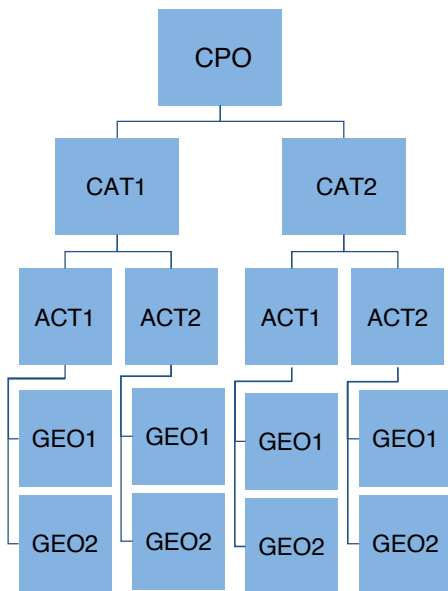
Two dimensional models in three variants can be run effectively



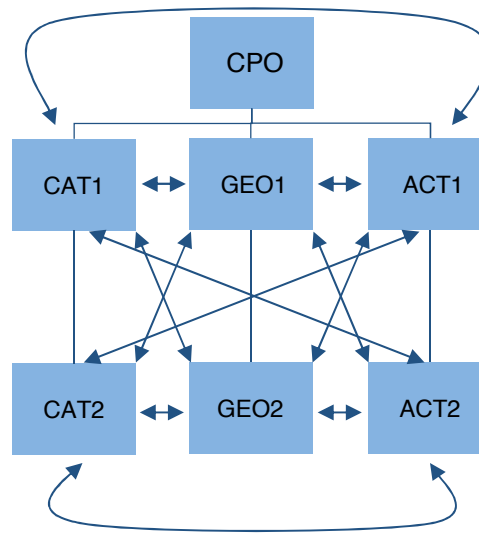
...but considering more than two dimensions adds enormous complexity to the organization

Types of three-dimensional models

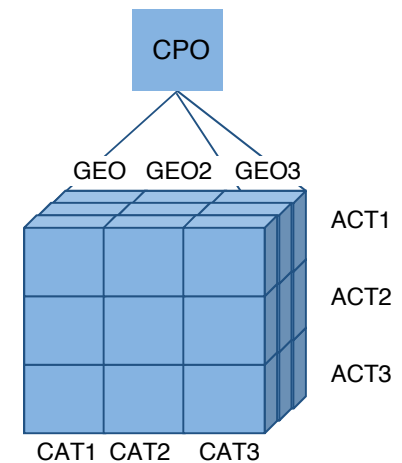
Tiered model



Siloed model



Matrixed model

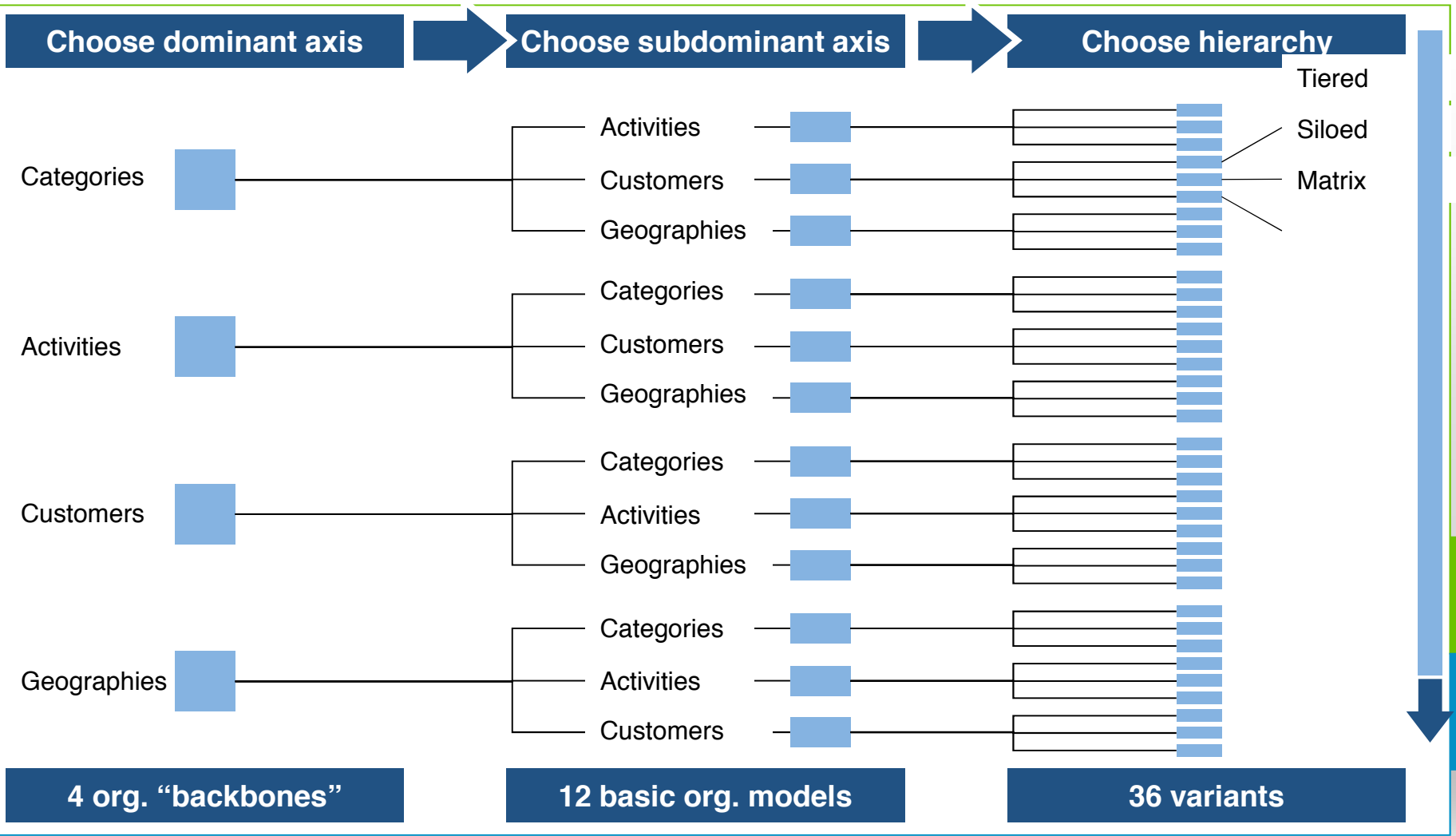


Models with more than two dimensions add enormous complexity to the organization

With these restrictions in mind theoretically 12 basic org. models in 36 different variants are possible



