3 Using the Purchasing Chessboard

The Purchasing Chessboard is used to assign strategies and methods for cutting costs and increasing the value of specific spend. The first step is to find an appropriate classification for a given spend. For example, if a steel producer is planning to invest in a new coking plant, there are (roughly speaking) three levels at which an order can be placed:

- **Plant**: The entire coking plant is contracted out to a single turnkey supplier
- **Process plant**: The coking plant is divided into the coking plant proper and the gas treatment section, with contracts drawn up for each part
- **Components**: The coking plant is broken down into several parts—the coke-oven batteries, coal preparation and screening, oven machinery, chimneys, coal tower, and quenching towers, with separate contracts for each

Note that there is no right or wrong in this scenario. The choice of structure largely depends on the capabilities of the company. Considering several strategies simultaneously allows the greatest possible transparency in weighing the pros and cons of bundling or separation.

The second step is to map the spend on the Purchasing Chessboard. When positioning elements of spend along the demand power axis, consider the following:

- What share of the relevant sales market (of a region) does the company have?
- What growth perspectives does the company offer suppliers?
- What competency-enhancing possibilities does the company offer suppliers?
- How can suppliers improve their image by working for the company?

A company has high demand power when any of the following occurs:

- Suppliers are not able to circumvent it
- The company is the biggest buyer of certain products (and is experiencing strong growth)
- The company collaborates regularly with suppliers on innovations
- The company has a strong reputation

When positioning elements of spend along the supply power axis, consider the following:

- How many credible suppliers are there?
- What market share do these suppliers hold?
- What are the M&A dynamics in the supplier market?