

The 21st-Century Ideal Supply Management Organizational Format for 2005

Dr. Peter E. O'Reilly, C.P.M., Associate Vice President
AMERIGROUP
917/940-8004; drpor@aol.com

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Abstract. Creating a working enterprise-wide supply management organization in the 21st Century can provide most firms with some significant cost reduction and competitive opportunities. What has to occur for this to happen is to tear down the traditional procurement silos that are firm-based and instead, use the talents and skills of the purchasing staffing and systems found in these decentralized environments for the good of the entire corporation. This paper will discuss key aspects related to implementing an enterprise-wide successful supply management organization.

The Problem. The great amount of M&A activities in today's business world has caused a good deal of confusion in the area of organizational formats. This confusion covers a wide array of functions such as human resources, technology and our beloved, supply management. The traditional dilemma had involved whether to centralize or decentralize a single firm's procurement function. While that question still exists in many firms, there is the added burden of mergers and acquisitions that cover both domestic and global parties.

This problem has persisted for a number of sound, and not so sound, reasons:

- Corporate culture
- Lack of senior management support
- The dynamic and ever changing nature of M&As
- A lack of a solid strategic sourcing function with a mission and a plan

Corporate culture can be an effective tool in either creating a team environment, or in perpetuating a disjointed mess, when it comes to determining the proper supply management organization for a firm. Most companies have track records of how they centralize or decentralize functions within their structure. These historic factors in a negative situation are also referred to as "silos." Often these organization castles, of sort, are not meant to be breached, whether intentionally or unintentionally.

In many services-related firms senior management does not give supply management organizations the professional respect they deserve. That is clearly due to a lack of understanding on how a procurement organization can positively impact a firm's bottom line. Thus, there is no stampede by senior management to develop a world class purchasing organization.

M&As have become a way of business live today. No firm is "safe" from being the "parent" or the "child" in an M&A action. While many M&As can be an extremely positive experience, the volatility of these transactions is often lost on the need to rethink how a "better" supply management organization can serve not only the parent company, but improve the competitive nature of the entire enterprise.

While the abovementioned three factors tend to be externally-oriented, there is one internal based element that often distracts from a firm having a strategically organized supply management operation. This factor relates to the lack of a chief procurement officer with a strategic plan and a vision.

The Process Begins. Okay, so we are faced with some pretty significant roadblocks to developing the proper organization format for a firm's supply management department, but all is not lost. As with many involved and complex undertakings the first step in creating an ideal organization is to review several existing elements, in other words, take stock of the pluses and minuses facing you:

- Senior management's buy-in
- Types of firms in the enterprise
- Spend analysis
- Review of contracts
- Corporate barriers and biases
- How to quickly build a team approach

No organizational revisions of any consequence should occur within a company without senior management's support, tepid though at times it may be. Their ownership is a key element of success. As reorganization may involve a multitude of units spread out all over the globe, or just a few operational units, all parties need to know where senior management stands on this effort. If a tight supply management organization does not currently exist, then it should be no great surprise if senior management has very little knowledge of the full scope of the potential benefits of this endeavor.

The type of firms that will be included in this project is important. The array of products and services bought by each supply management entity, as well as their locations, could have a major impact on the reorganization time table. Try to work within similar types of organizations as a first phase. In other words, it may be helpful to reorganize operations that are in services sectors first, before moving into manufacturing-related firms. The same may be true when locations could be an issue. It may be quicker and more effective, at least initially, to work on domestic based organizations before venturing on to more global units.

The full scope of this project can best be ascertained by an enterprise-wide spend analysis and review of all contracts. It is through gathering these vital pieces of information that the full scope of not only the reorganization can be seen, but the potential benefits can begin to be identified.

By this time you should have some sense of where you expect to meet barriers and biases to performing a complete reorganization of the supply management function. These obstacles can be manifested either directly ("You do not know our business") or indirectly (through a lack of cooperation when seeking basic information). It is at this point where you can begin to identify where best to begin the project. Securing some easy and early victories is essential to building the credibility of the reorganization project in the eyes of senior management and yourself.

From my experience in reorganizing supply management operations, it is urgent that a team environment be developed. No one person, regardless of title, mandate or will, can accomplish the creation and implementation of a true world class procurement organization. I mentioned earlier the need for senior management to have a “buy-in” to this effort, well just as importantly is “buy-in” from the folks through the enterprise that are needed to make this work.

Implementing a Plan. We have discussed problems and processes, now is the time to begin to turn concepts into reality. From your due diligence-type measures you can begin to develop a SWOT analysis. This is a vital step in any implementation project, as you will identify from your research strengths and opportunities for you to focus on, as well as the potential pitfalls that could be caused by weaknesses and threats to your plan.

The strengths and opportunities should guide you in what steps to begin with. These steps could be in the form of who will be a valuable contributor to the team, what companies in your enterprise to bring under your reorganization umbrella first, and perhaps what types of goods and services will lend themselves for inclusion in the earlier stages of the project.

The complete reorganization of an enterprise-wide supply management operation could take years, so some quick successes are important. It is here that a strategic plan is essential. This strategic roadmap should identify what the goals are for both the short and long terms.