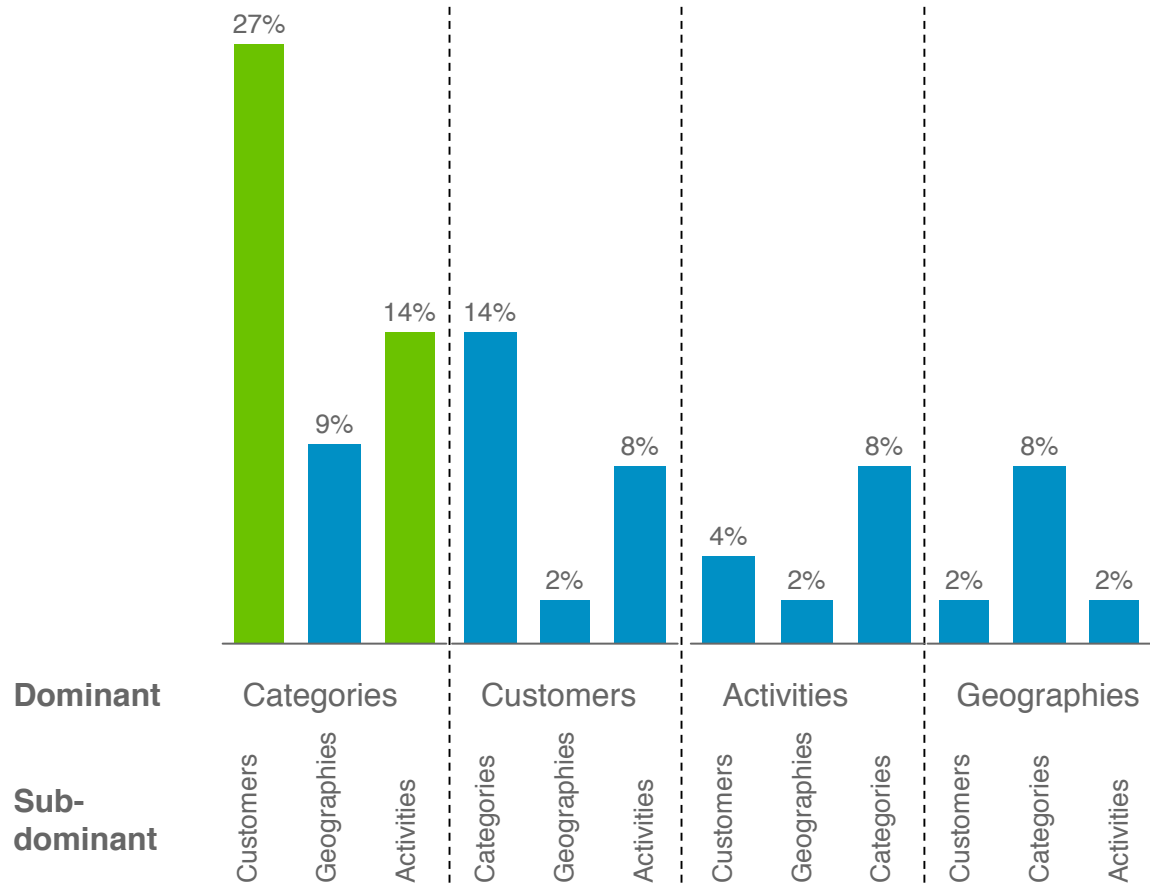
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Exemplary variants of the four models preferred by the majority of companies*



Derivation of exemplary models



* according to: PSC, Fit for Purpose: Designing the right structure and learning to live with it (2009), n= 54 CEB member companies



Each organizational set up can be operated with a differing degree of centralization

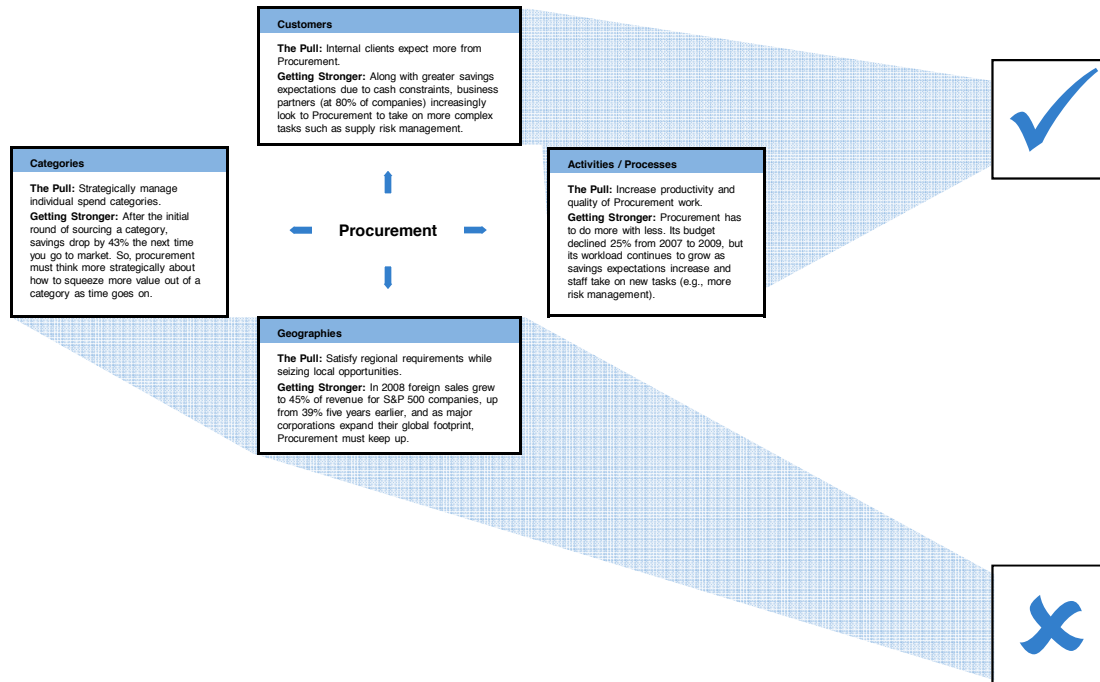
Degree of centralization

	low	high	
	Decentralized	Center-led	Centralized
	Degree of centralization		
Advantages	<ul style="list-style-type: none"> ■ Better coordination /communication with individual BUs ■ Speed of response to BU needs ■ Knowledge of local suppliers ■ Spend penetration 	<ul style="list-style-type: none"> ■ Potentially combines the advantages of centralized and decentralized functions 	<ul style="list-style-type: none"> ■ Coordination/control of policies & procedures ■ Strategic focus & expertise ■ Proximity to major decision makers ■ Higher leverage/lower purchasing cost
Disadvantages	<ul style="list-style-type: none"> ■ Operational vs. strategic focus ■ Lack of leverage and standardization ■ Lack of specialization / expertise ■ Higher cost of supply 	<ul style="list-style-type: none"> ■ Complications may arise with regard to <ul style="list-style-type: none"> – Role definition – Decision rights – Coordination 	<ul style="list-style-type: none"> ■ Organizational silo - distance from users ■ Lack of recognition of unique BU needs ■ Less two-way knowledge sharing

Source: Bayer Business Consulting; Procurement Strategy Council

All basic org. models respond to 2 out of 4 “pulls”

- Enablers to compensate for the deprioritized “pulls”



- The 2 prioritized organizational “pulls” can be considered in the dominant and subdominant organizational axis

- The remaining 2 deprioritized organizational “pulls” need to be addressed by non-organizational enablers like
 - Communication
 - Collaboration
 - People Management



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Introduction to organizational models

Development of models at Bayer

Implementation at Bayer CropScience

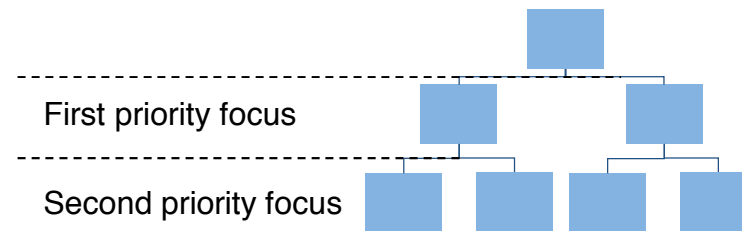
Evolution: where is it heading?

