



## “Best Practices” Newsletter Volume 21, August 2004

**About This Issue** - This August 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** –

- Wednesday September 15<sup>th</sup>, Mark Trowbridge will be presenting the topic of “Strategic Contracting” to the N.A.P.M. of Sacramento, California. Please contact Kathy Uchman at [kuchman@mindspring.com](mailto:kuchman@mindspring.com) if you’d like to attend.
- Tuesday October 19<sup>th</sup> and Wednesday October 20<sup>th</sup>, Bob Dunn and Mark Trowbridge will lead a workshop in “Advanced Procurement Negotiations” for the N.A.P.M. of Maryland (Baltimore-Washington International Airport Location). Wednesday evening, we’re also the featured speakers at the chapter’s monthly dinner meeting. Our topic will be “Building Internal Customer Relationships”. To attend either event, please contact Donald Johnson at [donald.johnson@perkinelmer.com](mailto:donald.johnson@perkinelmer.com).

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### **The Premature Death of Strategic Sourcing,** by Mark Trowbridge, C.P.M.

The other day, I was surprised when a supply executive at a client corporation said, “**I’m hearing from a lot of colleagues that Strategic Sourcing is dead**”. When I asked him to clarify, he said that some of his peers feel that the widespread competitive bidding practices embraced by some major corporations are failing to produce continued results.



It reminded me of Mark Twain, who once said, “The rumors of my death have been greatly exaggerated”. *No, Strategic Sourcing is not dead. It is very much alive and flourishing.* **This article will examine some reasons why the term “Strategic Sourcing” may be heard with increasing skepticism by today’s executives...**

<p style="text-align: center;"><b>The Seven Year Cycle</b></p>	<p><b>Business trends often follow a seven-to-ten year cycle, before being replaced by newer trends.</b> The phrase “strategic sourcing” began to hit the forefront around 1996...is the cycle beginning to turn again? Lots of procurement concepts are repackaged with newer wrapping paper, and enhanced (how else do you think we consultants stay in business?).</p> <p>For example, doesn’t the current trend of “Outsourcing” build upon the old “Make-Or-Buy” methodology? Heard the phrase “J.I.T.” recently? No? It’s been replaced by “Stockless Inventory”.</p> <p>“Vendor Consolidation” was replaced by “Supply Base Consolidation”, then “Supplier Rationalization” and recently to “De-Sourcing”. What will be next? Remind you of “Layoff” changing to “Downsizing” then to “Rightsizing”?</p> <p>No matter what the newest phraseology, however, it is important to build upon foundational concepts <u>that will continue to</u> provide value. “Strategic Sourcing” is foundational to continued supply chain performance.</p>
<p style="text-align: center;"><b>Failure to Implement</b></p>	<p>In a recent article for <u>Inside Supply Management</u>, Thomas Slaight (I.S.M. Board of Directors) observed that <b><u>only around 30% of North American, 20% of European, and less than 10% of Asian-Pacific companies have successfully applied a “Strategic Sourcing” methodology.</u></b> No wonder there isn’t commonality of view among corporate executives. The challenge here is how supply management professionals may impart the importance of Strategic Sourcing in organizations where remarkable savings can still be achieved.</p>
<p style="text-align: center;"><b>Inability to Deliver</b></p>	<p><b>One reason that “Strategic Sourcing” needs a better image, is that quite a few “Strategic Sourcing” organizations have <u>never done it right.</u></b> For example, last month we spoke to a large energy-sector company executive about \$100 Million in cost savings his <i>Strategic Sourcing Department</i> <u>was supposed to have generated.</u> Over a two-year period, they’d delivered just a fraction of the original commitment. Just using the name doesn’t help if sourcing “best practices” aren’t incorporated.</p>

