



“Best Practices” Newsletter Volume 29, June 2006

About This Issue - This June 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: **Sourcing Support, Staff Augmentation Services, BPO & LCC Outsourcing Expertise, and Training & Professional Development.**

Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are founders of the firm who lead teams of professionals in supporting our supply chain clients. More information can be found at 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.

“Levels of Supply Management Maturity”

by **Richard Nettell** (*Guest Contributor, Previously SVP of Procurement Programs, Fortune 10 Financial Services Corporation*)

When most organizations begin looking at the improvement of their Supply Chain, their major focus is on the “Sourcing” component. While that is certainly critical and will lead to significant benefits, overlooking the other essential components within the Procure-to-Pay (“P2P”) process will result in massive lost opportunities.



Strategic Procurement Solutions’ professionals envision the P2P process as the integrated flow of goods, services and information from initial planning to delivery to the end customer. The key elements include...

#1

Planning

#2

Sourcing & Contracting

#3	Managing Quality/Performance
#4	Ordering (Transactional)
#5	Receiving/Acceptance
#6	Paying/Settlement

Integrating the P2P process on an End-to-End basis results in a *sustainable competitive advantage* for those organizations with the vision to make it happen. The results include:

- Reduction in expenses**
- Reduction in cycle time**
- Improvement in product & service quality**
- Improvement in productivity**
- Increased employee, stakeholder, & customer satisfaction**
- Vast improvement in management information**
- Improvement in controls & reduction of risks**
- Deeper supplier relationships**
- Improved ability to manage assets & demand**

As an organization evolves and its culture shifts, their supply chain process can be generalized in one of several levels of proficiency. You can use the following table to determine where your organization falls (may vary by spend category)...

Level 1 – The “ <u>Purchasing Department</u> ”
<ul style="list-style-type: none"> ▪ Buy only what is requested ▪ Transactional ▪ Organization functions in “silos” ▪ Efforts are duplicated ▪ Lack of repeatable processes & systems

Level 2 – The “Corporate Purchasing/Procurement Department”

- Understands spend
- Consolidated regional demand
- Success measured by price, costs, or FTE headcount reductions
- Lack of integrated P2P systems
- Some redundancy in support functions and organizations
- Involvement in spend management varies by category

Level 3 – The “Strategic Sourcing” Organization

- Leverages enterprise wide spending on high-dollar spend categories
- Works with Line-of Business (“LOB”) to fully understand business needs
- Focus on stable & repeatable processes
- Integrated operating environment across functions
- A few “off limits” spend categories still exist
- Service level standards in place
- Information not always readily available...manual effort still required to extract & scrub information

Level 4 – “Supply Management” Organization

- Mature & disciplined use of processes/standards
- Productivity driven by balanced mix of cost-price reductions & efficiency gains
- Deep understanding/use of demand management drivers & forecasts to manage capacity
- Robust supplier base & risk management protocols
- Supply chain strategy fully-integrated with enterprise goals
- Knowledge driven from systems & information integration

So where is your organization in this transformation? **Strategic Procurement Solutions** recognizes the effort involved, and the impact each organization’s culture plays, in moving towards Level 4 maturity. We understand that there are different appetites and as a result we have tailored our services. If you would like to accelerate your transition in this journey to receive a quick Return-On-Investment (“R.O.I.”) we have an offering that reviews your entire P2P process to develop a menu of options for improvement. Just contact us at Info@StrategicProcurementSolutions.com to begin a dialog...

