



“Best Practices” Newsletter

About This Issue

This June 2002 edition of our newsletter contains more techniques to help our clients & colleagues accomplish their strategic procurement objectives.

Strategic Procurement Solutions is a consulting firm specializing in Strategic Sourcing, Training, and Organizational issues related to procurement & supply-chain management. Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are senior partners in the firm, and lead teams of professionals in supporting our clients.

Visit our web site at www.StrategicProcurementSolutions.com for more information or to contact us about our consulting & training services.

Our team would also like to welcome another senior colleague to our organization. Michael Zirkle, MBA has an impressive background in supply-chain management. His experience includes being Vice President of Supply Chain Innovation for the Pantellos Group LLP, Senior Principal Consultant for PriceWaterhouseCoopers LLP, and Managing Consultant for Gemini Consulting, Inc. Michael shares our commitment to bring high value to every client engagement.

How to Know You Have “Best In Class” Procurement...by

Michael Zirkle, M.B.A.

In today’s economy and business cycle, shareholders and business leaders are seeking to get the very best performance possible from existing assets, investments, and expenditures.

This is especially true in procurement, where every dollar saved goes straight to the bottom line. In this brief article,

we will explore, via some straightforward “Yes/No” questions, four themes of supply-chain management performance that are exemplified by leading organizations.



Your answers to the following questions will help determine if your procurement operations are “Best In Class” or if there is still meaningful room for improvement:

Theme 1 – Cost Visibility

- Do you have an accurate data analysis of your total firm spend including:
 1. Rationalized supplier list with identified parent-child relationships?
 2. Clear description and classifications of purchased items and services?
 3. Identification of spend by consuming business unit?

4. All corporate wide and business unit spend?
- Can this data file automatically updated periodically or on-demand?
 - Do you have an accurate report of total internal procurement costs including people, systems, facilities and overhead?

Theme 2: Strategic Effectiveness

- Are your spend categories “classified” in a manner that allows effective prioritization of resources and leadership attention?
- Do you know what % and which of your spend categories are sourced through a “strategic sourcing” process and are managed under multi-year supplier contracts?
- Can you say with confidence that your organization is positively impacting all categories of your organization’s “non-salary” expense base?
- Can you quickly identify the spend categories and suppliers that are considered critical to your business success and describe why they are so considered?
- Do you know what percentage of total procurement resources (\$ spend, people, infrastructure) is invested in sourcing and managing critical vs. non-critical categories?
- Do you know what percentage of your procurement staff’s capacity is spent on proactive work, i.e. critical sourcing and supplier management activities, and what percentage is spent on reactive spot buying and transaction management?
- Are you satisfied with the allocation of resources toward proactive and critical categories?

Theme 3: Execution Efficiency

- Are you confident that your procurement processes, personnel, and systems are working together to provide desired strategic control at the lowest possible cost?
- Do your “strategic” sourcing and supplier relationship management processes for critical spend categories incorporate up-to-date, external, cross-industry, proven best practices?
- Do your processes for sourcing; managing, and transacting non-critical categories leverage best practices in competitive pricing while minimizing internal process costs?
- Have the vast majority of manual, low value added activities and associated errors been eliminated through judicious use of automated procurement, workflow, and transaction tools?
- Have low cost, best practice systems and communication tools been used to enable collaboration and communication processes with your critical suppliers?

Theme 4: Leadership

- Do you have available credible documentation summarizing procurement’s past and current contributions to corporate performance?
- Do you have targeted performance goals that have been developed with input and participation from key business unit leaders?
- Can procurement’s performance goals be expressed directly in terms of their impact on business unit and corporate performance goals?
- Do you have a plan of action for delivering targeted performance that includes resources required, timing, risks, executive participation required, and key milestones?

- Have you developed, with corporate and business unit leader participation, a longer-term vision of the future for procurement across the corporation and its role in supporting and enabling business competitiveness?
- Is procurement directly involved in key business planning processes?

If you're like the rest of us mortals, you were uncertain of some answers and answered "no" to others. This indicates areas where a gap most likely exists between your current performance and your best performance. Explore these areas in more detail and ask yourself what impact improving your performance in this area could have on procurement's value to your firm. You may find that very focused improvements can yield large benefits.

If you found your answers associated with a particular procurement theme (Cost Visibility, Strategic Effectiveness, Execution Efficiency, and Leadership) to be generally below par, you should investigate the theme and initiate an effort to identify the root causes of the performance shortfall and to improve performance as soon as practical. Since each of these themes represents a set of procurement core competencies, general weakness across a theme weakens the performance of all themes and threatens the ability of procurement to serve the firm at even nominal levels.

If you have answered all of these questions with a firm "yes", your procurement efforts are well in control and modeling many best practices. Congratulations on your progress to date and continued improvement in the future!

