



“Best Practices” Newsletter Volume 17, November - 2003

About This Issue - This November 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 advanced Strategic Sourcing, Training, and Organizational supply management services. Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are senior partners in the firm who lead teams of professionals in supporting “world-class” client organizations. More information can be found at www.StrategicProcurementSolutions.com.

Timing...The Key to Supply Management Success, by Mark Trowbridge, C.P.M.

“The ultimate in being successful is giving yourself the time to do what you want to do.” – Leontine Price

“You may delay, but Time will not” – Benjamin Franklin

Being in a *strategic procurement* organization requires a focus upon long-term actions that achieve meaningful objectives. “Time management” is taught to many of us, but there is also great value in proper “Timing” of key activities.



Here are some **Timing Tips** that'll help procurement professionals be more effective...

Capital Procurement Projects Should be Leveraged at the Time of Greatest Saving Advantage

Tip #1 - Despite the current emphasis on the “strategic sourcing” of *commoditized* expenditures, targeted “Capital” acquisitions are best timed to leverage the maximum potential buying power. For example, one of Strategic Procurement Solutions’ corporate clients has nationwide sites that sporadically buy a certain type of capital equipment each year. The firm was tempted to go to market to arrange a volume discount, but we told them that *human psychology indicates a better deal will be achieved* by waiting until just several months before the timing of the first major purchase...and leveraging the remaining volume while the deal is immediately-impending. Capital buying nearly always is best leveraged at the point of greatest demand...

**Being Strategic
Means Being
Pro-Active
With Time**

Tip #2 - Procurement professionals often complain because we're the last one's involved. There's little value added when procurement merely Papers-The-Deal ("P.T.D."). Are you approaching your internal customers 3 to 6 months in advance of every contract expiration? Do you sit on the enterprise capital budget committee to be aware of upcoming procurements? Are you selecting the best source for an acquisition, rather than letting your customer begin the selection process? Starting early leverages timing to procurement's advantage.

**Complete
Actions
Quickly**

Tip #3 - Two circus clowns can together juggle 12+ objects at a time...because they keep the objects moving and in the hands of their partners. Procurement professionals often "choke" because they hold onto action items until the last minute...stacking up to the point where some are dropped. Failure to act first, gives the advantage to others...whether suppliers, legal advisors, or internal customers. It takes the same amount of time to review a supplier's proposal, whether we do it today or in three weeks...but our timing will determine the total amount of time necessary for the project. *If you want to impress others with timely performance, turn actions around immediately.*

**Negotiate the
Whole Deal...Just
Once**

Tip #4 - Strategic Procurement Solutions is often asked to remedy situations where the customer organization didn't look at the "Total Cost of Ownership" (T.C.O.) for the expected lifetime of an acquisition. For example, we often see software licensing deals negotiated with a focus upon the initial license & installation fees...but their ongoing maintenance is structured to renew year-after-year tied to inefficient indexes like the Consumers Price Index ("C.P.I."), updates and upgrades are left until later for discussion, and often the whole license needs to be renegotiated after just 3 years. All these factors are used by suppliers to their advantage, especially when the customer needs the software for longer time periods... The entire life cycle of the acquisition should be considered in the original negotiations.

**Focus Upon
Long Term
Priorities...Not
Short Term**

Tip #5 - An area of *short-term thinking* we see regularly is in the area of supplier relationships.... For example, we are frequently asked by large organizations to enhance the performance of their contract inventories. Regularly we find enterprises' "average" contract expiring in less than one year. Here's some simple math...if a procurement group has 600 contracts that expire in one year, their staff will be flooded with 600 renegotiations or sourcing events each year. If, however, the average contract term is three years, they will have just 200 contract renewals to address...and can focus attention upon NEW sourcing opportunities.

**Suppliers Love
Deals To Expire
December 31st**

Tip #6 - Why the last day of the year? Because buyers can't get the executive support, legal involvement, or internal customer participation needed *to do anything but* sign a renewal. So how can procurement professionals counteract this tactic?...**(A)** Chart the expirations of all contracts in your inventory; **(B)** Don't negotiate new agreements or blanket purchase orders that expire at year-end; and **(C)** Well in advance, execute short term amendments to extend contract expirations into Q1 of the following year.

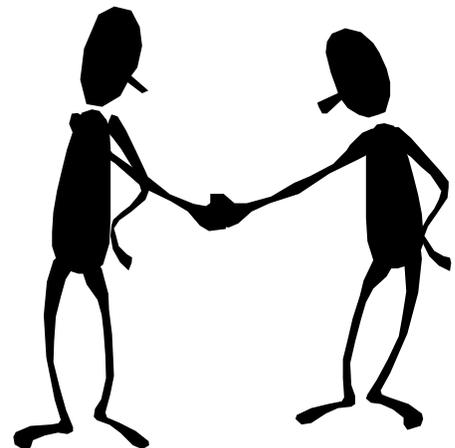
"Timing" can work for, or against, the supply management organization. Suppliers use timing to their advantage...why shouldn't Procurement? Take just a few minutes and plan your timing so it works for your team.

