



## “Best Practices” Newsletter Volume 28, April 2006

**About This Issue** - This April 2006 edition of our newsletter contains more techniques to help our clients & colleagues accomplish their strategic procurement objectives.

**Strategic Procurement Solutions** provides leading supply management groups with support in essential components of today’s supply management organization’s performance: **Strategic Sourcing Services, Procurement Staffing Services, Outsourcing Expertise, & Training & Professional Development.**

Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are principals in the firm who lead teams of professionals in supporting our procurement clients. More information can be found at [www.StrategicProcurementSolutions.com](http://www.StrategicProcurementSolutions.com).

**Note to Readers:** We are currently scheduling onsite training & consulting with clients for Q3 and Q4 - 2006. Please contact us if you would like to reserve space in our schedule.

### **Calendar Notice:**

- April 27<sup>th</sup> -28<sup>th</sup>: ISM Sacramento Valley – Mark Trowbridge will present a two-day workshop titled “**Supplier Performance Management**”. Contact Katherine Uchman at [kuchman@mindspring.com](mailto:kuchman@mindspring.com) to attend.
- May 8<sup>th</sup> – 10<sup>th</sup>: ISM International Conference – Minneapolis – Robert Dunn and Mark Trowbridge will make two presentations titled “**Secrets of World Class Negotiators**” and “**Going Strategic: Steps in Building an Advanced Supply Management Organization**”. Both will be sponsored by the ISM Services Group. Please drop by our booth in the Exhibition Hall as well.

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### **“To Bid or Not To Bid?...That is the Question”** by Mark Trowbridge, C.P.M.

Two drops of rain land a foot apart at the crest of the Continental Divide. The Westernmost droplet ends up in the Pacific Ocean. The Easternmost drop in the Atlantic. And once they’ve hit the ground, their fate is set... *This concept is called a “Watershed”.*



What does this have to do with Strategic Sourcing? Very much, because every Strategic Sourcing project has *one key Watershed decision point* which determines the success of the rest of the project.

Despite the availability of eSourcing tools like eRFQ, eRFP, and Auctions... the decision of *whether to bid or negotiate is still a critical one in the Strategic Sourcing process. And once that decision has been made, it's very difficult to back up...*

*This article will discuss parameters to help decide whether targeted negotiations will produce better results than performing another bid...In the June 2005 edition of this newsletter (free download at [www.StrategicProcurementSolutions.com](http://www.StrategicProcurementSolutions.com) ), we discussed when not to bid Here's what was said in that article:*

#1

- **Don't Bid if There's a Lack of Qualified Competitors** – This seems pretty basic, but many procurement groups have tried to bluff suppliers into thinking there is legitimate competition. That nearly always backfires, as there are few suppliers who don't know where they stand in the marketplace. *If you don't believe me, try this technique out with Microsoft the next time you want to do an enterprise license for a combined package of word processing, financial, and presentation software...*

#2

- **Don't Bid if Procuring Intangibles** – If you can't place reasonable parameters around the definition of the product or service to be proposed, you'll end up with a market basket of responses. The more intangible the results, the less-optimal it is to issue a conventional bid. That is because the bidders are forced to guess at the desired results, and they will pad all the unknown elements in their proposal. You'll know this one backfired if you do a bid and the pricing proposals are scattered widely. *A good bid should have pricing proposals grouped like a shotgun blast...all within about 15% of each other.*

#3

- **Don't Bid if You've Done It Many Times Before** – Don't issue another RFP/RFQ every year for the same expenditures. You've probably squeezed most of the blood out of that particular turnip. Instead, consider changing what is being bid out so that it reduces the supplier's cost basis. *We did a review for a company which had bid out office & computer supplies every two years for the last decade. The last two times, they had used Reverse Auction technology. We identified a 17% savings for them on a \$2.5 Million annual spend...How? It wasn't through competitive bidding...*

#5

- **Don't Bid if it's a Collaborative Relationship** – How would you feel if your boss constantly told you that they will probably fire you? Or if you learned that your manager was interviewing other candidates for your job? That's exactly the message we communicate to key suppliers by going out to bid on their products or services. While this may be appropriate for transactional commodity groupings which require frequent market checks, it can be very detrimental to collaborative supplier relationships which grow through trust and focus upon value-added change.