Top Investments for a Supply Chain Organization ...by Mark Trowbridge, C.P.M.

Many innovative products & services are now available to procurement organizations. Looking at other exhibits around our booth at the ISM International Conference in San Francisco, we were impressed with the options available to organizations with dollars to invest.

Realistically though, budgets often curtail spending. So where should a Fortune 1000 corporation wisely invest to enrich its supply-chain management process?



Investment #1 – People. It matters not what tools your organization possesses, if you don't have skilled professionals using them. Here are several ways to maximize your "human resources": (A) Compensate/promote the top 20% of your contributors significantly above the "average" employee. This will reward outstanding performance, increase retention, and...once word begins to get around...will increase competition to be recognized as a top contributor; (B) Invest in training for all procurement employees, including outside seminars and employee peer training; (C) Support employee involvement in professional associations like ISM, APICS, and NCMA...and credentialing accomplishments such as CPM, APP, CPIM, CPCM, etc.

Investment #2 – Put “Scores on the Board”. Many fans leave ball games when little scoring occurs. When people start to see scores, however, they’re on their feet cheering for their team. It’s the same for a supply-chain team...if their management doesn’t see results, it may be difficult for them to invest company resources. Wise procurement directors put Scores-On-The-Board by building several highly visible programs that achieve impressive savings. Sometimes this requires investing in key employees or consultants to tackle strategic commodities.

Investment #3 - Strategic Visibility Technology. “Strategic Procurement” is a misnomer if information cannot be easily attained regarding long-term supplier relationships and spending patterns. Two technology tools are essential, but much overlooked, if an organization is to become “strategic”: (A) Contract management software that tracks, reports, and analyzes contract inventories is essential to a modern procurement organization; and (B) Expenditure analysis software (whether intelligent “point-in-time” or a real-time data warehouse) is critical to understand total enterprise spending.

Investment #4 – Transaction Processing Technology. Automating transaction processing is a “strategic” investment even though processing the actual transactions may be “tactical”. This is because automated order processing is essential to enabling procurement management to focus upon strategic issues and objectives. Several important investments can be made to streamline processes and enhance data capture related to transactional actions (i.e. requisition & order processing): (A) Utilizing all features in an existing legacy p.o. system...it’s amazing how many firms fail to use all the features in their existing SAP™, Oracle™, PeopleSoft™, etc. systems. Before investing another dime, first see what you already own...you may be surprised; (B) Install, or maximize the use of, eProcurement. You will never have a better-received technology than a good eProcurement system. It will allow your users to have freedom to order from your key contracted suppliers, and removes the responsibility for processing the transaction from your procurement group; (C) Consider pCards for low volume and low dollar transactions. The cost of a pCard program may be partially or fully offset by merchant fee sharing with the card issuer.

Investment #5 – Strategic Sourcing Technology. Competitive bidding has progressed greatly through technology. While much value is still realized through a well-written RFP, electronic mediums can shorten the cycle time for large competitive actions. Two overlapping technologies are in formative stages, but will find increasing acceptance for “commodity” bidding into the future: (A) “eSourcing” is the automation of competitive bidding whereby the solicitation of bidder proposals is coordinated through an Internet based communication medium, and much of the evaluation process automated using a “TCO” (Total Cost of Ownership) calculation model; (B) “Reverse auctions” provide bidders with real-time visibility regarding their proposed pricing in comparison to the best offered by all participants in a given initiative. These technologies are quite costly now, and are primarily being utilized by large firms. As time passes, however, eSourcing will become accessible for medium-sized firms. These tools are primarily helpful for tangible commodities, i.e. those where a significant

portion of the TCO is not represented by intangible factors, such as intellectual property value, variant business models, limited supply sources, etc.

When you've contributed much into Investments #1 – 4, consider a wise contribution into Investment #5. Remember, however, that eProcurement and legacy systems are rapidly combining with eSourcing and Reverse Auctions, so the expense of these tools will decrease significantly over time.

Strategic Contracting...by Robert Dunn, C.P.M., M.B.A.

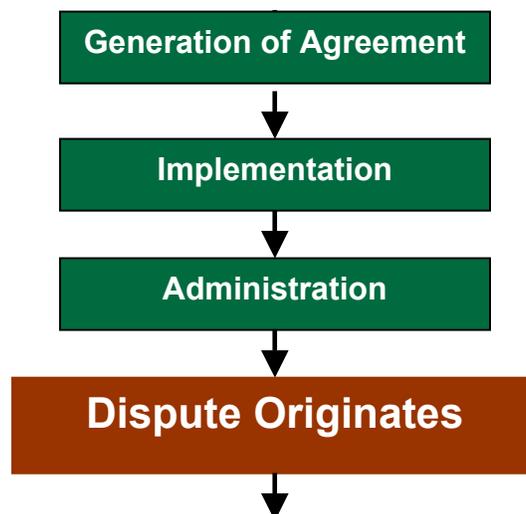
The term “strategic” implies visionary & long-term actions. Today’s “strategic sourcing” organizations are only as effective as their long-term supplier relationships. Written contracts are foundational to managing a balanced business relationship between two firms. Whenever good strategic contracts are used, the supply-chain professional realizes two types of protections:

