



“Best Practices” Newsletter

About This Issue

This January 2003 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 supply 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.

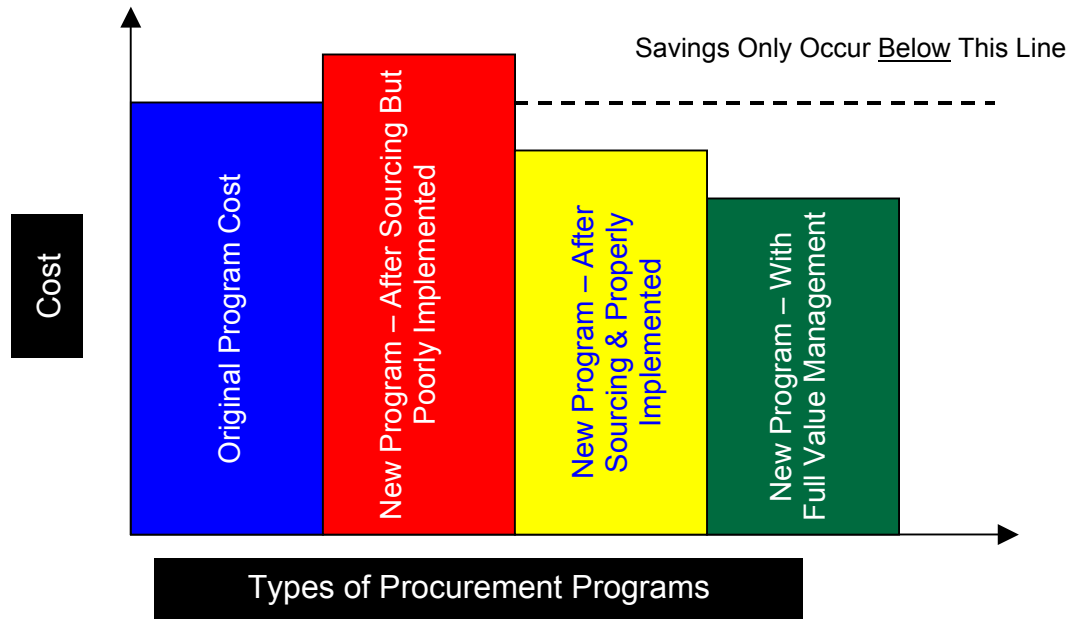
You are also invited to upcoming presentations we're making at the I.S.M. International Conference in May – Nashville TN (“Navigating Through Mergers, Acquisitions, and Re-Organizations”) and the I.S.M. Orange County Education Forum in June (“Building Internal Customer Relationships”). We'd enjoy meeting you in person.

Additional Savings Through Value Management...by Robert Dunn, M.B.A., C.P.M.

With today's emphasis on Strategic Sourcing, the final threshold of cost reduction is sometimes overlooked. “Value Management” consists of activities that fulfill the intent behind Strategic Sourcing. Unfortunately, many procurement groups (consulting firms too...) fail to understand the potential for savings beyond the initial execution of sourced contracts.



Procurement professionals, however, understand that the bidding, source selection, program design, and negotiation activities that comprise the strategic sourcing process only open the door to *potential savings*. Proper execution & implementation are necessary to *secure savings*. Proper management of new supplier programs identifies *even greater savings*. Failure to execute results in *lost savings*.



The goal of Value Management activities is to “seize the prize” initially identified through the process of strategic sourcing. Properly performed Value Management activities will realize savings for both the purchasing company and the supplier, optimize and perpetuate supplier performance, and gain internal customer compliance.

