

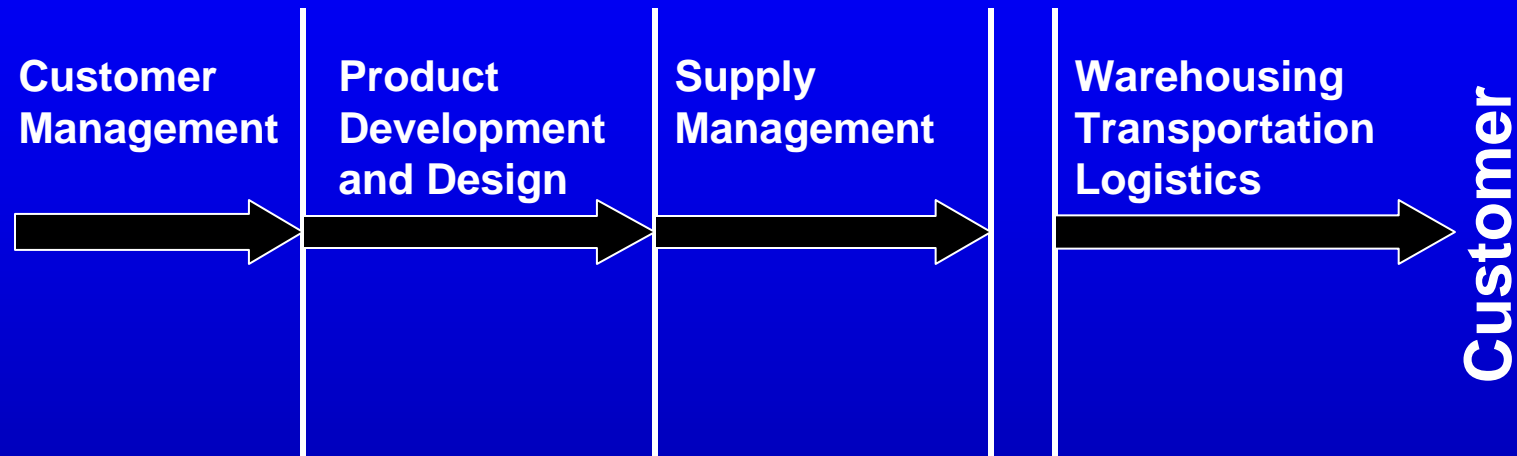
The Big Squeeze, 10 Ways to Cut Your Spend 10% *Right Now!*

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**Opportunities =
time, quality, costs, flexibility**

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Projected Procurement Savings

- Phase I (Beginner) 1 - 2% annually, or less
 - Phase II (Intermediate) 3%
 - Phase III (Excellent) 3 - 5%
 - Phase IV (Expert) Above 5%
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- from *Money Machines*, Gene Richter, Dave Nelson, Patricia E. Moody, Theresa Metty, 2004

Supply Management Maturity - Beginners

Just getting started:

- Significant percentage of maverick buying
- Minimum coordination between many decentralized procurement departments
- A few major breakthrough contracts successfully negotiated each year
- Overburdened with transaction processing, quality problems, late deliveries and/or excess inventories
- Cannot find out how much the global company spent last year with outside suppliers and service providers - **THEY ASK THE SUPPLIERS TO TELL THEM!**

Company doesn't think that acquiring legal services, employee benefits, or advertising is "buying"!

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Supply Management Maturity - Intermediate

- Includes "average" procurement functions
- Most major commodity purchases are negotiated and leveraged
- Maverick spending minimized
- Most transactions automated
- Buying training clearly starting to pay off
- Supplier pricing under control; good coordination with Accounts Payable

People are beginning to develop elaborate excuses for not involving procurement in the acquisition of legal services, employee benefits, and advertising

Supply Management Maturity – Excellent Procurement

- **Most sourcing decisions based on price, quality, delivery and technology performance - not just price or engineering**
- **Number of suppliers reduced to less than five per global commodity/category**
- **Individual components are single sourced, but no category is sole-sourced**
- **All categories managed by a multi-function, multi-geography team, led by the procurement member**
- **Procurement strategy for each category is documented and in use**
- **Procurement is asked to get involved early in the design or development process**
- **All transactions on the Internet**
- **Virtually zero maverick buying**
- **Accounts Payable reports to Procurement**
- **Most manufacturing is outsourced**

Supply Management Maturity – Experts

- All procurement decisions align with corporate goals/objectives
- In each category, each supplier's percentage of business correlates with their performance ranking
- Suppliers rank this company their best customer (not their easiest). Suppliers bring cost reduction ideas to this company *first*
- Other functions give procurement 80 - 90% approval rating
- Employee morale and headhunter calls at all-time high
- Manufacturing, Logistics, Scheduling, Distribution and Accounts Payable report to Procurement
- Aggressive global management development and rotation program
- Technology rules! Optimization, risk management, spend analysis, spend management

Procurement Assessment

Organization and Authority

1. How is procurement organized currently?

- Logistics?
- Production planning and control?
- Incoming material and component quality?
- Inventory management?

2. What performance metrics are available currently?

- Are they used directly in performance review?

3. Who really selects the sources:

- Procurement? (Central? Regional? Plant?)
- Engineering?
- Top management?
- If it depends on the commodity, cite some examples

4. Who negotiates the price and other contract terms?

5. How are decisions made?

- For components?
- For finished products?

Procurement Assessment

Part Categories and Suppliers

6. What are the major outside sourced part categories, based on dollars spent?
7. What part categories are most critical from a quality, technology and/or delivery standpoint?
8. Who are the 10 most important suppliers? For each, please identify:
 - Primary country of mfg. origin
 - Country of headquarters
 - How often they are visited by procurement people
9. Can the MRP/ERP requirements be:
 - Cross-communicated within the company
 - Consolidated into one demand on the supplier
 - Nationally
 - Globally
10. What are company policies on:
 - Ethics
 - Buyer behavior
 - Supplier behavior

Procurement Assessment

Part Categories and Suppliers (cont.)

11. Are there regular, formal processes for communicating with suppliers and getting their input?
 - Periodic surveys?
 - Advisory councils?
 - Ombudsman?

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Procurement Assessment

Procurement Personnel

12. What is education and experience of procurement personnel?

- Education level**
- Predominate discipline**
 - In the Company**
 - In Procurement**

**13. What financial authority do the various levels of procurement have?
Does any other function have procurement authority.**

The Big Squeeze 10% Savings Areas - *Right Now!*

- 1. Consolidate the spend
- 2. MRO and other soft expenses - travel, legal, public relations, telecom, insurance
- 3. Outsource
- 4. Transportation/Logistics/Distribution/
Packaging
- 5. Product Design
- 6. Costing

Savings Areas

- 7. Supplier management, including supplier development, supplier-managed inventory
- 8. VTC - Verify, track and control
- 9. Accelerate quote-to-cash, review payment terms
- 10. Suggestion Systems, for suppliers and internal employees

What's your bumper sticker?

- “*Technology rules!*”
- “Get the ramp!”
- “*Consolidate the spend!*”
- Born again Virgin
- Let the data lead you
- Play the game, get the money.

Do you have a savings idea?

- Write to me:
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