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Chemical companies spend enormous sums on the serving and maintenance of their assets, as well as on new investments. In daily business, however, staff often lacks the time and experience to optimize the procurement process. Achieving optimal practice here, which not only involves finding the best price but incorporates local and company-specific requirements too, can reduce costs. With some analytical application and more communication, it is possible to realize cost savings of up to 10% — if one just thinks beyond the conventional and, in general, historically developed price-oriented approaches.

"Price" is not enough

Usually, in order to make procedures in procurement and purchasing more efficient, administrative processes are tightened and streamlined. Although initial successes can frequently be realized in this way without regular readjustments, all participants tend to fall back into the old patterns and ways. This so-called "Philosophy of Procurement Power" is driven to such an extreme, for example by automotive suppliers, it can lead to problems in manufacturing and assembly, thus negating the short-term savings. For instance, when suppliers are continually changed, the quality wavers and promises of guarantee to the customers cannot be upheld.

In order to counteract this and to obligate suppliers to good practice, many large enterprises impose ambitious agendas. Time and again the bar is raised too high and the whole selection process proves overambitious. The enterprise dictates the manner of collaboration and ignores the interests and strengths of individual partners. The supplier must simply conform to each change in price and product strategy if it wants to remain involved. The problem is that many potential suppliers do not manage the leap into the pool of partners; for others the risk of adapting to the contractor is too great. The consequence for enterprises is that the number of suppliers from which they can choose diminishes, and in turn their own flexibility is weakened.

Our recommendations nurture an understanding for the real requirements at hand and pave the way for the best individually tailored procurement process.

Thinking further

The time is ripe for a new approach. Most chemical industry companies already have developed internal processes that span across departments. But with the new definition of procurement procedures, optimization is both possible and necessary, especially at the point of interface with partners. Even if many enterprises have already prescribed to the "think global, act local" strategy, putting it into practice is at times more complicated. Management may allow the central purchasing department to search worldwide for a suitable supplier but then decides on site that, for example, a suggested spare part from another continent does not fulfill the local needs. A lack of service or differing business mentalities could be further knockout criteria. The central purchasing department's well-meant work is ultimately in vain, as it is based exclusively

on economic criteria and doesn't take into account the actual local requirements.

Enterprises that want to gain the competitive advantage must be aware of the local particularities of their products, services and customers. Furthermore, they should incorporate in their analyses the specific skills and motivations of their employees as well as those of their potential business partners within their respective business cultures. Only in this way is it possible to accurately judge the necessary scope and corresponding specifications for an optimal procurement process. New ideas and techniques are out there. They not only employ and expand on enterprises' current technical and procedural know-how, they also put historically-conditioned practices and presumptions to the test.

Our recommendations to clients essentially encompass the following five approaches. They nurture an understanding for the real requirements at hand and pave the way for the best individually tailored procurement process.

#1. Improved internal interaction and understanding between departments, as well as between the enterprise and suppliers…
The bidding process should go beyond requests for quotations or a mere sales call. Instead, suppliers should be invited to view on-site conditions, utilization and safety requirements and offer innovative ways for the delivery, installation and operation of an asset. Payment should then be conducted on a performance-related basis. That cannot apply, of course, to all products and service, but with price-intensive and maintenance-intensive products this way of involving the supplier usually makes sense.

#2. More information and better mutual understanding on all sides…
Purchasing departments need to develop greater understanding of what information and support a supplier requires. Precisely because many businesses have begun to outsource, cut back on staff, reorganize and change owners, it is essential to newly define expectations and requirements of all participants. Both in-house procurement specialists and the service providers should know the requirements that they want to satisfy. Aside from good teamwork, this necessitates a virtual moratorium on technical changes (or at least as few as possible), realistic delivery deadlines, accurate planning of quantities and, not least, clearly defined roles and responsibilities within the management structures.

The key lies in the communication of real and current data, which facilitates ambitious and fruitful discussions between all participants.

#3. Clear definition and comprehensive understanding for the respective investment,

asset strategies…

Owing to the spate of mergers and acquisitions in the chemical sector, changes in asset strategies are a daily occurrence. However, this development and the way an acquired product is used ultimately influences the procurement process and not only on the part of the enterprise. If suppliers know the expectations on performance, material composition, business indicators and such, then they can tailor their bids more specifically. Furthermore, the maintenance history, experience of production workers and knowledge of actual (as opposed to subjectively perceived) workloads all have a tremendous impact on the procurement process.

#4. Improved estimation of critical factors within the total life-cycle cost…

Under constantly changing market conditions, strategic decisions become ever more difficult and, in turn, flexibility and the ability to adapt become more significant. In order to secure the latter and to be able to realize short-term business opportunities, particular procurement criteria are required for those products and services that are decisive for ensuring the necessary availability of assets. For example, it can make sense to spend more money in order to secure indispensable resources for short-term, highly profitable products. With fewer critical investments, businesses can be more sensitive to price.

#5. Improved business risk assessment in the procurement process—from the selection of the manufacturer and the evaluation of suppliers, to the drawing up of contracts…

Instead of estimating non-payment risks with preset standard values, it is better to differentiate the various assets according to their importance for the business. For example, in a refinery the same kind of valves are installed by default in all factory units. In some units their malfunction would cause above-average expenses, while in other units simpler and thus cheaper valves would suffice. Or the origin of certain equipment is first specified by default as "West European." These days, though, the statement of origin is often of little meaning as so much is either partly, or sometimes completely, produced in the Far East. Today, products from the Far East are able to offer the required quality, too. To compare the desired specification with the planned application is a task that doesn't make great demands on time but can considerably reduce total costs.

Conclusion

Many enterprises have only half-heartedly pursued one or the other of these approaches. A more consistent approach alone would therefore pay dividends. The key lies in the communication of real and current data, which facilitates ambitious and fruitful discussions between all participants. Most participants will gladly contribute to change. The central task of senior management in this process is to create a constructive environment in which change is possible. **MT**

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