“Value Management” consists of the following ongoing activities:

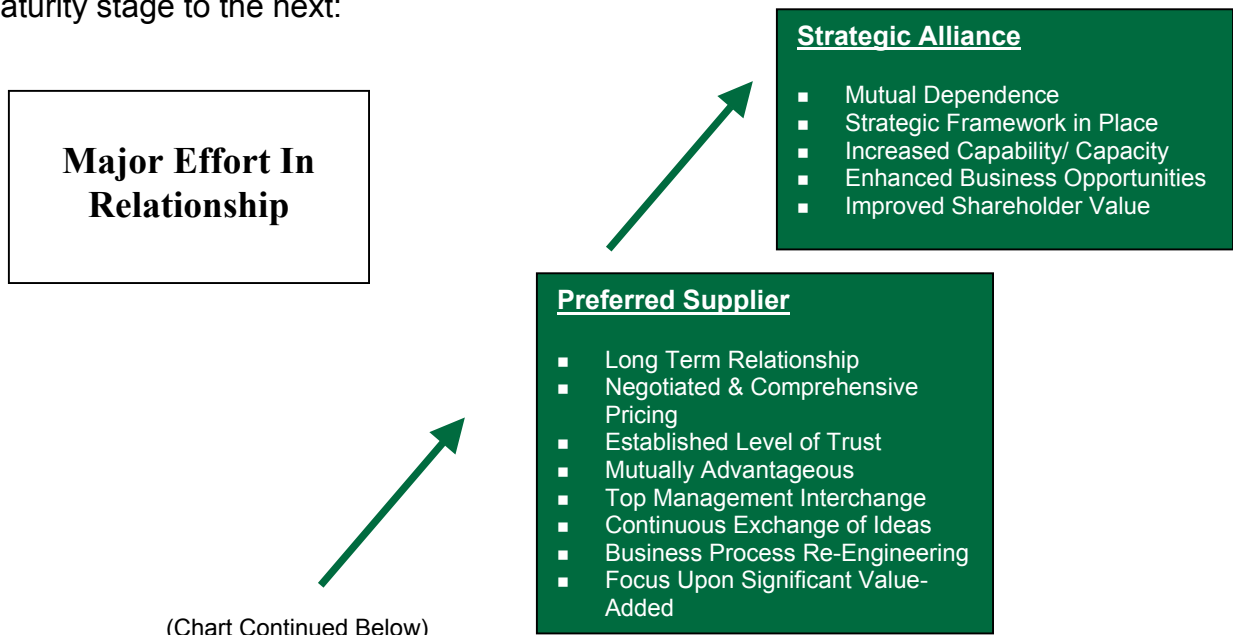
- **Program Implementation** – To correctly-transition work away from the incumbent provider to the new supplier. Program Implementation includes establishment of ordering & settlement processes/technologies, performance measurement tools, and communication of program utilization.
- **Supplier Performance Management** – To manage the ongoing performance of a supplier through measurement of key indicators, and ongoing mentoring of the supplier relationship.
- **Cost Saving Tracking & Reporting** – To validate initial savings estimates by comparing actual expenditures with pre-contract expenditure levels. This activity also provides a baseline for identifying further program improvements.
- **Performance Benchmarking** – Supplier performance becomes even more meaningful when benchmarked against that of other contracted suppliers (and external benchmarks when applicable).
- **Post-Award Compliance Audits** – Quality program management requires bi-lateral validation. Periodic audits of contractual compliance are a foundational element in supplier management.

