

About This Issue

This March edition of our newsletter contains more techniques to help our clients & colleagues accomplish their strategic procurement objectives.

Strategic Procurement Solutions is a consulting firm dealing with Strategic Sourcing, Training, and Organizational issues related to procurement & supply-chain management. Robert Dunn & Mark Trowbridge are general partners in the firm, and lead teams of professionals in supporting our clients.

Visit our web site at www.strategicprocurementsolutions.com for more information or to contact us.

Four Approaches to E-Procurement...

by Mark Trowbridge, C.P.M.

Recently, I was invited to discuss B2B E-Procurement to two groups of purchasing professionals...first to a NAPM dinner conference & second to a large corporate client's procurement managers.



In discussions that accompanied both presentations, it was confirmed to me that each represented company needed a different B2B solution.

Implementing an E-Procurement system can capture great benefits for a purchasing organization...**Lowering Transaction Costs, Reducing Cycle Times, Freeing Up Resources, Standardizing Products & Processes, and Driving Volume Through Negotiated Agreements**, just to name a few. Hurdles will be encountered in implementing any E-Procurement solution, such as Capital Budget Constraints, Technology Issues, Non-Compatibility of Legacy Systems, and Senior Management Support.

It is important for procurement personnel to choose the right type of E-Procurement system to avoid these hurdles. Failure to select the right type of system can prevent any B2B solution from being accepted by senior management. There are 4 major types of systems, with increasing levels of features, complexity, & cost for each...

Type #1: Supplier-Provided Sites

Leading suppliers are usually happy for you to enter orders directly into their proprietary web sites. Many will customize their sites to reflect your account identity. This reduces their order-processing costs, and decreases cycle times & costs for you. Although billings can be handled individually, efficiencies can be maximized by utilizing P-Card payment & reporting tools, or having the supplier provide consolidated summary invoices. Examples might be: *Corporate Express, Office Depot, W.W. Grainger, etc.* Payment is incorporated into the product cost.

↑ Advantages

- Low Implementation Cost
- Instant Use

↓ Disadvantages

- Must Access Multiple Sites for More Than One Supplier
- Web Connectivity Only (No Legacy System Connectivity)
- Lack of Universal Reporting, Approval Routing, or Security Controls

Type #2: General Mall (or Consortium) Sites

General Mall sites are typically hosted by an Application Service Provider (“ASP”) on behalf of entrepreneurial firms or industry consortiums, and present unique groupings of products to potential buying groups. On behalf of their buying audience, many of these sites have negotiated preferential pricing with key suppliers. Typically, only P-Card payments are allowed. Payment is typically incorporated into the product cost, although subscription or membership fees can be negotiated separately.

↑ Advantages

- Low Implementation Cost
- Some Volume Leveraging
- Instant Use
- Multiple Supplier Access

↓ Disadvantages

- No Ties to User Contracts
- Standard Product Only
- Web Connectivity Only (No Legacy System Connectivity)
- Lack of Universal Reporting, Approval Routing, or Security Controls.

Type #3: Branded Sites

These sites are typically developed by an ASP who will customize their own e-commerce site design for a particular corporate customer, and host the custom site on their own server. The site can be accessed only by the customer’s approved users, and will present them with standard products from the customer’s negotiated contracts. Payment of transaction fees can be based as a percentage of purchase order value, or a separately negotiated hosting fee.

↑ Advantages

- Moderate Cost
- User’s Negotiated Contracts
- Multiple Supplier Access
- Easy Use & Approval Routing

↓ Disadvantages

- Greater Administration Responsibilities for Buyer
- Typically, P-Card Payment
- Moderate Supplier Resources Required
- Legacy System Connectivity Possible

Type #4: E-Commerce Systems (or Legacy System Modules)

These sites are more similar in concept to a “software module” of a legacy system than to an Internet site, even though they may use the Internet as a communication medium for electronic purchase orders and approvals. This category of site, as often identified with developers like Ariba & Commerce One, is thoroughly integrated with the customers PO/AP/GL legacy systems and provides fully automation of the procurement process. Recently, legacy system providers like SAP, GEAC, PeopleSoft, and Oracle have announced alliances with e-commerce providers to enhance their system’s ability in the B2B arena. Usually, these types of systems require a license or base fee, customization fees, and on-going maintenance fees. Often, third-party integration firms become involved to build connectivity with the user’s systems.

