

## **Best Practices and Benchmarking – Impact to the Bottom Line**

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### **Abstract**

Best Practices and Benchmarking are two of the most commonly mentioned terms in our profession. However, few organizations effectively use these concepts to advance the mission of all supply chain management professionals, which is to directly contribute to all components of spend within their organization and apply those strategies and tools to that spend outside of their domain. Today, most organizations fail to recognize how these two concepts can bring significant bottom line impact to their organizations, as management has not been convinced of the benefit to the bottom line. This presentation details how to develop and implement a best practices program and the benefits that will be derived from it.

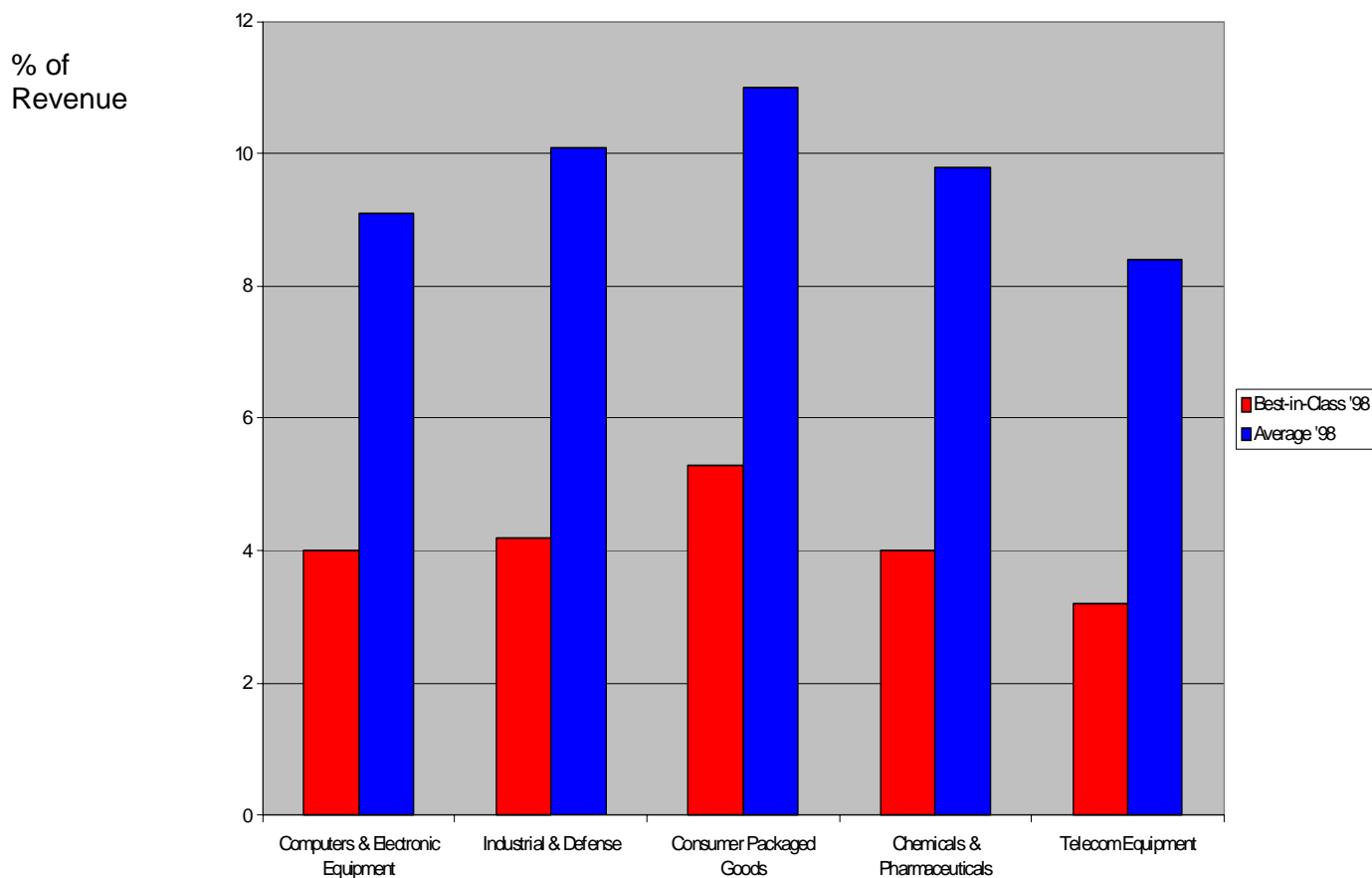
### **Implementing Best Practices and Benchmarking**

The first question one should ask is, What is Best Practices and why should I care as to where my organization and company stand with respect to our industry competitors? First, Best Practices and benchmarks are used by organizations that wish to compare current procurement practices against best-in-class practices in order to develop the most optimized and desired state for future internal procurement practices. So, the answer to the question is that studies show that the benefit to an organization that utilizes these concepts and philosophies is the resulting cost reductions, process efficiencies, and enhanced competitive position in their industry.

As detailed in the study and report generated by the Supply Chain Council listed on the following page, those companies that are “Best-in-Class” have a significant cost advantage over their competitors in all industries surveyed. Those companies using best practices that result in their becoming Best-in-Class recognize an advantage in total supply chain management (purchasing, payables, inventory, logistics, systems) costs of 5 to 6 percent of revenue. Best-in-Class procurement practices are those most optimal standards specific to strategies, philosophies, processes, tools, and methodologies. These elements are critical in ensuring that all goods and services within an organization are procured at the lowest price, within optimal timeframes and at the highest level of quality as required by the customer.

The next question is how do I get started and should I do this internally or bring in outside resources to support this effort. The choices are always based upon those two major decision factors: Time and Money. The more time you have, the less the external cost and conversely the less time you have, the more it will cost as you most likely will engage outside sources to assist you in this process.