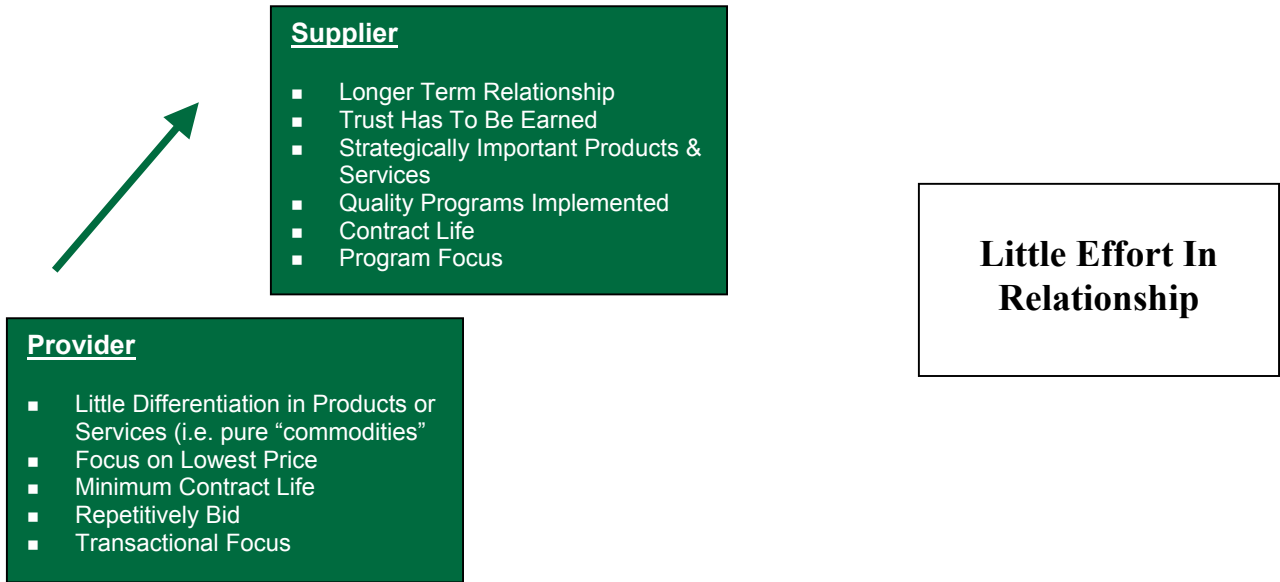
- **Identification of Additional Savings** – Through joint process improvement, expanded communications, and a focus on mutually beneficial change, Value Management results in additional cost reductions for both the buyer & seller.

Value Management activities can be complex and time consuming, contingent upon the risk, complexity, and cost saving potential of any given contract. To illustrate this point, we can further define the supplier management activities described above. During the initial program implementation, the supplier will be measured on the basics of performance (for example, on-time delivery, quality consistency, & competitive pricing). As the relationship between purchaser & supplier builds, a new set of cost saving factors will come into focus. “Supplier *performance* management” evolves into “supplier *relationship* management” as both parties work to add value and reduce total cost (for each other). Although “performance” based agreements can help to launch new supplier programs in the right direction, quality relationships take time to nurture.

Strategic Procurement Solutions was recently asked to review an office supply program for a large regional banking organization. During the last decade, the bank had competitively bid office supplies every two years...most recently using *Reverse Auction* technology to get results they considered to be most optimal. Sounds like their program couldn't be improved upon, doesn't it? A discussion with their current office supply provider (one of the four majors in the industry) helped us to realize that the bank hadn't worked much on the Value Management aspect of the supplier relationship. On just their Top 10 office products, their existing supplier identified **an additional 17% savings** through alternative product selection, program simplification, and a longer-term relationship.

Savings opportunities continue to grow as supplier relationships progress from one maturity stage to the next:





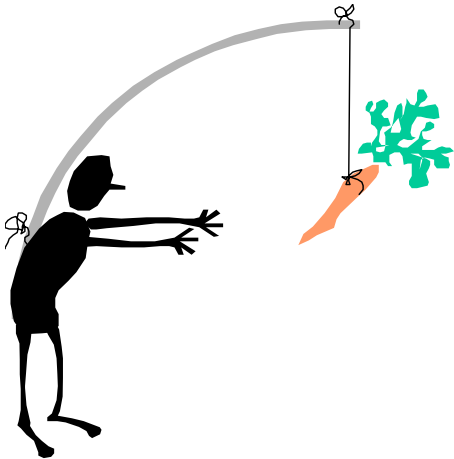
The additional value that results from an advanced stage of supplier relationship is a *fact* that must be considered in today’s technologically advanced procurement arena. Bidding and changing suppliers must be weighed against the cost of transition and the time commitment necessary to build a supplier relationship. Our firm usually applies a “transition cost” factor of around 5% to sourcing evaluations (varies by commodity) to help our clients understand the cost of changing suppliers.

