



# “Best Practices” Newsletter

## Volume 20, June 2004

**About This Issue** - This June 2004 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 services. Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are principals in the firm who lead teams of professionals in supporting “world-class” procurement organizations. More information can be found at [www.StrategicProcurementSolutions.com](http://www.StrategicProcurementSolutions.com).

**Mark Your Calendars** – On Thursday July 22<sup>nd</sup>, 11:00 – 11:45 a.m. Pacific Time, we are conducting a free web presentation for procurement leaders titled “**Building the Procurement Superhero; Innovative Concepts in Staff Development**”. Attendance will be limited to the first 75 persons who submit their *Name, Company, Title, & Email Address* to our coordinator at [sps.webinar@comcast.net](mailto:sps.webinar@comcast.net).

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### **What Really Are “Best Practices”?...by Mark Trowbridge, C.P.M.**

The term “Best Practices” is used rather loosely today in Supply Management circles to refer to those practices employed by leading organizations in an industry sector. But what really are “Best Practices” and how should they be used to improve supply chain performance?



One misconception about “Best Practices” is to equate them to “Common Practices”. **Wrong.** Just because everyone is doing it, doesn’t make it a “Best Practice”. That only makes it an “Average Practice”.

Logically, those practices that are *best* are not the ones used by everyone. Instead, they are the practices primarily used by the *leaders* in a particular measurement category.

Consider the following observations about being “best in class” taken from a supply chain study performed by The Performance Measurement Group:

1.

Best in class companies enjoy an advantage in supply management costs of 3% to 6% of total revenues.

2.	They hold 50% to 80% <u>less</u> inventory than their competitors.
3.	Leading companies have a 40% to 65% <u>advantage</u> in cash-to-cash cycle times over average companies. This advantage stems primarily from their ability to maintain lower inventory levels, an outcome of more effective planning processes.
4.	For a company with annual sales of \$500 Million and a 60% cost of sales, the difference from being at the <i>median</i> in performance and being in the <i>top 20%</i> is \$44 million more in <u>available</u> working capital.

Another misconception we find is held regarding “Best Practices” is that an organization needs to employ them all to be really “World Class”. **Again, wrong.** Smart procurement executives are very selective about where they invest their time & energy. Only the tools & techniques needed for your procurement group’s unique mission should be used. The key is to pick which “Best Practices” will achieve the greatest results.

Sometimes the hardest part of the process is benchmarking our organizations against others in an objective & quantifiable manner, while focusing on our own unique opportunities. When Strategic Procurement Solutions works with clients to assess their supply management efficiency, we have to ensure that our analytical process fairly addresses the following:

- **Benchmarking against leading organizations within that industry sector**
- **Benchmarking against leading organizations outside of my industry sector**
- **Benchmarking against published metrics**
- **Understanding the organization’s unique strategic objectives**
- **Metrics that are meaningful & foundational to continuous improvement**
- **Observations that are insightful & have meaning for executive management**

A benchmarking analysis, whether performed internally or using external resources, must systematically review organizational performance in the following areas:

### 1. Strategic Direction

- a. Procurement goals support organizational strategies & objectives
- b. Procurement management is respected by internal client groups & executive leadership
- c. Overall, organization “proactive” rather than “reactive”

### 2. Spend Analysis

- a. Rationalized and leveraged supplier base
- b. Impact of procurement across enterprise-wide spend
- c. Visibility to direct & indirect, traditional & complex, expenditures
- d. Amount of spend under competitively-established agreement
- e. Centralization of spend management

### **3. Contract Portfolio Review**

- a. Formalized & documented policies & procedures
- b. Efficient legal review process
- c. Spend under formal contract
- d. Portion of portfolio in an expired, or soon-to-be-expired, status
- e. Average contract length
- f. Competitiveness of contracts
- g. Contract management system
- h. Use of pro-forma or template language

### **4. Strategic Sourcing Process**

- a. Commodity strategies in place
- b. Logical methodology for sourcing in widespread use
- c. Intelligent use of RFP, consortium, and negotiated action methodologies in play