Three questions need to be addressed by an organizational model

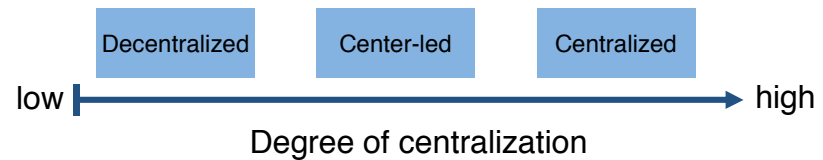


Questions to be addressed by an organizational model

1 Which dimensions dominate the organizational set up?



2 What is the degree of centralization?



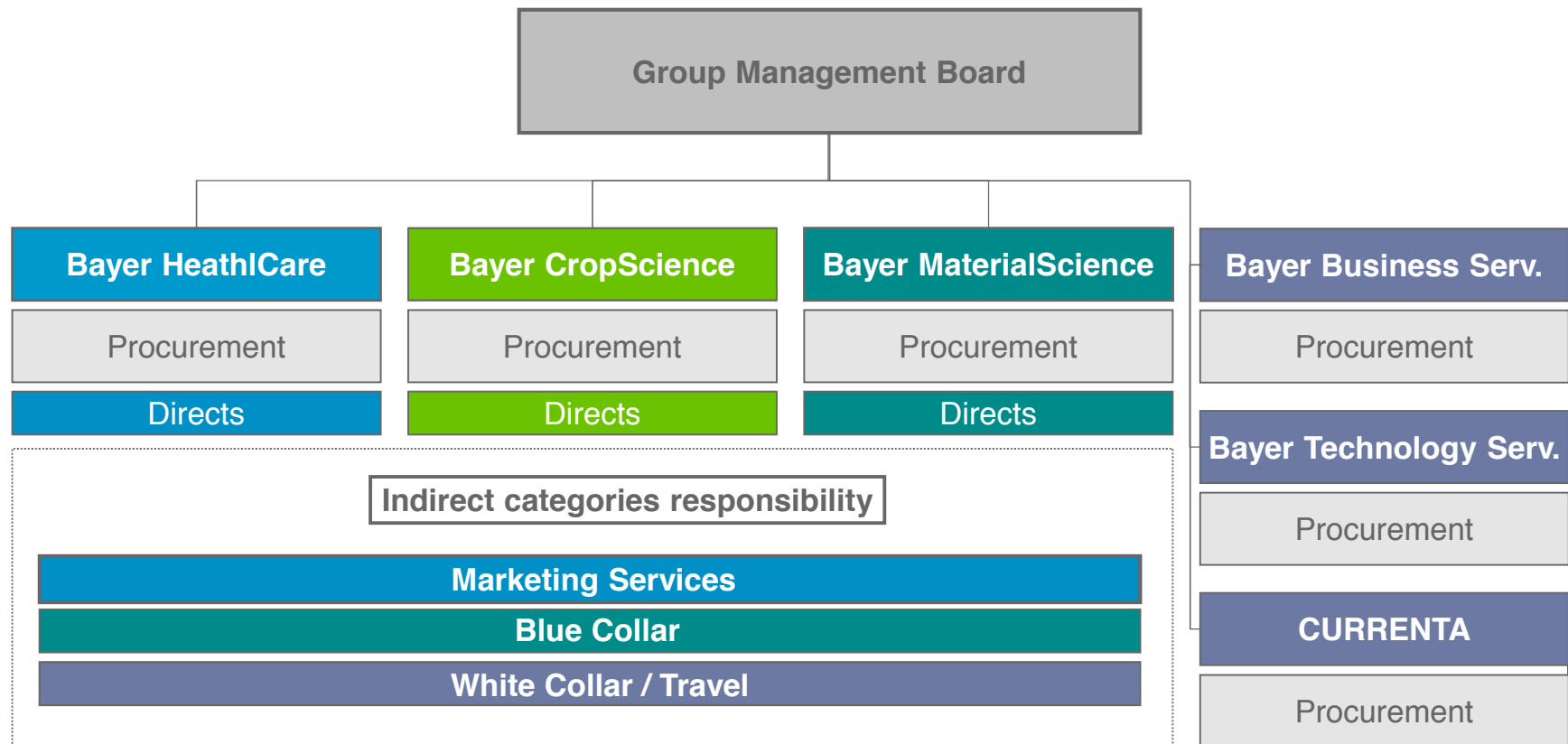
3 Which “enablers” can support the strengths and compensate the shortcomings of the organizational set up?



Also compare: Procurement Strategy Council



Organization of the Bayer Procurement Function



Questions of the interview guide were designed in order to capture tendencies for organizational set-up