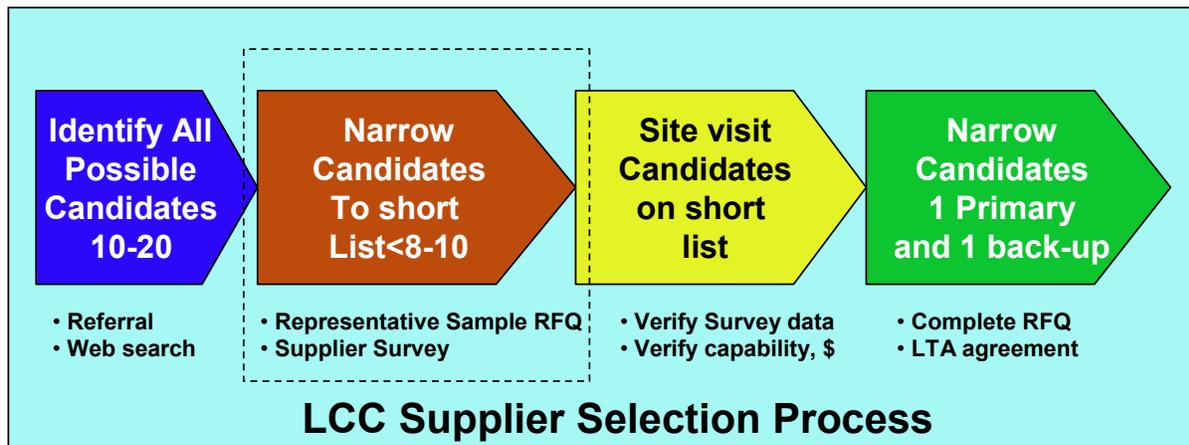
**“First Steps in Global Supplier Selection”...
Michael Baughman, C.P.M., C.P.I.M.**

*Note – Michael Baughman is an Outsourcing Practice Leader for **Strategic Procurement Solutions**. Prior to joining us, he held global sourcing and materials management positions for Sun Microsystems, Apple Computers, and Atari Systems.*



As described in our last two newsletters, the outsourcing of production requirements to suppliers in a Low Cost Country (LCC) can bring remarkable cost reductions...but also has inherent risks. If an organization has done a good job of analyzing the Risks & Rewards, and written a good business plan to manage the outsourcing process, then it may be time to begin a trial outsourcing initiative.

So given you are ready, and think there is opportunity, this article will describe some high-level techniques on how to identify the hordes of “potential” suppliers to get them on to the “Short List” to personally conduct site visits, and perhaps even have that critical first round of “fit” negotiations with them.



Since it is impractical to have unproven suppliers quote ALL your Stock Keeping Units (SKU's) and/or part numbers and understand all the various differences between variations at this early stage, one alternative technique is to compile “representative sample data” and a quick “supplier survey” that can be used to compare suppliers to each other for this first round of eliminations. Only the suppliers which become subsequently qualified through a later site visit will get all the information you need to disclose and eventually quote all the parts, saving both you and “poor fit” suppliers lots of time and money.

Tip #1 - If you have the capability / time to translate a RFQ and survey into the local language, it will speed up the completion and perhaps avoid some translation issues. However, English RFQs and documentation also can be a test of the Supplier's capability to conduct business in English, which also may be critical requirement without a local procurement office assisting in technical and purchasing issues.

If you do not have experience in buying from the targeted region, it will be preferential to solicit support from an organization which can represent your interests there. *As a note, Strategic Procurement Solutions has in-country experts in China to assist with supplier surveys, site inspections, first-article inspections, etc. Our team has experience establishing supplier relationships in Asia, China, Eastern Europe, Mexico, etc. We also help clients to open in-country buying offices in China (assisting with staffing, permits, policy & procedure development, etc).*

Tip #2- Gather all the information about a single part number such as; raw material specs, part drawings, bills of materials, actual sample parts, assembly pictures or drawings, test criteria, packaging materials or specifications, carton dimensions and weights, etc. Associate an amount of annualized purchases with this part number that would reflect the potential purchases of ALL the various models/variants that make up this commodity, as a family or group. It is important to be clear in the RFQ that you are soliciting "sample data" to use in the selection process, and **ABSOLUTELY** do not overstate potential sales opportunity for the LCC supplier with the annualized volume rates you give as representative of the business.

An Example: An organization has 150 models of a product created by minor variations or features from a base model. The total annualized sales of all models is 10,000 units. RFQ only the base model and use 10,000 units as the volume base for this calculation. (You can also show marketing what it really costs to have all those other variations). All we are after at this point, however, is to quickly get cost data to compare suppliers to each other....not to necessarily negotiate final pricing.

