

Involve the Procurement Function Early in the New Product Development Process

Best-practice organizations have procurement provide sourcing expertise in the early stages of new product development

The rate of change required of the procurement function to keep pace with business demands continues to accelerate. Today's procurement function can be so much more than just the buying arm of the enterprise, focused only on getting the lowest cost. Shifting the focus to what the business needs to accomplish its goals allows procurement to consider elements such as supplier quality and reliability. By emphasizing purchasing efforts in product categories that are critical to the business, the procurement and sourcing organization can build and manage supplier relationships that deliver results for the enterprise.

To learn how top performing organizations manage purchasing through product categories, APQC launched the [Supplier Category Management: Driving Value Through the Procurement Organization](#) Collaborative Benchmarking study. The best-practice organizations in the study demonstrate meaningful alignment between procurement and the overall business structure. One important way that procurement can provide value is by becoming involved early in the product development process. By offering its unique perspective before product development choices have been solidified, procurement can lead the organization to choices that carry long-term benefits.

How Procurement Can Help

In the product development process, the procurement function can evaluate proposed materials for new products and potential sourcing countries based on factors such as:

- ▶ the amount of materials needed,
- ▶ whether the potential sourcing countries have free trade agreements with the United States, and
- ▶ the respective duty rates of potential sourcing countries.

In some industries, it may be possible for product development teams to tweak aspects of the design to take advantage of similar materials with an overall lower price or from a more reliable sourcing location. For instance, a company producing an article of clothing may be able to specify a different type of cloth to obtain the best value.

In addition to global trade considerations, some industries have stringent product quality demands either from regulatory agencies (e.g., pharmaceuticals) or customers (e.g., semiconductors). In such cases, it is critical to bring sourcing teams into the loop as early as

possible regarding changes to materials. The complex products produced by these industries may require specialized materials not readily available on short notice.

How Best-Practice Organizations Do It

ATMI

ATMI provides technologies for the semiconductor, life science, and display industries. Due to its customers' high quality expectations and strong resistance to change, ATMI incorporates sourcing activities early in the new product development process. ATMI has six stages in its new product development process, and supply chain identification is included as early as the third stage. ATMI defines scorecard criteria for supplier identification by functional area at each process stage gate, with a focus on supply assurance and supplier capabilities. Involving the procurement group early in the product development process works for ATMI because, given the highly specialized materials it uses, the organization would find it difficult to find an alternative supplier once a product was developed and sourced.

MERCK

Merck has a five-stage sourcing management process that supports new product development through supplier selection and sourcing decisions. The global category management strategy at Merck has resulted in innovative sourcing within the categories of fleet, marketing, logistics, lab supplies, and direct materials. Through the deep relationships fostered as part of Merck's global category management strategy, Merck's suppliers are able to work more efficiently with Merck and have opportunities for growth and best practices sharing. The process also allows suppliers to pursue innovative efforts that can result in a competitive advantage for Merck as well as the supplier.

Conclusion

Procurement can add value during the product development process by providing perspective on sourcing options and the potential impact of selecting certain materials over others. Procurement can also foster close relationships with suppliers that lead to innovation, benefitting both the suppliers and the sourcing organization.

For more information on how the procurement functions of best-practice organizations provide value to the enterprise, read APQC's best practices report [Supplier Category Management: Driving Value Through the Procurement Organization](#).



ABOUT APQC

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