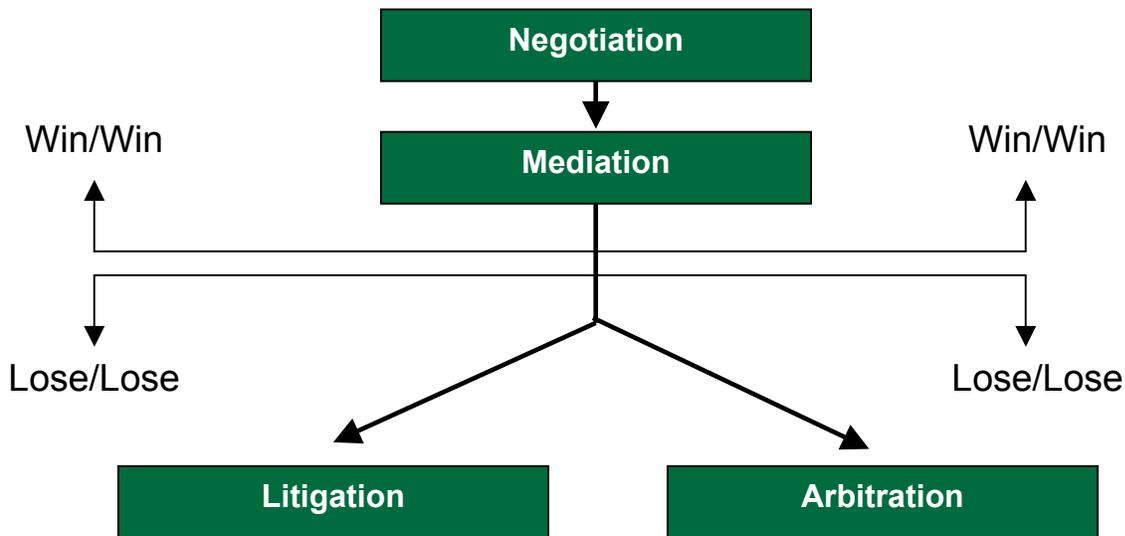


1. **Legal Terms** – the general conditions of a good agreement provide the “umbrella” under which a business relationship can flourish between two parties. These terms are oriented around mitigation of risk, and limitation of potential liability.
2. **Commercial Terms** – these terms govern business issues such as supplier performance, quality of products/services, and payment protections. A key part of Commercial Terms is often a Statement of Work (“SOW”).

Although attorneys should always be involved in drafting Legal Terms, a surprising number of disputes result from inadequately drafted Commercial Terms.

Whenever a dispute arises in a business relationship, which cannot be resolved by the parties, a “Lose/Lose” situation develops...





Many times procurement professionals find themselves generating very complex and/or high dollar value contracts, which possess a great degree of financial risk in the event the arrangement ever reaches arbitration or litigation. In many instances, a clear & concise statement of work can assist the parties in resolving a dispute while the relationship is still “Win/Win”. Preparation & communication is key to the success of any long-term positive relationship.

The following questions must be answered in any Statement of Work:

- How could the supplier’s failure to perform, harm the procurement organization?
- How will we know when the supplier is failing to perform?
- Where might there be misunderstanding about the products or services to be supplied?
- What are the objectives of this contract?
- What are the deliverables under the agreement?
- What are the various work efforts required to perform the work?
- Which of the supplier’s personnel are important to the success of the work?
- What will the supplier need from our organization to be successful?
- What is the proper order in which the work is to be completed?
- What are the appropriate beginning and ending dates for this work?
- What are relevant quality standards for any products or services to be provided?
- Are there intermediate dates in which particular elements of the work are to be completed?
- What level of service is required from the supplier and how will we know when the supplier has failed to meet that level of service?
- In what way should the supplier be qualified, certified, or licensed?
- What are the most complex parts of the work?

Clarity around these issues can help the parties to work together in a healthy and well-balanced relationship. Failure to clearly agree upon these factors may result in an irreconcilable dispute.

Editor's Note: **Strategic Procurement Solutions'** objective is to provide top quality supply-chain consulting & training services to corporate clients in the private & public sector, and to enable those clients to exceed their internal users' expectations regarding promptness, price, and quality. One means of doing this is through this periodic educational newsletter, which provides quarterly articles about "Best Practices" in procurement. Contact us at www.StrategicProcurementSolutions.com for more information about our services, or if you do not wish to receive this newsletter in the future.