If you have access to an online specification management tool and quoting instrument, this can be extremely helpful. This is very different technology than an eSourcing tool, because it manages engineering specifications, CAD drawings, etc in a dynamic mode. **Strategic Procurement Solutions** uses one of the first such technology tools on our client's outsourcing projects, and it has revolutionized our process.

Tip #3- The supplier can prepare a single quote that should directly expose their cost and ability to purchase the aggregate raw material or components, and also expose other basic costs such as costs for labor and overhead. Ask for the detailed breakdown. All potential suppliers should get the same package to quote and a matrix prepared to populate with the return data.

Tip #4 - The quickest technique to get the other data we need is to prepare a simple survey that asks all the “showstopper and must have” data in such a way as to make it simple for them to understand and easy to confirm later. For example “State” ownership in different regions may be an issue, or the company is actually too small to realistically handle the volume or complexity you know will be required.

In the table below is a sample of 15 types of information we address in our supplier surveys and site inspections. The actual surveys have questions and ranking tools which address these and more desired attributes using actual metrics for evaluation...

<p>Ownership</p> <ul style="list-style-type: none"> • State-owned • Private Partnership • Publicly traded <p>General Info</p> <ul style="list-style-type: none"> • Number of Production / other employees • Years in Business • Annual Revenue 	<p>Capabilities</p> <ul style="list-style-type: none"> • Inject, Thermal, Flow Mold capability # mach • Extrusion • Stamping, forming • PCBA, SMT • Tool Design • Tool Mfg. • Assembly, cleanroom 	<p>Quality / Process Control</p> <ul style="list-style-type: none"> • Rec Insp • First Articles • Discrepant Material Control • In Process Insp. • Test Eq. List • OBA 	<p>Document Control</p> <ul style="list-style-type: none"> • Data Management system • Drawing control system • Revision Control • Part History avail. • Robust Customer ECO / ECN Process 	<p>Quality Assurance</p> <ul style="list-style-type: none"> • Quality system • Certifications • RCCA Process • Internal Audits • SPC
<p>Directors / Key Players</p> <ul style="list-style-type: none"> • Contacts /Titles <p>Key Customers</p> <ul style="list-style-type: none"> • Industries and players in those industries • Key products and Services provided • Position in Market 	<p>Certifications</p> <ul style="list-style-type: none"> • ISO 9000 • UL • CA • TUV • CS • RoHS 	<p>Facility</p> <ul style="list-style-type: none"> • Owned or leased • Layout, Housekeeping, flow, Material storage, Lighting, safety and security • Loading Docks • Distance to seaport • Distance to airport 	<p>Manufacturing / Equipment</p> <ul style="list-style-type: none"> • List of Equipment attached • Maintenance Procedures present • Calibration Procedures present, calibration current 	<p>Cultural</p> <ul style="list-style-type: none"> • Limits to Hours of operation • Dormitories provided / required • English as second language in schools
<p>Internet / Communication / Technical</p> <ul style="list-style-type: none"> • High-speed broadband hookup, URL if possible • ProE file transfer • Number phone lines 	<p>Factory Key performance Indicators and recent results</p> <ul style="list-style-type: none"> • OTD to customers • PPM Quality by customer • % Defects by product • Cost Reductions 	<p>Engineering Support Capability</p> <ul style="list-style-type: none"> • Design, Elec, Mech, IE, Test • ME / PE • Supplier Quality Engineering Program • HASMAT capable 	<p>Materials / Prod Control Capability</p> <ul style="list-style-type: none"> • ERP system installed • Work Order Travelers used • MOS/SOE used • Traceability capable 	<p>Training</p> <ul style="list-style-type: none"> • Hours of training given to employees annually • Operator certifications used • ESD • Material Handling • Clean requirements

