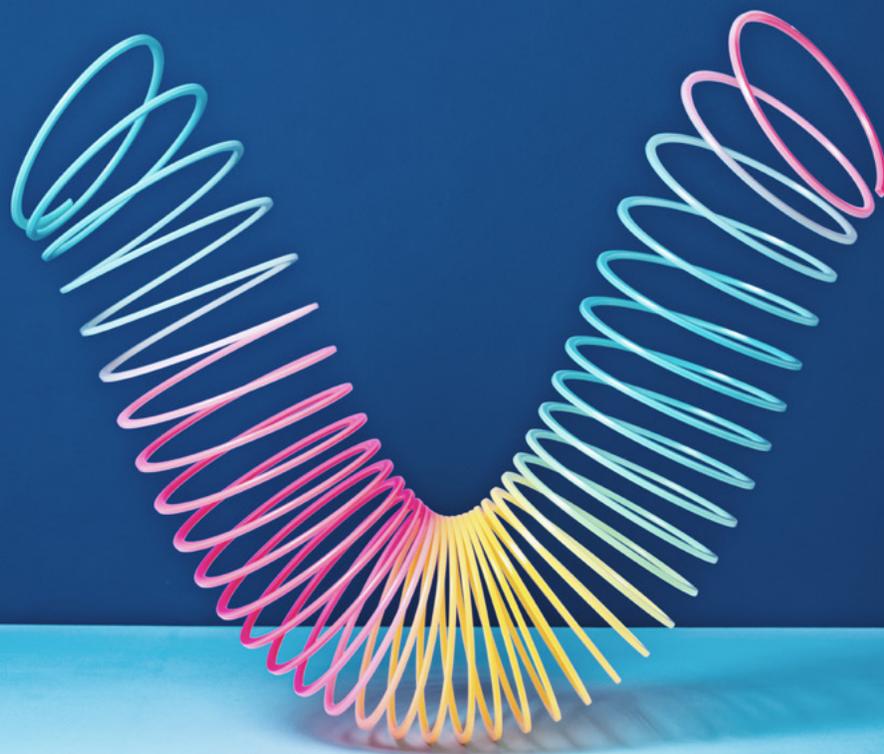


Operations Practice

Better for cost, talent, and customer: Agile procurement at A1 Telekom Austria Group

Facing rising complexity and pressure on procurement costs, a European telecoms player made the radical decision to restructure its procurement function using agile principles.

by Peter Spiller



With 25 million customers in seven core markets across Central and Eastern Europe, A1 Telekom Austria Group is a major provider of telecommunications and digital services, with a portfolio that includes fixed and mobile communication services for businesses and consumers, integrated business solutions, TV and digital entertainment services, and payments systems.

In common with many telecom players, A1 has expanded and diversified its offerings significantly in recent years as customers move more of their lives online, a shift that has helped the company grow: revenues passed €4.5 billion in 2019. Business functions now face more, and new, challenges to support and develop an increasingly complex portfolio, while navigating the significant disruptions caused by COVID-19 that reverberated across global supply chains. Michaela Mayrhofer, the group's Director of Supply Chain, tells McKinsey's Peter Spiller how that pressure inspired an agile transformation in the group's procurement function.

Peter Spiller: Tell us a little about how procurement was organized at A1 Telekom Austria Group before the changes started.

Michaela Mayrhofer: We had what you might say was a conventional procurement function. We were managing an annual spend of around €2 billion, with around 42 employees in frontline strategic purchasing roles, organized in a pyramid structure with 9 additional employees in management roles.

Since 2013, we had been running a program called "Sourcing 4 Success", which involved a multi-wave, cross-functional transformation approach to build a high-performing procurement process. By 2017, we were routinely achieving double-digit percentages in annual savings across our strategic categories.

Peter Spiller: Given that the company had already invested in creating a high-performing procurement function, what was the motivation to make such a big change in the way you worked?

Michaela Mayrhofer: While our overall performance, measured in the savings we achieved, was good,

the numbers didn't tell the whole story. As the business diversified and convergence between fixed and mobile networks accelerated—and with IT becoming more standardized as well—our procurement teams were taking on a greater number of categories.

Sourcing projects became increasingly complex, often addressing two or more traditional categories at the same time. What in the past constituted three sourcing projects for software, IT hardware, and data storage has become a large and complex cloud project today. That was creating unsustainable workloads for our strategic purchasers, which in turn meant unsatisfied staff, and unsatisfied internal customers due to long cycle times.

And, like the rest of the business, we needed to meet tough efficiency-improvement goals. These converging changes made us realize that working in category silos prevented us from effectively balancing workloads among teams and over the annual business cycle. We needed cohesive ideas and methods to enable us to identify and realize cost-saving, workload-balancing, and innovation opportunities.

A key turning point for us was during a management team meeting where we sat down and tried to define the critical skills we needed from a "perfect" procurement professional in our organization. We immediately realized that no single person in the function had all of those skills. It was unreasonable to expect our people to master such a wide range of topics if their managers couldn't do the same. In addition, we were not able to fully use the strength of our team members across different categories, which was holding back our creativity because experts in a narrow range of categories were not always able to identify and try new ideas.

Peter Spiller: How did you change the structure of your organization?