ILLUSTRATIVE

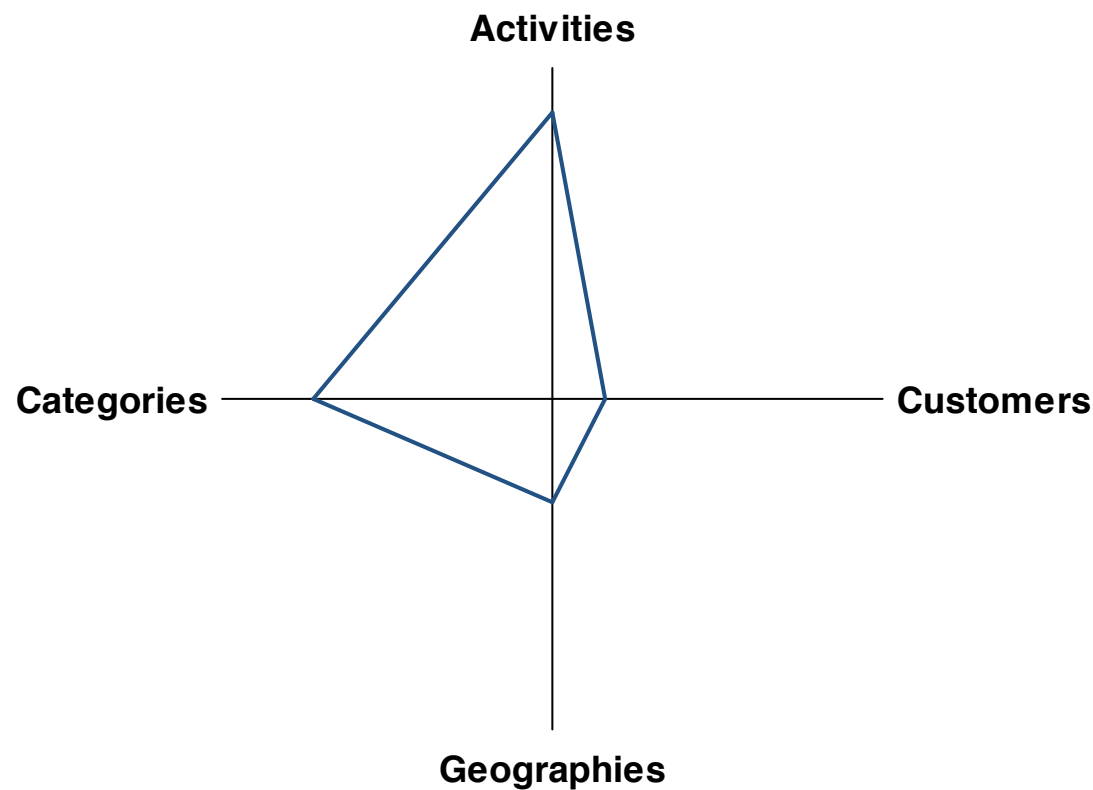
Interview Guide Methodology

	Organizational Model			Degree of centralization			Enablers		
	Dim Geo	Dim Category	...	Centralized	Center-led	Decentralized	Enabler 1	Enabler 2	...
Question / Statement Type A (Dimension of Org. Model) E.g.: We have minimal common spend across business units.									
Statement Type B on (Degree of centralization per activity) E.g.: From my view "purchase order processing" is ideally provided...									
Question / Statement Type C (Enablers / Change Mgt. effort) E.g.: The organization adheres to standardized templates (e.g. for market reports, category strategies)									



The operating environment clearly puts activities and categories in favor

Importance of dimensions



Comments

- Interview results have been aggregated with a scoring model
- Scoring model*:

- 1 Norming of Questions to 100
- 2 Weighting according to rating
- 3 Weighted score by dimensions



The model developed will give each pillar a clear performance focus and transparency

Model Results

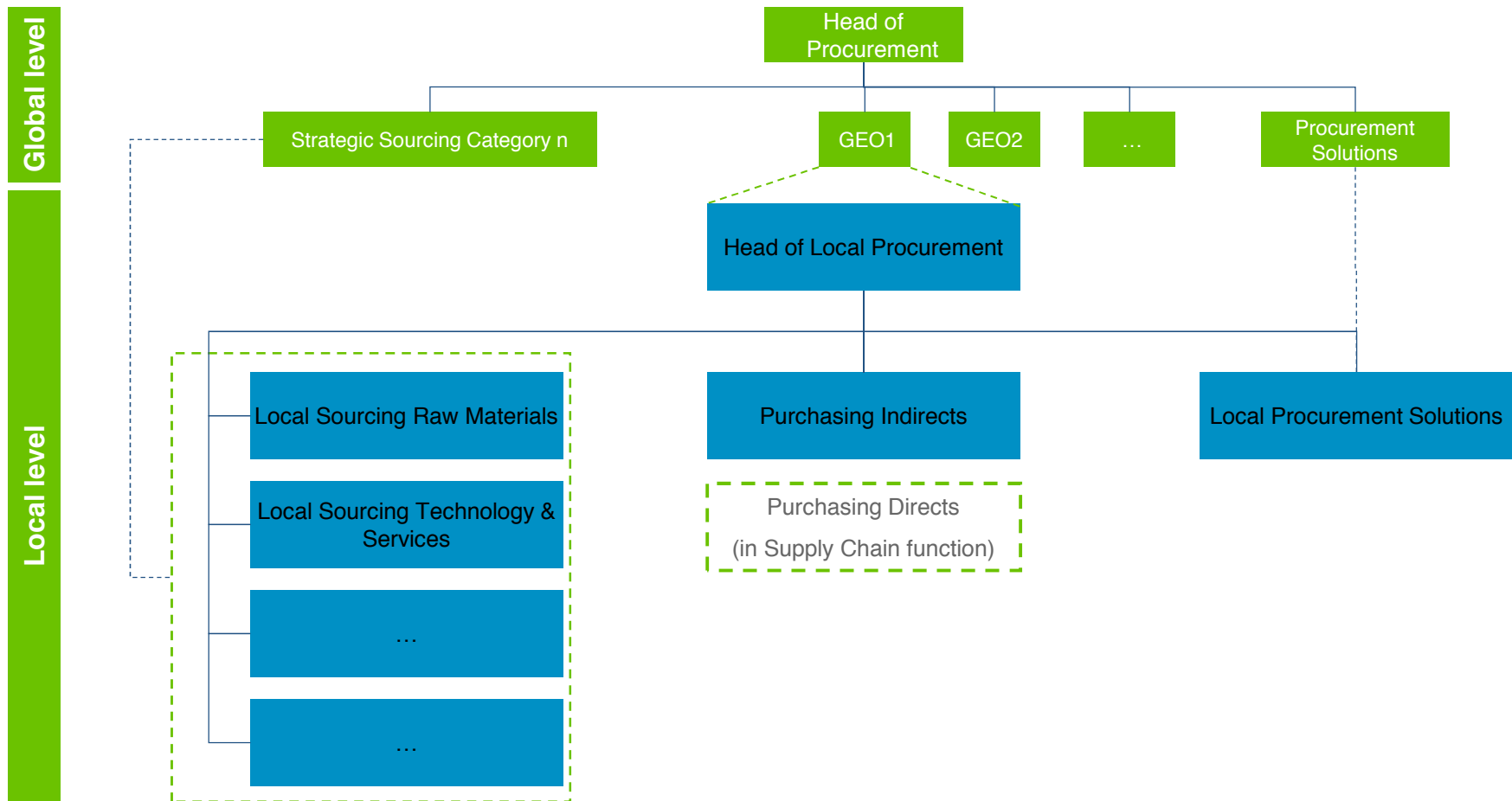


Three pillar model

	Local Sourcing	Purchasing	Sourcing Solutions
Benefits	<ul style="list-style-type: none"> Decreases time of sourcing project realization/ implementation Allows local bundling and better focus on market opportunities and suppliers Enhances interlinkage and effectiveness of global and local sourcing 	<ul style="list-style-type: none"> Improves steady flow through less approval steps and standardization Standardizes & automates processes leading to reduced error rates Drives higher automation (freeing resources) & reduces support activities Uses synergies across sites (centralization) & with existing units (e.g. SCM) 	<ul style="list-style-type: none"> Builds process expertise/measures to reduce processing and reporting time Increases stringency and transparency of data (supplier / categories) Allows broader usage of new technologies (e.g. e- and reverse auctioning)
Focus on value adding activities & respective KPIs per pillar			
Effects	<ul style="list-style-type: none"> Reduce costs of goods and services* Risk management for major sales areas & commodity spend areas Provide competitive advantage by leveraging ext. innovation potentials Input mkt. trends for forecast & budget 	<ul style="list-style-type: none"> Increase spend compliance Reduce processing cost 	<ul style="list-style-type: none"> Achieve spend transparency Steer performance improvement Communicate Procurement value added Reduced tool/system development and maintenance costs
Offers outsourcing options (e.g. internally or to external provider)			

* Via supply market cost reduction opportunities and challenging spend behaviors by standardization of demand

The developed model focuses on activity as first org. dimension & has a dedicated Local Sourcing function

