



*Social*BUYING<sup>TM</sup>  
A REVOLUTION IN PURCHASING

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# 1 | FOREWORD

“Purchasing as we know it is dead, rest in peace!” This is the message of the text that lies in front of you. In the future, it will be understood for industrialized purchasing, that modern information and communications technologies – and especially social media – will be necessary for use with the initiation of business relationships with suppliers, but also for all facets of supplier relationship management.

Rainer Machek, Detlef G. Möhrstädt and Jürgen Schmiezek have aptly chosen the topic of social buying for this theme. They will explain every aspect and clarify these subjects that “digital natives,” those who are permanently online and active, already characterize today, as well as the procurement process of clients, which will increasingly dominate and revolutionize the entire purchasing organization.

Through the potent enabling powers of Informations and Communications technology comes a new dynamic in procurement. The authors argue for an appreciation of purchasing in a company, while having all of the arguments on their side. They wager a view in the crystal ball and predict structures and processes of industrialized buying in 2020.

This makes it clear: The beauty sleep of procurement in industry is long gone. Finally, the realignment of buying returns to the agenda of business leaders. It’s no wonder then, in light of the fact that German



companies are responsible for 60 percent of the procurement market, that the impact of a solid purchasing team carries so much leverage.

It would be negligent not to systematically implement this lever, with today's modern IT possibilities. Surely the old Hanseatic merchants knew: in sales lies the blessing! Purchasing was a top priority to them. This old wisdom will be further revisited in unsure times. The creation and implementation of this new type of purchasing requires significant investments in personal, organizational and technological technologies, but - as the BME eSolutions Day shows year after year - these investments are worthwhile.

For an appreciation and upgrade of purchasing there are convincing reasons: the purchase of materials like NF-metals, steel, plastics, and agricultural raw materials are in the time of Globalization and crazy changing prices turned into a strategic work. The raw materials and energy costs are a result of the dynamic growth of the world economy, especially in the increasingly rapid emerging markets, which press mightily on the margins. With important component suppliers there is – in this time – an economic bottleneck, and a long delivery time.

The supply chains demand agile steering. Purchasing is not only significant in regards to the optimization of costs and fixed capital, but it must also ensure that the companies can produce with flexibility in a time of economic ups and downs.

To this point, the quality of products, the influx of innovation from the delivery basis, and the risk exposure of the client depend solely on purchasing.

## WHICH STRATEGIES STAND IN FOCUS OF MODERN BUYING?

It is only through bundling and standardization of today's demands that cost digressions can be reached. Furthermore, the promotion of the expansion of foreign references, as well as the central completion of careful negotiated contracts, lies in the foreground. The innovation of developmental and technical strategies regarding conservation of materials, as well as substitution of expensive materials, works parallel to these procedures. The buying teams start in the manufacturing and logistic processes of the suppliers, and from their sub-suppliers, and together they search for opportunities for improvement. Working strategically with suppliers, developmental projects are implemented.

In front of this background, many businesses have and will revise evolving purchasing structures and processes. The modern information and communications technology, paired with highly skilled ERP systems and integrated web-based front-end applications acts – when used properly – as an intelligence amplifier and sophisticated enabler of networked forms of organization in purchasing. Social networks reinforce this trend and ultimately enable “Social Buying”, as will be illustrated in this text.

In place of the distinct hierarchies and functional organizational systems that shaped the past image of a purchasing office, organizational forms come up that combine the central and decentralized elements to create a scope for strategic purchasing and to define, optimize and automate the business processes of operational procurement. The old traditional linear orientation of management processes will grow obsolete in the age of social media.

## WHICH TRENDS IN PURCHASING ORGANIZATION ARE IMPORTANT TO OBSERVE TODAY?

An enterprise-wide integrated database, with material and supplier encryption will be created, will provide the unique answer to an integral question: In business, who purchases what, in which quantity and under what conditions, and with whom are they purchasing it? The existing supplier contracts will be seamlessly recorded. This serves to create a previously unseen level of transparency and promotes the observance of compliance rules.

In purchasing, the Chief Purchasing Officer both claims and receives for all established sourcing goods, such as materials, services, investments and energy. The Chief Purchasing officer forces a bundling of volumes and the exhaustion from synergies and opens the international procurement markets to others. He reports to the board.

The focus of strategic purchasing will be on specific groups of goods and foreign-related leadership-focused lead purchasers or sourcing groups will be established, that will combine the demand according to the well-known motto “one for all” and they will negotiate as specialists together for all demands. They settle contracts with suppliers to satisfy the central needs in a company.

