



The McKinsey Quarterly Chart Focus Newsletter

Rethinking the purchasing function

Goods and services can represent 70 percent of all a company's costs. Yet many companies treat purchasing as a backwater; pay little attention to securing the best talent for the job; cling to a traditional mind-set that focuses on saving money for specific items rather than on overall costs; and mostly ignore the potentially large role of procurement in implementing strategies, innovating, and improving performance. Top performers, by contrast, view purchasing not only as the commercial conscience of the organization but also as its competitive eyes and ears.

The exhibit shows how one European manufacturer achieved €100 million in savings within nine months by creating more than 50 cross-functional purchasing teams organized around spending categories. Led by purchasers and including key people from engineering, manufacturing, and marketing, the teams worked on developing products and optimizing processes, not just on purchasing in the narrow sense. Beyond the immediate financial gains, this approach helped to counter the confusion that ensues when one group focuses on costs while another tries to innovate.

