



## **"Best Practices" Supply Management Journal...**

*September/October 2010, 47th Edition*

**Over 10,000 Supply Chain Leaders Now Receive This Bi-Monthly Journal.** Please feel free to forward it to a colleague, or have them join the distribution by clicking the link at the bottom of the page.

### **New articles in this Edition:**

- **"Supply Management Performance in a Challenging Economy"** - by Mark Trowbridge, CPSM, C.P.M.
- **"Making It Stick - Capturing 'Sourced' Savings"** - by Richard Nettell, Six Sigma Champion

**Strategic Procurement Solutions, LLC** is a niche professional services firm dedicated only to advancing the practice of Supply Chain Management.

### **Key Services include...**

- Onsite SCM Training Workshops
- Online Supply Management Skills Testing
- Topical Training Webinars
- Expertise in Strategic Sourcing of High ROI Spend Categories
- 360 Degree SCM Efficiency Reviews
- Staff Augmentation (Project, Temporary, Direct Hire)
- Outsourcing Project Expertise (LCC & BPO), and
- Supply Management Consulting Services

**Strategic Procurement Solutions'** clients range from Fortune 100 to Russell 2000 in size; and include numerous Global enterprises as well. We also work with leading Public Sector supply chain groups.

**Public Seminar** - Mark Trowbridge will be the dinner presenter for ISM Sacramento Valley September 22<sup>nd</sup>. His topic will be, "The Changing Supply Management World; Winning Strategies for a

### **"Supply Management Performance in a Challenging Economy" - by Mark Trowbridge, Principal, CPSM, C.P.M.**

A specialty of Strategic Procurement Solutions' is helping SCM groups "supercharge" their supply chain performance. We frequently conduct our 360° Supply Management Efficiency Review, to identify gaps between an organization's current, and potential, levels of performance and recommends key ways they can efficiently step up to a high degree of financial and operational effectiveness.

Improving SCM performance is more-complicated in today's challenging economy. Procurement organizations are being asked to do more with fewer resources.

A recent Hackett Group 2010 Key Issues Study observed that the average SCM organization's staff levels were cut by 2.2% in 2009 and an additional 1.5% in 2010. Correspondingly, the study found that the average SCM organization's operating budget was reduced by 1.7% (2008 - 2009) and an additional 2.3% between 2009 and 2010. The same study found that at least 48% of the FTE cuts and 46% of the operating budget

Challenging Economy". Those interested in attending can learn more at [www.ISM-SacramentoValley.org](http://www.ISM-SacramentoValley.org)

Mark will also be a keynote speaker at the MENA Strategic Procurement Conference in Dubai, UAE on November 2<sup>nd</sup>. He will lead a post-conference 'masterclass' titled "Strategic Contracting™" on November 3<sup>rd</sup>. The event is sponsored by conference producer TCQ Triangle, and interested parties can learn more at [www.ProcurementConference.com/postconference.htm](http://www.ProcurementConference.com/postconference.htm)

In November, Mark will also present our two day Supplier Performance Management™ training program at two workshops. The first will be in Karachi (Nov 4<sup>th</sup> - 5<sup>th</sup>) and Lahore (Nov 8<sup>th</sup> - 9<sup>th</sup>), Pakistan; sponsored by conference producer TerraBiz Group. Registration information can be found at [www.TerraBizGroup.com](http://www.TerraBizGroup.com).

Mark will present our two day Strategic Contracting™ workshop twice in Mainland China... in Shanghai (November 29<sup>th</sup> - 30<sup>th</sup>) and Beijing (December 2<sup>nd</sup> - 3<sup>rd</sup>). More information is available through the Marcus Evans training company at [hyperlinkwww.marcusevansassets.com/doc/pdfs/Ep\\_11519.pdf](http://hyperlinkwww.marcusevansassets.com/doc/pdfs/Ep_11519.pdf)

We've added 20 New Training Webinars to our professional development offerings. Contact us directly for more information.

Cuts are expected to be permanent, even if the economy begins to improve.

Furthermore, many raw material and fuel prices have been gradually-escalating, driving up the resultant costs of many procured products we need to buy for our enterprises. And marketplace maturation and merger-related supplier consolidation have limited the competitive opportunities in many market sectors.

