Summary of Discussions

Beyond Frontiers

Operations excellence plays a key role in determining any company’s future competitive position. To ensure profitable growth, collaboration of functions even across company borders is required.
Operations excellence is widely recognized by management experts as an essential foundation for profitability and growth, and the German-speaking countries are well-known for their companies’ operational excellence. This excellence encompasses not just in-house manufacturing, but also procurement, logistics, innovation, development—and even horizontal issues such as complexity management.

Another thing that German-speaking countries are known for is their resilient economies and innovative power. Germany is a champion exporter, and its dual professional education system is widely admired and studied for its decisive contribution to industrial performance.

To rest on our laurels, however, would be a mistake. New challenges lie on the horizon. China, based on its size alone, has the potential to shift entire value chains. New technologies such as 3D printing may revolutionize manufacturing. Big data, supplier dependency, and resource shortages also loom overhead and cannot be ignored in the face of ruthless global competition.

Given the importance of these themes, A.T. Kearney hosted a series of 25 Executive Business Breakfasts over the past two years in Düsseldorf, Munich, Stuttgart, Vienna, and Zurich with more than 500 CXOs. Our thought-provoking discussions centered on excellence in four transversal areas: innovation management, complexity management, supply management, and value chain management.

Nearly all of our discussion partners rated their operations as either good or very good within functions. Most agreed, however, that they fall short in collaboration between business functions and beyond company borders—collaboration that is vital to excellence and a cornerstone of competitive advantage in the years ahead.

In these proceedings, we summarize our viewpoint and the discussions around five main areas where companies need to act to make sure they stay in the race.

Live and Breathe Cross-Functional Collaboration

Many companies exert a lot of effort defining their corporate strategy and honing functional excellence to a fine art. Very few, however, pay as much attention to a vital third dimension. We call this dimension “corporate plasticity”: the ability to collaborate across functions toward a common goal (see figure 1 on page 2).

Successful cross-collaboration is omnipresent outside the business world, whether in nature, sports, or the military. In fact, it has contributed to the development of modern society. Yet most corporate organizations overlook this winning formula.

Today, when strategy has become a commodity and functional excellence alone is not enough to retain a competitive advantage, plasticity is what will help companies reach the next level of operations excellence. Participants in our Executive Business Breakfasts confirmed this view. In fact, 46 percent said that cross-functional performance indicators are the most crucial component of successful innovation management. At the same time, 55 percent acknowledged just how difficult cross-functional cooperation is.

And it’s not surprising: while the traditional focus on functional excellence emphasizes hard, cold facts and analysis, plasticity challenges companies to modify culture and behavior in order to tear down barriers and create a dynamic, stimulating environment.
Transform the Organization

Cross-functional excellence requires changes not just in processes but also in organizational structures as part of a planned, controlled procurement transformation program. Executives, by their own admission, still have much to do in this area (see sidebar: Success Factors of Procurement Transformation).

Take complexity management, for example. When complexity arises, it inevitably affects all the steps that follow it in the value chain, which makes excellent complexity management the epitome of a cross-functional capability. Yet only 50 percent of the participants in our Executive Business Breakfasts thought they manage complexity well.

Success Factors of Procurement Transformation

1. **Lead the transformation**
   - Involve leadership
   - Provide resources
   - Assess and eliminate barriers
   - Generate responsibility and personal commitment

2. **Make the case for change**
   - Deliver case for change
   - Pinpoint both emotional and analytical arguments for change
   - Create transparency in the entire organization

3. **Mobilize all stakeholders**
   - Include and inform all stakeholders
   - Generate support and establish identification
   - Make clear that they will need to leave their comfort zone

4. **Motivate people**
   - Communicate success actively and continually
   - Highlight and reward people who are acting appropriately

5. **Train employees**
   - Train employees in content and emotions
   - Teach new capabilities and knowledge
   - Train to change behaviors, attitudes, and culture
Beyond Frontiers

Or consider procurement, which in the past has been characterized by cost cutting and efficiency gains. Today, however, creating value has become a central mission of procurement, bringing to the fore procurement’s importance as the link between suppliers’ value chains and the company’s internal functions. And so procurement is an ideal candidate to achieve potential from cross-functional (and cross-corporation) excellence. And even though the majority of our breakfast participants considered themselves to be above average in cross-functional procurement collaboration, two-thirds agreed that not all stakeholders are aware of how important the topic is.

Our project experience teaches us that procurement champions must be strong in three areas to achieve both internal and external effectiveness:

- First, the procurement function itself requires a powerful departmental structure—particularly internationally—to serve as the main anchor point.
- Second, robust interlinkages must be built with other internal functions such as R&D, finance, and production.
- Finally, it is important to bring on board the right suppliers, whose importance is determined by their market power and the company’s need for their products.¹

There are three routes to achieving procurement excellence (see figure 2):

1. **Strategic sourcing first.** This is the most commonly applied route to becoming a procurement champion. On this path, reducing costs and creating value starts on the supplier side. It begins by setting an overarching goal nobody can resist—for example, achieving millions of dollars in savings immediately—so there is little initial resistance or fear within the company. As procurement makes changes with suppliers, it builds a probable future organization by testing cross-functional collaboration in specific sourcing groups. In the end, the savings from these external changes help justify modifications in working style.