**So what can be done when competitive bidding isn't appropriate? Here are some alternative ideas that may help:**

<b><u>Reason Bidding Isn't Optimal</u></b>	<b><u>Alternative Strategies</u></b>
<p>✓ <b>Lack of Qualified Competitors</b></p>	<p>Consider targeted negotiations with a Sole/Single Source supplier, utilizing Cost Modeling to target results.</p> <p>Don't misunderstand. "Bidding" means opening up a business opportunity to competition. Without doing that, though, a procurement group <u>should still solicit a proposal</u> from a Sole Source or Single Source supplier...to be used as the starting point for negotiations.</p>
<p>✓ <b>Procuring Intangibles</b></p>	<p>Again, utilize multiple rounds of negotiation to derive greater value from the supplier. As the product or service becomes more definable, then utilize cost modeling to drive towards an optimal solution.</p>
<p>✓ <b>You've Bid Many Times Before</b></p>	<p>If business conditions haven't changed since the last bid, more value can usually be captured by re-negotiating with the incumbent supplier to extend the current deal. According to a 2005 survey of several hundred supply management organizations performed by the Institute of Management Association (IOMA), one of the "best practices" utilized by the survey participants groups is still "Re-Negotiation of Contracts".</p> <p>Also consider re-engineering and demand management as other ways of lowering TCO and enhancing value received.</p>
<p>✓ <b>It's a Collaborative Relationship</b></p>	<p>Collaborative supplier relationships can often be improved by discussing additional business. But don't think giving a key supplier more business means increased costs...instead, additional business should <u>only</u> be granted if the supplier if they lower the buyer's TCO on the additional purchases...and hopefully on the business they already possessed.</p>

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## **“Becoming More Effective in Global Relationships”... Jonathan Hanson**

*Note – Jonathan Hanson is a Practice Leader for **Strategic Procurement Solutions**. Prior to joining us, he was VP of Global Supply Chain Management for Grief Incorporated, VP of Global Procurement for Mettler-Toledo International, & in Global Sourcing Management for GE Medical Systems.*



In the last newsletter, readers were provided with guidelines for selecting high-potential products & services for outsourcing to a Low Cost Country (“LCC”). **Once you have identified these products and have made the significant internal changes necessary to manage international supplier relationships, you simply choose a supplier, finalize a contract, place an order and wait for the savings to roll in. Right? Wrong!**

We all know it is difficult enough to develop a new supplier...even domestically, much less halfway around the world. Supplier relationships within one country can be complicated by regional differences like dialects, style, attitude and behaviors...but domestically *such differences are usually neutralized by frequent communication and immediate feedback on issues, problems and success stories.*

Now imagine developing a supplier in another country where your team and the supplier speak different “primary” languages. Even if you do share a common “business” language (most often English), that shared language is probably secondary for one of the parties. Imagine an eight hour or twelve hour time zone difference that shortens the opportunity for verbal communication and problem resolution. And imagine the nightly impact on your staff from news stories and magazine articles which focus on the negative parts of globalization....thus souring their commitment to making the relationship work well.

Given that environment, many organizations are clearly outside of their comfort zone when it comes to working internationally...that’s the bad news.

The good news is, with a little proactive planning most organizations can find ways to expand their comfort zones, expose and discard personal biases, and develop positive, productive relationships with their international colleagues and suppliers. **This article will provide ways to help your organization develop its “global comfort zone”...**

## Tip #1

### **Have a “Cultural” Strategy to Grow Acceptance of Global Initiatives:**

Ever heard the expression “**Culture Eats Strategy for Lunch**”? Any global initiative requires both a Technical Strategy and a Cultural Strategy to be successful. This is particularly true of global sourcing initiatives. It is incumbent upon the Procurement leadership team to recognize that cultural biases and differences will impact the project, for better and for worse.

It is important to take actions that mitigate the potential downside of these differences and emphasize the positive. For instance:

1. Develop a list of all stakeholders affected by the initiative
2. Assess the position of each stakeholder. Are they strongly for or against the initiative, or somewhere in between?
3. Determine if the source of any resistance for any key individual stakeholder is due to a technical, political or culture issue.
4. Develop a strategy to directly address the issue and build consensus.

## Tip #2

### **Chose the “Right” Executive Sponsor & Team Leaders:**

These are key decisions and careful consideration should be given as to who should hold these positions. In addition to having superior coaching and project management skills, these individuals must exemplify the ability to embrace and lead change in a global environment.

## Tip #3

### **Ensure the Global Initiative is Supported by the Entire Organization:**

Failure to find a way to work together effectively cannot be an option. Overt executive and management involvement is needed, in the form of providing resources and holding teams accountable for results. The team needs to be more concerned about the success of the initiative than they are about the challenges of working globally.

## Tip #4

### **Hold Cross-Cultural Training Sessions for the Procurement Team:**

Having worked internationally for fifteen years, I have attended numerous training sessions titled, “Working with our French Colleagues” or “Working with our Chinese Colleagues”. **Strategic Procurement Solutions** even presents a program titled “International Negotiations” which provides insights into inter-cultural approaches to business discussions.

I once even attended a “Working with our British Colleagues” type of training program. *As Winston Churchill noted, “The Americans and British are one people separated by a common language.”* The word “separated” implies recognition of cultural differences that need to be considered...even when there is a common language.

These sessions allow attendees to hold up a mirror to themselves. They can hypothesize about what stereotypes are held of their own countrymen, and what actions they can take to offset the negative ones. They can also discuss their own “out of the comfort zone” issues and concerns as a group and develop shared strategies to eliminate or manage the situation.