So how can Supply Management groups provide top value in the middle of a down economy? This article will provide several key ways to add value:

- **Leverage Key Supplier Relationships** – In this economy, remember that suppliers are hurting too. Reduced revenues and fewer customers for them, makes your business relationship even more important to each key supplier. It is likely that significant concessions can be negotiated in exchange for longer-term relationship commitments.

- **Lock in Current Price Levels** – Strong competition and lack of marketplace opportunities in this economy have current price levels at all-time lows. Commodity prices hit low points last year, but many are beginning to creep back up...especially as non-western economies begin to turn up demand. Smart buyers are locking in current price levels for extended time periods using long-term contracts, futures buying, hedging, etc.

- **Improve P2P Processes** – Doing "more with less" doesn't hurt if we conduct business more-efficiently. Our firm formally-maps and reviews every key step in a client's Procure-to-Pay (P2P), and usually identifies very-significant enhancements that make the cycle much-more efficient. But you can easily do this yourself at a more-general level, by spending some time talking to the people who are involved in the process. It's amazing how your employees already know about "what is broken".

- **Eliminate Wasted Activity** – Often, SCM

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groups put a lot of time and energy into activities which yield very little value. One of Strategic Procurement Solutions practice leaders describes this as **“Panning for gold in your own shower.”** ...i.e. you can pan as much as you want, but won't find any gold.

Example - In a recent P2P review we performed for a large health company, our review process included interviews with the firm's Accounts Payable personnel. We asked the manager how her team dealt with invoices that were “non-compliant” to the company's procurement procedures (i.e. “maverick spending”). She answered that her staff sent out an email telling each offender that their purchase had been outside of policy, and a copy of the company procedures were attached to the email.

Well, that sounded pretty reasonable, but I still asked her how many emails they sent out a week. Answer, “I think we send a lot”. Fortunately, my colleague and I didn't leave it there...we asked her to have her staff keep “tick marks” each time they sent a non-compliance email the coming week.

Guess what? During the next week, they prepared and mailed nearly 100 emails telling company departments they weren't obeying company policy! So our report recommended that instead of writing and sending emails (which would never be read), the AP group should gather data on non-compliance every month, and a summary report be prepared for Executive Management to review. This report will eliminate a lot of wasted staff time for them, but more importantly will put meaningful/understandable information into Executive Management's hands so they can influence the right behavior in a strategic way.

**If you would like to “supercharge” your procurement or supply chain process, or just improve sub-elements of process, contact us at Strategic Procurement Solutions. Our reviews usually take only a few weeks, and produce a detailed roadmap to improve the**

value provided to organizational performance.  
Please email  
[Info@StrategicProcurementSolutions.com](mailto:Info@StrategicProcurementSolutions.com) for  
more information.

### ***“Making It Stick...Capturing ‘Sourced’ Savings” – by Richard Nettell, Practice Leader***

Ever have one of their situations where you have shared “high fives” with your sourcing teams for great results on a project then looked back a year later to discover you didn’t actually achieve the savings you had forecast? If you have been in Supply Chain for any period of time, chances are you’ve seen this happen far more times than you care to remember. It’s a result of the dreaded disease of “LEAKAGE”.

This disease can be fatal to careers if not treated and can impact organizational credibility like cancer cells attacking healthy ones.

An executive summary written by ICG Commerce said, ***“Most companies are only realizing 60% of the savings identified in their sourcing process, while 40% of these identified savings never hit the bottom-line. This is because true savings realization requires compliance from thousands of end users as well as suppliers, along with a comprehensive, formalized tracking process to ensure that the savings are captured.”***

The good news is that if treated properly, “LEAKAGE” is not fatal. And the treatment itself is not painful. It just requires discipline and vigorous doses of “Alignment” and “Metrics”.

Too many Procurement Professionals “cut and run” and think their job is over once pricing agreements are signed. This is a huge mistake. It is critical that agreements are structured in a way that is in alignment with the Culture and the Vision of your organization as well as meeting the needs

of your Key Suppliers. If either side is expecting something that is not in alignment, it will simply not happen over the long haul and the partnership is doomed to fail. Make no mistake about it, “culture will eat strategy for lunch” if not aligned with sourcing programs. Understanding where the organization is at and where you are headed, is a key to establishing the “right” metrics to measure the effectiveness of any partnership.