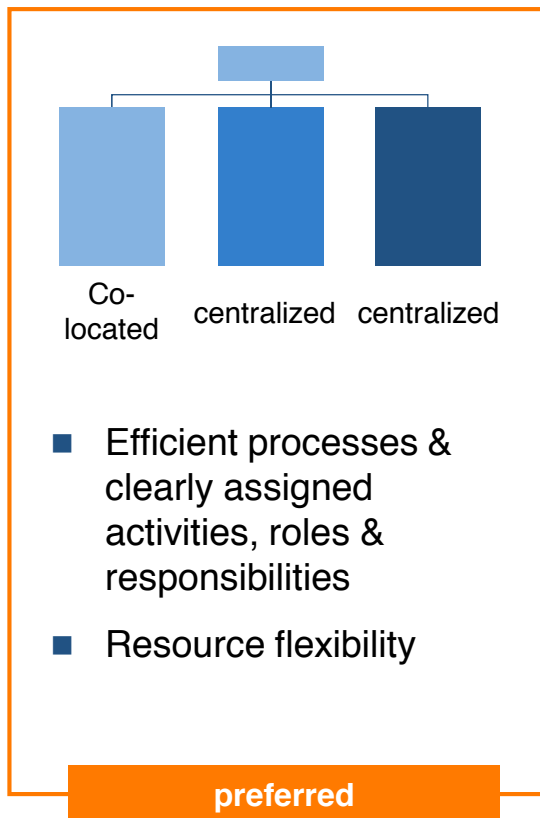




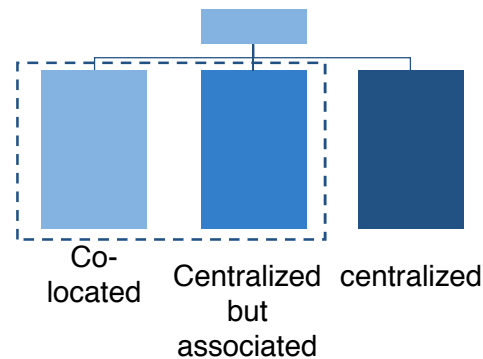
The “Clear cut” scenario chosen will achieve biggest impact on efficiency and effectiveness

Model scenario evaluation

“Clear cut” Scenario

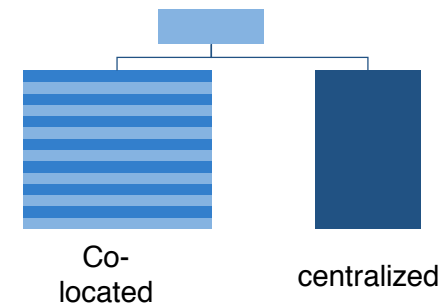


“Virtual teams” Scenario



- High capacity utilization and efficiency for purchasing possible
- Category know-how & closeness to sourcing through association & co-location

“Integrated teams” Scenario



- Maximized closeness and alignment of purchasing and local sourcing
- No major gains in purchasing capacity utilization and efficiency



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Introduction to organizational models

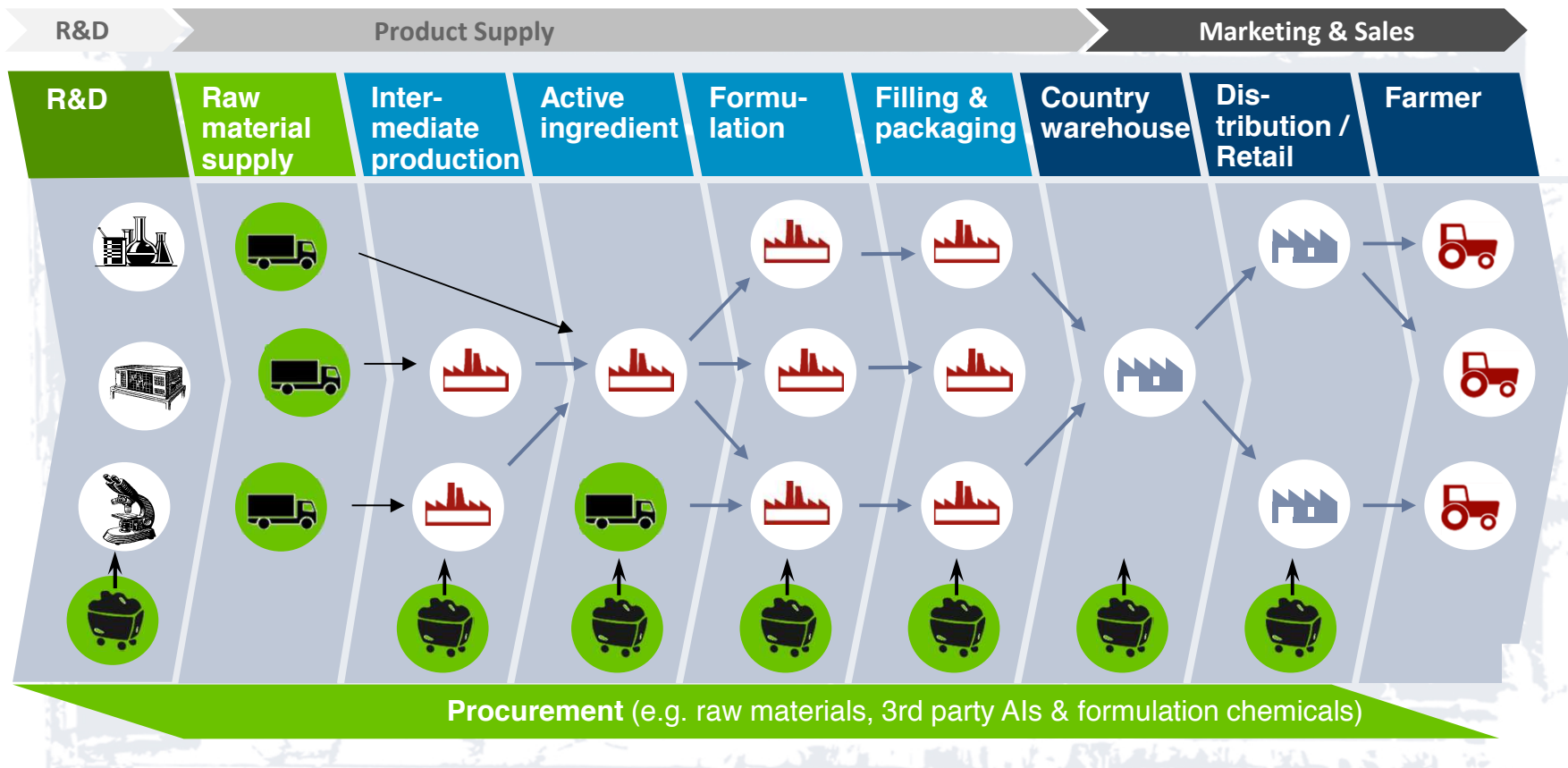
Development of models at Bayer

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Evolution: where is it heading?

