



Best Practices Journal...

Nov/Dec 2006, 31st Edition

Over 6,000 Supply Chain Leaders Now Receive This Bi-Monthly

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Strategic Procurement Solutions, LLC is a niche professional services firm dedicated only to the advance practice of Supply Management.

Key Services include...

- **Staff Augmentation (Temporary, Project, Contingency Search)**
- **Online Skills Assessment Diagnostics**
- **Professional Develop Services (Training, Coaching, Org Development)**
- **Expertise in Strategic Sourcing of High ROI Spend Categories**
- **P2P Efficiency Enhancements, and**
- **Outsourcing Project Expertise (LCC & BPO).**

Strategic Procurement Solutions' clients range from Fortune 100 to Russell 2000 in size; and include numerous Global enterprises as well. We also work with leading public sector supply chain groups, and are one of a small group of consultancies pre-qualified by NASPO and WSCA to perform Strategic Sourcing consulting for member agencies.

New articles in this Edition:

- **Staffing a Supply Management Organization...Current & Future Challenges** - by Mark Trowbridge, CPM
- **The 80/20 Principle Applied to Strategic Sourcing** - by Robert Dunn, MBA, CPM

Staffing a Supply Management Organization ...Current & Future Challenges - by Mark Trowbridge, C.P.M., Principal

An interesting phenomena has begun to happen in supply management circles. It is getting harder and harder to attract and retain the right caliber of staff talent.

This phenoma is being driven by three "macro" factors in the economy:

Factor #1 - The U.S. economy is doing very well right now, and unemployment is at near an alltime low at just 4.6% (U.S. Bureau of Labor Statistics - September 2006). What this means is that there are currently several thousand fewer candidates available for the new procurement/supply chain job placements in the marketplace.

Factor #2 - The "Boomer" generation is now leaving the workplace. This means that fewer workers are coming in as larger portions of the professional workforce exits. An excellent article in Inside Supply Management titled Avoiding the Labor Shortage says "*More than 25% of the working population will reach retirement age by 2010, resulting in a potential shortage of nearly 10 Million workers*".

The same article predicts, "*One fifth of this country's large, established companies will be losing 40% of their top-level talent during the next five years. During the same period, the replacement pool of 35 to 44 year-olds will decline by 15%*".

Factor #3 - Today's professional workers are more likely to change employment for incremental improvements in compensation and rewards. A recent survey of 500 HR Directors conducted by the Opinion Research Corporation found that the average US middle manager changed jobs after just 5 years (slightly under 5 years in the UK). Other studies have found that the average corporate worker will make 7 significant job or employer changes during their career.

So how can today's Managers, Directors, and CPOs find and retain quality staffing? One way is to utilize the Dynamic Staffing Model which is discussed in greater detail in an article titled [Strategic Staffing in a Short-Sighted World](#) that can be found in the tenth edition of this journal (a free download from the Publications page at www.StrategicProcurementSolutions.com).

Briefly summarized, the Dynamic Staffing Model is a format for augmenting a procurement organization which can rapidly adjust to peaks in workload and project complexity. One of the principles found in a Dynamic Staffing Model is to optimally staff a supply management organization with the following types of full-time employees:

1. **Sourcing Personnel** - A sufficient number of qualified staff members should be hired and trained, to be able to conduct ongoing sourcing of at least 80% of the organization's annual expense base.

2. **Supplier/Transaction Management Personnel** - The organization also needs trained personnel to manage supplier performance, procurement technologies, and to handle transactional procurement actions. A sufficient number of these sole contributors and managerial employees is needed in full-time roles to handle the "average" number of projects and procurement transactions flowing through the organization each month.

3. **Temporary Staffing** - For peak workload periods, and to handle projects requiring additional staff depth, leading firms are identifying pools of temporary talent who can work for 1 to 6 months at a time. Strategic Procurement Solutions is one such provider of temporary staff talent with specific

expertise needed by our client's organizations.

4. **Consulting Support** - Only for *unique* sourcing & supply chain projects requiring specific spend sector expertise, or a particular knowledge set, turn to a consultancy having the right people and experience. *For example Strategic Procurement Solutions provides supply chain expertise in two flavors...we can provide individual contributors to work under the client's own project management umbrella (these are the same people we rent to larger consultancies), or we can provide a full project team which we will manage to accomplish objectives identified by the client's executives.*

But using consultants for large scale or lengthy projects *just isn't cost-effective* when you compare the consulting firm's fees against the comparable cost of staffing your own organization properly, using the Dynamic Staffing Model.

In the next edition, we'll provide more information about ways to structure rewarding jobs which encourage quality staff members to stay and progress with the organization.

For help finding excellent personnel through our recruiting & temporary staffing services, please visit www.StrategicProcurementSolutions.com

The 80/20 Rule Applied to Strategic Sourcing... by Robert Dunn, M.B.A., C.P.M., Principal

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Also visit the **Strategic Procurement Solutions** website's **Research** site page (see bottom of this journal for the site address) for links to key supply management content Internet sources (pricing indexes, cost modeling sources, industry publications, etc). These are provided without charge by us, as a helpful resource for our clients & colleagues.

The **Pareto Principle** (also known as the **80/20 Rule**, the **Law of the Vital Few** and the **Principle of Factor Sparsity**) states that for many phenomena, 80% of the consequences stem from 20% of the causes. The principle was initially suggested by management thinker Joseph M. Juran. It was named after the Italian economist Vilfredo Pareto, who observed that 80% of income in Italy was received by 20% of the Italian population. The assumption is that most of the *results* in any situation are determined by a relatively *small number of causes*.

The principle has been applied to many processes and studies. In the fields of Supply Management and Inventory Management, it has been remarkably effective in identifying high-dollar Stock Keeping Units (SKU) for greater attention. Both ABC and XYZ analyses stem from the Pareto Principle.

In the arena of Strategic Sourcing, the Pareto

Principle can also have great value, in a couple of key ways:

- **First – To identify product items to be sourced.** Rarely is a Supply Management group staffed sufficiently to be able to source simultaneously each product and service used by their organization. *Analyzing the portfolio of products and services being acquired, we can narrow down the relative few which impact the majority of dollars.*
- **Second – To quickly assess the impact of price changes or competitive bids upon a "representative" grouping of product items.** The "market basket" concept is especially valuable in sourcing projects when an extremely large number of product or service items are impacted by a RFP. Using a representative "market basket" of a few items which represent the majority of spending in that category, a Supply Manager can quickly make decisions about the larger number of items impacted.

No matter how applied, the 80/20 ration in the Pareto Principle is only a guideline. Actual analysis of the items in a population must be performed by you to determine what portion of the items do in fact represent a particular portion of the population value.

Care must also be taken to ensure that by focusing only upon pricing for a subgroup of items, that the cost of the items outside the sampling or market basket doesn't actually increase... resulting in an overall higher cost for the sourcing organization. This is because suppliers of non-core items may not honor their pricing structures if the "high-value" market basket items are awarded to their competitors.

Strategic Procurement Solutions is often selected by leading supply management groups to train their sourcing teams in Expert Strategic Sourcing techniques, including many other ways to use concepts like the Pareto Principle to achieve remarkable savings. Please email us at Info@StrategicProcurementSolutions.com for more information.