Without utilizing Value Management in the strategic procurement process, the opportunity to achieve the maximum cost reductions would not exist. Strategic Sourcing provides great cost reductions and quality programs. Value Management “seizes the prize” and continues to expand savings and program quality.

Motivating Extraordinary Supplier Performance...by Mark Trowbridge, C.P.M.

Too often, procurement professionals approach supplier interaction by dangling “payment” as the only “carrot” to motivate concessions or performance.

While this sometimes provides some influence, our profession can achieve even greater results by addressing deeper levels of human motivation. This article discusses one important principle of personal motivation that can be applied to the suppliers with whom we negotiate. Taking time to understand what motivates our suppliers’ personnel, can exponentially enhance these important relationships.



Let's face it. A supplier's relationship with a customer company is quite similar to an employee's relationship with their employer (let's ignore the "independent contractor" language for now...). As a foundation for the rest of this article, let's take a simple test about our own relationships with our employers. Please spend a short minute answering the following nine "true or false" questions:

Question #1 – Salary is an important reason that I work for my company:

- True
- False

Question #2 – Salary is the only reason that I work for this company:

- True
- False

Question #3 – One reason I do a good job is because I'm part of a team of people that I seek to support:

- True
- False

Question #4 – I appreciate recognition shown to me by my employer:

- True
- False

Question #5 – My personal life would be disrupted if I did not have my current job:

- True
- False

Question #6 – I often put extra effort into certain parts of my job, even though I don't get paid more for that extra effort:

- True
- False

Question #7 – How other people view me is a factor in how I behave:

- True
- False

Question #8 – The quality of my work is important to me because I want to make a difference:

- True
- False

Question #9 – In my personal life, I do some creative tasks without pay (for example, photography, home improvement projects, work on my car, decorating, painting, etc):

- True
- False

Did most of these statements describe your work ethic? Now continue reading, and we'll refer back to your answers in a little while...

During the late 1960's, the field of psychology was influenced by a man named Abraham Maslow. He theorized that human beings are motivated to "greater-and-greater" levels of performance by different factors. Maslow developed the "**Hierarchy of Needs**" concept below, to explain these factors:



Physiological Needs – These needs can be defined as whatever a person needs to survive. Very fundamental “life or death” needs. Food, water, sleep, shelter, etc. are all basic requirements for life. Until basic physiological needs are satisfied, no other needs will be motivational factors for a person.

Safety Needs - If the physiological needs are relatively well gratified, there then emerges a new set of needs, which we may categorize roughly as the “safety” needs. While these factors are not prerequisites for survival, they are important motivational factors for stability (security; stability; dependency; protection; freedom from fear, anxiety, and chaos; need for structure, order, law, and limits; strength in the protector; and so on).

Belonging Needs – When both physiological and safety needs are well gratified, there will emerge “belonging” needs. These involve giving and receiving affection. When they are unsatisfied, a person will feel keenly the absence of friends, mate, or children. Such a person will hunger for relations with people in general, for a place in the group or family, and will strive with great intensity to achieve this goal. Until satisfied, the pangs of loneliness, ostracism, rejection, friendlessness, and rootlessness are preeminent.

Esteem Needs - All people in our society (with a few pathological exceptions) have a need or desire for a stable, firmly based, usually high evaluation of themselves, for self-respect or self-esteem, and for the esteem of others. Satisfaction of the self-esteem need leads to feelings of self-confidence, worth, strength, capability, and adequacy, of being useful and necessary in the world. But thwarting of these needs produces feelings of inferiority, of weakness, and of helplessness.

Self-Actualization Needs - Even if all these needs are satisfied, we may still often (if not always) expect that a new discontent and restlessness will soon develop, unless the individual is doing what *he* or *she*, individually, is fitted for. Musicians must make music, artists must paint, poets must write if they are to be ultimately at peace with themselves. What humans *can* be, they *must* be. They must be true to their own nature. This need we may call self-actualization.

So how do these needs relate to the procurement professional's job of negotiating concessions or higher performance from our suppliers? They are very important. Consider your responses to the test questions above...

