

Achieving World Class Supply Management – As Easy as A, B, C. (No Really!)

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Abstract. What does it mean to be “world class”, both in terms of professional and personal accomplishments? Why should it be important for a supply management to work towards that goal, and can it be achieved? This paper will delve into these and other strategic questions in order to demonstrate that not only is the attainment of the world class level for a supply management organization possible, but mandatory in today’s business climate. The key element in the achievement of world class status is in the execution of sound and innovative strategic initiatives.

What Exactly is a World Class Supply Management Organization? It is generally a good idea to know what the object of any quest is. That holds especially true for a supply management’s efforts to reach the world class level. While there may be a litany of definitions towards this end for this paper world class means reaching some or most of these accomplishments:

- Use of an e-procurement system and supporting software packages to process more than 75% of all spend.
- Being responsible for more than 90% of your firm’s annual spend.
- Achieving a level of 90% of good to excellent grades from customer surveys.
- Being part of most strategic customers’ planning boards, and having most of your strategic suppliers participate in supply management planning boards.
- Having a dynamic professional development program where associates are encouraged to achieve their A.P.P., C.P.M., Masters Degrees, and high levels of customer skills and computer proficiencies.
- Attaining a savings to cost ratio in excess of 5:1.

Knowing the Alphabet of Supply Management. Simplicity is often the key to any successful operation. The same is true in working towards a world class status for a supply management organization. The research behind this paper has identified certain strategic actions, which have been categorized into one of three alphabetic categories, A, B, and C.

Strategic factors in the “A” category consist of: involving associates; developing a positive team and personal attitude; utilizing analytic skills and tools; and being assertive in striving to accomplish your goals. The “B” strategic tasks discussed will include: developing sound business plans; keeping focused on the firm’s bottom line; and, making the entire effort believable. The “C” initiatives analyzed in this paper will consist of: keeping the customers active in the process; embracing change management as a necessary positive event; allowing for communication channels to be kept open in all directions; establishing the credibility of the project; highlighting cost reductions through the project early and often; and, maintaining a high level of integrity in the CPO position.

“A” Strategic Initiatives Needed to Achieve a World Class Supply Management

Organization. The most important element of any successful supply management organization is the associates in the purchasing department. It is here where many supply management organizations go awry in their quest to be world class. Rather than recognizing the importance of the purchasing professionals, some CPOs and senior management believe that it is such factors as electronic procurement systems and involvement of external consultants that make or break a supply management organization. These are merely tools, grant it powerful tools, but what is needed are motivated and interested in purchasing professionals to execute these tools.

Much is required of today's associate in a supply management organization. These purchasing professionals need to continually push their professional development efforts. While achieving an A.P.P. or a C.P.M. is important, much more is demanded in the area of self-development. A purchasing professional should be customer-driven, seek out change management, have sound business skills, be team-oriented, and acknowledge the importance of the financial ramifications of their department to the company's competitive advantage. In other words, the purchasing professional has to be part of the solution and not part of the problem.

What does being assertive have to do with creating a world class organization? Plenty! There is too much on most purchasing professionals and CPOs' plates right now. Finding the time to undertake the journey to excellence will be difficult. As the CPO and team lead on such an endeavor it is extremely important that while setting the goals for this project you establish a sense of urgency. The entire effort will mirror your demeanor, so it is best to take charge early and push the project along.

Stressing the use of analytical skills will go far in determining the direction the project will take. Analytical tools are plentiful thanks to an abundance of software packages and external consultants. The more reliable information you have the quicker you can make solid decisions. Some examples of areas that can produce meaningful data include a review of the company's spend and identifying possible saving opportunities. Having pertinent information can also reduce false starts or wasted efforts. This is beneficial as we all start off such journeys with limited resources. So choosing wisely can be a time and cost benefit to all parties.

Not every one in your organization will have the same fervor that you and your staff will have in this endeavor. However, you will probably need the cooperation of these folks in your project. Having the right attitude can go far in winning these folks over. A positive attitude can often help you can explain to these other stakeholders how the achieving of a world class status for the supply management organization can result in help for their departments as well. As an example, the inclusion of as many strategic suppliers onto your firm's electronic procurement system (such as PeopleSoft or Ariba) can reduce the number of paper invoices and checks an accounts payable unit will have to process. Besides maintaining a positive attitude can tell all parties, including the ever present "gloom and doom sayers" that this project will succeed, so get on board.

“B” Strategic Initiatives Contributing to World Class Status. The days of any supply management organization operating independent of corporate goals is long gone. As a matter

of fact, more and more senior executives are seeking out supply management departments in order to stem escalating company-wide costs.

These demands have put a great deal of pressure on purchasing professionals to produce on an ever increasing scope. Such demands have led to supply management organizations developing business planning models, which mirror the expectations of the parent firm. Projects are undertaken in purchasing departments as a result the direction the company is taken. Sound business planning helps in the allocation of scarce resources and diminishes the chances that supply management organizations will focus on being efficient (doing things the right way) at the expense of being effective (doing the right things).

Associated with creating an effective business planning process is always being aware of the potential impact that a purchasing department can, and should, have on the firm's bottom line. Manufacturing-related supply management organizations have always worked towards this goal. It has only been in the past five years that purchasing departments in services industries have made concerted efforts to be bottom-line driven. This has been due clearly to an awareness of senior management in service industries that supply management organizations have the capability of having a positive impact on such elements as EPS (earnings per share) and reduced costs. It is now up to purchasing professionals to take advantage of these opportunities to help the competitiveness of their firms.

Being believable is an essential requirement when undertaking such an effort as world class status. The concept and the reasons for expending resources on this journey have to stand up to numerous critical examinations by a complex array of stakeholders.