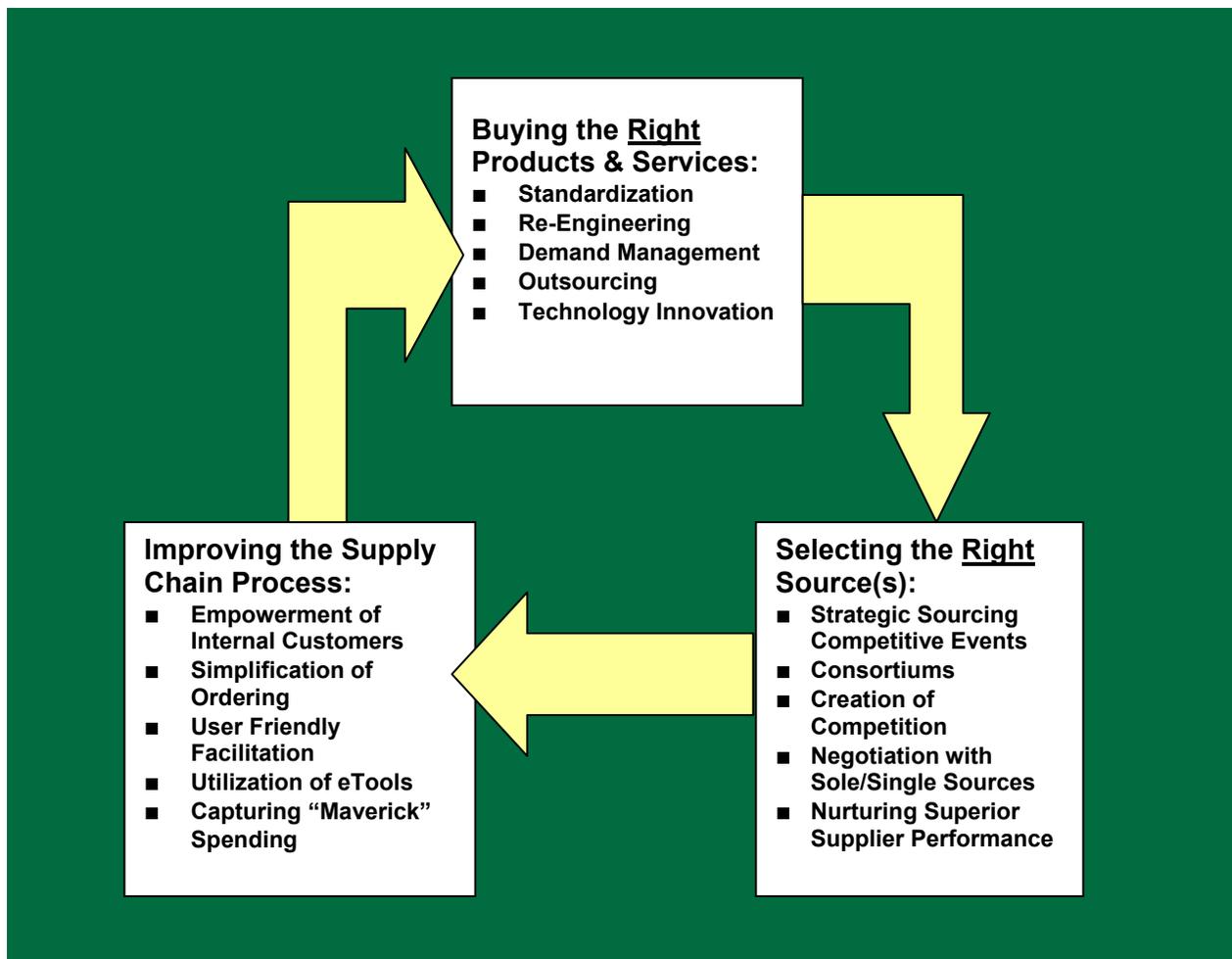
## Declining Results

Many organizations which have been entrenched in “**Strategic Sourcing**” for 5+ years are experiencing lessening returns. No longer are they achieving 10% - 20% savings in major spend categories, year-after-year. They’ve gone to market multiple times, and now the rising economy is beginning to push prices upwards.

Our firm is being asked by clients to increasingly-focus-upon skills like Supplier Relationship Management, Value Enhancement, Customer Relationship Building, and Supply Chain Improvement in our training and consulting work.

In order to squeeze more blood out of the turnip, mature procurement organizations are turning to innovative means of delivering additional value...such as the “Non Sourcing” aspects of the Strategic Sourcing cycle set forth below:

## Full Strategic Sourcing Cycle



## It's Confusing

A final aspect of the term “Strategic Sourcing” is that many executives from other corporate disciplines often **don't understand what it means** unless they've been personally-exposed to an advanced procurement process. Even more confusing to these folks are departmental names like “Strategic Sourcing” (How often do other disciplines apply descriptive adjectives to their department name? Ever hear of “**Visionary Accounts Payable**” or “**Remarkable Marketing**”?)

***So how can supply management help executives to have better perceptions about “Strategic Sourcing”? Here are three practical suggestions:***

### Tip #1

**We Must Deliver Excellence Rather Than Mediocrity** – “Strategic Sourcing” organizations need to live up to the name by performing at a high level. Jim Collins, in his book From Good to Great says, “*The greatest enemy of great is good.*” The only way to fulfill the potential of the Strategic Sourcing methodology is by employing “best practices” in all aspects of the supply chain process.

### Tip #2

**We Should Use Common Ways to Describe Complex Procurement Processes** – Effectively marketing the “value-add” of procurement depends upon our ability to clearly communicate in language our stakeholders understand. Take time to explain the supply chain process in ways that people can grasp. It may take more time, but the results will be worth it.

### Tip #3

**We Need to Apply Strategic Sourcing Practices “Differently”, Based Upon Our Organization's Culture** – An interesting aspect of doing strategic sourcing consulting for different client companies, is the challenge of applying sourcing best practices in ways that will gain the client's acceptance. Each company is different, and the same procurement model won't be successful in each organization. Take time to understand your cultural climate, and customize a sourcing strategy that will be first accepted internally...then be successful with the supplier community. Failure to do this will hurt the image of “Strategic Sourcing” held by your executives.