↑ Advantages

- User’s Purchasing Leverage
- Multiple Supplier Access
- Robust Reporting & Security
- Legacy System Connectivity & Information Sharing

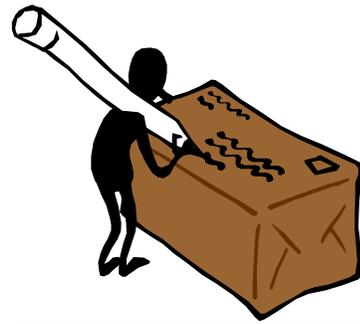
↓ Disadvantages

- Can Be Expensive
- May Require Upgrade to Most Current Legacy System Release
- Lengthy Implementation Schedule
- Complex System Linkage, Sometimes Requiring Integration Consultants
- Slower Technology Turn-Over

Strategic Procurement Solutions recommends that our clients choose the right level of E-Procurement system for their size, required performance, budget, and senior management support. We have good insights to help in the selection process.

Myths About “F.O.B. Destination”...by Robert Dunn, C.P.M.

Many purchasing and supply managers are responsible for buying transportation services for their organizations. Yet, many people may not feel comfortable in this complex field, especially with recent deregulations and re-regulations covering this arena.

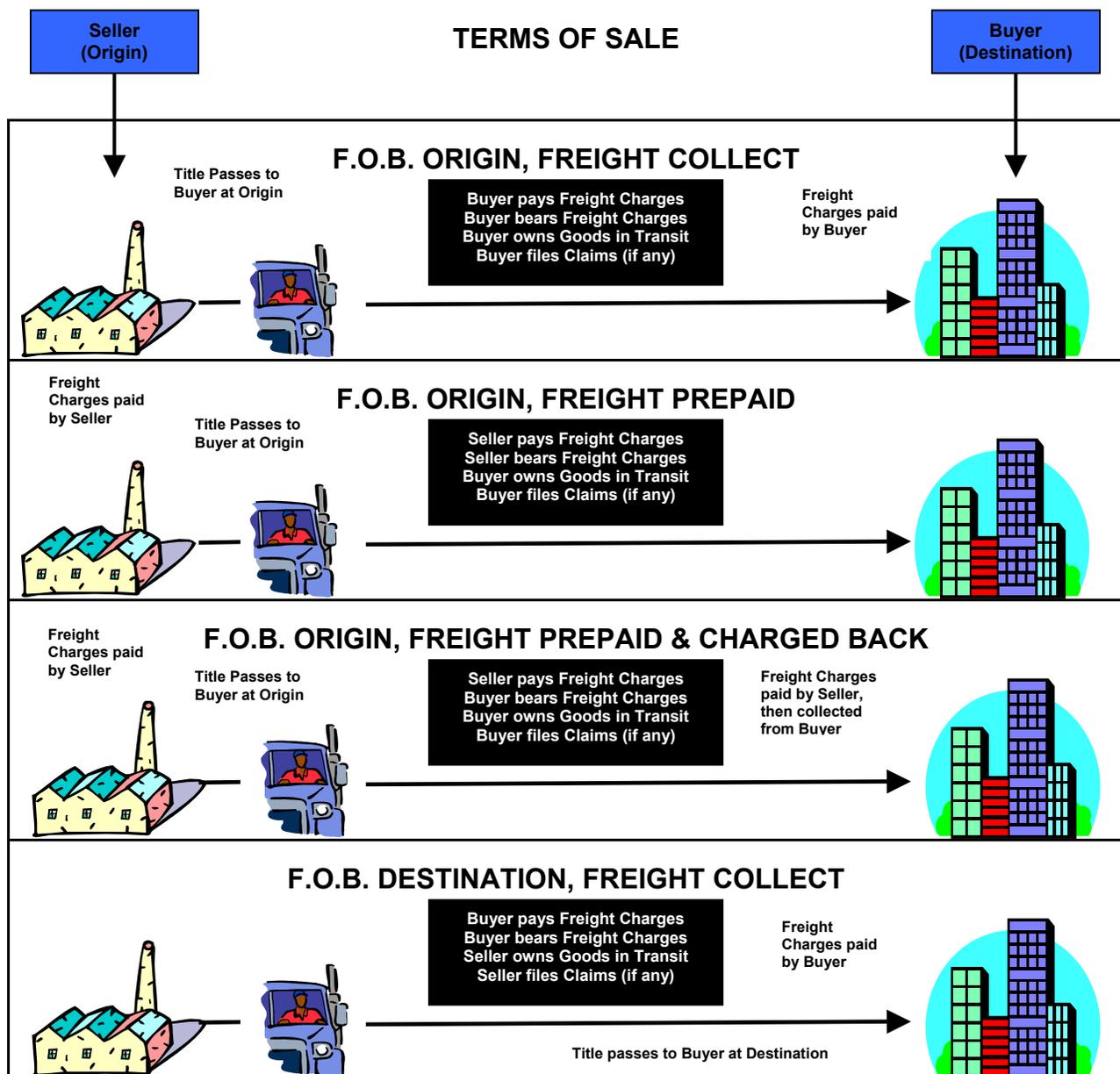