### **5. Procurement Processes & Procedures**

- a. Order process logical & defined
- b. Roles & responsibilities clear between process owners
- c. Existence of Key Performance Indicators (KPI's) through all stages of Req-to-Check process
- d. Documented policies & procedures for accounts payable
- e. Documented policies & procedures for procurement
- f. Logical delegation of authority limits for entity personnel

### **6. Technology Tools In Use**

- a. ePayables invoicing system
- b. eProcurement system
- c. eSourcing capability
- d. Procurement Card
- e. Contract management
- f. Inventory management
- g. Fixed asset tracking
- h. Management reporting capabilities
- i. End-to-end integration of systems
- j. Measured cycle time between systems

### **7. Procurement Personnel & Skill Assessment**

- a. Existence of formal procurement organization
- b. "Fit" between procurement organization design & internal customer requirements
- c. Skill assessment testing of procurement personnel
- d. Understanding of strategic organizational goals & objectives
- e. Existence of formal training programs
- f. Proactive human resource management techniques in place

## 8. Supplier & Inventory Management Capabilities

- a. Supplier performance management tools in place
- b. Inventory management systems in place, tracked, and reported
- c. Meaningful metrics tracked & reported
- d. Existence of policies & procedures for use of safety stock
- e. Inventory systems capable of tracking (bar-coding & scanning) throughout process
- f. Inventory audited regularly for accuracy
- g. Measurement of lead-times
- h. Measurement of inventory turns
- i. ABC classification used

## 9. Customer Relationship Management Capabilities

- a. Satisfaction level among internal clients
- b. Degree of client compliance (i.e. “Maverick” spending)
- c. Communication tools in place
- d. Reporting tools in place
- e. Roles & responsibilities defined and communicated

## 10. Logistics

- a. Strategically-sourced freight arrangements
- b. Existence of contracts for freight
- c. Leveraging of transportation enterprise-wide
- d. Formal process for returns (including capture of credit)

**A good performance analysis takes between 2 to 4 months to complete for most procurement groups, and should result in (A) Numeric “360° Scorecard” showing the organizations performance on the above measurements; (B) Identification of GAPS between current performance and Best-In-Class levels; and (C) Steps recommended to close the shortfalls on those elements that can achieve a measurable R.O.I. for the organization.**

