



Develop Purchasing Functional Competency

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The landscape of purchasing has changed.

Twenty years ago, purchasing was perceived as a transaction oriented support function to business. It was "isolated" from other functions to combat with suppliers on price, availability, order, and delivery.

Today companies see purchasing play a growing important, if not yet strategic, role in integrating external expertise with company's internal core competency to explore value creation opportunities for the business. Purchasing selectively combats with suppliers and, at the same time, performs the role of "ambassador" to suppliers of choice.

This shift takes place in all industry sectors, from high-tech to automotive; from engineering to service; and from hypermarket to processing industries. The shift is further accelerated by the growing value delivered by suppliers driven by continued supply market consolidation and availability of capital a company can invest. Therefore increasingly supply chain competes against supply chain. With the changed contribution of purchasing, business demands more and higher level of talents working in the purchasing function.

"How to get purchasing talents?" This is a puzzling question to many purchasing directors and human resource directors. If not the optimal, at least a convenient and much used approach is to recruit via a search firm. In 6-9 months, for example, a company can have a category manager in position after paying out US\$ 15,000-20,000 service fee to a search firm. However 12 months after into the position, when we interview those who moved to their new companies, 50% of them tell us that they are struggling in the new context. If a company recruits and replaces 10 category managers a year, it has the chance that US\$ 75,000-100,000 of the recruitment fees will not get a return. And how likely are resources recruited in this way, tempted by other more attractive offers?

How does this compare to other approaches to develop internal talent through development programs like training and coaching?

The challenge is of course to identify the right subjects that need development? In many cases, companies select topics based on burning issues of the business. However root causes of the burning issues are often hidden and the relationship is not always clear.



Companies end up fighting the symptoms rather than developing new competitive capabilities.

For example, when business is pressured on buying price, companies often request for training on purchaser's negotiation skills. But root causes are not necessary about skills. Instead they can be attributed to lack of knowledge on how to prepare negotiations, how to develop cost modeling, how to manage supplier relationships, how to define supply strategy, and sometimes to what level a buyer really understands the supply market conditions and their impacts. These issues are hidden under the surface of the water with price just being the tip of the proverbial iceberg. A skill level training on negotiation may not address these unexposed ones and can miss the opportunity to generate desired return on investment. Meanwhile, there are other negative side effects e.g. disappointed participants and suspicion on the value of training.

Learning is a step by step process. It is a systematic process rather than a collection of ad hoc decisions. To start with this process, we first need to know where we need to make the biggest difference in terms skills & competence development. In other words, what are the ideal profiles we look for at each position e.g. buyer, lead buyer, category manager. Next we need to assess maturity level of the current purchasing organization and of its purchasing employees. This leads to identification of the competency gap between the current and the required state.

In practice, companies often define purchasing profiles on more generic leadership skills. With the increased research in purchasing, we can now more clearly synthesize generic leadership skills with purchasing functional specific competencies. These purchasing functional specific competencies include:

1. *Purchasing process orientation*
2. *Supply market research and analysis*
3. *Supply portfolio analysis*
4. *Different sourcing strategies and application*
5. *Make-or-buy analysis and decision making process*
6. *Supplier finance and cost management tools and application*
7. *Supplier audit process and quality management*
8. *Supply risk analysis and mitigation*
9. *Supplier relationship differentiation and practice*
10. *Supplier development*
11. *Early supplier involvement and integration*
12. *E-tools used in purchasing*
13. *Contract and legal knowledge*
14. *Stakeholder management*
15. *Negotiation with suppliers under different types of relationship*

Out of the 15 listed purchasing functional specific competencies, 6 of them have received increased attention over the past few years due to the fact that business identifies them



as differentiating factors. They are knowledge on make-or-buy decisions, finance and cost modeling, risk management, supplier relationship management, early supplier involvement, and stakeholder management. The reason behind this is the growing dependency on external suppliers in terms of suppliers' people, knowledge, technical platform, capital investment, and business set-up. Requirement on stakeholder management is driven by the fact that purchasing needs to be continuously involved with and connected to the business to get their buy-in of the sourcing strategies. In buy-for-export business e.g. international purchasing office (IPO), it is even more demanding due to physical distance between purchasers and budget owners.

Like in generic leadership competency management, purchasing functional specific competency needs to be detailed for each position, assessed for each purchasing employee, and consolidated at organizational level. At category manager level as a reference, the ideal profile shall have a minimum score of 3.5 (on a scale of 5) for all 15 competencies. And with today's web-based tools to support this activity, undertaking this activity has become much easier.

With the result of competency assessments and identification of gaps, companies systematically consider what training/coaching programs fit for which employee. Organizations adapting to this process, spend more effectively their (training) budget to develop needed competencies. Training programs are more useful for participants as training needs are derived from systematic analysis; and organizations are in better position to see and measure improvement on business performance as training programs are not dealing with the issues exposed on the surface only.

To lead this process, implement it in a systematic manner, and manage and update continuously in line with business dynamics, companies require dedicated personnel. Leading companies have set up dedicated positions inside their purchasing function, named "purchasing capability manager" to manage its organizational competency development program. This position is more than traditional human resource management, with a strong focus on purchasing functional competency management and development.

Both recruiting and training are approaches aiming to gain access to required knowledge and competency while maintaining and growing company and industry specific know-how. Especially under today's economic conditions, companies should take a step back and reflect on different approaches available to do so. Developing purchasing competency is not based on ad hoc decisions. It needs to be carefully planned by embracing leadership skills and functional specific knowledge.

On the other side, training and coaching consultants need to think together with their clients, function as the sounding board to purchasing directors to discover root causes of business issues, and design tailor-made programs to fit the maturity level of the organization.