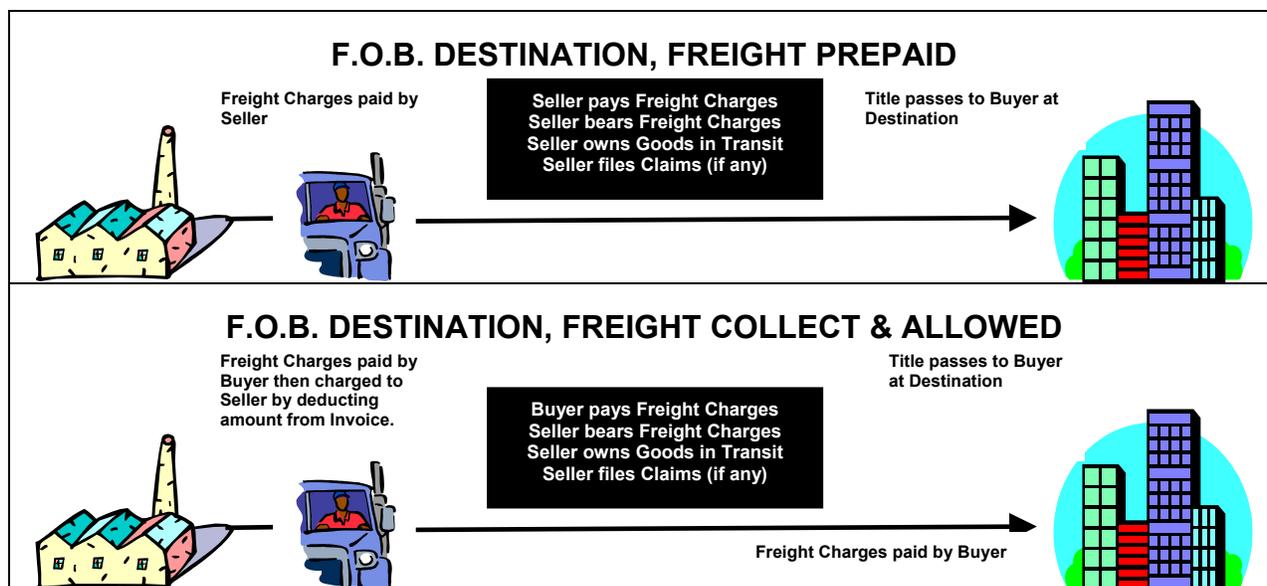
Mastering transportation management can add value to the organization and to the procurement functions because transportation, which can be very costly, can have a significant impact on the company’s bottom line. For one thing, if the supplier makes the transportation decisions, there is no guarantee that the choices made will be the most cost-effective for your organization. Profits can be improved by:

- Improving carrier services
- Reducing inventory levels
- Advancing the use of “just-in-time” inventory models
- Reducing delivery costs
- Cutting lead times

It is the responsibility of procurement & supply management to team with other functions in the organization to plan and negotiate the most cost-effective transportation and to align it with the organization's service requirements. This goal can be a challenge. It can be met with a thorough analysis and assessment of material requirements and by knowing how to negotiate & partner with selected carriers, when appropriate.

