



"Best Practices" Supply Management Journal...

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Over 10,000 Supply Chain Leaders Now Receive This Bi-Monthly Journal. Please feel free to forward it to a colleague, or have them join the distribution by clicking the link at the bottom of the page.

New articles in this Edition:

- **"Sourcing vs. Bidding...Key Differences"** - Mark Trowbridge, CPSM, C.P.M.
- **"Objectivity - What Procurement Should Bring to Acquisitions"** - by Robert Dunn, M.B.A.

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

Key Services include...

- Procurement Staffing Services (Temporary, Project, Contingency Search)
- Online Supply Management Skills Testing
- Professional Development Services (Training, Coaching, Org Development)
- Expertise in Strategic Sourcing of High ROI Spend Categories
- 360 Degree Efficiency reviews,
- Outsourcing Project Expertise (LCC & BPO), and
- Supply Management Consulting Services

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.

New Website! Strategic Procurement Solutions has a new website, designed to provide more content to our customers. The site provides a page full of SCM informational website links.

"Sourcing vs. Bidding...Key Differences" - by Mark Trowbridge, CPSM, C.P.M., Principal

Our company leaders are often requested by client groups to review the efficiency of their supply chain practices. One of the key elements in our 360™ Supply Management Efficiency Review is to contrast the client's enterprise-wide spending with the Strategic Sourcing actions that preceded the expenditures.

We are often surprised to find that many private sector companies and public sector agencies have confused "bidding" with "sourcing". **But Strategic Sourcing is far more than what one of Strategic Procurement Solutions' founders calls, "Three Bids and a Cloud of Dust."** Just because a solicitation process (RFQ, ITB, RFP, Auction, etc) may have been conducted, doesn't actually mean that the expenditure has been properly "sourced".

This article will clarify some key differences between "bidding" and "sourcing":

Difference #1 – Strategic Sourcing Involves Much More Than Bidding: Key stages of the Strategic Sourcing cycle include the following

(some categorize them into five, six, or seven toll-gate stages):

Visitors can also download any of 44 past PDF editions of the [Best Practice Supply Management Journal](#)™. Please take a few minutes to visit Strategic Procurement Solutions' new website.

First Sourcing Stage – Analyze the Spend Category; Document the Requirements

Second Sourcing Stage – Develop the Sourcing Strategy; Create Sourcing Team; Build Team Consensus for Strategy

Third Sourcing Stage – Generate Potential Supplier Portfolio; Understand the Marketplace

Fourth Sourcing Stage – Choose Competitive or Supplier Development Pathway

Fifth Sourcing Stage – Compete the Requirement; Negotiate with Selected Supplier(s); Award Contract(s); Consolidate Supplier Base

Sixth Sourcing Stage – Implement New Supplier Relationship(s)/Program(s)

Seventh Sourcing Stage – Supplier Management; Continuous Improvement

Today, the Institute for Supply Management re-published the 2009 Top 10 [eSide Magazine articles](#). Number 5 was written by Strategic Procurement Solutions own Mark Trowbridge!

Before the end of February, customers who [schedule](#) Employee SCM Skills Diagnostic, Onsite Training Workshop, or Staffing Services for performance during 2010 can receive 2009 rates.

If we think conducting “Three Bids and a Cloud of Dust” means we’ve “sourced” an important spend category, then we’ve missed the majority of the opportunity to drive savings and add value.

Difference #2 - Bidding Is Not Always Part of Strategic Sourcing: Especially in the private sector, many sourcing projects are optimally-conducted via the negotiation (rather than bidding) process. Several years ago, a survey was conducted of several thousand executives by the Institute of Management Association (IOMA) about what procurement practices had generated the most value for them. *The most-beneficial practice turned out to be “renegotiation of existing supplier relationships”.* Leveraging the strength of a highly-valued supplier relationship should never be underestimated by sourcing professionals. Even in governmental circles, *Sole or Single Source* exceptions often apply, which rightfully bypass a multiple-supplier

solicitation cycle and proceed directly to negotiations with a key provider.

*Skilled procurement professionals recognize that **ALL** of the following parameters must exist for competitive bidding to be utilized:*

- Sufficient time must be available to generate competitive proposals;
- Requirements must be clearly-defined & documented;
- Dollar value is sufficient to warrant strong competition; and
- Enough qualified suppliers must exist.

If all of the above don't exist, then negotiation is the best sourcing strategy to employ.

Difference #3 – Too Much Bidding Actually

Hurts Sourcing Results: Overuse of competitive bidding and contracting can actually fragment expenditure categories and make it difficult to perform true “Strategic Sourcing”. How often has a procurement group found its hands tied by fragmented contracts which expire on widely-different dates? This creates a cycle of short-term purchases/contracts that cannot be easily-leveraged.

For example, several years ago Strategic Procurement Solutions was hired by one of the world's largest insurance companies to help them source their fleet of digital output devices (copiers, printers, facsimiles, scanners, etc). Prior to our engagement, one of the largest SCM consulting firms had failed to capture any savings on this client's fleet of hardware (more than 2,000 pieces of equipment) because they had failed to stage hundreds of leases and maintenance agreement expirations be co-terminous (staged expiration dates). Our firm was successful in restructuring the sourcing strategy initiative to stage equipment transitions...in a way highly-attractive to a leading global supplier of multi-function equipment. The resulting program

delivered more than \$5 Million USD in annual cost savings to the client...all because we sourced the whole program rather than mere subcomponents.