## Best -in-Class Companies Realize Advantages in Total Supply Chain Management Costs of 5 to 6 Percent



To migrate to a Best in Class program, a company must focus on how to utilize benchmarking, Gap Analysis and other tools to implement a Best Practices program. Prior to beginning, a company must focus on how and where to start as well as the short and long term benefits that will be derived by your organization, including immediate cost reductions and process improvements.

To begin this process, you should first consider benchmarking major components of your supply chain. These components should include: Purchasing, Materials Management, Logistics, Systems, and Accounting. You should then review how your company benchmark's compares against industry "Best-in-Class" practices. The "Key Elements", should include:

- **Supplier Management Tools**
- **Contract Analysis and Administration**
- **Expenditure Analysis Tools**
- **Business Processes & Procedures**
- **Business Systems**

- **Procurement Personnel & Skills**
- **Inventory, Logistics and Warehouse Processes**
- **Transportation Management**
- **Project Management Tools**
- **Contract Compliance Tools**

A Business Process Assessment (BPA) should be conducted utilizing either internal, external or a combination of those resources. Most BPAs can be implemented and completed with 2 – 4 months, depending upon the size and location of the organization. The BPA will provide an analysis and assessment of your organization with respect to all business processes associated with the sourcing, purchase, handling, and payment of all indirect materials negotiable spend and contrasted those findings to best practices. In conducting the BPA all or most of the aforementioned key items should be reviewed and analyzed.

The Business Process Assessment objectively compares an organizations current procurement practices against industry “Best-in-Class” practices in order to provide a roadmap to overall improvement in both organizational efficiency and effectiveness. This process is accomplished through the use of a weighted numeric analysis system developed and used during the BPA engagement. This activity is and becomes the cornerstone of the overall assessment and proposed solution.

Key Elements, which are critical to any “Best-in-Class” analysis and rating, include the following:

### **1. Spend Analysis**

- a. Rationalized and leveraged supply base
- b. Amount of spend under competitive agreement
- c. Centralization of spend

### **2. Contract Analysis**

- a. Formalized and documented policies and procedures
- b. Contract management system
- c. Spend under formal contract
- d. Competitiveness of contracts
- e. Pricing competitive as compared to industry benchmarks
- f. Enforcement of contract terms, pricing & conditions
- g. Existence of supplier performance measures

### **3. Business Processes & Procedures**

- a. Order process flow logical
- b. Hand-off's clear between process owners
- c. Existence of key performance indicators (KPI's) from requisition to payment
- d. Documented processes and procedures for AP
- e. Documented processes and procedures for Procurement
- f. Consistent processes and procedures between functional areas

#### **4. Business Systems**

- a. Systems flow in logical process
- b. Existence of formal A/P system
- c. Existence of formal electronic desktop procurement/PO system
- d. End-to-end integration of systems
- e. Measured cycle times between systems

#### **5. Procurement Personnel & Skills**

- a. Existence of formal procurement department
- b. Centralized activity for procurement
- c. Existence of formal training programs for procurement personnel
- d. Existence of policies and procedures for procurement activities
- e. Existence of policies and procedures for A/P

#### **6. Inventory and Warehouse**

- a. Continuous performance improvement (CPI's) in place and functional
- b. Existence of policies and procedures for use of safety stock
- c. Inventory management systems in place, monitored and updated
- d. Inventory systems capable of tracking (bar-coding) throughout process
- e. Inventory audited regularly for accuracy
- f. Measurement of lead-times
- g. Measurement of inventory turns
- h. ABC classification used

#### **7. Freight and Handling**

- a. Competitively bid freight charges
- b. Existence of contracts for freight
- c. Leveraging of freight company wide
- d. Formal process for return material
- e. Policies and procedures in place to insure returns are properly credited

Sometimes the hardest part of the process is identifying, developing and utilizing benchmarks that provide the following:

- Comparison against other companies in my industry
- Comparison against other companies outside of my industry
- Comparison against published benchmarks
- Are meaningful and allow for internal improvement and goal setting
- Are objective and insightful

An example of a Best Practices Summary chart that details and provides a Gap Analysis for your organization upon completion of a BPA is detailed in the chart listed below. There are many variations of these types of charts and since this is a summary chart, there would also be detailed charts for each section that are more specific in nature and drill down deeper to key metrics and components of the organization. However, most published benchmarks are more generic and high level, thus one must recognize that availability of information is traditionally limited with respect to detailed information.

## **Summary**

Unlike many programs, awards and other “flavor of the month” ideas that are commonly tried in business today, the movement towards a Best-in-Class organization via use of Best Practices and Benchmarking have always provided and resulted in cost reductions and process improvements, regardless of the industry or company size. The reason for this long-term success is easy, there is always inefficiencies and waste inside all organizations, but rarely does the fat get eliminated nor are the inherently inefficient or non-productive activities eliminated, as it is hard to identify and quantify, unless you utilize a formal process. The cost is minimal compared to the return on investment and the benefits to the organization are traditionally significant and sustainable over the course of time. Finally, all professionals in supply chain management should want to actively work towards improved contribution to the company they support and this provides their management team with the rational and financial justification to implement change.

Best Practices Summary "Gap Analysis"	Summary				Category Summary																			
	Total Points Possible	Best Practice Percentile	Overall	Advertising	Chemicals	Communications	Computers	Consulting Services	Corporate Housing	Engineering Development	Engineering Equipment	Facilities	Fleet	Flood	Food	Industrial Supplies	Manufacturing Supplies	Motorola Services	Office Equipment	Office Supplies	Services	Software	Systems Integration	Tooling
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