Prime examples of the complexity of transportation management are the various myths about "FOB Destination" in relation to who pays the freight charges. The term FOB ("Free On Board") is designed only to indicate at what title passes from Seller to Buyer and has **NO** legal bearing on responsibility for payment of freight charges. Wherever possible, the buyer should specify the "Terms of Sale" based on the lowest combination of cost & risk. Domestic terms of sale are illustrated in the following chart:





A “World Class” Supplier Diversity Program...by

Joyce Tabak – President of Tabak & Associates, past Director of Bank of America’s Supplier Diversity Program, Executive Board Member of the Southern California Regional Purchasing Council, Board Member with National Minority Supplier Development Council (NSMDC), and recipient of many awards... including the Asian Business Association’s 1997 Corporate Advisor of the Year, the State of California’s Small Business Administration 1995 Advocate of the Year, & the National Association of Women’s Business Owners’ 1993 Advocate of the Year.



Supplier diversity is a proactive business process that seeks to provide suppliers equal access to purchasing opportunities. For many government entities & their contractors, a commitment to supplier diversity is a foundational part of a good purchasing program. For commercial concerns in key industry sectors, a demonstrated commitment to supplier diversity opens marketplace opportunities. It promotes supplier participation reflective of the diverse business community and encourages economic development. Supplier diversity is a market-based imperative since it enriches the community from which tax revenues and consumer dollars are generated.

Supplier diversity occurs in both the public and private sectors. In the public sector, all Federal government agencies are required to submit goals for contracting with minority-owned (MBE), women-owned (WBE), and disabled veteran-owned (DVBE) businesses. Public Law 95-507 sets requires goals be set for contracting with minority-owned businesses. The Federal Acquisition Streamlining Act set a five percent federal goal to

contract with women-owned businesses. Public Law 100-650 set a three percent federal goal to contract with disabled veteran-owned businesses. In the private sector, most Fortune 500 companies have supplier diversity programs that mirror the federal programs in many respects.

Both public and private-sector programs extend the organization's supplier diversity goals to their first tier suppliers, mostly commonly for subcontracts with a total value of \$500,000 and above.

The National Minority Supplier Development Council (NMSDC) has benchmarked and developed information that documents the evolution of a world-class program. You can rate your program using the information listed below:

Level 1 – No Program

No tracking
No outreach
No trade fairs
No materials
No budget

Level 2 – Basic Program

Subcontracting plan
Program coordinator
Program brochure
Limited trade fair participation
Program is compliance driven

Level 3 – Traditional Program

NMSDC membership
Visible program manager
Little senior management involvement
Limited program management and tracking
Program outside core business strategy

Level 4 – Advanced Program

Active NMSDC member
CEO involvement
Realistic budget
Basic second tier capture

Level 5 – World Class

Active NMSDC member
Senior management leadership
Tied to annual performance objectives
Advanced tracking and measurement
Productive second tier

Note: Tabak & Associates is an alliance partner of **Strategic Procurement Solutions**. They would be happy to discuss ways to enhance your Small Business, Minority, or Woman-Owned Supplier program. Please contact us to learn more about their corporate training, motivational seminars, or consulting services.

Editor's Note: **Strategic Procurement Solutions'** objective is to provide top quality supply-chain consulting & training services to clients 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 periodic educational newsletter, which provides quarterly articles about "Best Practices" in procurement. Contact us through our web site at www.strategicprocurement.com for more information about our services, or if you do not wish to receive this newsletter in the future.