The Customer Connection...by Robert Dunn, M.B.A., C.P.M.

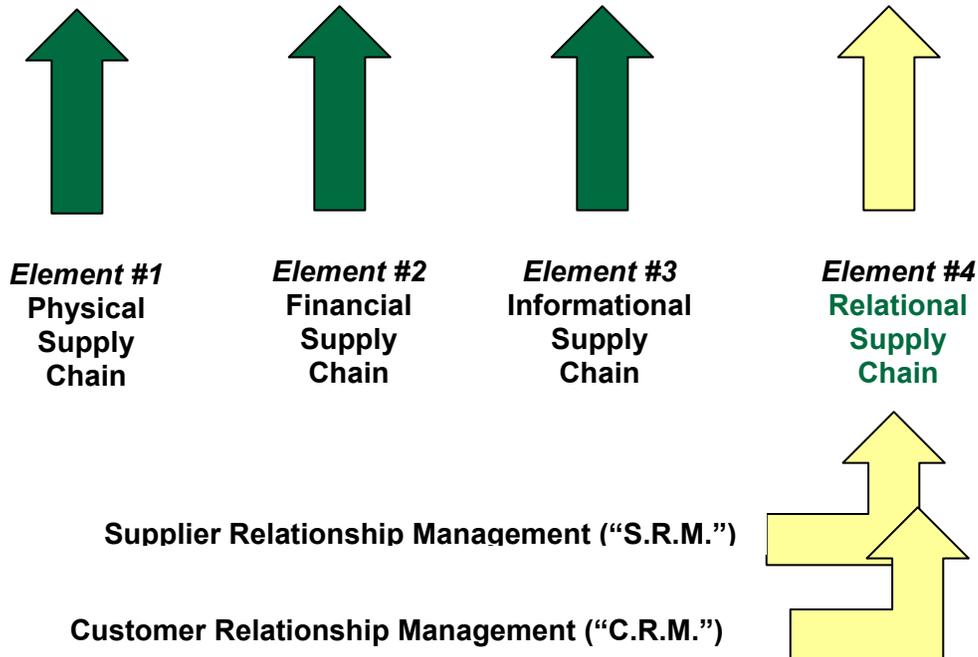
According to the Center for Advanced Purchasing Studies ("C.A.P.S."), the success of procurement involves two *relational aspects*:

- 1. Supplier Relationship Management ("S.R.M.")**
- 2. Customer Relationship Management ("C.R.M.")**

C.A.P.S. published a study titled "Value x 4 = Excellence" that identified four key elements of supply chain performance.



Supply Chain Excellence



The Relational Supply Chain, as described by C.A.P.S., is the appropriate linkage between a supplier, the company, and its customers to achieve maximum cost savings. This linkage also includes Internal Customer Relationships throughout the organization, which must be managed with "value techniques" as sophisticated as those applied to the performance of suppliers.

Our internal customers need to understand how procurement can support and assist them in controlling costs and getting the best quality products/services to ensure that their needs are met at all times. Many of our internal customers don't understand our role. They don't understand how Procurement can be used as a resource in helping them define their requirements, locate & select sources of supply, and ensure that their needs are communicated and presented properly for management approval. When they bypass Procurement or don't include us early in the process, the result is often huge amounts of wasted time & dollars due to duplication of effort, unnecessary research, emergency negotiations...

The reason, in most cases, that Internal Customers don't understand how we can help...is that we haven't told them. Because of other priorities, we often haven't spent appropriate time educating our customers about the value of Procurement. As a consequence, their perception of our role has suffered. They need to be "sold" on the concept of how Procurement can help them...and it's our job to "sell" them.

An important aspect of Procurement’s role is to go out to our current and prospective customers to market the benefit of a long-term partnership with Supply Management to make us ALL be more effective.

While we may not perceive ourselves to be salespeople, we need to become effective marketers of Procurement’s expertise. We also must be proactive in bringing this message to the internal customer. If we are to “sell” them, we need to develop & use effective sales skills.

Think about the Procurement function as if it were a product being offered to a prospective buyer. If our Internal Customers don’t perceive a need for this product, we won’t ever sell to them. The first part of selling anything is to develop an understanding of what the Internal Customer needs. The formula for success equates to the following...

Needs + Solutions = Benefits

Internal customers are willing to use Procurement only if (A) there is a perceived “Need” and (B) they understand the “Solutions” to be provided by Procurement. When both of these are present, customers will perceive the “Benefits” in using Procurement’s services. Without these, however, there will be No Sale.