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**Figure 2**

**Routes toward excellence in procurement**

![Diagram showing three routes to procurement excellence](image-url)

- **Route 1: Strategic sourcing first**
- **Route 2: Organization first**
- **Route 3: Direct**

**Source:** A.T. Kearney analysis

¹ For more information, please see our book *The CPO: Transforming Procurement in the Real World* at [www.atkearney.com](http://www.atkearney.com).
and spur long-term internal transformation. In fact, employees often don’t even see the subsequent organizational changes as “change” per se. CFOs often prefer this route for its ability to fund the transformation immediately.

2. **Organization first.** Global companies with divisions in different countries begin by focusing on the internal organization—rewriting the internal rules of the game that are specifically related to collaboration, and then taking those rules to the supplier market. Rewriting the rules begins with establishing clear roles and responsibilities within procurement and at the interfaces of headquarters and the larger procurement organization, and then establishing responsibilities between procurement and other functions. This can normally be done with relatively little investment. A revamped procurement organization will quickly achieve savings from the supplier market that will more than pay for the organizational investments. This route is favored by most CPOs.

3. **Direct route.** The direct route—conducting external and internal efforts simultaneously—can prove fastest to achieving procurement excellence. It also requires the most work, along with strong top management attention, full commitment from the board, and alignment across the entire company with the procurement transformation program. This is a CEO’s preferred route.

**Collaborate across Company Borders**

As we’ve seen in previous sections, the advantages of working cooperatively extend beyond company borders (see figure 3). Nevertheless, more than 70 percent of the participants in our Executive Business Breakfasts noted that they do so only partially or not at all with their key suppliers. Only one-half said that they were actively working to achieve such cooperation and felt they had the right processes and instruments in place.

![Figure 3: Typical cross-company collaboration models](image_url)

**Source:** A.T. Kearney analysis

- **Upstream collaboration**
  - Reduce volatility and risk on commodities
  - Shift from push to pull supply chain flows
  - Reduce transportation and storage costs

- **Downstream collaboration**
  - Implement joint forecasting and planning
  - Improve service levels and reduce inventories
  - Focus on key services
  - Allow joint product development

- **Industry collaboration**
  - Share assets for transportation or storage
  - Share technology, initiate development of industry standards
Cross-company collaboration is one essential element of successful innovation management (see sidebar: Seven Key Success Factors of Innovation Management). Besides innovation networks and external experts, suppliers are instrumental in this development. Their early and close involvement in the idea generation and product or service development process has proved to be a decisive factor for sustainable innovation leadership. A broad and well thought-through supplier network based on a structured scan of suppliers’ innovation management capabilities provides the foundations to continually improve the company’s ideas pipeline.

The involvement of many stakeholders in idea generation, the inclusion of experts in effective decision making, and the conscious leverage of suppliers’ innovation power make the importance of collaboration beyond the corporation’s borders explicit. But to meet all needs, further aspects must also be perfected—the analysis of market and technology dynamics, the coordination of search fields and corporate strategy, the application of cross-functional performance indicators—to stimulate collaboration.

Using suppliers to support value generation can create a considerable payoff. Yet getting the payoff requires a significant shift in a company’s internal workings and in managing the supplier network. From the start, it’s important to:

- Clarify the role of internal R&D resources
- Implement new, more complex responsibilities for the procurement function
- Align suppliers’ objectives and approaches to support those of the company

Findings from A.T. Kearney’s Best Innovator study indicate that best-practice firms address these challenges by actively and consistently integrating external partners while following three overarching guidelines.²

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Clearly define core and noncore innovation activities

Pressure to significantly reduce R&D costs while at the same time improve innovation performance is like trying to square the circle. Here, it is important to first get your priorities straight. Clearly define core and noncore activities and outsource a select number of noncore activities that are not crucial to achieving your innovation goals.

Once suppliers are involved in the development process, procurement takes a seat at the strategy table.

Shift the procurement mindset from “cost out” to “profit improvement”

The most important objective for leading companies in our study that involve suppliers early on in innovation activities is covering capabilities not available in-house, followed by shortening time-to-market and increasing product or service differentiation. While 90 percent of leading companies said they already address early supplier integration and collaborative supplier innovation in their innovation strategies, just 54 percent of the rest of companies do so. Once suppliers are involved in the development process, procurement takes a seat at the strategy table—going beyond reducing costs and improving efficiencies to focusing on building value and profits. The study also shows that companies expect to further rely on collaborative supplier innovation in the future.