New Product Supply organization creates an integrated supply chain

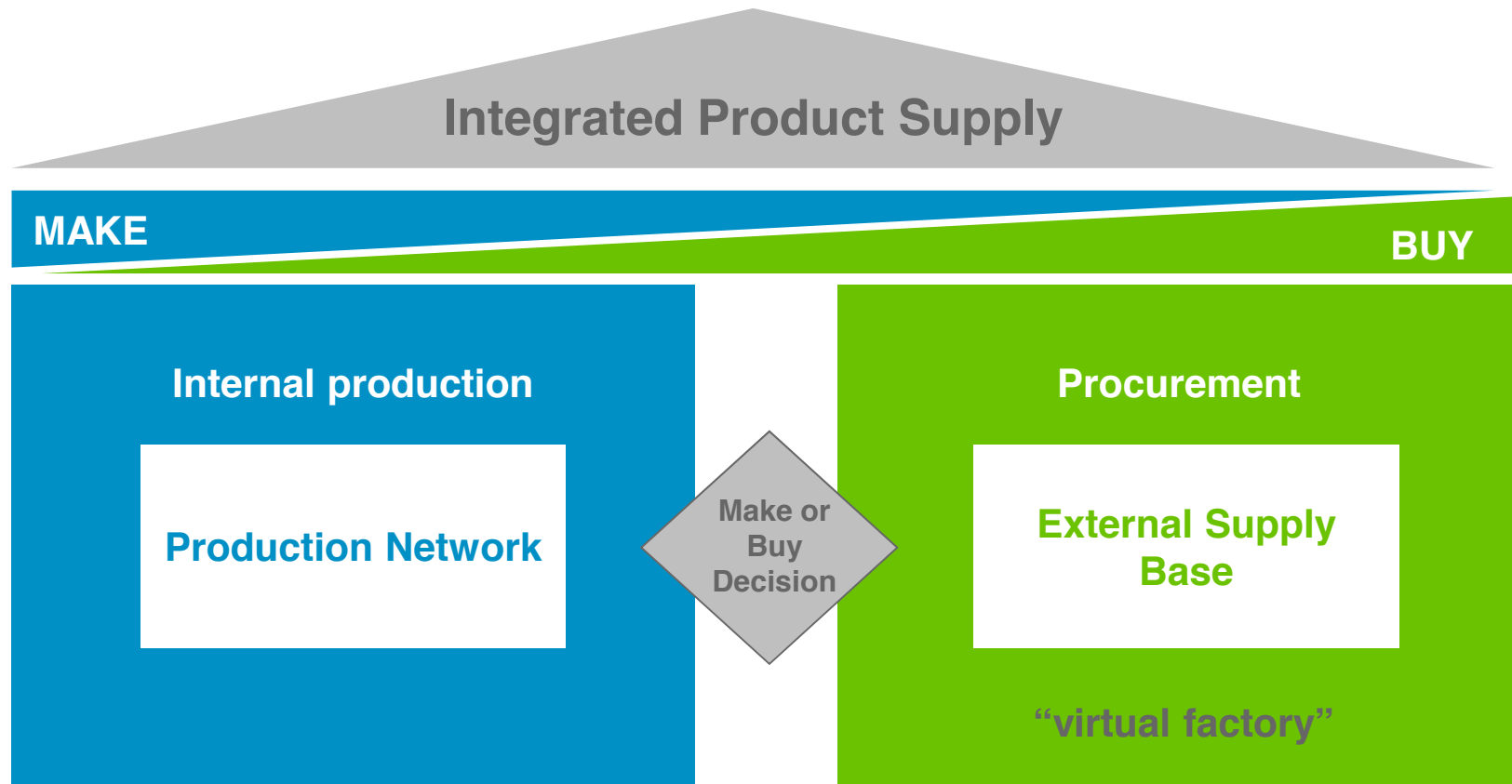
Integrated network





Within an integrated Product Supply Procurement resembles a “virtual factory”

Product Supply integration





Continuous improvement and fair share of benefits are basis for long term partnership

External supply base contribution

Increasing purchase costs jeopardize investment capabilities

Sales

No leverage to increase pricing due to potential loss of market share.

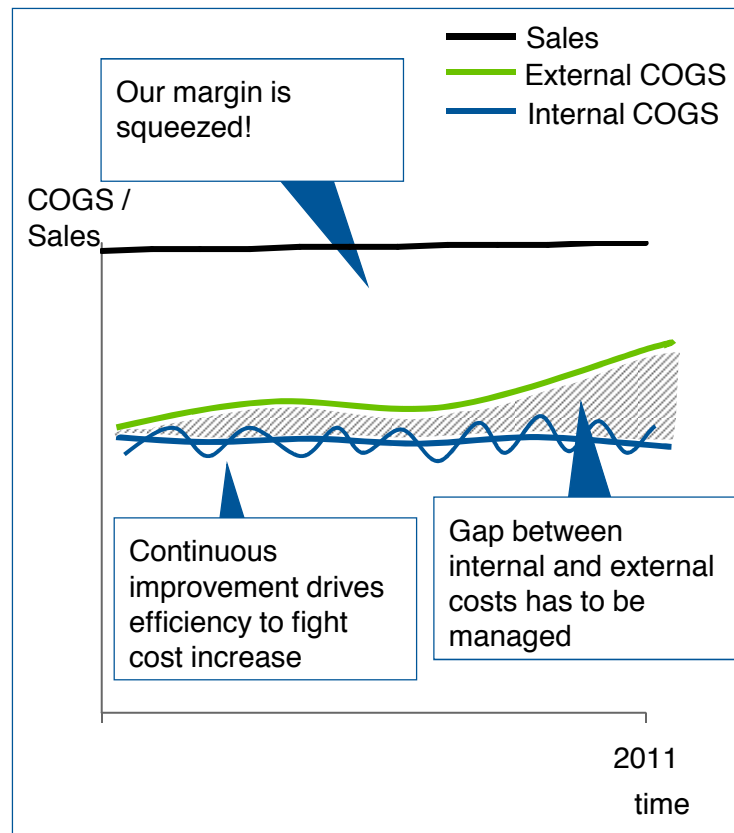
Costs

External COGS - increase

Increase of costs due to development of labor, energy, raw materials etc.

Internal COGS - constant

Implemented improvement measures compensate price increase of raw materials.



Conclusion

Development and performance depend on supplier's performance.

