



## ***"Best Practices" Supply Management Journal...***

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### **New articles in this Edition:**

- **"Key Elements in a Balanced Supplier Scorecard"** - Mark Trowbridge, CPSM, C.P.M.
- **"Dealing With Changes in the Executive Suite"** - by Robert Dunn, M.B.A.

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**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.

### ***"Key Elements in a Balanced Supplier Scorecard" - by Mark Trowbridge, CPSM, C.P.M., Principal***

Have you ever noticed how business trends tend to cycle in popularity? The other night I had the privilege of sitting next to Dr. Phil Carter, Chairman of the Center for Advanced Purchasing Studies (CAPS), at a dinner event. We had a very interesting discussion, and later he made a presentation to the audience about a CAPS study regarding future Supply Management trends. One of the key topics we discussed was that top organizations again seem to be making focusing more efforts onto building collaborative supplier relationships. One of Dr. Carter's comments during his presentation was *"I'm actually surprised how many companies still rely on competitive bidding as much as they do"*.

Now of course competition is a key option in the Strategic Sourcing process. But so are collaborative negotiations. This is especially

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Two additional onsite training workshops are also being added to our menu of programs: 1 - Leading Techniques in Competitive Bidding; and 2 - Technology Contracting...Winning Techniques.

Read an Article by Strategic Procurement Solutions leaders in the May/June Edition of ISM's eSide Magazine articles!

true for “alliance” and “strategic” supplier relationships which are the most-important types of supply chain integrations.

A study recently presented by The Hackett Group (a research organization which focuses upon behaviors of “world class” organizations) shows that today’s leading procurement groups feel:

- *“Roughly 10-20% of savings will be coming from supplier collaboration (versus sourcing)”*
- *“Procurement has multiple major priorities in 2010, focused on cost reduction, but also increasingly on risk reduction and deeper alignment with suppliers and internal customers”, and*
- *62.1% of firms plan on “Driving price concessions with existing suppliers”*

**So how can buyers derive more value from our existing supplier relationships?**

**This article will discuss one technique to use; how to structure a balanced supplier scorecard to be used to measure contribution of value.**

Why Is value quantification even important? -

You know, most people wouldn't have tried as hard in their scholastic educations if our teachers hadn't given us grades. It's interesting how much more each of us learned, because a report card was looming in our futures (and after the report card arrived, we sometimes had a discussion with our parents about doing a few things differently in the next semester...). But surprisingly, many suppliers don't receive regular constructive feedback from the

procurement groups with which they do business.

One “best practice” used by top-performing procurement groups is a “balanced scorecard”. This is a standardized report card which measures a key supplier’s contribution during a defined time period, and provides a format for feedback to the organization’s management team. Because it usually isn’t feasible to scorecard every supplier, application of the Pareto Principle is usually a good guideline for an effective program rollout.

The scorecards utilized by many companies and governmental agencies often vary in content. Some organizations even err by allowing very different scorecards to be developed by their different Line-of-Business (LOB) groups.

**But the best buying groups seem to measure five different categories of supplier contributions...Management, Innovation, Service, Cost, and Quality (MISCQ). Here are brief description of each of these elements:**

1. **Management** – The management team of a supplier is a key factor in the service they can provide to their customers. Many of us have seen an excellent supplier with a poor account team that (to us) performed below our standards. On the other hand, a average supplier company which has a great account team can sometimes provide surprisingly-good service. Willingness to negotiate, ability to communicate meaningful information, professionalism

of behavior, leadership, availability, strategic vision, and other elements are all factors which distinguish an outstanding management team. Strategic vision is another factor which will change the position of that supplier organization within their industry.

**2. Innovation** – Several years ago, Warren Buffet described marketplace evolution with the words, “Innovators, Imitators, and Idiots”. As described in a prior article by the same name (Best Practices Journal Edition #38, which can be downloaded from our website’s Publications site page), many companies lack the innovation to create revolutionary products and services. So groups which desire to be on the cutting edge of performance should evaluate their suppliers’ innovation as a key part of the value they can provide.

**3. Service** – A supplier’s service level is, of course, a critical part of the value they provide. Are deliveries or installations made on-time? Is maintenance performed correctly the first time, or are repeat service calls required? Are invoices correct and timely? Many other factors affecting service levels can also be evaluated.

**4. Cost** – As we all know, cost is far more than the unit price of the product. Total-Cost-of-Ownership ( TCO ) is the combined cost of acquiring, installing/implementing, utilizing, and disposing of a product or service. A scorecard should evaluate ongoing TCO elements of each supplier, including the

performance of the supplier in identifying and implementing cost reduction concepts.

