



STRUCTURE AND DISCIPLINE

JARA Management describes how it brought structure and discipline to the negotiating process at Swiss-based aerospace manufacturer, VMSA.

Vibro-Meter SA (VMSA), based in Fribourg, Switzerland, is a world leader in gas turbine vibration monitoring systems serving the aerospace, industrial and marine markets. Part of the international, UK-based aerospace/defence manufacturing group, Meggitt PLC, VMSA was embarking on a purchasing cost reduction programme with two strands: source change and improving the negotiating performance of its purchasing team.

The source change element was driven at corporate level across all operating companies within the group. This global sourcing activity focused on switching to new suppliers selected

on the basis of group volume, quality systems and best global pricing. The company analysed its spend across four strategic material groups — PCBs, PCB assemblies, castings and raw metal stock — identifying those items suitable for source change and inviting competing bids from the approved global suppliers. This activity yielded substantial savings, amounting to 1% of total purchasing spend during an 18 month period. Given that purchasing in this type of organization typically represents more than half of a company's total costs, then the significance of this apparently small figure is clear. For the other strand of the project, the team decided

to investigate and improve the people-focused element of procurement with a core emphasis on buyers' negotiating performance.

When Supply Chain Manager Eddy Schwab started looking at how buyers were negotiating, it became clear that there was no real structure: negotiation was patchy — while senior buyers were 'cherry picking' the key purchases for negotiation, more junior buyers were unclear as to when they should negotiate, so that prices on some purchases were not negotiated at all. Eddy was mentored by leadership consultants JARA, who helped him to draw up a vision for an improvement project. One of the challenges was to engage the buyers to take ownership of the changes ahead. So the 13-strong team (comprising supply chain as well as corporate and engineering buyers) took part in an 'away day,' during which they had the opportunity to challenge Eddy's strategy, input their own ideas and tackle issues that the team sometimes found tough to address. For example, they wanted to take into account the total cost associated with source change and the costs associated with managing underperforming suppliers.

Interestingly, they also wanted to have greater visibility of their performance as a team at divisional and group level. A number of buyers were then involved in a detailed analysis process to test the vision. Crucially, the team also designed their own structure to identify the genuine reasons for failing to achieve targets and were also involved in weekly progress reviews. Based on this hard data — rather than 'gut feel' — the team developed behavioural measures by which to gauge their own performance. A defined negotiation period was set for each component type (prices for some parts to be negotiated every quarter, others up to every two years, dependent on market conditions) along with cost-down targets for all materials and services. Individual buyers were then measured on a daily basis to ascertain whether or not they had achieved the target, and if not, why not, according to an agreed set of reason codes.

The financial results of this people-focused activity speak for themselves, amounting to 2.4% of total purchasing spend during an 18-month period. Not only that, the rate of year-on-year savings, yielded through negotiation, increased substantially as the team improved their negotiation process (increasing from 2% of spend in 2008, to 3.5% in 2009).

Moreover, this was achieved in a difficult business climate, which has seen spend significantly reduced and commodity suppliers shutting down capacity to maintain price.

One of the keys to the success of the project was identifying the hidden opportunity that lay in low to medium volume materials and in the company's corporate spend (on services and general consumables). Also, by raising the visibility of the negotiating process, the team got better at their core strength: negotiating major contracts. As Eddy Schwab puts it: "Initially, I thought there wasn't much opportunity in the small stuff, thinking that the savings would be peanuts . . . but then I realized — there's a lot of peanuts!"

But it is the behavioural change that the project inspired in the buying team that has had the most significant impact. All buyers are now negotiating and actually look forward to the challenge of doing so. Senior buyers, who have tended to guard their expertise, are now actively helping their junior colleagues by documenting procedures and sharing strategies and knowledge. In practical terms, this is achieved through regular role playing, combined with mentored planning of individual negotiations, using formal checklists detailing market conditions, supplier pricing history, supplier performance, forecast volumes and, of course, target price.

Importantly, analysis of negotiation performance revealed that a lack of English language skills is a barrier, as evidenced by comparing the negotiation hit rate of buyers with high proficiency English with those of lower proficiency. As a result, Friday has been designated English-speaking-only day within the team, to provide a structured opportunity to develop language skills and confidence, backed up with formal English classes. The team is also now actively engaged in researching prevailing market conditions and how these are likely to impact on negotiation potential, where previously these factors had never been structured into the negotiation process for all team members. Overall, the project has transformed a team, comprised largely of order processors — certainly among those less experienced — into one in which every member is an effective and productive buyer.

Eddy Schwab comments: "I think it's fair to say that the team wasn't happy in the beginning because of the additional time they had to spend on measuring their performance on a daily basis. But, after only a



few weeks, they could start to see the results and how these were improving their image within the company. What's more, by really understanding the reasons for not achieving hit rates — through the reason code mechanism — and discussing these on a weekly basis as a team, they've been able to implement effective changes. Because everyone has been involved, this has had a really positive impact on team spirit and each person understands more now about what their fellow team members are doing on a daily basis. Above all, the lack of structure that we had before has been quickly replaced by a series of clear, uniform processes that everyone understands, buys into and follows."

Paul Leppard is Operations Director at JARA and mentored Eddy Schwab through the improvement project. "If you genuinely involve people — by enabling them to create the solutions that will improve their performance, so that they take ownership of change — they will be even more productive and the financial results, as at VMSA, will speak for themselves."

Although Eddy had some misgivings about tackling this specific improvement project — as a relatively new departmental manager, working with very experienced buyers — his own position has been strengthened and he now has a European role with supply chain management responsibility across the UK, France and Switzerland. Through hard data and analysis, he has full visibility of how buyers are performing. He also knows that the targets, against which their performance is being measured are realistic, because guess work has been replaced by researched market data.

The success of the project is also having a wider impact within VMSA. The global



sourcing activity is itself being improved using the same approach: data collection and analysis is helping to identify blockages and speed up the process. The total cost savings produced during 2009 by the purchasing cost reduction project, including both strands of the strategy, were greater than 5% of total purchasing spend, and the project is on track to more than double the absolute financial saving achieved in 2008 — an impressive achievement in a business environment that has seen volumes reduced by a third. And while the project was largely driven by a crisis, in terms of market conditions, it has undoubtedly created an opportunity to challenge and re-focus behaviours in a way that will have a sustainable, long term impact on the business as a whole. •

For more information

JARA is a management consultancy that creates successful businesses through Structured Leadership, a management approach that combines disciplined structure and control with genuine employee involvement. It has extensive experience in the aerospace industry and across a number of key manufacturing industries, including automotive, pharmaceutical, medical equipment, telecoms, FMCG, electronics, retail and transport. www.jara-management.com