

About This Issue

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

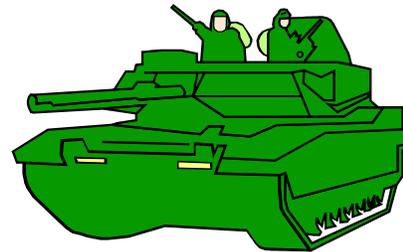
Strategic Procurement Solutions is a consulting firm dealing with Strategic Sourcing, Training, and Organizational issues related to procurement & supply-chain management. Robert Dunn & Mark Trowbridge are general partners in the firm, and lead teams of professionals in supporting our clients.

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

“The CFO’s Secret Weapon”...

by Patrick Soller, M.B.A.

It’s been my privilege to perform financial analysis projects for several Fortune 500 companies in the service & manufacturing sectors. As a supply chain professional, these were tremendous opportunities to view organizational performance from a Chief Financial Officer’s point of view.



Through some of these engagements, it became apparent that Procurement’s impact upon corporate profitability was not fully understood in the executive boardroom. A disconnect often occurred in translating and reporting of results between procurement & finance.

Fortune Magazine (February 20, 1995) says this in an article titled Purchasing’s New Muscle, **“When the goal is boosting profits by dramatically lowering costs, a business should look first to what it buys”**. The article continues with **“What used to be a corporate backwater is becoming a fast-track job as purchasers show that they can add millions to the bottom line”**.

Leading procurement organizations are beginning to market their accomplishments in terms that senior executives understand. Cost reductions are being expressed in financial concepts like Return on Equity (R.O.E.), Profitability, Earnings Per Share (E.P.S.), and Cost of Goods Sold (C.O.G.S.). Procurement’s accomplishments must be translated into these types of financial terms to gain the attention that they deserve.

Stock price, market value, and return to investors are key performance indicators for today's CFO. Best-In-Class procurement groups are beginning to save money across all organizational non-salary expenditures, including...

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| ✓ Direct & Indirect Materials | ✓ Temporary Staffing |
| ✓ Technology Products & Services | ✓ Property Management & Construction |
| ✓ Marketing, Advertising, & Media | ✓ Furniture, Fixtures, & Equipment |
| ✓ Direct Mail & Commercial Print | ✓ Utilities & Telecommunication |
| ✓ Professional Services (Consulting, Legal, & Audit) | ✓ Fleet Management |
| ✓ Employee Benefits & Training | ✓ Food Services |
| ✓ Travel & Entertainment | ✓ Event Planning |

Procurement's cost-reduction accomplishments directly affect profitability, usually at a **One-to-One** level. For example:

Marginal Inc.'s procurement department spends half of every dollar the firm receives as income from sales or other sources. Marginal Inc.'s sales volume = \$80 Million, Procurement expenditures = \$40 Million, and its Profit Margin = 10%. Consider that...

- A. One dollar saved in procurement = One dollar of profit.*
- B. A dollar of income from sales, **less applicable expenses** = profit*
- C. To increase profit by \$2 Million, sales must be increased by 25% (\$20 million x 10% = \$2 million), OR...*
- D. To increase profit by \$2 Million, Procurement must only achieve a 5% reduction in expenditures (\$40 million x 5% = \$2 Million).*

How many additional salespeople are necessary to generate \$20 Million in new sales for your organization? How many procurement people to save 5%? If R.O.I. is the deciding factor, focusing upon procurement opportunities can produce spectacular results for the **strategic C.F.O.**

"Saving Through Demand Reduction"...by
Mark Trowbridge, C.P.M.

A senior executive to whom I once reported, told me this, **"It's nice to save 20% on the purchase of this product, but if we don't buy it at all, you'll save 100%".**

Too many buyers fail to grasp this, focusing primarily upon price-point reductions...



Advanced procurement professionals, however, are actively involved in streamlining the entire supply-chain process. Working cross-functionally with client departments & suppliers, these professionals are creatively identifying ways NOT to acquire products and services, or to SIMPLIFY and STANDARDIZE upon less expensive alternatives.

As an example, **Strategic Procurement Solutions** recently became involved in supporting assessment & sourcing projects related to demand reduction for copier technology. One of the most recent technological advances in this arena is the introduction of digital multi-function devices (i.e. photocopiers). One of these devices can replace ALL of the following departmental devices at significant savings...a wonderful example of demand reduction.