Difference #4 – When Done Properly, Sourcing Impacts Broad Expenditure

Categories: Too many well-meaning procurement groups feel they have “sourced” a large expenditure category because sub-elements of the category have been competitively bid. No better example is often that of Information Technology. Countless bids and negotiations are conducted in support of the technology space...which often don't make any significant dent on expenditures. To make a real impact, the procurement team needs to strategically look at enterprise-wide spending across the technology arena, and develop a long term system of leveraging select supplier relationships that yield the most benefit. Failure to slow acquisitions until key baseline supplier relationships can be implemented often loses the battle for the procurement team.

Strategic Procurement Solutions often helps client organizations find innovative ways to improve their procurement performance through our proprietary 360° Supply Management Efficiency Analysis Process. We also assist clients in securing cost savings by Strategic Sourcing of important expenditure categories. Please visit www.StrategicProcurementSolutions.com to review our many tailored offerings.

"Objectivity - What Procurement Should Bring to Acquisitions", by Robert Dunn, M.B.A., Principal

Too often, those of us in procurement believe our sole reason for existing is to save money for our employer. But supply management actually exists for a number of very important reasons,

including:

1. Sustaining a secure supply chain;
 2. Interacting with the supplier community in an ethical manner;
 3. Providing enterprisewide focus on leveraging opportunities;
 4. Standardizing key acquisition activities;
- and
5. ***Providing objectivity to Line of Business (LOB) customers.***

This article will discuss one of procurement's most important reasons for existing; i.e. our responsibility to bring Objectivity to acquisitions. In Hans Christian Anderson's story titled "The Emperor's New Clothes", the egotistic ruler of a country was known for his love of expensive clothing. The story begins with the following words:

*"**Many years ago** there lived an Emperor who was so exceedingly fond of fine new clothes that he spent vast sums of money on dress. To him clothes meant more than anything else in the world. He took no interest in his army, nor did he care to go to the theatre, or to drive about in his state coach, unless it was to display his new clothes. He had different robes for every single hour of the day... **Now one fine day** two swindlers, calling themselves weavers, arrived. They declared that they could make the most magnificent cloth that one could imagine; cloth of the most beautiful colours and elaborate patterns. Not only was the material so beautiful, but the clothes made from it had the special power of being invisible to everyone who was stupid or not fit for his post."*

Hans Christian Anderson proceeds to tell the story we all know. The Emperor and all his servants were each afraid to admit they couldn't see the fabric. Enormous funds were paid by the Emperor to the two swindlers for the invisible

cloth, in preparation for a large public procession. On the day of the procession, we read the following:

*“ **I am quite ready**’, announced the Emperor, and he looked at himself again in the mirror, turning from side to side as if carefully examining his handsome attire. The courtiers who were to carry the train felt about on the ground pretending to lift it: they walked on solemnly pretending to be carrying it. **Nothing would have persuaded them to admit they could not see the clothes, for fear they would be thought stupid or unfit for their posts.** And so the Emperor set off under the high canopy, at the head of the great procession. It was a great success. All the people standing by and at the windows cheered and cried, ‘Oh, how splendid are the Emperor’s new clothes. What a magnificent train! How well the clothes fit!’ No one dared to admit that he couldn’t see anything, for who would want it to be known that he was either stupid or unfit for his post?”*

We all know what happens. A small child by the side of the parade says, “He hasn’t anything on”. Soon everyone throughout the crowd echoed this...”He hasn’t anything on.” But the Emperor and his servants continued in the parade, failing to recognize what everyone else knew.

How often is this scene reproduced by Supply Management groups around the world?

Consider the following examples:

- How much more money was spent for an overbuilt ERP technology system installation from a large global software house rather than a more cost-effective “best of breed” solution from a smaller provider? Was the excess cost necessary? Or was the more-expensive package selected because no one would be able to blame the CPO who made the decision? Did anyone on the project team have the courage to say “Do we really need

an aircraft carrier to tow a water-skier?” *And is everyone throughout the internal customer base now saying, “This system is really hard to use...why is purchasing making it so difficult for us to get the products and services we need?”*

- Why was an expensive Big 5 consulting firm hired to handle a company project, rather than doing it internally (or utilizing a skilled niche consultancy to cost-effectively perform the project)? *Was it so that no one can be blamed if the project isn't successful? Was everyone involved in the project thinking, “Why are we paying a costly premium to these consultants to make our lives miserable?...but no one was courageous enough to actually say it?”*

- Was the purchase of a discretionary product or service even necessary? *This last year in the USA, following a huge federal bailout of an insurance conglomerate...that firm scheduled a multi-million dollar sales retreat at an expensive resort. When confronted by a shocked public and political arena, the firm's justification included the words, “We were provided with a special hotel rate for the conference”. Obviously no one asked whether it was appropriate to have the retreat at all...but that's where objectivity would have been most-helpful.*

Are today's procurement professionals more like the Emperor or his servants who didn't want to seem unfit? Or are we like the honest child along the parade route who truly recognized that the Emperor had nothing on?

One of the most-important functions of a

procurement organization is to be an objective third-party to **every** acquisition of products or services. We need to appropriately be able to question the rationale behind key acquisition decisions...and guide our stakeholders in making the best possible business decisions. It's not ultimately our role to make the procurement decision, but we do need to objectively be able to help our customers make an objective and wise choice.

Strategic Procurement Solutions helps clients make educated business decisions about the suppliers and products they select. We train procurement groups in ethical behavior, and also assist clients in making procurement technology acquisitions. Email Info@StrategicProcurementSolutions.com for more information about these and our other supply management services.

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