**How to Win Organizational Support for Supply Management Best Practices**

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**Abstract.** This nuts and bolts session will present case histories of how spectacular results were achieved and how the participants can apply these lessons. The speakers answer the question – Which best in class practices pay the highest dividends? The presentation will, also, share time tested techniques for gaining organizational support for implementing these changes.

Starting from where you are now – we show you how to reap big dividends from a relatively small effort by applying best in class practices. These practices often yield results as high as 10 to 1.

**Objectives.** Our purpose here is as follows:

1. Set forth best in class practices that every supply management group should pay attention to;
2. Show how to employ metrics as part of a best in class practices effort;
3. Illustrate how to win support of top management, as well as, other departments like accounting, engineering, marketing, production inventory and inventory control, and transportation.

**Winning support – the foundation.** Nothing gets upper management's attention like money. So promising significant savings and then delivering on those promises will ordinarily win support. But not always! The first thing we need to get across to all management in our organizations is the importance of our contribution. For example, in manufacturing, on average, 60% of the sales dollars are spent to purchase goods and services of the organization. In building cars and trucks, purchasing costs run between 60% to 80%. The range for all manufacturing runs from 86% (lead smelting) to 25% (for some electronic assembly). Purchases for the service industries are smaller than most manufacturing but are still a significant. One study of service organizations showed purchases as a percent of revenue as following**:**

1. Banking 17%
2. Government 25%
3. Education 24%
4. Hospitals 20%

While the above averages are nice rule of thumb -- they are not really that important to your organization. What is important is your organization's actual number. We believe that every organization should calculate their own ratio of purchases to sales. Then each manager from the bottom to the top of the organization should know the percent of purchases compared to sales. Why? So that all will know the importance of purchasing operations to the total organization.

Here is how you calculate it. You divide total purchases by net sales (which are gross sales minus returns and allowances). Be sure to include everything such phone, internet service and transportation. For example, if purchases are $100,000 and net sales are $200,000, then purchases represent 50% of net sales (100.000/ 200,000 = 50%). This becomes the basic metric, in others words -- the pot of money we have to work with for savings. Our quest is how much of this money can we not spend? That not spending equals savings.

A $100 savings adds 11 to12 times more to profits than does a $100 sale. This is because a $100 savings after taxes adds about $74 dollars to the bottom line. Where as, a $100 sale on average after taxes and all other expenses adds about $6.50 to profits. For example, savings of $1,000,000 would add $740,000 dollars to profits while a $1,000,000 sale would only add $65,000 to profits.

What if you are in a non profit organization or the government, you might think that all this talk about sales and profit is unimportant to you, but it is not. This is because if you regard your revenue, whether it is received from taxes, donations, patients or insurance payments, it is like sales to your institution. And while savings do not add to profits, it has the effect of providing money to spend for other needs. Or it could result in lower taxes. Such a dreamer!

**Best in class practices.** We don't need to be the best in the world. Our goal should be – to be as good as or better than your best competitor. So if you are making cars, you want to use Honda or Toyota to benchmark against. If you are a local hotel, you want to be as good or better as the best hotel in your market. For as Fredrick W. Taylor, the father of scientific management, said over one hundred years ago, " You do not have to be good in business to succeed if your competition is not very good, but if your competition gets better you must get better, or go out of business."

Now that we understand the overall importance of savings to profit and purchasing; role in those savings let us get more specific. We hear a lot about lean purchasing and six sigma, but for the most part these concepts are repackaged old ideas such as: kaizen, JIT and value analysis. If one looks at the results reported of these varies program, you will find the results are about the same.

The table below lists some of the best practices opportunities.

## Cost Savings Opportunities

| Process | Cost to Implement | Savings |
|---|---|---|
| **Value Analysis** | **$1** | **$26** |
| **Quality** | **1** | **16** |
| **Standardization** | **1** | **3.50 to 12.50** |
| **Inventory** | **small** | **25% to 50%** |
| **Freight** | **small** | **50% to 60%** |
| **Set-up Time** | **small** | **50% to 100% reduction** |

One other important thing that you can do to win management support is to have all purchasing savings certified by the finance department. Ask finance to prepare a report stating actual savings compared to projected savings for the year. Next, request the finance department report these savings to upper management. This will add tremendous credibility to your claim.