The goals of a world class project should be demanding, but deliverable. Taking on too much, too fast, can lead to numerous targets being missed, and a negative climate surrounding the whole endeavor. That is why it is necessary to achieve some key objectives early. This builds up momentum and a positive atmosphere that is often contagious. People like being associated with a winner. Therefore, make people believe in your quest. Their support can be very important later on when you may hit a speed bump. Being flexible can be a valuable aspect in being believable.

“C” Strategic Initiatives in Working Towards a World Class Supply Management Organization. Most purchasing departments exist because their internal customers allow them to. A major mistake made by supply management organizations that provide services to internal customers is taking them for granted. Complacency in such situations dulls the effectiveness of purchasing departments. For the attainment of world class status the opposite is needed. We have to make our customers an integral part of our operations.

Purchasing departments should repeatedly solicit feedback from their customers in a host of areas, such as establishing priorities, determining the levels of service sought, measuring the effectiveness of suppliers and their goods and services, and helping to identify new ways of improving the productivity of the customers' operating units. It is essential that customers be brought into any business planning undertaken by purchasing departments.

Customers some times lose track that the savings achieved by their purchasing departments are their (the customers) cost reductions. To that end customers should actively involve

supply management organizations in their planning processes. It is only when both the customers and the purchasing professionals are working as a team can world class results be best obtained.

Change is a constant in life. It is also some thing that many of us fear, as it often represents the unknown. It has been my experience that the world of purchasing or supply management evolves drastically every year and a half. This evolution period gets shorter each year. As purchasing professionals we should be proactive when it comes to change management. Seek out change opportunities that will clearly move your organization in the right direction.

The growth of consulting firms, especially, in the area of supply management, has been based in large part, on the fear of purchasing executives to change. Purchasing professionals, by attending supply management conferences and seminars, are in an excellent position to know what new ideas are working and which should be embraced by their firms. Setting a course to undertake some of these new ideas establishes credibility with senior management and allows purchasing departments to be in charge of their organization's destiny.

It seems whenever a company undertakes a survey of their employees or associates the biggest concerns raised involve communications, or the lack thereof. The same is true with supply management organizations. It is necessary to let the world into the mechanics of purchasing. Having periodic feedback sessions with key customers and strategic suppliers will go a long way in reducing problems caused by misunderstandings. The same is true with senior management. Supply management organizations should be proactive here and should schedule meetings with their senior executives for short, but dynamic sessions where the goals and accomplishments of the purchasing departments are reviewed.

Credibility is another factor contributing to world class status. Credibility here is manifested in two ways, that associated with the CPO and that linked to the entire process. There must be a strong feeling on the part of the various stakeholders that the CPO has the knowledge and drive to move the supply management organization in an upward direction. As this process will likely touch a bevy of other departments, the CPO must instill a sense of integrity in that he or she can be counted on to succeed. The credibility of the supply management organization also comes into play. Do the purchasing department's associates believe in the objectives to be undertaken? If they do, then the other stakeholders will likely sense that the effort, from their prospectus, is worth the time and energy.

Being better at what one does is important, but it should have long reaching consequences, especially in regards to supply management organizations. This paper mentioned earlier the impact a purchasing department should have on a firm's bottom line. The best way to achieve this is through an ongoing cost reduction program. The savings opportunities identified should increase tremendously as a purchasing department works towards the world class level. Supply management organizations are constantly moving into non-traditional spend areas, such as benefits, advertising, and leases. Purchasing professionals should be aggressive and proactive in calling on potential new internal customers. Using past accomplishments in the area of cost reductions is a fantastic calling card. And one that is hard to reject, out of hand.

Any project, large or small, needs a champion in order to succeed. In the case of achieving world class status, that champion is the Chief Procurement (or Purchasing) Officer (CPO). All

aspects of the plan have to be driven by the CPO. The CPO must have a high comfort level with the strategic planning behind this undertaken or failure will be the result. Several initiatives mentioned in this paper have already been tied to the CPO and for good reason. The CPO must be the coach, motivator, chief planner, and key communicator. The CPO needs to know when adjustments to the plan have to be made, even if they may not be popular with certain stakeholders. The success of any world class endeavor rests on the shoulders of the CPO; therefore, this individual needs to take personal stock of his/her ability to produce the desired results in the promised time frame.

Lessons Learned. Lofty ambitions are fine but lofty results are finer. Many world class efforts fail because too much is expected in too short a time period. Some of the factors considered when first doing the strategic planning behind the world class endeavor are likely to change. The entire effort needs to be resilient and flexible. Objectives and time tables may need to be revised. Note, such changes to time lines should only be made when factors out of one's control are involved. There has been a marked fluidity involving CPOs changing companies. This has in many cases caused world class efforts to be delayed or abandoned. Most success stories have a common thread in them. Results were achieved on a frequent basis, which have produced a very positive attitude for all those associated with the project.

A Final Word (or Words) on the "A, B, C" Approach to Gaining World Class Status. To paraphrase an often used line, the purchasing journey of 1,000 initiatives, begins with one initiative. That is true when undertaking such an ambitious project as the attainment of world class status for your supply management organization. You, as a CPO, have to first believe in the merits of such an endeavor, and that it can be accomplished. Then you have to sell it to your staff, your management, your customers, senior management, suppliers, and any one else expected to participate in the process.

Once that has been accomplished a plan needs to be developed and implemented. Involvement of all strategic stakeholders throughout the quest is invaluable. The CPO will be called on early and often so he or she must be believable, have a positive attitude, be credible, and have integrity. It is this individual that will be at the forefront of the entire campaign and must constantly provide the necessary direction and spirit.

Often the process is more important than the results. Achieving major process improvements in key strategic areas will go a long way in demonstrating that your supply management organization knows how to use change as a positive tool in improving the firm's bottom line.