Simply said, you cannot manage what you cannot measure. If you expect to achieve the savings predicted, without monitoring ongoing results, you will fail. What makes this an art is measuring the things that incent the behaviors you need to be successful. It is our experience there are very specific characteristics that are commonly found in “best in breed” metrics. Specifically:

- **Alignment** – SCM measures should be aligned with (i) Overall enterprise strategies and objectives; (ii) Business Unit priorities and goals; and (iii) Individual performance rating criteria and incentives.
- **Involvement**- Leaders should be involved in metrics as follows: (i) All levels of management engaged; (ii) Leaders should consistently base decisions on facts provided; (iii) Leadership should take action based on metrics results; (iv) Performance ratings are based on metric results; (iv) Metrics should set future targets and goals; and (v) Metrics should push savings to the bottom line and help the organization reinvest appropriately.
- **Comprehensive** – Metrics should cover Procure-to-Pay (P2P) process on an end-to-end basis which provides meaningful management visibility into...(i) Process excellence; (ii) Savings Capture; (iii) Cycle time; and (iv) Internal Customer Satisfaction.
- **Transparent** – (i) Visually represent metric results; (ii) Prominently display results in

charts, graph and diagrams; (iii) Broadly communicated and shared across boundaries; and (iv) All team members know current status against goals.

• **Aggressive and dynamic:** Metrics should... (i) Adjusted regularly to reflect changes in priorities; and (ii) Goals set to “stretch” an organization; achievable but not without focus and effort.

• **Timely** – Measurement systems must provide timely feedback to (i) Allow quick identification of problems and opportunities; (ii) Quickly measure the effectiveness of “tweaks”; and (iii) Allow the celebration of “wins”.

• **Simple**- Measurement systems must be simple and must...(i) Clearly communicate the needed information; (ii) Be understood at all levels; (iii) Provide direct information that is actionable.

• **Few** – Don't measure everything. Metrics should only drive important activities which: (i) Are directly-related to what is important to the organization and its customers; (ii) Get at waste and defects / position the reduction in costs; (iii) Allow the focus on the critical few; and (iv) Provide clarity.

When action is taken to implement a metrics program that includes these characteristics, the benefits to the organization are substantial. By sharing goals on an end-to-end basis, teamwork is greatly improved and conflicting priorities are dramatically-reduced. Productivity gains are enhanced as you now have the tools to understand how discretionary time can be spent with the greatest impact. Information can help isolate process issues and position you to eliminate non-value activities and reduce rework. Problem resolution becomes far easier because you have an early warning system in place to and a method to quickly gauge whether changes you

are making are having the desired impact. Lastly this information will identify victories that can be celebrated by the team and isolate individuals who are having a significant impact. Recognizing these results in a public manner creates role models for all to emulate.

Does this take some time and energy to develop on the front end? **You bet it does.** But the payback is enormous.

**Strategic Procurement Solutions helps clients achieve and capture savings in a variety of ways, including the design and installation of meaningful SCM metrics. We guarantee a 3:1 ROI (Savings vs. Fees) on any cost reduction project we perform, and have achieved between 10:1 and 106:1 on most engagements. Please email us at [Info@StrategicProcurementSolutions.com](mailto:Info@StrategicProcurementSolutions.com) if we can assist your team.**

*Richard Nettell is one of Strategic Procurement Solutions' key practice leaders. He appears in Tom Peter's training video entitled "Challenging the Process" and is prominently featured in the best-selling book "The Leadership Challenge" by Kouzes and Posner. The author of "The Radical Edge", Steve Farber, said, "Dick Nettell...is, hands down, the finest Extreme Leader I've met in 20 years of working with leaders across the spectrum of public and private organizations."*

***If you would like information about our 360° Supply Management Efficiency Review, which helps organizations create a top-performing SCM organization, information about motivating superior employee performance, assistance with Strategic Sourcing, or training in sourcing practices, please contact us at [Info@StrategicProcurementSolutions.com](mailto:Info@StrategicProcurementSolutions.com) .***