The understanding of their needs will help Procurement to present value solutions to the Internal Customer, thus achieving their desired benefits. **Here are some examples of “benefits” the Procurement function can provide so as to fill the customer’s “needs”:**

<i>Procurement “Benefits” that Fulfill Customer “Needs”</i>		
<i>Lower Total Cost</i>	<i>Legal Review & Support</i>	<i>Higher Quality</i>
<i>Risk Avoidance</i>	<i>Source Identification</i>	<i>Marketplace Advantage</i>
<i>Management Approval</i>	<i>Increased Service Levels</i>	<i>Sourcing Strategy</i>

In summary, selling the Value of Procurement to our internal customers is key to supporting the Relational Supply Chain.

In the next issue, we will focus on tips & techniques to use in profiling internal customers and developing a marketing plan to systematically sell the value of our services.

**The Cost Of An Invoice...by Mark Trowbridge,
C.P.M.**

To reduce the Acquisition Cost for every purchase transaction, some innovative procurement groups are dissecting the administrative expenses associated with such transactions.

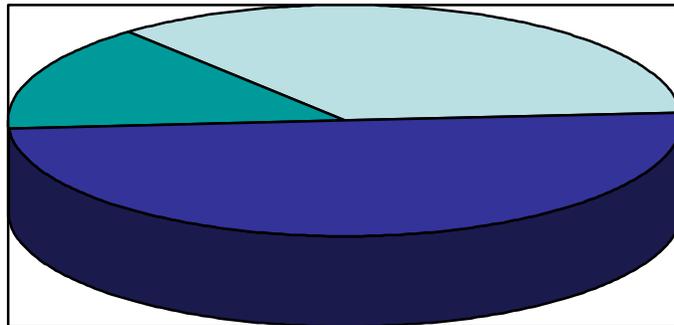


According to a recent study by American Express and Ernst & Young, the administrative cost to process a **REQ-TO-CHECK** transaction falls between \$90 and \$200 (depending upon organizational efficiency). **When researched, a large portion of this administrative expense can be attributed to...**

1. **Receiving invoices;**
2. **Entry of invoice data into financial system(s);**
3. **Matching invoices to purchase orders;**
4. **Matching invoices to receiving documents;**
5. **Routing invoices internally for approvals;**
6. **Resolving flawed invoices; AND**
7. **Paying invoices**

Transaction Processing Time

- Invoice Processing
- P.O. Processing
- Receipt Processing



The important question is...***What value is provided to the buyer or seller by processing an invoice?*** If there is no “dependent” variable unknown to the procurement organization at the time of commitment (for example, freight costs) the answer may be **None**.

Let’s think about this...**Two parties have agreed upon the product/service to be provided, the price, and the delivery date...why shouldn’t payment be made as soon as the product or service is successfully provided to the buyer?** Shouldn’t the receiving employee’s approval be all that’s needed to authorize payment?

This process of paying upon receipt is known as *Evaluated Receipt Settlement* (“E.R.S.”) and eliminates the need for, and cost of, invoice processing.

If this tip works for some of your organization’s transactions, consider having key suppliers eliminate their invoicing processes. Payment against a purchase order can be issued once the internal customer or receiving area submits receipt verification to Accounts Payable (i.e. p.o. receiving copy or online receipt validation).

This Can Open Up Many Savings Opportunities For Exploration:



Can the price of the product or service be further reduced because the supplier no longer must prepare, print, and mail invoices?



Can the organization take advantage of discounted payment terms (i.e. 2% 10, Net 30...) because payments can be made more quickly?



Can automated payments (EFT, etc) be established to eliminate any Accounts Payable personnel involvement in the transaction?



If significant volumes of invoices can be avoided, can some of the buyer’s Accounts Payable organization staff be downsized or re-allocated?



Can soft-dollar time be extrapolated to the managers previously involved in invoice routing & approval?

To Get Rid of Invoices, Planning Must Occur To Avoid Potential “Choke” Points:



A process must be established to reconcile supplier disagreements with the purchase order pricing, quantity, or format. One potential solution is to have a procurement group handle a toll-free number to facilitate corrective action with suppliers. This group must be able to amend purchase orders.

**Pitfall
#2**

Make sure the new process is blessed by your Internal Audit & Accounting groups.–Longstanding policies & procedures may need to be revised...and a few battles fought...to get the new process approved.

**Pitfall
#3**

Procurement must have a pro-active follow-up program to ensure timely payment of supplier obligations.

**Pitfall
#4**

Don't (at least at first) use this technique with complex transactions. Keep the initial orders simple one-or-two line item transactions until you achieve a high success rate.

**Pitfall
#5**

Avoid transactions with potentially-contentious sales tax factors. Use service transactions having no tax implications at first, and then carefully examine the opportunity to handle taxable ones (this may involve your organization bearing responsibility for collecting and paying tax obligations...and assuming responsibility previously-borne by suppliers). Of course, if you're already exempt from certain taxes this is not a problem...

Next issue, we'll provide additional tips for reducing invoice payment costs...

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 bi-monthly 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.