

Chimia 44 (1990) 146-148
 © Schweizerischer Chemiker-Verband; ISSN 0009-4293

Buying – Opportunities and Problems

John Leathard*

You have certainly had moments when you found it difficult to understand some of your buying colleagues' decisions – either they were too kind and accepted to pay too high prices, or they were disagreeable and too tough and suppliers were frightened to come and see them.

My aim today is therefore to put forward one or two ideas which I hope will help you to better understand the buying department actions in your own organisations.

I plan to divide the time into two parts:

1. First, I would like to put some of the more important aspects or problems of a buying department on the table to show you some of the constraints that can be imposed on buyers.
2. Secondly, I would like to describe how I see the evolution of buying attitudes that seems to have taken place since the 1950s and going on to the end of this century.

1. Some Aspects of Buying

A buying department exists to ensure long-term stability of supply under the best possible conditions for the company. This means delivering the right quality at the right time at the right price.

Here is a list (Fig. 1) of some aspects of buying. Some of them raise fundamental questions and although I will probably in most cases tell you our solution to these questions, your company will have its own answer to them.

Knowledge

Obviously, to do a good buying job, you need to know as much as possible about the products your company wants to buy. This starts with trying to find out as much as possible from your technical colleagues in development and production about the products they are using and new ones they are looking for. This is what I call 'internal knowledge'. Then of course, you need to look outside and obtain what I call 'external information' about the product: total world production, who makes it, who uses

it, who buys it, who is thinking of making it, who is thinking of using it, who is thinking of buying it – in other words, wide supplier knowledge is also important.

You won't obtain this knowledge by staying in your office in Geneva. We have visited many of the major participants in the chemical industries in America, Europe and Japan, and, on the natural raw material side, our travels sometimes have taken us into some very strange parts of the world.

Most of our competitors are also major customers and major suppliers of ours. Consequently, our buying department has a very close knowledge on what is happening within our competitors.

We also need to follow the business environment around us because this has a big influence on trends like availability, pricing, etc.

- a) Knowledge
- b) Price
- c) Public relations
- d) Co-ordination
- e) Legislation/Regulation
- f) Buyer profile

Fig. 1. Some aspects of buying

Geographic, political, and climatic changes all have their effects on the chemicals and natural products *Firmenich* is buying and, over the years, we have learnt to follow political and climatic changes very closely.

All this knowledge, apart from helping us to do a better job, also provides us with a mass of information which is of interest to colleagues elsewhere in the organization. The dissemination around the company of the information we collect is therefore an important additional part of our work and every 3 months we are issuing a report of the various news we have picked up during the quarter.

Pricing

Although we do not put pricing at the top of the list, it is nevertheless one of the most important factors for us in ensuring that our company stays competitive and



John Leathard: 1935 born in the North of England. 1956 B. Sc. in chemistry from Durham University. 1959-1962 technical sales with Vinyl Products in England. 1962-1970 administrative sales with *Firmenich SA*, Geneva. 1970-today buying manager with *Firmenich SA*, Geneva.

stays in business because, if they don't, we will no longer get our salaries at the end of the month. It is pricing above all other questions where we are anxious to have a proper dialogue with our suppliers. Any deal is only interesting if it is interesting for both partners, and this applies to all aspects of the deal, but especially the pricing one. Our aim is to ensure the continuing prosperity of *Firmenich*. We don't want *Firmenich* to go bankrupt. However, at the same time, neither do we want our suppliers to go bankrupt nor lose interest in selling a product to us.

I myself believe that knocking pennies off the price is a sign of a lazy buyer. Anybody can decide to tell a supplier that his price is too high. If you want to really negotiate better prices, however, you have to make the effort to get the fundamental knowledge we were talking about earlier. Only then can you start negotiating from a position of strength with some hope of finding a solution that satisfies all parties. We prefer by far to have a partnership attitude towards pricing, but it has to be a partnership attitude from both parties. It's no good if we show understanding and our supplier decides to profit from this.