Michaela Mayrhofer: We were looking for a win-win-win situation: lower costs; higher flexibility; higher efficiency and better results based on new



Michaela Mayrhofer

Education

Graduated with a (double master) MMag in Business Administration from Vienna University of Economics and Business and earned a Ph.D. in Media Science from the Pan European University

Career highlights

(2018-present)

Director of Supply Chain, A1 Telekom Austria

(2010-2018)

Various roles in strategy, mobile commerce, and sales and marketing at A1 Telekom Austria

(2005-2010)

Early career in management consulting in Europe and Africa, focusing on the restructuring of companies and finance transformation

ideas; and increased satisfaction for our customers and our employees. It sounded unrealistic at the time, but we achieved it!

The central element of the change was a switch from a pyramid organization, where different category teams operated independently of each other, to a network model, where we have a single pool of strategic-sourcing professionals. People come together in small, flexible teams for specific sourcing projects, leveraging their individual strengths and competencies in the best way, and have much greater responsibility to run those projects from end to end.

That model required a shift in the way people thought about their roles in the organization. We started by addressing mind-sets, saying that everyone in the strategic procurement organization is a lead buyer: able to run their own sourcing projects with support from their colleagues. Then, in addition to the lead-buyer role, most people have one or more other roles based on their strengths and interests. For example, they might be a category manager, or a vendor

manager, or act as a single point of contact for one of our business units.

Now, acting a little like an internal consulting organization for the company, we assemble teams dynamically for each sourcing project by picking people from the talent pool. A team might include the point-of-contact person for the requesting business unit, a category manager with relevant expertise, and the vendor managers for any of our major suppliers that might be involved. We use a "kanban" scheduling system to allocate projects: each incoming request is reviewed and prioritized, then teams are assigned according to the urgency and complexity of the project, and the availability of the right people.

Peter Spiller: This was a big change compared to your old processes. How did you introduce the new way of working?

Michaela Mayrhofer: We spent several months planning the new approach and explaining the

model to our people—but we actually made the change very quickly. We said, “OK, this is how we are going to run procurement projects from now on.” People had to adapt rapidly, and most of them did. We saw individuals really embracing the opportunity to take on more responsibility, make decisions, and be part of top-management reviews.

I think our biggest challenge was persuading people to take complete responsibility for their projects. We operate regular review meetings so teams can discuss issues or challenges with managers, but decision-making responsibility ultimately rests with the teams themselves. In the beginning, that made some people very uncomfortable, and we did have some projects that didn't go so well, but if you are asking your people to be brave and take responsibility, then as a manager you have to be brave enough to let them do that, too.

Peter Spiller: Did your people adapt as well as you hoped they would?

Michaela Mayrhofer: In the overwhelming majority of cases, yes, they did. Some people seized the opportunity straight away. Some were skeptical and took time to come around to our new approach. A few people decided that they just couldn't make the shift, and they eventually left the organization.

Overall, however, the new model has been really positive for talent management. Some people who were only moderate performers in our old structure have become real stars in the new model. And it has proved to be a great way to develop people extremely rapidly. The dynamic team structures allow people to share ideas and learn from each other, and more junior personnel get lots of responsibility and exposure to senior colleagues. For example, we always have a number of interns working within the procurement function, and they can go from zero to running their own projects in just a few months. That has been a really good way to identify and acquire new talent.

And finally, the new structure has improved things significantly for the leadership of the supply-chain

organization. Now we spend less of our effort on tracking and administering projects, and more time working with our teams to help add real value for the organization.

Peter Spiller: What about your customers in the various business units, how have they responded to the change?

Michaela Mayrhofer: The response has been extremely positive. Our customers in the business units appreciate having a single point of contact with the procurement function, which makes it easier to navigate the sourcing process, and they have seen improvements in the speed of project execution.

Stakeholders recognize the increased ownership and responsiveness of the procurement team, and above all, the elevated savings impact achieved through better focus and agile management. Higher savings impact and a clear focus on creating value for the business has become the key selling point for agile procurement at A1 Telekom Austria Group. Overall, our customer satisfaction score has gone from a rating of five or six before the transformation to nine this year.

Peter Spiller: What about the overall performance of the procurement function. Are you meeting your goals?

Michaela Mayrhofer: In 2017 and 2018 we saw a slight drop in our savings rates, which was seen as a natural development after running successful programs in previous years. We are now back on track with double-digit percentage annual savings, a figure that is better than ever, and achieved with a team that is more focused than before. In addition, we are delivering more projects for our customers. Our people are each running more projects every year, and the savings achieved per strategic purchaser have increased by 74 percent.

Our approach has also given us a level of resiliency during the coronavirus pandemic.

The new organizational structure allowed us to drive a lot of initiatives very rapidly in response to the crisis. In fact, we have even seen our numbers improve, as our people have been even more motivated to drive results, share ideas, use the creativity of the team and take on responsibility for their decisions.

Peter Spiller: So, what's next? Do you have plans to extend or adapt the agile approach?

Michaela Mayrhofer: There is always more to do, but overall we are very happy with the way our system is performing within procurement. Now we want to take

the model we developed in strategic procurement and apply it to the whole procure-to-pay process. That will extend the network approach to other functions, such as accounting and supply chain management, which will really help to break down siloes across the organization. But agile isn't the answer to every challenge. We are fostering our customer focus by extending our approach beyond classic savings, and focusing on real value creation with the business units on top of those savings. We are also doing a lot of work to improve our digital capabilities, such as by introducing automation in the operational purchasing area, and building a dedicated data analytics unit.

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