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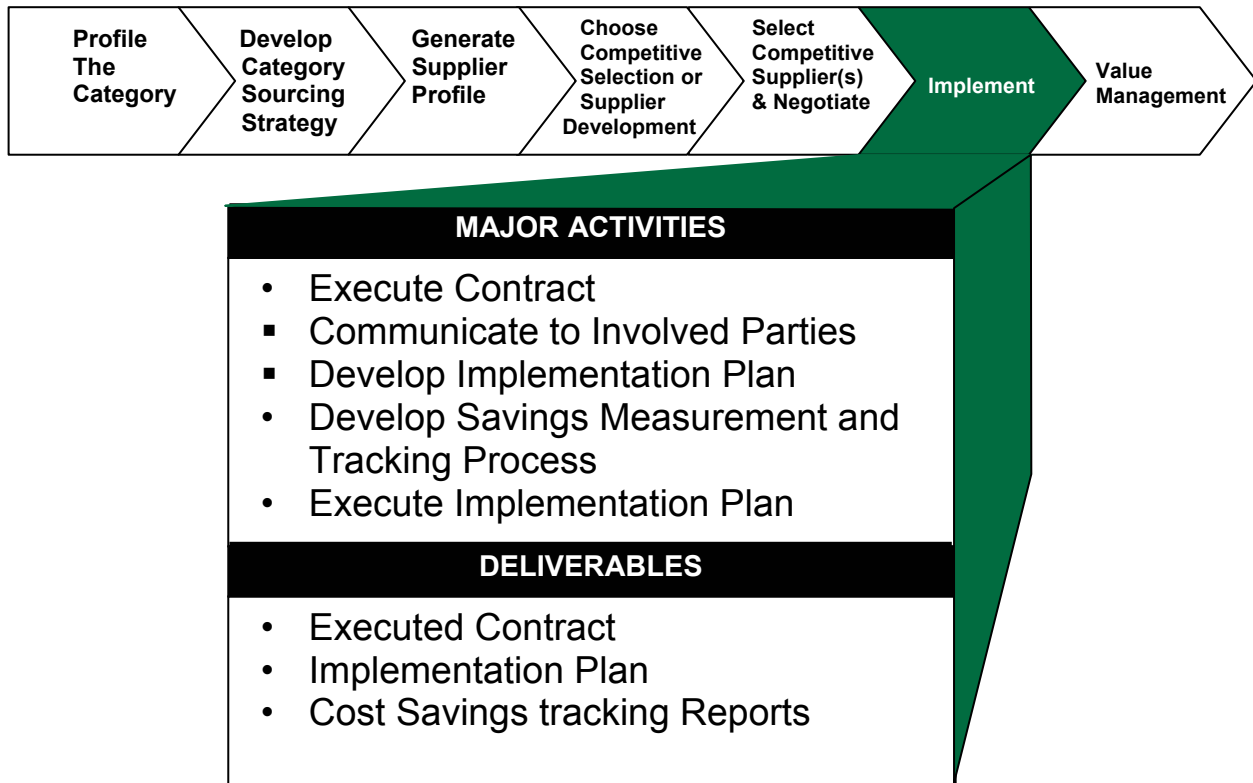
### **Contract Implementation – 7 Tips for Success...** **by Robert Dunn, M.B.A, C.P.M.**

In the January 2003 edition of this publication, we discussed the potential of achieving additional cost savings by “value managing” relationships with suppliers and internal customers through the life of a contract. **The goal of value management is to “Seize the Prize” initially identified during the Strategic Sourcing process.**

Properly performed, value management activities can capture savings for BOTH buyers and suppliers, optimize & perpetuate supplier performance, and continue to gain acceptance from internal customers.



***In order to transition successfully from the Strategic Sourcing phase to the Value Management phase, procurement professionals must pass through another phase called Implementation...and this is where many fall flat on their face.***



A successful contract implementation can be measured by the final percentage of total spending for the targeted spend category which passes through the contracted supplier(s). Successful implementation results in a high capture rate soon after the implementation process. Poor implementation doesn't impact a high percentage of the targeted spending.

**Here are Seven Tips for an implementation plan that will make your Strategic Sourcing project successful:**



**Switch Only for Valid Purposes** – Unless other factors exist, a *general guideline is that the planned savings must be at least 5% to justify the transition from one supplier to another.* If a lesser savings (or no savings) can be documented, the buyer will probably lose far more trying to move the business from one supplier to another.



**Communicate, Communicate, Communicate** – Transitioning to a new contract can be difficult without good communications between Procurement and the (i) Outgoing Supplier, (ii) Incoming Supplier, (iii) Internal Customers, and (iv) Internal Management. A variety of methods can be utilized to communicate, including a website, email, newsletters, webinars, & procurement/supplier presentations.

**Tip  
#3**

**Continue Cross-Functional Teams** – A frequent mistake made by procurement groups is to disband the Strategic Sourcing cross-functional team after the new contractual agreement is signed. The team is still needed to provide credibility, improve participation, cultivating buy-in, and providing a sounding board for input and feedback on the status of the implementation. The team should be kept intact through implementation because they (i) understand the reason for this transition, (ii) support the rationale for implementing a new supplier relationship, and (iii) represent the key areas to be affected by a new contract.

**Tip  
#4**

**Optimize Processes During the Transition** – Often a new contract will require the development of a new “Procure to Pay” process for the internal customers, accounts payable department, and supplier. Streamlining this process and taking advantage of technology advances can provide additional savings.