Requests for information for quotations and negotiations, particularly in the form of reverse auctions, will be made electronically in increasingly large quantities.

In a well-organized business, all relevant information about strategic purchasers, necessary for procurement decisions and supplier talks, can be acquired with the click of a button. SRM converts this from a word cloud into reality.

For the operative realization of the procurement operations that lead to payment (procure-to-pay), uniform processes will be defined.

In the course of a continuous Supply Chain Management will suppliers and logistic service providers electronically bundled over a collaborations platform.

Thanks to increasingly powerful ICT technology, new infrastructures for cross-functional and inter-organizational collaboration are emerging, through which the economic transactions and collaborations costs are practically eliminated.

These short observations, which are not by any means exhaustive, make it clear: In the Information Age, the script for professional procurement must be rewritten. To this purpose, this text makes an inspiring contribution. The two well-chosen practical reports from Dr. Bernd Huber (Head Sourcing Center of Excellence, Google), and Stefan Wagenhofer (Senior Vice President Procurement, OMV AG) demonstrate which futuristic solutions are already possible in practice.

Organization and ICT are important enablers of a new orientation of purchasing in the industry. However, they alone are not enough: the third enabler, Human Resources, must also be included. The “new” industrial purchasing must be manned by highly qualified leaders and professionals, with both a technical as well as a business background. They are, however, few and far between. The war for talent is in full swing. Only those who succeed in winning - and keeping - the best employees for purchasing will be able to reach – and sustain – a newly established purchasing organization and “Social Buying.” In recruiting and retainment, there remains much to be done. The businesses should approach and engage this task. The use of social media can also make valuable contributions, to begin with the revival of “new” buying.

Cologne, December 2011

Prof. Dr. Robert Fieten

(Leader of Management Research Team, Cologne  
and member of the BME, Frankfurt am Main)



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### 2.1 | A SHIFT IN THE BUSINESS PERSPECTIVE (VET) OF PURCHASERS

For a long time the world of purchasing was simple and clear. Employees worked for any sub-sub-department of production, or in the supply chain management sector, and lived quiet, unremarkable lives within small offices, second-class at best.

The decision to purchase a product, or the technique of production, was previously clarified with the supplier way in advance. The order oftentimes came directly from the department, or in a best-case scenario, the purchaser had a standing order with a set supplier, with the occasional negotiation of just a few percent to keep the customer happy.

Typically the merchants visited customers once per week, they conversed about really important themes like soccer, the weather, and the events of the week, complained and griped about politics, and almost accidentally came around to the topics of business, the quantity of the weekly order, maybe even went introduced any new products the salesman had to offer.

Until late into the 80s, the main task of purchasers was to maintain and ensure the operative supply of satisfactory quality and quantity. From there came the word “dispatcher” as a synonym for purchaser. Companies and clients purchased locally, as good suppliers from other regions were rare. Foreign suppliers were unsuccessful due to the language, currency and tax barriers.

The task of ensuring the delivery of the goods was accomplished manually. The awareness of expenses and costs in later following processes for businesses was, for most, not required and therefore minimally noted.

Methodically, it was sufficient to have a mastery of basic arithmetic and a poker face for tough negotiations.



Challenges of a technical nature were not met. When it came to the implementation of the fax machine on the market at the beginning of the 80's, it was disregarded, and considered a phase. H

In summary, everything was very, very clear: demand, equipment with resources of all kinds, payment, career opportunities, internal as well as external view. Purchasing was, in many cases, an alternative route for employees who seemed unsuitable for other departments.

Impulse for changes in purchasing typically came from the outside, from technology, production, or from sales.

Then suddenly, there came an avalanche of simultaneous changes, which shook up the previously "perfect" world, leaving everyone's heads spinning.

These are the reminders for the readers (and without the claim of completeness) listed here:

## INNOVATION IN LOGISTICS

The constant increase in requirements on the availability of goods always reaches new heights and culminates in suppliers within less hours in every location in regions or "Just in time" delivery for the manufacturing industry.

When one analyzes the delivery cycles in the pharmaceutical industry, for example, specifically the supplies of an apothecary, an efficiently run pharmacy will receive short-term orders of goods approximately 5-7 times per day, and in turn, acknowledge what's possible for that day in terms of sales and supplies.

This leads to a change in the relationship between buying and selling. At one time people purchased via telephone or fax, but with the new technologies, the personal relationship between vendor and purchaser diminishes. The increasing distance and decreased value of