



SUPPLIER MANAGEMENT

“Can it Work for You?”

by Glenn Hagan | February 2, 2005 |

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Overview

Many mid-market organizations believe they are too unique; not global enough in operations or customers to be effective with the many business initiatives that are currently sweeping Corporate America. However, one fact is common for all organizations whether you are a manufacturer or service provider - suppliers impact your costs, your ability to execute and deliver superior customer service, and therefore your profits. In short, suppliers are an integral part of your business. So how do you understand, manage, and work with this part of your business? Many organizations are turning to *Supplier Management*.

Supplier Management is a procurement driven process that focuses on understanding and managing key or strategic spend categories and their supporting supplier base.

When done successfully, it drives down total cost of ownership; matches your business requirements with supplier capabilities; and manages supplier performance to instill consistent execution and continuous improvement.

This practice also applies to an organization's internal customers and their needs. Not surprisingly, internal customers are concerned with planning and execution of their own operations; meeting or beating costs goals; and hitting or exceeding financial targets. Naturally, they want to minimize disruptions impacting their ability to execute. From a supply chain perspective, this requires suppliers who are stable, highly reliable, and those that actively work with you to improve their operations and yours.

Supplier Management represents a centralized process driven by Category or Commodity Managers. But while the process is centralized, Category Managers can reside through out an organization, if multiple sites or business units are part of its structure. What's most important, regarding Category Managers, is they are the organization's subject matter experts for the assigned spend categories, its supportive supplier base, and market.

The Value Proposition

Value is delivered by dedicated specialists using a proven process across the organization. They have the responsibility and authority to "standardize" the supplier base and drive for increased savings and improved performance results.

Category Managers select suppliers through either non-auction or auctions based activities, and then coordinate the on-boarding of suppliers to the Business Units (BUs). This allows BUs to focus on local transaction level purchasing and planning activities to support their respective functions.

To lower total acquisition costs acquisition and meet core customer requirements, Category Managers must have these employ core competencies:

- *Leveraged Buy*
 - Aggregated commodity spend by supplier, by site
- *Risk Management*
 - Identifying and mitigating geo/political and financial hazards
- *Supplier Selection*
 - Establishing criteria for inclusion into supplier base
- *Supplier Negotiations*
 - Establishing business relationship and contractual terms
- *Supplier Performance Analysis*
 - Communicating performance expectations and performance against established criteria

Supplier Management Process

To deliver total cost of ownership savings, the value chain is defined around four processes using activities that define, measure, analyze, improve, and control. Elements of the value chain are:

- *Demand Aggregation*
- *Opportunity Assessment*
- *Supplier Negotiation*
- *Contract Management*

Let's look at these more closely.

Spend Aggregation



Spend Aggregation represents the first step to gather organizational spend activity across BUs. The goal of this phase is to identify historical spend in dollars by commodity, supplier, and business location providing a baseline to identify and capture savings opportunities. Business requirements and operations forecasts provide current and future state commodity requirements enabling the organization to determine requirements as well as impacts on its supply base.

Opportunity Assessment



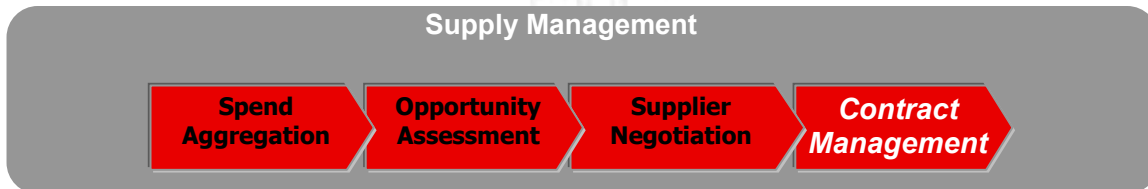
The goal of the Opportunity Assessment phase is to develop category sourcing strategies that deliver lowest total cost of ownership while leveraging organization spend and suppliers on a global, regional, or site basis. This phase integrates existing supply base capabilities, business requirements, spend data, and market analysis to identify and assess sourcing options.

Supplier Negotiation



In this phase, category strategy drives activities to support auction and non-auction supplier selection, negotiations, and contract implementation. Category Managers are responsible for preparing and distributing RFP documents and communications, and for notifying current and potential suppliers of the organization's intent to contract for goods or services. All supplier selection activities, whether auction or non-auction based, are planned, managed, and coordinated through the Category Manager. Ultimately, the Category Manager provides one voice, both internal and external, for all leveraged buy.

Contract Management



Contract Management represents the process of on-boarding or transitioning a new supplier or new agreement with a current supplier. It can also cover phasing out current suppliers. This requires managing, monitoring, and communicating performance metrics against established targets. Contract Management provides suppliers with a feedback loop and a point of contact to

communicate issues and actions plans. Category Managers continue to monitor market, industry, and competitive pressures throughout the supplier relationship life cycle, always looking to improve your organization's operational and financial effectiveness.

Summary

As you can imagine, Supplier Management is neither a one time event nor someone's part time job. Much time and effort are required to analyze your business, as well as your current and future suppliers. Supplier Management is not a process intended to run suppliers off or squeeze them until they cry "uncle". It's designed to bring your key suppliers into your operations to support and enhance your capabilities.

Remember, suppliers impact your ability to service your customers; they raise and lower your costs and thereby your profits. How you manage your relationships and communicate your expectations for their services is critical to your organization's health.

Can Supply Management work for your organization? Absolutely!