**Is “Strategic Sourcing” alive and well? Absolutely. But the value brought by a strategic approach to procurement will not be realized by our executives and stakeholders unless supply professionals do better at employing and communicating the process.**

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**Achieving Savings in “Off Limit” Categories...** Robert Dunn, M.B.A., C.P.M.

Most procurement professionals have been stuck with trying to improve a “sole source” acquisition. These situations can be frustrating, but it is here that a good acquisition strategy can yield remarkable results.



***When looking for cost saving opportunities, groups sometime divide their enterprise-wide expenditures into four general categories...and then “fold” by making some “off limits”...***

1. **Sourceable** – Those products and services are available from more than one supplier. Competition exists for these commodities, and standard strategies for sourcing can apply;
2. **Non-Sourceable** – Expenditure categories that cannot be strongly-influenced by supply management (for example, governmental payments, charitable contributions, marketing sponsorships, etc);
3. **Sole Source** – Goods or services which are only available from one source; and
4. **Single Source** – Goods or services which are available from more than one source, but for legitimate reasons are secured only from one supplier.

*Some procurement organizations even remove Categories 2, 3, and 4 from their reports to executive management...claiming those categories shouldn't be considered as part of the opportunity for supply chain improvement. They make these categories “Off Limits”, and then ignore them. **But isn't that just “Creative Accounting”?***

**I'd like to suggest that there is room for measurable improvement in all of these segments of spending. *This article describes some high-level approaches that will deliver tangible value in the difficult categories:***

**“Non-Sourceable”**

Don't “fold” this particular poker hand without first-examining the cards you've been dealt. There is much to be gained by “dissecting” supposed “Non-Sourceable” spend categories:

- **Marketing Sponsorships** – After finding that a company executive had already signed a \$45 Million “letter of intent” to sponsor a major golf tour, our team was able to negotiate further concessions in the arrangement that provided Corporate Marketing with exclusive rights they didn't previously have. Look for value that can be added by procurement involvement.

- **Charitable Contributions** – Supply management groups are increasingly-taking leadership positions in helping their executives govern charitable contribution programs. If we think about this strategically, where can the objective guidance of the procurement process be *better-applied*? Qualitative selection criterion...Ethical management of organizational funds...Representation of shareholder interests...Building of efficient payment processes. Procurement can add much value to this process.
- **Utilities** – Gas, electric, and water utility payments are often not open to competitive dynamics. But supply management is increasingly-influencing these expenditures through Group Purchasing Strategies (i.e. user negotiating groups), Demand Management (for example, installing energy-efficient light bulbs and motion-sensing switches), and Revenue Generation (for example, sale-back of excess generator capacity). One simple way of saving on utility payments is to use a refund-producing credit card program (P-Cards, Corporate Cards, or Business Cards) to pay these types of bills. Because utilities deal with retail consumers, they must honor credit card payments...and hence provide you with a refund payment.

**The expression, “Sole Source” is often used inappropriately in today’s business environment.** We frequently hear procurement executives say things like, “Our technology standards call for I.B.M. desktop hardware, so buying from I.B.M. is a *Sole Source*”.

The problem with this is that procurement should have been involved in the selection of I.B.M. technology, when the functionality of their proposed technology solutions could have been compared against that of other O.E.M. producers. Many times “Single Source” awards are made for legitimate business reasons.

A true “Sole Source” purchase is one that can only be made with one particular supplier, because they are the *only* legitimate source for that product or service to be acquired at the best level of distribution available to the buying organization.

One of our clients, a state executive branch procurement group, must buy a proprietary (yes, patented) digital tracking device used by their Fish & Game organization to monitor the movement of game fish (trout, salmon, etc). Once they’ve invested in the supplier’s proprietary monitoring equipment that is used by nearly every worldwide governmental organization that tracks fish, the fish “tags” are truly a “sole source”.

“Sole” &  
“Single”  
Source

### So what do you do when stuck with a true “Sole Source”?

- **Careful Advance Planning** - Most obviously, strategically plan decisions that may lead to a sole source relationship. Don't purchase the proprietary equipment without first securing a lifecycle price from the provider for the proprietary parts and supplies that must be used with the equipment. Don't sign the initial deal without *hedging all* T.C.O. elements first.
- **Nurture “Alliance Relationships” with Sole Source Providers –** Creatively work with the supplier to nurture the value provided in the relationship. If it's a true “Sole Source”, you won't soon have another option, so you had better improve the quality of this relationship.
- **Continue to Negotiate –** Although it's hard to believe, many “Sole Source” providers are still nervous about other firm's entering their market. There is no such thing as a continual monopoly (ask Xerox Corporation and others). When negotiating, remember that concessions are usually available if you can commit to a longer relationship.

**Supply management personnel should aggressively pursue “Off Limit” expenditure categories. There are savings to be achieved, and value enhancements to be delivered, if we “play the hand” that is dealt to us...rather than laying the opportunity facedown on the table.**

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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.