Supplier set needs to match following expectations:

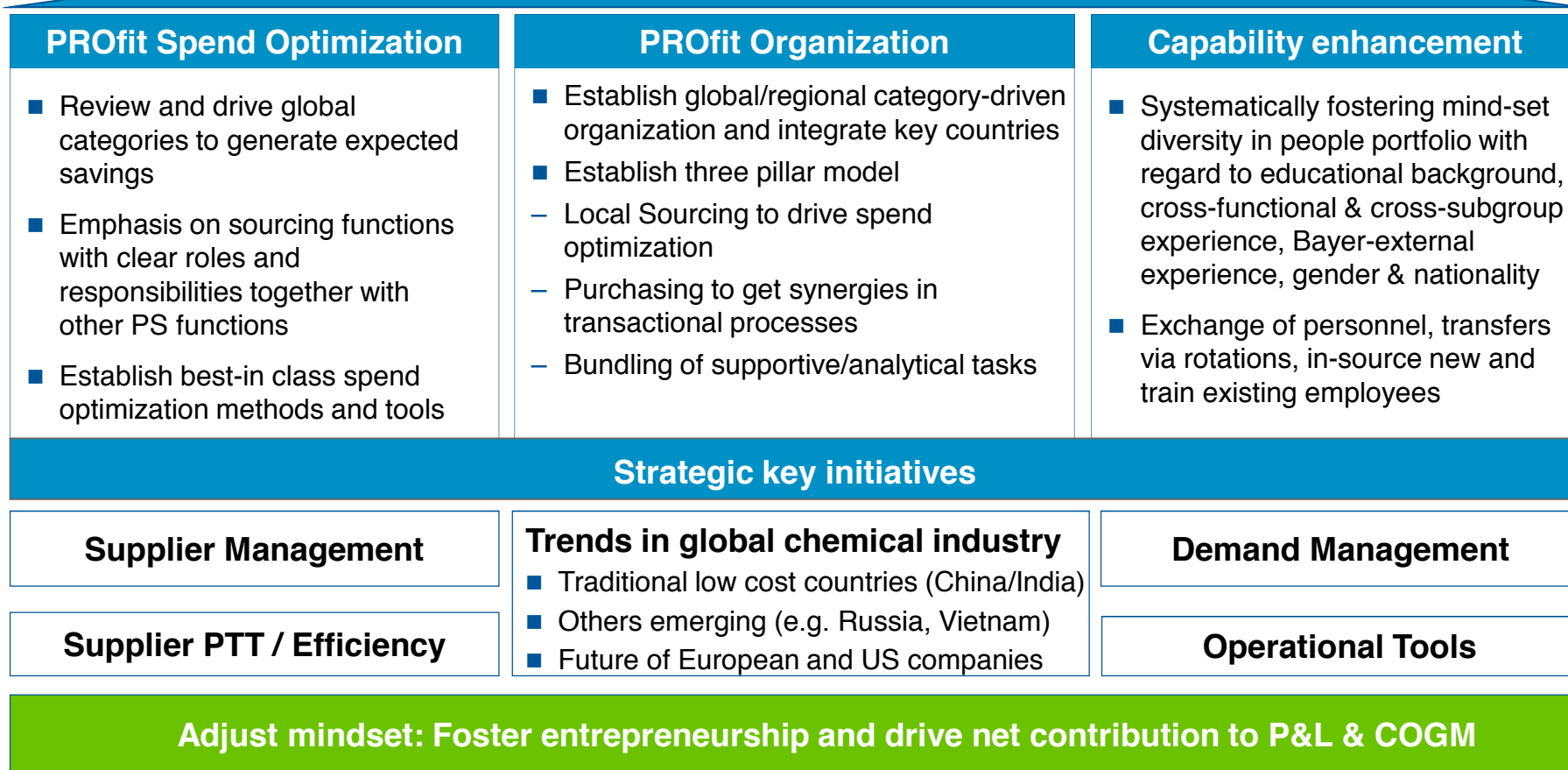
- Continuous **performance improvement** and streamlining
- **Sharing benefits**

This requires a new skill profile and mind set for Sourcer

The organizational change was embedded in a number of initiatives...