**Tip  
#5**

**Identify, Track & Report on Savings** – Successful implementations are built around positive results. Internal customer compliance will be voluntary if stakeholders see a reason to participate in the use of the new agreement.

**Tip  
#6**

**Solicit Maximum Supplier Support** – The quality of transition support provided by the new supplier is key to a successful implementation. Before starting the transition process, ensure that (i) the supplier has assigned a top quality account team to support your account; and (ii) the supplier has a detailed internal project plan that matches your organization’s implementation timeline & deliverables.

**Tip  
#7**

**Focus Upon “Quality” During the Implementation** – A well-designed implementation plan will ensure quality of product and service during the transition. It may be feasible to transform segments of the volume in a phased approach, until the entire program is transitioned by a particular time.

**Without a successful implementation, the opportunity to fully-complete the Strategic Sourcing process and capture maximum cost reductions does not exist. Strategic Sourcing results in great benefit only if we can establish a sound contract implementation program that leads to continuous value management.**

**The Human Factor in Supply Management ...by  
Mark Trowbridge, C.P.M.**

With “gee whiz” technologies like Reverse Auctions, eSourcing, and eProcurement abounding, just how important are people to the future of Supply Management? *Will procurement personnel become relegated to being merely technology managers? How important will MY JOB be in the future?*



These are questions being asked today by many supply management professionals.

**The answer to both questions is “It depends”.** As described in the following chart, the procurement profession *is changing*. Some jobs are going away, while new roles are being created to deal with changing supply management responsibilities. In this article we’ll discuss some of the ways this affects our jobs.

Procurement professionals are increasingly being moved into “strategic” roles that utilize new technologies as a foundational tool. But the role of the procurement person can have even more impact than in past years. *The following table illustrates the paradigm shift that is taking place in procurement today...*

Past	Future
Order Placers	Commodity Managers
Users	Customers/Clients
Paper Managers	Information Managers
Fill Organizational Needs	Create Competitive Advantage
Price Point Negotiations	T.C.O. Negotiations
Adversarial “Vendor” Relationships	Strategic “Supplier” Relationships
Fragmented Buying	eProcurement
Lead Time Concerns	Total Quality Management
Order Entry Failures	User Empowerment
Multiple Sources	Consolidated Supply Base
Reactive	Proactive



The changes in our profession are extending great opportunities for us to have a major impact upon Cost Savings, Product Quality, and Supplier Performance. The procurement knowledge, leadership capabilities, and interpersonal skills we bring to our employer are extremely important to today's supply management environment.

To illustrate how important people still are to procurement today, consider the following:

- **People-driven negotiations are still a primary source of cost reductions.** The Institute of Management & Administration (IOMA) did a survey in 2003 that showed that *contract re-negotiation* is one of the "best practices" employed by supply management groups.
- **Today, just 8.4% of an average company's spend now goes through an eProcurement system.** CAPS Research reports in their April '04 Cross-Industry Benchmarking study that although some industries range up to 24% in this metric, the cross-industry average is still quite low. People are still highly-involved in most spend management. This will, however, continue to change in the future.
- **70% of the value received from a typical reverse auction is derived from information & factors *outside* the actual auction event.** Couple this with the fact that only 8% to 10% of the typical corporation's spend "fits" into an ideal reverse-auction model, and we begin to understand the importance of skilled human involvement.
- **The average procurement employee in 2004 now manages more dollars.** According to the Center for Advanced Purchasing Studies (CAPS) in their April '04 Cross-Industry Benchmarking Study, the average procurement employee now manages \$17.35 Million in annual expenditures. This is partly due to technology advances in the procurement field; but is mostly-attributable to the downsizing of procurement management layers and staff positions.

**Yes, technology is changing the role of the procurement professional. But the importance of the individual contributor is increasing as we make more "strategic" contributions. Those who master the new technologies & use them creatively will be positioned to have a major impact upon shareholder value.**

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**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](http://www.StrategicProcurementSolutions.com) for more information about our services, or if you do not wish to receive this newsletter in the future.