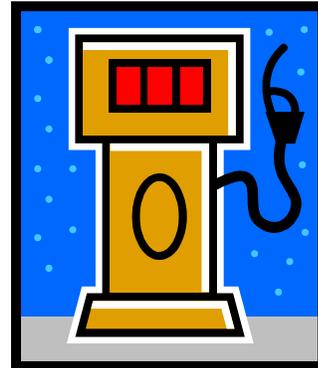
In summary, create and duplicate a survey document and the complete documentation / information of the representative sample RFQ and get these sent off to all the supposedly qualified suppliers fast as possible. Track progress until all the responses are back and in your selection matrix. Rank the value of each “must have” and rank the relative cost opportunity and see if 8-10 obvious choices emerge as possible “best fit” suppliers. Then you’re ready to begin *the next phase* of the process...

Good Price + Capability Needed + Desire to Be a Partner = Potential Fit.

If your organization would like expert assistance with this phase, or any of the other critical steps in a successful LCC or BPO Outsourcing project, the **Strategic Procurement Solutions'** team would be happy to assist.

"Saving Money on Freight Fuel Surcharges"... 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.*



When was the last time a freight carrier complained about rising fuel prices? With the escalating fuel prices over the past two years, one would think that every freight company's fuel costs would be going through the roof – and complaints from the carriers about price pricing concessions would be common. True, their costs are going up – *but the fuel surcharges most their customers are paying are drastically outpacing the carriers' rising fuel costs.*

What is a fuel surcharge? It is an additional charge that your organization pays through your transportation contracts to nearly all carriers: Parcel, Overnight air, Truckload (TL), and Less-Than-Truckload (LTL). More often than not, it is a percentage markup (based on weekly published jet fuel or diesel indices) which is added to your gross freight charges – and, the impact is buried in your general ledger account.

Just how bad is it? Nearly all carriers had standard fuel surcharge percentage in their contracts that ran around 5% when the national average price for a gallon of diesel was \$1.50. That means that the base transportation fees were structured to adjust by 5% increments whenever fuel costs rose by predetermined (in each contract) factors.

The problem is that most organizations never anticipated fuel costs **more than doubling** during the term of the contracts. The percentage fuel surcharges which made sense when fuel was at \$1.50/gallon have become astronomical profit increases when prices more than doubled.

By the time diesel hit \$3.157 in the fall of last year, LTL fuel surcharge adjustment factors were averaging nearly 23% markup for LTL and twice that for TL. *For example, the carrier's increase in diesel costs has been around 110% ($(\$3.157 - \$1.50) / \$1.50$) -- while the typical fuel surcharge charged to their customers is 360% ($(23\% - 5\%) / 5\%$). So, the carrier is being paid by your organization a factor on fuel of around 360%...compared to a ballpark increase in their cost of fuel of 110%. Sound fair?*

Of course not...but not too many carriers are volunteering to decrease their surcharge percentages, are they?

In essence, the higher the price of diesel, the incremental increase in fuel surcharge has far outpaced the increase in diesel fuel. Believe it or not, we're near the point where customers' fuel surcharges are more-than-completely offsetting all their carrier's fuel costs (including the base transportation rates which should contain the majority of fuel expenses). Mum's the word for the carriers.

So what do we do? Carriers are aware of the game – profits are soaring amid rising fuel costs! Have you established an acceptable fuel surcharge policy for your company? Is your TL fuel surcharge based on mileage or on your total costs? Is your LTL fuel surcharge based on gross charges or net charges after your applicable discount? **If you spend \$10 Million dollars in gross freight costs, \$2 Million in fuel surcharge is not something to overlook.**

Please note that there are differences in carrier fuel surcharges – and, many are willing to re-negotiate fuel surcharges today, even the overnight parcel companies. Don't offset your negotiated discounts with overstated fuel surcharges.

*If you would like expert assistance with capturing savings and improving supplier performance in specialty spend categories like **Freight & Transportation, Telecommunications, Temporary Labor, Outsourcing to Low Cost Countries (LCC), Business Process Outsourcing (BPO), Digital Copiers/Output Devices, Commercial Printing or MRO**...please contact **Strategic Procurement Solutions**. We'd love to be of assistance.*

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.