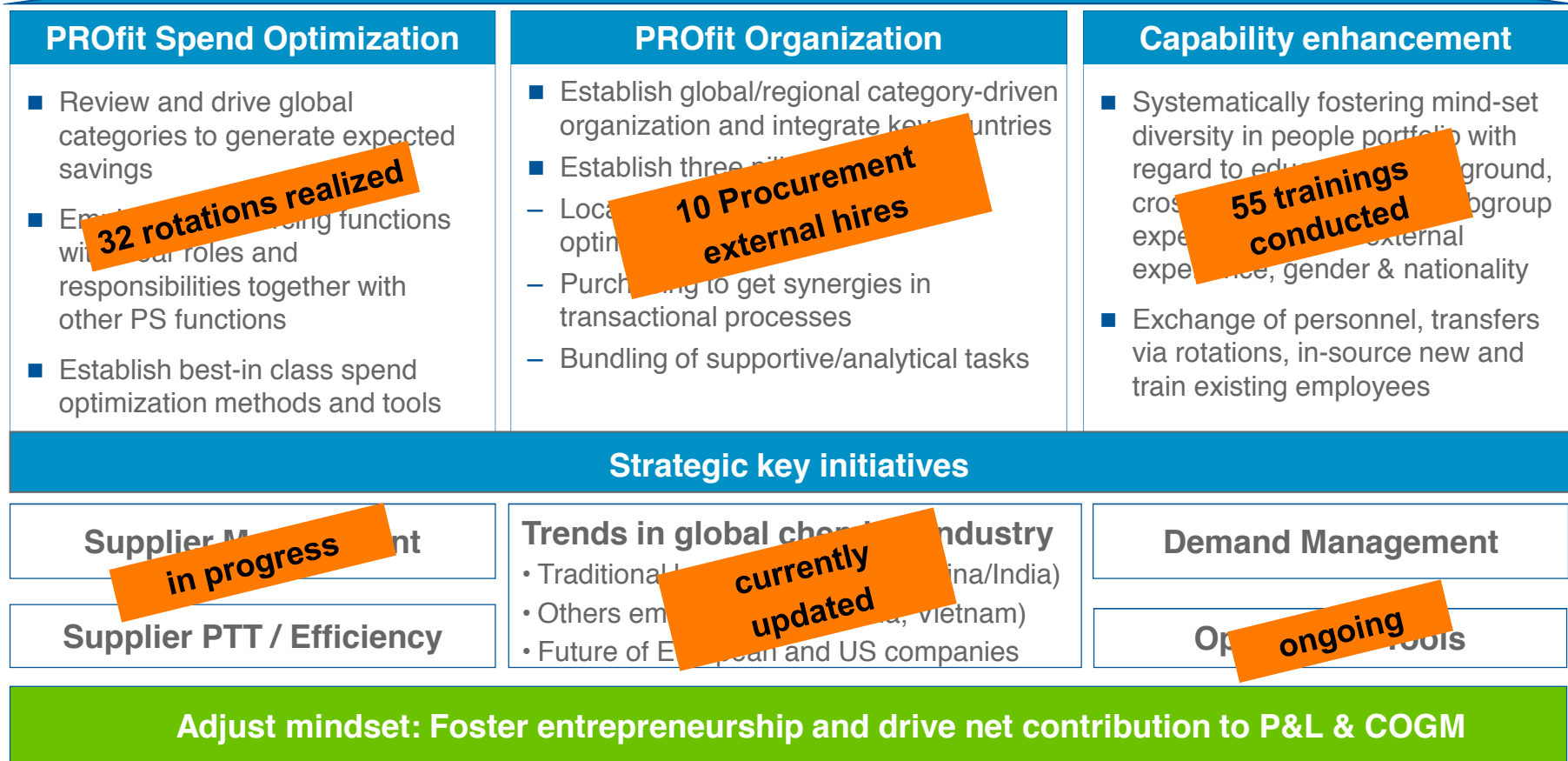
PRO Priorities





...to enable an organizational transformation

PRO Priorities





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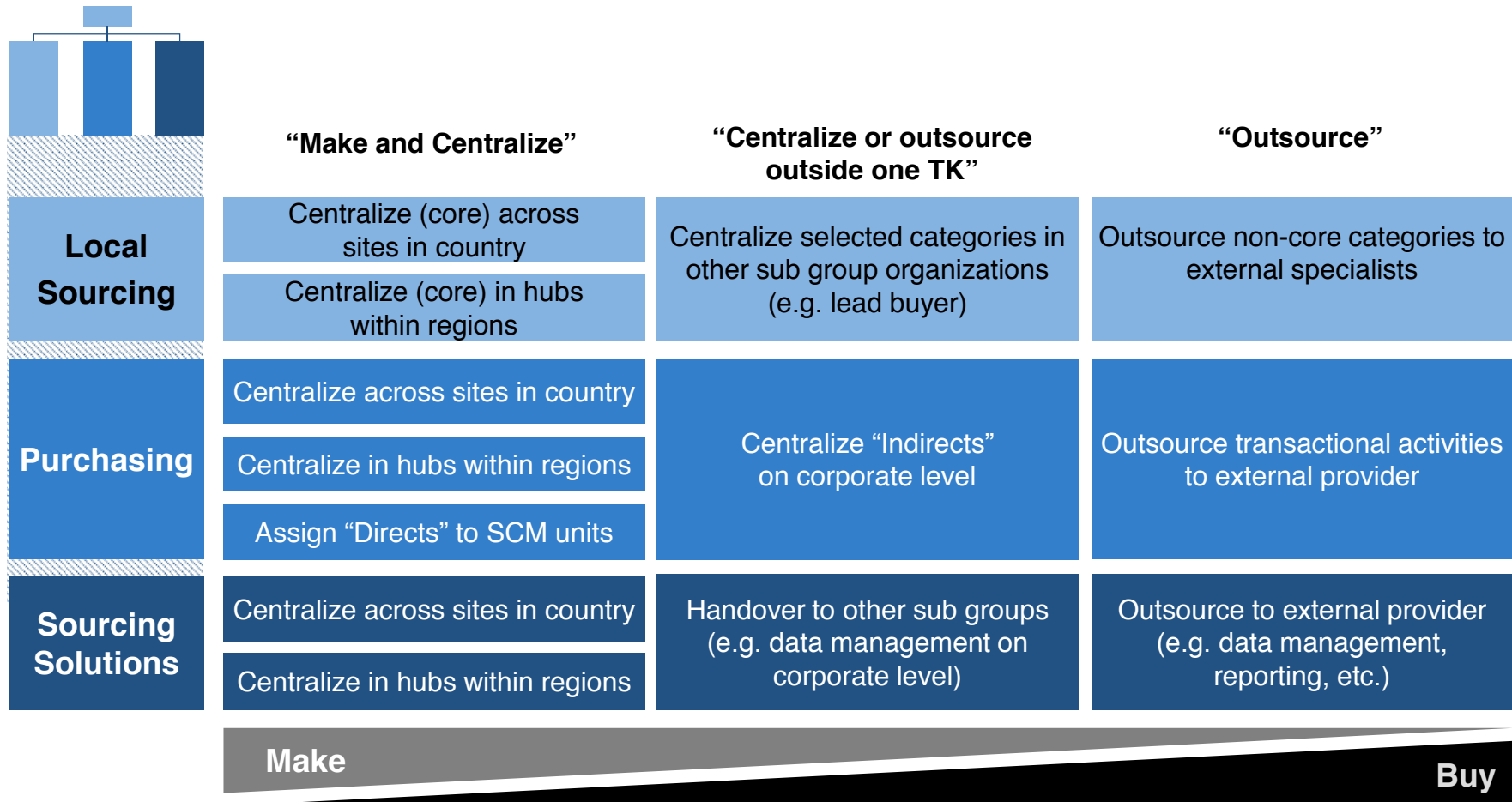
Implementation at Bayer CropScience

Evolution: where is it heading?

Building on the “clear-cut” operating model, make or buy scenarios hold further optimization potential



Further options for evolution





External providers offer the opportunity to leverage flexible resources for optimized internal resource allocation

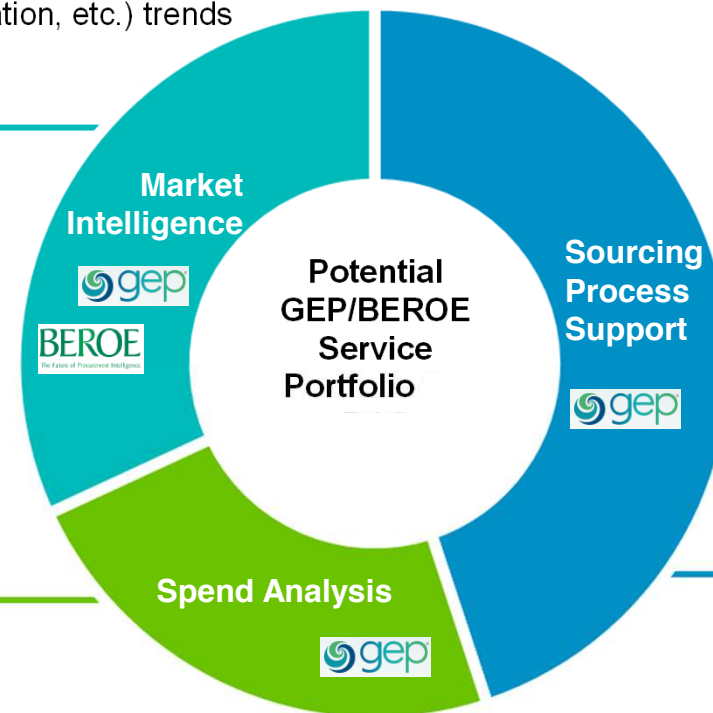
GEP/BEROE service portfolio

Market Intelligence

- Gaining overview on supplier landscapes
- Monitoring (raw material, inflation, etc.) trends
- Benchmarks

Spend Analysis

- Spend data cleanup
- Improvement of analyzability
- Analysis for potentials



Sourcing Process Support

- Support e-sourcing events (e.g. RFI, RFQ, e-auctions)
 - Preparation
 - Follow-up
 - Consolidation
- Support specifications analysis

▶ GEP/BEROE can disburden sourcers by taking over activities related to the above mentioned activities



Some thoughts on organizational model evolution

Basic Model

- The basic model needs to fit with external and internal “pulls” over time
- Centralization/decentralization needs to fit over time

▶ Need to strike balance between “match” and “stability”

Make or Buy

- Make or buy scenarios depend on the basic model’s activity implications
- The potential packages for external providers need to match their capabilities/strengths

▶ Need to consider “fine-slicing” and to keep a close eye on provider markets



Questions for breakout discussions



1. How to strike the balance between external and internal change and the respective organizational model?
2. Are there some “lasting” pulls in Procurement over the next years?
3. Is the external provider market leading to a convergence of internal models?
4. How does the concept of “fine-slicing” fit in – internally and externally?
5. Do the enablers primarily depend on the model versus the organizational maturity of the procurement function at hand?
6. What is the role of people versus organization?
7. How important is simultaneous organizational change at other “neighboring” functions (i.e. the business partner functions) and at the function to which procurement reports to?