Public Relations

I common with sales departments, buying departments are one of a company's windows on the world. It is therefore important that they present the image that the company wants to be presented and defend publicly the company's ethical standards.

This image is not limited to contacts with suppliers. In fact, today, buying departments are often also solicited to meet customers. We ourselves for example often ask to have a meeting with the buying department when we visit a supplier.

Price negotiations also have a public relations aspect. If either partner in price negotiations goes too far, they will create a negative image and could, in extreme cases, end up by being blacklisted by the other partner.

* Correspondence: J. Leathard
 Buying Manager
 Firmenich SA
 7, rue Bergère
 CH-1217 Meyrin

A key factor in avoiding this is to maintain your credibility. If you don't want to tell the truth, don't start inventing stories. They nearly always get discovered later on and simply result in your losing your credibility for all future negotiations. Similarly, although with today's ever changing conditions, it is important to be flexible, if you change your buying policy too often, finally you create confusion and suppliers lose their faith in being able to count on you.

All this sounds very easy, but in fact there are many cases where it is difficult for a buying department to maintain the sort of public relations image that its company would like. Everybody believes in an ethical approach until it looks as though it's going to cost more money. What do you do when a supplier from a developing country offers to give you a rebate if you will pay half the price into a bank account in Zurich? We ourselves believe that it is important to ensure that the full value of materials goes back to the producing country, especially when it is in the Third World areas. However, if we insist on this, we cannot be sure that our competitors do, and then we could be leading our own company to be uncompetitive. In addition, if we don't let our supplier build up funds in a country where the currency is more stable, we will deprive him of the possibilities of buying the sophisticated equipment from the Western world to help him become a more reliable producer for us. These are all questions which have no easy answer and which place constraints on a buying department.

In some parts of the world – mainly Eastern European countries and China for example – it is well known that it is difficult to sell, unless you are also able to buy in these countries. Obviously, it will always be a pleasure for a buying department to place orders with companies that are also customers. However, this represents an added constraint on a buying department's liberty and the fact that a supplier is also a customer, should not in itself be an argument for buying a poor quality product at a high price.

Co-Ordination

Like many other departments, the buying department has a co-ordination role. Probably the most fundamental co-ordination role involves how a global company organizes its buying within the group. This brings up questions of centralization or decentralization of the buying, and if decentralization is the choice, this then brings up questions of matrix and hierarchy and co-ordination of the different buying centers created within the group. All these questions are for individual companies to decide for themselves. We ourselves decided many years ago on a semi-decentralized system of buying and this gives us a lot of satisfaction, but you should have no illusions: to co-ordinate a group of buying centers around the world, requires a con-

siderable amount of time and energy and will only succeed if a lot of effort is put into ensuring that the different centers have a very good dialogue amongst themselves. Frequently, they are competing against each other, and if there is not a healthy group attitude about this competition, the effects on morale can be very serious. We ourselves are lucky in having succeeded relatively well in this part of our job.

There is of course obviously co-ordination with international suppliers to make sure that they give different members of your group the same treatment which ever country they are dealing with.

For me, one of the most important aspects of our co-ordination in the buying department is to ensure that we do not become a block between our colleagues and suppliers. We are there to help such contacts, not to hinder them, but we do need to know about them. So if you want your buying department to be enthusiastic about your contacts with their suppliers, make sure you don't go behind their back, but have these contacts with their help.

Legislation and Regulations

At present, increasing regulations are causing us more work and costing us money, but there are already signs that, in many cases, in the long run, such legislation helps us to become more efficient and, in the end, to save money. The buying department has a large share in this activity to ensure that suppliers provide your company with all the relevant legislative information about the products they sell to you. This is slowly becoming computerized, but still at present represents a lot of paperwork. In the same context, buying departments have to keep up-to-date with the various fashionable theories of the moment, such as 'Just in Time', supplier certification, global quality, statistical process and quality control, ISONORM standards and so on.