**Tip #5**

**Hold Cross-Cultural, Cross-Functional Planning Sessions:**

Getting the parties key stakeholders together to plan isn't easy. This is especially true when the Procurement group itself is located in different global locations. Studies, however, indicate the payback is worth the investment due to improved in terms of speed and results for a global outsourcing initiative.

Detailed work breakdown structures with clearly defined roles, responsibilities, timelines and measurements can effectively offset the shortcomings of multiple time zones and distances. Senior management needs to review and sign-off the final plan, but everyone needs to feel they had a voice in putting the plan together.

**Tip #6**

**Ensure Disciplined Project Execution With Regular Review Sessions With Senior Management:**

As with any new endeavor, care must be taken to grow the confidence and expertise of staff members so they learn to work in a different way. A detailed work breakdown structure will enable the team leader to quickly identify issues and develop a work-around plan. Senior management review sessions will reinforce the importance of the initiative to the success of the business and provide a forum to recognize “best practices” in global project execution.

**Globalization requires that we all become more expert and confident at working in a multi-cultural world. Can your organization be successful in such an environment? Yes...by taking the time to build a Cultural Strategy which enables the Technical Strategy necessary to achieve success.**

**For support in successful outsourcing, please review the Outsourcing Services page at [www.StrategicProcurementSolutions.com](http://www.StrategicProcurementSolutions.com).**

**“Freight Discounts...Are You Really Receiving the Contracted Rate?”...by Steve Hashman, MBA**



*Note – Steve Hashman is a Sourcing Specialist for **Strategic Procurement Solutions**. Prior to joining us, he was Director of Procurement for IKON Office Solutions, Sourcing Manager for BancOne, and held key operational leadership positions for Roadway Freight.*

**Why do your total parcel shipping expenditures keep climbing...even though you implemented a new parcel shipping contract six months ago? Perhaps tricks in the freight industry are compromising those savings... In this article, we'll examine several ways to save money on air & ground parcel supplier relationships:**

#1

**Your Contract:** First place to look...Do you have a corporate discount structure in place? More than likely this is probably the case in today's shipping environment. But, what is often overlooked is whether or not all of your accounts are included in your discount program (generally listed in the applicable accounts section of your contract).

Often, ten to fifteen percent of an organization's accounts are undiscovered – not listed as a participating account. These mysterious accounts are either undiscovered prior to contract negotiation/implementation or are new accounts that have been activated since contract signing. And the freight carrier is not about to voluntarily suggest that these accounts be added into the corporate agreement...and lose the full market price being charged.

#2

**Service Offerings:** Does your discount vary between service categories and/or weight classifications? More often than not, it does.

For example, let's say that a quarter of your organization's Next Day Air shipments are 5 to 10 Lbs. in weight. You're receiving a 50% discount on these shipments. And the Next Day Air shipments between 1 and 5 Lbs. are receiving a 55% discount. In either case, you are comfortable with your discount.

But what do you do with the (hypothetical) \$3.00 off for your overnight correspondence, the "letter" category – another twenty-five percent of your business. Three dollars off sounds like a good deal. But why don't you have 50-55% off on your letters like you do the other weight classifications? Considering an undiscounted letter shipment of \$14.00, you are paying \$11.00. So for a large portion of overnight shipments, you are only receiving only a 21% discount – ouch!

#3

**Ancillary Charges:** There are a bunch of tricks the freight industry plays here. One is sticking it to the customer when a shipment slips into a slightly different weight category that doesn't have a deep discount. Recently, I helped one of Strategic Procurement Solutions' clients save \$160,000 by making a 15 minute phone call to their overnight parcel carrier to adjust the discount on the non-targeted weight category. A quick savings, but finding it was challenging.

Another frequent trick played by carriers is to eliminate discounts going to residential addresses. Many companies ship to both Commercial and Residential customers. But, what are the residential service fees charged by several of the carriers? And...what is your residential discount? The 55% that you thought you had might not be applicable for your residential shipments – plus you have not negotiated the other ancillary charges.

**Strategic Procurement Solutions** recently worked with a Fortune 1000 consumer goods manufacturer to review their freight program. We were a little nervous, because this firm had *already had a Top 5 Consultancy do a complete sourcing process* on this spend category. They had *also invested more than \$4 Million in a state-of-the art traffic management system* which was supposed to drive all shipments towards the lowest-cost carriers. **Our two-person team delivered a savings close to \$1 Million for this client... just by reviewing the effectiveness of their freight programs (Overnight, Parcel, TL and LTL). You just have to know where to look.**

In summary, we have just looked at just a few examples of lost saving opportunities with freight. There are many other areas where significant savings can occur with even the best negotiated freight programs. **The trick is in knowing as much about this unique industry sector than the carriers.**

**Freight is one of Strategic Procurement Solutions' specialty categories. Please give us a call if you'd like more information about this area of expertise.**

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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.