Questions #1 & 2 – Relate primarily to Safety Needs. Your answer reflected these needs as motivational factors in your showing up for work.

Questions #3 & 4 – Relate to Belonging and Esteem Needs. Your answer reflected these needs as motivational factors in your work performance.

Question #5 – Back to Safety Needs.

Question #6 – Esteem and Self-Actualization are motivational factors here.

Question #7 – Belonging and Esteem Needs again.

Question #8 – Esteem and Self-Actualization Needs are again factors in your answers.

If your performance as an employee is motivated by factors besides a regular paycheck, why do we resort to “payment” as the primary tool in negotiations with our suppliers? How would we personally react to a boss who regularly threatens to fire us? Or one who fails to praise us for a good performance on a project? Or one who constantly gives other employees a chance to take our job?

Skilled negotiators understand that a supplier's sales, operations, and senior management personnel are each motivated by a mixture of “needs” reflected in Abraham Maslow's Hierarchy of Needs. It is well worth our time to discover what factors are motivating a supplier company's actions.

Here are some suggestions to move your supplier interactions into higher levels of human motivation:

Physiological *Physiological needs are rarely an issue in domestic procurement actions.*

Safety *“Payment” or “Losing our account” are procurement issues that target safety needs as the primary motivational factor. So is threatening a salesperson's employment. Motivation at this level is generally “negative” rather than “positive” in consequence.*

Belonging

Many sales organizations “pad” their prices, or reduce their service support, offered to customer companies that are hostile or difficult to work with. Moreover, persons treat their close acquaintances with greater respect. If a customer has treated them with respect and personal interest, salespersons will tend to treat that customer more beneficially.

Esteem

Recognition dinners or awards for top performing suppliers, a letter of commendation for a supplier employee, and willingness to take action on a supplier’s suggestions all help to meet esteem needs. Communication patterns also address these needs. Procurement groups are notorious for having one-way communications with suppliers. Being willing to solicit input from supplier personnel and to act upon their concerns will strengthen this motivational level. Try referring to these personnel as “members of our team” or “strategic suppliers” rather than a “salesperson” or “vendor”. ‘Do unto others as you want them to do to you’.

Self-Actualization

Supplier organizations can move into this final level of motivation only in an environment where they perceive their contributions are meaningful and when they have a great degree of latitude in creating innovative solutions. Procurement cannot directly create this level of motivation, but can create circumstances where a highly motivated supplier employee can create amazing results. Typically, these types of supplier relationships involve professional or creative services, but sometimes pertain to more traditional commodities. It doesn’t happen often, but when it does the risk is worth it.

Just as our performance as an employee is motivated by other factors than the salary we are paid, a supplier is motivated to higher levels of performance by factors common to all humans. Addressing Maslow’s “needs” will take our supplier interaction to new levels.

Building A Procurement *Superhero*... by Michael Zirkle, M.B.A.

In this article we will explore some thoughts regarding what is expected of today's supply management professionals, and share with you some ideas regarding how your team can be, with limited investment, transformed into *Procurement Superheroes*.

Today's successful supply organization is a far cry from those of a decade ago. **Not only must the team be able to achieve standard goals of...**



- Delivering products/services with needed quality at the lowest total cost;
- Developing strong working relationships with internal business unit customers and suppliers;
- Delivering demonstrated and measurable operational value to their business unit customers; and
- Creating year-on-year financial savings for shareholders

They must now do this while...

- Operating with 1/2 to a 1/3 of historical staff; and
- Simultaneously managing more aggressive annual savings targets, increased corporate visibility, increased internal customer demands, shorter product life cycles, global supply markets, outsource service providers, and new e-sourcing technologies.

So the challenge is to 'do more with less'. Strategic sourcing, incorporation of "best practices", and eProcurement tools may help to shift resources towards strategic initiatives, but in the end, the capabilities of the individual procurement professional drive productivity improvement.