Buyer Profile

Each company must establish a profile of the buyer it wants. Do we opt for a technical buyer? In our industry, he might be a chemist for example. Or do we want our buyers to be entirely commercial, or perhaps even legal now that the legislative complexities are increasing? Here again, this is up to each company to decide. We ourselves are in favour of technical people to handle buying, but we know that a lot of people are frightened that a buyer with too much technical knowledge could start to interfere in areas of responsibility which should not be his.

Similarly, there is much controversy about where a buying department should be situated. Should it be in the technical division linked to production, or would it be preferable for the buying department to be in a logistics or a commercial division? Here again, each company must decide for itself. We ourselves are convinced that having our buying department in the technical

division, with close contacts with our production and development chemists, serves the company better than if it were in a commercial division.

Conclusion

As a conclusion to all this, I would like to say two things:

- First of all, one of the risks for a buyer is to get an inflated idea of his importance and we have to be always on our guard not to have a high-handed attitude in our contacts.
- Secondly, in our buying department, we consider the internal users of the raw materials we buy absolutely like customers. We want to give them a top quality service. The fact that they are within our own organisation and colleagues of ours does not mean that we treat them more lightheartedly than if they were outside customers. It is important to stress this point because there is a tendency to lose sight of this important fact when your customer is in fact also a colleague.

2. Evolution of Buying Attitudes from 1950 to 2000

Fig. 2 summarizes my views on how buying attitudes have evolved during this period.

In the 1950s and 1960s, there were still many companies who attached relatively little importance to their buying department and gave it usually to somebody they did not know what to do with, often nearing retirement age. The buying department had a relatively limited role to play, mainly an administrative, bureaucratic one of passing orders to suppliers. They were in fact a letterbox operation rather than anything else. The organisation as a result was relatively simple: they had a buyer and a few secretaries. The buyer passed the orders and the secretaries typed them. There was little effort to establish a philosophy or a sophisticated buying policy. At that time,

<i>Stage I</i>	1950/1970 Administrative Bureaucratic Aggressive buyers
<i>Stage II</i>	1970/1985 Technical buyers
<i>Stage III</i>	1985/2000 Just in time Vendor certification Co-operation

Fig. 2. Evolution of buying attitudes from 1950 to 2000

most buyers knew very little about the products they were buying and were in no way involved in the development stages of new products being designed by their company. As a result, most of the time, the raw materials a buyer had to buy were imposed on him, and he took them under his wing with a certain bitterness of attitude. This created a race of buyers who, knowing nothing about their products and having no choice in their selection, had only one possible outlet for their feelings, and that was by discussing prices in a relatively aggressive way with their suppliers. Such buyers were happy if they reduced the price of a raw material and felt that in doing so they had accomplished something positive for their company. Certainly, this was probably the case short-term, but they had no idea what long-term effects their success would provoke. They had no idea if such a price reduction could be supported by the supplier or if, on the other hand, it was going to make the supplier lose interest in continuing the production of the product in question.

In addition, rather quickly suppliers got the message and would establish their initial prices to take into account the buyer's habits.

In the late 60s and early 70s, the importance of better understanding all the implications of negotiating with a supplier started to become apparent. A new generation of buyers began to appear. Buyers with a technical formation which enabled

them to better understand and know the products they were buying. This led to buyers looking for a better co-operation with suppliers, but competitiveness still was an important factor in everybody's thinking and competitiveness still meant low pricing for a lot of people. In fact, the idea of partnerships between suppliers and customers hides an enormous, but fascinating, effort which cannot be accomplished by the buyers alone. They need their colleagues from all the other departments within the organization if they are going to achieve real benefits for their company. It needs everybody to be convinced of the advantages of such a philosophy.