**5. Quality** – Depending on the services or products being acquired, quality can be measured in different ways. For example, in manufacturing a metric like flaws in Parts-Per-Million (PPM) might be reflected in this scorecard section. Or for a customer service call center a metric like Time-to-Answer ( TTA ) or Mean-Time-Between-Calls (MTBC) would apply. Or a technology hosting firm might be evaluated on a 99.5% uptime basis. Quality can also be measured based on improvements to products/services during the measurement period.

Many sub-elements of these categories of measurement exist, and must be selected and tailored to the score-carding organization based upon its data capture availability, category importance, and business category performance objectives.

**Strategic Procurement Solutions helps our clients to tailor tools and processes, and also trains personnel on ‘best practices’ in Supplier Relationship Management (SRM). One of our most-popular two-day onsite training workshops is Supplier Performance Management<sup>™</sup>. We also present online SRM webinars to our client audiences in a “lunch and learn” format. Email us at [Info@StrategicProcurementSolutions.com](mailto:Info@StrategicProcurementSolutions.com) for more information.**



***"Dealing With Changes in the***

## ***Executive Suite"*, by Robert Dunn, M.B.A., Principal**

Those of us who have been in the corporate world for several decades have come to realize that the makeup of the executive management team can deeply impact our ability to perform, and enjoy, our jobs.

This is especially-true in the Supply Management arena, since the support of executive management is very important to SCM achievement. Without active involvement and support from the "C" Level (i.e. CEO, CIO, COO, CAO , etc) of executive management, it is very difficult for the supply management group to make much progress. One of the more difficult factors in any supply chain professional's career is to adapt to the varying personalities of the executive team. Sometimes, the replacement of just one senior executive can significantly alter the organizational culture in which procurement operates.

**So how can the procurement professionals adapt to new executive personalities? This article will suggest five proven methods of building and maintaining strong support from the executive team:**

- 1. Educate** – Whenever a new executive position is filled, it is important for procurement leaders to take time to educate the new leader about the importance of a strategic approach to supply management. If from the outside, a new person may bring preconceptions about purchasing which are not accurate within the new enterprise. Take time to explain "best practice" in the SCM arena, key business objectives being pursued by

the procurement organization, and measurable benefits to be delivered. Answer the executive's questions, and promptly respond to requests for additional information.

**2. Build Consensus** – It is important to maintain strong relationships with other company executives during times of organizational change. This is as important before the change as during, since it takes time to build cohesion of thought between executives. Procurement should continually build relationships with key company leaders. It's not enough to meet with division heads once a year. Make the effort to continually-inform the senior management team through group (for instance, a Sourcing Strategy Committee) and individual meetings with the executive team members. Having a strong relationship with all the C level executives will smooth the transition if an executive joins or leaves the group. And it can help to avoid disruption if a new executive joins the organization with preconceptions about other ways of "doing procurement".

**3. Provide Value** – In a healthy organization, all business units must provide an increasing level of value. The procurement group is no different, and must continually challenge itself to capture additional savings, make ordering easier for internal customers, improve supply chain performance, etc.

**4. Continually Inform** – It's not enough to provide value, if no one knows about it. The procurement group must inform

senior management and internal stakeholders about its impact on the organizational performance. But there is a balance between informing, and bragging, and the procurement group needs to strike a healthy balance in their approach. Helpful tips for communication include:

- Inform internal customers about new procurement programs through helpful communications...like *“Did you know that our new parcel delivery program with Next Day Parcel will save an average of 18%? But you can save 32% by shipping via the 2<sup>nd</sup> Day Service rather than Overnight.”*
- Give credit to internal stakeholders when announcing procurement accomplishments...like *“Working as a team with the Engineering and Operations departments, the Supply Management organization has created new production line equipment standards which will reduce CAPx costs by more than \$22 Million in 2010.”*
- Metrics That Matter...make sure your management team receives regular and meaningful reports showing the state of the supply chain, key savings & cost avoidances, metric dashboards, etc. These reports should be presented in a manner which has meaning to the “C Suite”. Metrics should be selected which have relevance to the organization’s performance and business plans.

**By Educating, Building Consensus, Providing Value, and Continually Informing**, we can ensure ongoing support from the executive management team. And when that team changes in composition, the reputation we've developed with have a much-better chance to carry us through the transition.

**Strategic Procurement Solutions** teaches procurement groups how to market their value to their executives, stakeholder departments, and internal customers in our onsite training workshop titled **Outstanding Customer Service for Procurement Professionals**<sup>™</sup>. We also consult with companies on providing more value to their stakeholders. For more information, please email

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