Here’s where procurement adjusts its roles and responsibilities and begins to:

- Hire and train staff to be more adept at evaluating supplier innovation capabilities and performance
- Introduce systematic innovation management methods to select suppliers
- Establish new key performance indicators (KPIs) to measure supplier innovation performance

Manage innovation consistently across the value chain network

Finally, the closer suppliers and procurement are tied together, the more effective their network will be in making market distinctions. This requires a common understanding of the company’s innovation goals and the areas in which suppliers excel. To accomplish this, companies need to:

- Adopt a unified “language” of all innovation-related topics to clarify communication between buyers and suppliers, and among suppliers
- Establish which strategic search fields the value chain network is active in to ensure focus and speed
- Define how network partners will cooperate to reduce time-to-market and time-to-profit, and to manage the overall innovation life cycle
In a solid partnership, all network partners regularly check on how their participation and innovation results are affecting the company’s growth targets. Partners have ambitious standards not only to develop and position their own company favorably, but also to improve the overall value chain network. Clear interfaces and obligations set the basis for trust. Common experiences and successes further strengthen loyalty. For partners that are not supporting the strategy or delivering promised added value, it is time to modify their roles or replace them entirely.

Improve Agility

Today’s corporate environment is fast-paced and fickle. We live in a “VUCA” world—v for volatility, u for uncertainty, c for complexity, and a for ambiguity—where entire industries can be permanently transformed in the blink of an eye.

The enormous resilience of industry in German-speaking countries would seem to indicate that structures are flexible and companies are agile. Even so, more can be done, particularly to combat unwanted complexity, where poor organizational discipline and a lack of transparency into cost and value can cause complexity to build over time and run amok.

Agility in operations is mirrored in the excellent management of complexity, value chains, and innovation—areas where collaboration is essential.

The importance of agility to successfully compete in volatile markets cannot be overestimated. The capability to decide quickly and react flexibly to new situations wherever they occur along the value chain increases the chances to expand market share. We conceptualize three types of agility, each with its respective time frame:

- **Operational agility** (short term), with an emphasis on improving internal collaboration all along the value chain. Examples include strengthening the sales and operations planning (S&OP) process, implementing human resource measures, balancing prices and market demand, optimizing the production cycle, and trimming back complexity.

- **Tactical agility** (medium term), increasingly collaborating with suppliers to, for instance, make the entire value chain more flexible, slash throughput times, and conduct more rigorous risk management for raw materials

- **Strategic agility** (long term), by coordinating with major customers and suppliers to continually optimize value chains, putting in place an agile innovation strategy, and maintaining an optimized, flexible product portfolio

Agility in operations is mirrored in the excellent management of complexity, value chains, and innovation—areas in which cross-functional and cross-company collaboration are essential.
Generate Sustainable Value Generation

To continue generating value and deepen operations excellence, traditional cost-cutting is no longer sufficient. Today, achieving productivity gains demands an entirely new way of thinking. The way to add real value is through cooperation to optimize larger portions of the value chain (see figure 4).

Figure 4
Supplier ecosystem performance is increasingly important to assure competitiveness

While companies have typically controlled suppliers by setting targets and monitoring their achievement, true cooperation is a joint effort grounded in an intensive relationship between equal partners. Collaboration is more than the coordination of individual people; it requires rethinking the entire interaction, including a new organization that challenges long-established rules. Common goals are reached not by imposing specifications, but rather by aligning around the shared task of solving problems and developing innovative, future-oriented concepts to generate value for all parties.

Progressive collaboration requires value-oriented target setting that internalizes improved performance. This deep-rooted change in the nature of collaboration leads to changes in industry structure, as old cause-and-effect relationships cease to be effective. Instead, value-oriented collaboration enables all involved to benefit from the improvement potential, thereby assuring the next steps down the productivity improvement path.
Outlook

Cross-functional collaboration (that is, corporate plasticity) and cooperation will be essential factors in the future to achieve operations excellence—particularly against the backdrop of complex, fast-changing technology and market dynamics.

The Executive Business Breakfast series underlines how vital cross-functional collaboration is for retaining a competitive advantage beyond functional excellence. Companies are called upon to:

- Transform their organization and tear down functional silos to enable cross-functional collaboration
- Evaluate collaboration opportunities across company borders—upstream, downstream, and within their industry
- Improve their operational, tactical, and strategic agility to master the VUCA world
- Establish value-focused supplier collaboration and optimization programs to go beyond mere cost cutting

A.T. Kearney will continue to discuss these topics and approaches with our clients as we hold subsequent editions of our Executive Business Breakfast series on operations excellence.

Authors

Kai Engel, partner, Düsseldorf  
kai.engel@atkearney.com

Marc Lakner, principal, Berlin  
marc.lakner@atkearney.com

Michael Strohmer, partner, Vienna  
michael.strohmer@atkearney.com

Jochen Graff, principal, Düsseldorf  
jochen.graff@atkearney.com

Alexander Rathfelder, consultant, Frankfurt  
alexander.rathfelder@atkearney.com

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