- **Analog photocopier**, plus associated supplies & maintenance ✓
- **Local Area Network (L.A.N.) printer**, plus associated supplies & maintenance ✓
- **Scanner**, plus associated maintenance ✓
- **Facsimile machine**, plus associated supplies, phone line costs, & maintenance-✓

In an article titled Rightsizing Output Fleets: The Hidden Gold Mine (March 19, 2001), the Gartner Group says the following, **“Copiers, printers, faxes and scanners have never been an enterprise’s top priority, but the costs to maintain separate fleets of output equipment are staggering...”** and **“Output equipment fleets are one of the most overlooked and under managed sets of assets in many enterprises. Surprisingly, these fleets can cost an enterprise between 1% - 3% of revenue per year.”** Gartner then identifies the savings potential as **“between 20% and 50%”, a range consistent with our experience.**

We’re currently working with leading firms to (A) Assess in detail their expenditure patterns on these items, (B) Gauge actual utilization against designed capacity, (C) Calculate current Cost-Per-Copy (“CPC”) expenditures, (D) Develop a transition plan, (E) Strategically source the most qualified supplier(s) to manage a CPC program using digital multi-function devices, and (F) Implement the new program. These projects are great examples of combining demand reduction with price reductions.

“The Changing Paradigm”...by Robert Dunn,
C.P.M., M.B.A.

Over the past 40 years of my career as a procurement professional, I’ve witnessed the evolution of our trade first-hand. In the 1960’s, we were known as “buyers” and were primarily responsible for placing purchase orders.

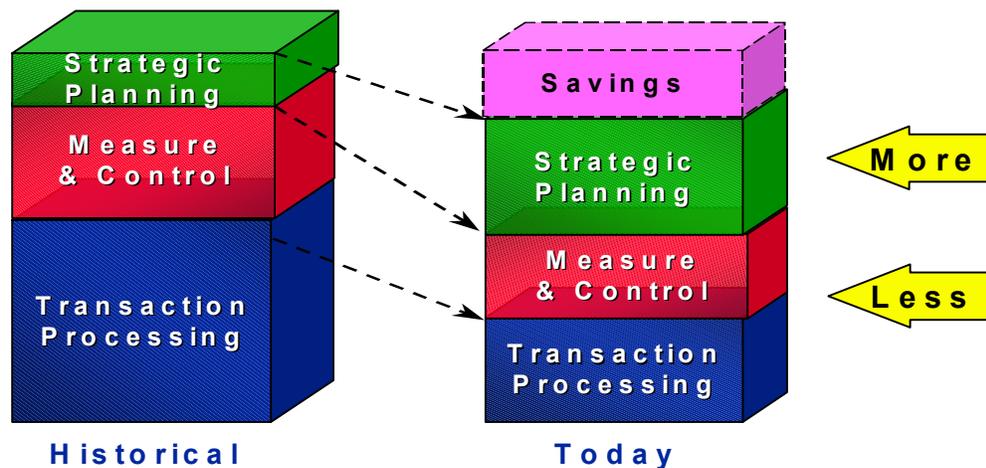


In the 1970's the oil crisis hit and the importance of an efficient supply chain was critical to avoid the problem of shortages and the rising costs of energy and transportation. This was the first time that top management in many organizations started giving supply chain management serious consideration.

In the 1980's foreign competition began taking domestic market share in many industries. Improved quality was the mandate from customers. Quality was the driving force for sales; and supplier development became the central function of the materials manager. Senior executives once again turned to the procurement function as a competitive factor in acquiring the highest quality raw materials, components, and other goods.

In the 1990's, the race for technology began. Company's feared being left behind in the race for the speed of acquisition and availability of strategic information. This race also contained many perils due to the high acquisition cost; but also the hidden maintenance and service costs. Now the professional was not only responsible for the product costs; but also the non-traditional costs of services.

Today, the purchasing professional's skills continue to increase in sophistication. They need a comprehensive grasp of the entire acquisition process for all non-salary segments of their firm's expense base, a broadly-defined expertise in business and systems, high ethical standards and finely honed interpersonal skills. High-level professionals are involved with supplier development, working with firms to understand costs and to identify areas of cost reduction. They are also striving to understand markets on a global basis. This involves making strategic decisions across their enterprise. Technology has eliminated many of the transactional duties, and therefore the professional's ability to impact the bottom line has been expanded.



With the advent of tools like e-procurement and p-cards, today's procurement professional is able to focus upon strategic long-term objectives rather than tactical transaction processing. Value management within the enterprise has increased the reach and scope of the profession. Procurement in the most proactive companies captures non-traditional expenditures (marketing, advertising, employee benefits, property management & construction, travel, professional services, etc.) in addition to

core product acquisitions that we've always handled. Many exciting developments are occurring in our profession, and many more are on the horizon for the skilled professional!

Editor's Note: **Strategic Procurement Solutions'** objective is to provide top quality supply-chain consulting & training services to clients in the private 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 solutions.com for more information about our services, with questions about these articles, or if you do not wish to receive this newsletter in the future.