Up to 2 or 3 years ago therefore the situation was more or less as I describe it, with a much more developed idea of creating partnerships between suppliers and customers, even if – to some extent – this was more theoretical and not always put into practice. Everybody was convinced of the theory, but in practice, people continued to say that when there was a problem, it was for the supplier to solve it, whether the problem was one of quality or price. In the last 2 or 3 years, we have seen the development of some very interesting new ideas, such as 'Just in Time', 'SPC' and 'SQC', vendor certification, ISONORM 9000 of the United Nations or British Standard BS 5750 or the American Standards AQ 194, 195, and 196 for example. These are all ideas that can only have a chance of success if co-operation between a supplier

and customer is pushed to the very limits. Most of these ideas depend on a customer having the right to carry out an audit in his supplier's premises and that will only be possible if a very open state of co-operation exists between companies. In addition, these new postulations will make it difficult to envisage multiple sourcing. If we want the sort of co-operation between suppliers and customers that 'Just in Time' and vendor certification require, it will be difficult to introduce at the same time the idea of competitors, because the need for competitors is tantamount to saying you are not completely sure about being able to rely on a single source. We will therefore be forced to accept more and more the idea of single sourcing which, until recently, was a sign of insecurity for traditional buyers.

These new theories must be encouraged because it is in everybody's interest to see better co-operation amongst companies, but it will take some time for the mentality of most of us to be adjusted to become compatible with this new era of co-operation. These new theories are going to present many problems and challenges for us, not least the psychological ones. However, they will also give us the chance for many opportunities to carry out our work more effectively and produce improvements in efficiency, quality, and costs. It is a challenge which will represent a big supplementary effort at the beginning, but from which all our companies should be able to benefit in the long-term.

Chimia 44 (1990) 148–152
© Schweizerischer Chemiker-Verband; ISSN 0009–4293

'Make or Buy?' Eine Kernfrage in der Entwicklung neuer Produkte

Peter Pollak*

Zusammenfassung. Auch in der chemischen Industrie geht der Trend weg vom 'Alles-selber-Machen', und besonders vor der Aufnahme der Produktion neuer Produkte werden vermehrt 'Make-or-Buy'-Überlegungen angestellt. Für die Favorisierung des 'Buy' gegenüber dem 'Make' gibt es strategische, finanzielle, wirtschaftliche und technische Gründe:

- Priorisierung der finanziellen und menschlichen Ressourcen auf Forschung und Entwicklung und Marketing gegenüber der Produktion.
- Kaum mehr Bedarf für Monoanlagen wegen kürzerer Lebenszyklen und niedrigerer Dosierung bei neuen Pharmazeutika und Pflanzenschutzmitteln.
- Strengere behördliche Auflagen für den Bau von neuen Anlagen und die Vertriebsbewilligung für neue Produkte. Damit grosse Unsicherheiten über den Zeitpunkt der Betriebsaufnahme und die Auslastung der Produktionskapazitäten.
- Vorhandensein/Beherrschen spezieller Technologien bei Dritten.

Schliesslich kommt es mehr und mehr zu einer Arbeitsteilung zwischen rückwärtsintegrierten, industrieorientierten Produzenten von Zwischenprodukten und vorwärtsorientierten, konsumentenorientierten Applikatoren und Vermarktern von Spezialitäten.

* Korrespondenz: Dr. P. Pollak, Lonza AG, Postfach, CH-4002 Basel



Peter Pollak wurde 1934 in Zürich geboren. Er immatrikulierte 1953 an der Abteilung Chemie der Eidgenössischen Technischen Hochschule in Zürich und schloss 1961 als Dr. sc. techn. ab. Anschliessend trat er in die Dienste der *Aluisse-Lonza* und war zuerst bei der italienischen Tochtergesellschaft *Fialital* tätig. Er befasste sich dabei vor allem mit der Verbesserung des Produktionsverfahrens für Phthalsäureanhydrid. 1968 trat er in die Sparte Organische Chemie der *Lonza AG* in Basel ein. Ab 1972 baute er die Abteilung Marktentwicklung auf, und seit 1987 leitet er die Geschäftseinheit Feinchemikalien.

Einleitung

Auch in der chemischen Industrie geht der Trend weg vom 'Alles-selber-Machen', und vor allem vor der Aufnahme der Pro-