Short Term Goals. For the short-term (less than a year) you should focus on completing the spend analysis, which in turn will give good insight on what suppliers, products or services should be given top priority for attention. The consolidation of contracts and associated suppliers are also at the core of any successful strategic sourcing program. It also gives senior management some idea of what the potential savings may be from the supply management reorganization.

In these early stages it is probably a good idea to begin some type of staffing resource evaluations. While there are three main cost reduction buckets that are available to this project: strategic sourcing, staffing and systems-related, it is the staffing area where there will probably be the biggest resistance. Why should a part of the enterprise give up control (staffing) to become a customer (of the new supply management organization)? Having an answer to this question is important in selling the reorganization concept.

On the subject of savings, it would not hurt to record some cost reduction initiatives early in the process. Senior management definitely understands the language of savings to their bottom line.

Once again an early target should be to develop a team composed of the key stakeholders, including supply management personnel from the major operations, within the enterprise. Not all of the folks on this team need to be believers, at least initially. This team will be your eyes and ears for communicating information out, as well as back to the team, and yourself. A dynamic team, once it is on the move, allows for the reorganization to take on the identity of the enterprise and not that of any single individual. The team can win many more battles than the CPO.

Long Term Goals. What is a main objective of any consolidation effort is to direct the enterprise-wide supply management through one strategic plan. A key element in such a plan is a coordination of the staffing talent within the organization. What is needed is to avoid a duplication of work, or worst yet, performing unproductive procurement activities.

It is vital that within six months to a year of any significant reorganization a staffing analysis be completed and knowledge on the part of the CPO of the strength and weaknesses of the staff is determined. A consolidation of purchasing activities does not mean that all staffing work needs to accomplish in one location or in one core firm. The staffing review should identify where the talented procurement professionals are located. Every effort should be made to take advantage of such skills.

Another long term goal should focus on the development of a consolidated e-procurement systems and support systems. Often when there are M&As, there are several e-procurement systems (Ariba, PeopleSoft, SAP, etc.) in use throughout the new enterprise. A decision should be made to select the one system that best helps the entire organization. In the selection process, consideration should be given as to what other non- procurement systems (HR and Finance) are in operation.

After the spend analysis and contract review processes are performed, it is now time to begin to sort out who the preferred suppliers will be. This should be a team project as the outcome should be perceived as a group decision. It is suggested that there should be some type of selection process or methodology, such as a weighted scorecard, employed so that decisions could be supported, particularly in those politically sensitive situations.

Lastly, the reorganization should begin to propose specific benefits to the enterprise from the consolidation of the supply management organization. It is here that procurement objectives are tied to those of the corporation. After all one of the roles of any purchasing department is to improve the firm's bottom line.

Sorting Out the Centralized vs. Decentralized Dilemma. Right off the bat, throw out the ancient concept of centralized vs. decentralized organizations. Today a hybrid format tends to be the best fit for most firms, as it allows for flexibility and brings down many of the old organizational silos that featured "them vs. us" mentalities.

Now to get down to basics, we need to determine which tasks are best fitted to be handled in a centralized environment and which tasks lend themselves to being processes in a decentralized format. Most of these situations should take into account how to optimize the cost savings and operational efficiencies to the enterprise. A key element in these decisions should always be the location of staffing talent.

Enhanced systems support and improved communications have broken down many of the traditional factors used in deciding where key functions are to be formed. It is still important to have some strategic activities performed in a centralized type of structure. Some of these functions will probably include:

- Contract database and the negotiations of key contracts by senior procurement and legal personnel. This does not mean that all contracts should be negotiated by Home Office personnel.

- Systems administration for both e-procurement type systems and any software-related support systems.
- Strategic planning, with input from key stakeholders throughout the enterprise.
- Development and maintenance of policies and procedures.
- Training.
- Some subject matter expertise (SME) related to strategic sourcing and supplier management.

Some of the activities that tend to lend themselves to being more effective being employed outside of the Home Office structure are:

- Customer service with key internal clients.
- Marketing of services to customer departments.
- Local strategic sourcing and supplier management.
- Local contract negotiations.
- Some subject matter expertise (SME).

Implementation Guidelines and Yardsticks. From my experience creating a Team, with members from all key organizational components, is a key to a successful implementation. This Team should be involved in all major planning decisions and the implementation schedule. The implementation schedule could consist of the following factors:

- A plan of what is to be accomplished within the first six months. This plan should be based on the expected short term goals. Important elements should identify what spends, contracts and suppliers are to be targeted. It should also assign responsibilities to the various Team members.
- The implementation schedule should also include the longer term goals that tend to involve Months 7-18. Besides including additional spends, contracts and suppliers to be reviewed, this plan should begin to identify staffing scenarios.
- Savings and operational benefits.

It is imperative that yardsticks or benchmarks be created and used to measure progress with the implementation schedule. Speed bumps will occur so flexibility and back up arrangements will be needed.

Closing Thoughts. Creating, implementing and maintaining an effective modern supply management organization within multi-firm enterprises will certainly be challenging, but rewarding at the same time. Firms are spending millions of dollars to have external consultants come in to review their procurement operations. As analytical time is usually short, it is difficult for these “outsiders” to understand all the elements within an enterprise that are needed in recommending the most productive organizational format to use. Instead of this approach I suggest using many of the internal resources to develop an organization that will work for the enterprise. To accomplish this objective we will need to put petty political feelings aside and work towards a common goal.