In addition to various methods of cost reduction, having and using the right metrics is one of the best practices one can employ. You may ask why have metrics?

The answer is – if you can't measure it -- you can't manage it. Joan Margretta said, "Ultimately, the numbers that matter are the ones that tell a story about how the organization is doing." Purchasing and supply metrics should focus on those activities that we choose to measure in order to improve our operations. Below is an example of how one might go about setting up a metrics for cost savings. Ordinarily, in establishing metrics one needs to do the following:

1. Determine current condition -- we do not currently have a formal lean practices program
2. Set an objective(s)
    a. establish program by July –
    b. set a goal in dollars to be saved
3. Determine metrics to be used
4. Set milestones to measure progress
5. Assign responsibility
6. Prescribe a method of reporting results
7. Establish rewards and punishment

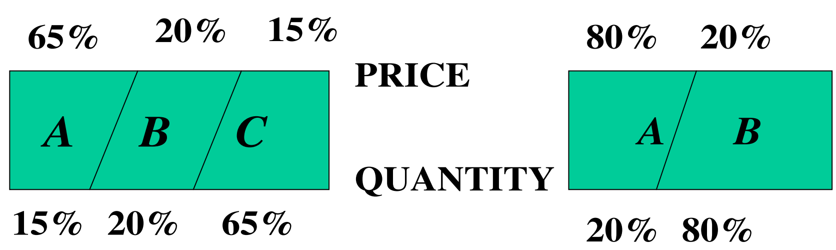
I read of one company that had over 1,000 metrics. They soon decided that that was too many. So what is the right number? There probably is no magical right number. However, we believe a department should not have more than 10 metrics that they are actively trying to achieve lest they dissipate their effort too much.

Here are some ideas to consider.

1. **Supplier metrics** – in a CAPS Survey, it was found that of those purchasing departments that had supplier metrics -- 91.23% said they measured quality , price 90.35%, delivery 87.5%, other 79.75%. Does your organization have such metrics? Should you?

2. **Is Pareto's Law being used to set priorities for major purchases?** The point here is that the A items (see diagram below) are few in number but large in dollars spent. The A account for 15% of your purchases but usually equal about 65% of the dollars spent, while B equal 20% of the purchase and account for about 20% of the dollars spent and finally C are about 65% of the items but account for around 15% of the spending. The value of setting priorities, using this method, is to get you to major on the major things (A items) and not on minors (C items).

## ❖ *ABC & AB ANALYSIS*




**A = 1-15 = 65% $**
**B = 16-36 = 20% $**
**C = 37-100 = 15% $**

**A = 1-20 = 80% $**
**B = 21-100 = 20% $**

3. **Do you have an annual materials budget for key items that is shared with the suppliers?** Is the forecast updated on a regular bases? Number 1 and 2 above and this idea for a metric is what we call yes or no metrics? Are you doing them? If you answer is yes, that is great! If your answer is no, you should probably work on them.

4. At least once a year, **report the progress** as shown by the key metrics to upper management.

**Winning support from management.** It was probably a shock to you, the first time in your career, you presented a superb idea only to have rejected by management. I remember that it was to me when my first $50,000 savings suggestion was dumped on because the powers that be thought that it was impractical. In 1862 during the Civil War, the general who was in charge of the US Army Medical Core ask congress to supply him with a fleet of ambulances so that he could have a way of moving wounded solders from the battle fields to the hospitals. Congress turned down the request because they said it was impractical. It took about two more years (1864) for congress to finally realize that is was not impracticable and that it was indeed necessary. Lesson learned – your ideas will usually not automatically be accept simply because you proposed them. Therefore, anticipate rejection and rather than simply announce your suggestion, mount a sales campaign to get acceptations. You should start this process by identifying the decision makers and then set out to sell them one at a time. Only after you have their individual approval should you proceed to get formal approval.

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