So what we need are professionals who know the business, are recognized direct contributors to business success, know how to employ procurement best practices and technologies, are adept at building interpersonal relationships and high-performance teams, can effectively manage change, and can continuously 'transform' themselves as advances in procurement practices require. Wow...this is definitely a job for today's Procurement Superhero!

At this point you may say, that's great, I'll take a dozen to go... You know these superheroes because you have a few on your staff. They are your "go-to" players when the game is on the line and are the main reason you get any sleep at night. You also know that these Superheroes are rare, expensive and hard to find. So how does a

company get a team of procurement superheroes if you can't recruit them ready made from the market? **The key is to build your own superheroes.**

Leading organizations are meeting the 'do more with less' challenge by putting new teeth in their annual individual & team development programs. They have come to realize that by continually investing over time in a concerted and measurable development program, they can build their own procurement superheroes at a fraction of the cost of trying to hire them elsewhere and integrating them into their business.

So what are some of the elements or steps to "putting teeth" in your professional development programs?

1. Start by defining in detail, with quantifiable measures and goals, what a superhero in each position should look like and be able to accomplish:

- A. What must this team and/or position be able to do better than anyone else?
- B. What are their core mission and work activities?
- C. What are the resulting critical skills and capabilities that each position/team must have to excel at their core mission and work activities?
- D. What are the baseline skills that all positions need to perform effectively? (The table below illustrates three areas for skill development)

Functional Skills	Business Skills	General Skills
<ul style="list-style-type: none"> ▪ Demand Management ▪ Spend Analysis ▪ Specification Management ▪ Cost modeling ▪ Market Analysis ▪ Strategy Development ▪ Supplier Evaluation ▪ Negotiations ▪ Contracting ▪ Supply Chain Integration ▪ Supplier Relationship Management ▪ Customer Relationship Management ▪ Contract Management 	<ul style="list-style-type: none"> ▪ Business process knowledge ▪ External customer and market knowledge ▪ Product and service knowledge ▪ Supplier and supply market knowledge ▪ Technology and system knowledge ▪ Business financial knowledge 	<ul style="list-style-type: none"> ▪ Team building ▪ Group problem solving ▪ Managing resistance to change ▪ Communications ▪ Change management ▪ Coaching and feedback ▪ Project management ▪ Effective meeting management

2. Next determine where each of your team members are in their individual superhero transformation journey:

- A. Conduct formal skills and capabilities testing
- B. Interview personnel to determine subjective performance factors
- C. Identify strengths and weaknesses
- D. Prioritize individual and group development needs

3. Now build individual development plans “with teeth”. These plans will need to balance long-term goals (3-5 years) with near-term (semiannual) action and measurement. There are many unique, effective and low cost ways to put real teeth into a development program:

- A. Leverage internal, pre-existing Procurement staff strengths and best practice capabilities by:
 - Partnering personnel with skilled peers for project-specific on-the-job training
 - Establishing formal ‘peer to peer’ training programs
 - Establishing formal internal “Centers of Excellence” or “University” sources of current literature on “best practices” and industry trends
- B. Leverage external sources of best practice expertise and training by:
 - Establishing a baseline skill development training program for new staff
 - Making available more advanced training in specialty skills
 - Support purposeful participation in external associations like ISM and NCMA
 - Tapping into the capabilities and training programs of key suppliers
- C. Establishing a formal job rotation program and career development path for business unit and procurement staff

4. It is critical to measure individual & team performance.

- A. Measure individual skill development:
 - Pre- and post testing with each training element
 - Semi-annual group skills assessments
- B. Assess value and effectiveness of each development tool & continually improve
- C. Integrate with, and track, improvements in core Procurement performance:
 - Internal customer and supplier satisfaction
 - Supplier performance
 - Cost savings
 - Spend under strategic management

Building a Procurement Superhero does not happen by accident. It requires a commitment to professional development and a concerted investment over time. But, when combined with best practices, professional development is the key to meet the ‘do more with less’ challenge.

Editor’s Note: **Strategic Procurement Solutions’** objective is to provide top quality supply management services to client organizations 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 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.