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Session Code: EH The 21st Century Ideal Supply Management Organizational Format, at Least for 2005

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The 21st Century Ideal Supply
Management Organizational Format,
at Least for 2005

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2:00-3:00 P.M.

The Problem

**What organizational format for the
supply management function makes
sense in your firm?**

Why do we have a problem in the first place-

- **The ever popular Silos**
- **Corporate culture**
- **Lack of senior management's understanding of the supply management function**
- **The absence of a strong core procurement organization**
- **The dynamics of the ever changing world of mergers and acquisitions**

What to do about Silos-

- **Plant flowers next to them**
- **Spray graffiti on them**
- **Ignore them**
- **Destroy them, but how**
- **Understand them**

How do you gain an understanding of the rationale behind Silos-

- **Seek historic information from senior management**
- **Speak to the keepers of the Silos-**
 - Gain their insights
 - Establish that you are there to listen and learn
 - Express your thoughts on the impact of a strategic procurement organization on their operations (pertaining to costs and service levels)

The Riddle of a Successful Strategic Procurement Function-

- **Why should I give up control to become a customer of your organization?**

Traditional Organizational Formats

- **Centralized**
- **Decentralized**
- **Hybrid**

Hybrid Organizational Format

- **Systems (C)**
- **Contracts (C) for the most part**
- **Customer Service (D)**
- **Subject Matter Expertise (D)**
- **Management (C)**
- **Priorities (C)**
- **Strategic Initiatives (Both)**

**The Hybrid Organizational
Format is too limited. Today
we need a Strategic
Organizational Format**

Five Step Process Towards a Strategic Organizational Format

- **Step One- Analysis of Data**
- **Step Two- Focus on Spend**
- **Step Three- Systems**
- **Steps Four- The People**
- **Step Five- Review and Adjust**

Step One- Analysis

- Identify the various procurement organizations
- Measure annual spend by procurement organization and supplier
- Brief review contracts
- Determine key stakeholders for the process- who is your customer and champion
- Acknowledge where silos and potential obstacles exist
- Develop initial strategic plan

Step Two- Focus on Spend

- **Work with Finance Departments to gather spend data**
- **Create Finance Council- to serve an overview role (as well as a support element)**
- **Establish Strategic Sourcing Council- discuss objectives, define roles and stress team concept**
- **Develop a Team Strategic Plan- savings, reduction in supplier base, improve customer service, etc.**

Step Two- Focus on Spend (Cont.)

- **Establish priorities- which commodities and services to focus on initially**
- **Assign responsibilities to Team members**
- **Bring in the suppliers to the project**
- **Develop RFPs or RFQs**
- **Implement action plans related to preferred suppliers and award contracts**

A Non-Strategic Approach to Organizational Misadventures in Supply Management

COMMODITY	FIRM 1	FIRM 2	FIRM 3	FIRM 4	FIRM 5	TOTAL SPEND
PCs	A	B	B	B	A/C	\$52MM
FURNITURE	D	E	F	E	D	\$28MM
CARPETING	G	G	H	I	J	\$8MM
COURIER	K	L	M	M	K	\$15MM
SUPPLIES	N	O	P	Q	N	\$34MM
O/E	R	R	S	R	S	\$21MM
VENDING	T	T	T	U	U	\$8MM
CELLS	V	W	V	X	W	\$4MM

Where Do You Dive In First?

- **Which commodity or service earns your attention first?**
- **Why?**
- **What are your next priorities?**
- **Are you sure?**
- **What is happening along the way?**

Step Three- Systems

- **Identify all procurement related ordering and support systems**
- **Bring IT and Finance into Team**
- **Determine the advantages and disadvantages of each system**
- **Make recommendations on the consolidation, wherever possible for both short and long term benefits**
- **Introduce team members and suppliers to new plans for systems**

How to select the right system in a multi-system environment?

- **Where is the largest spend?**
- **What are the plans for the core corporate entity for other supporting systems- HR, Finance, etc.?**
- **The big picture, system-wise, must be reviewed.**
- **What does IT think about the multi-systems?**
- **What type of integration and implementation costs are involved?**
- **What happens if you stay with multi systems?**

Step Four- The People Phase

- **Identify all supply management-related personnel**
- **Evaluate existing staff as to strengths and weaknesses**
- **Discuss possible staffing action plans with senior management**
- **Discuss staffing proposed plans with Strategic Sourcing Council**
- **Implement staffing changes**

How to review a multi-staffing environment-

- **Where is the core of the procurement function to be located and why?**
- **What are the strengths and weaknesses of the core organization, related to staffing numbers, talent, and location?**
- **Where is the talent outside the core?**
- **Can this talent be integrated into strategic procurement organization?**

Step Five- Review and Adjust

- **Determine how actual time line and results meet original numbers**
- **What needs to be revised in the plan**
- **What to do with uncooperative stakeholders or when there are still silos**
- **Expand the short term plan into a longer strategic plan**
- **What needs to happen for this to occur**

Strategic Organizational Format

- **One Strategic Plan and Vision**
- **Corporate-wide Approach**
- **Consolidation of Spend**
- **Reduced Supplier Base**
- **Integration of Systems**
- **Optimization of Staffing regardless of Company or Location**
- **Responsiveness to changing needs of Firm**

Keys to a Successful Strategic Organizational Format

- **Common Sense**
- **Fits in Corporate Culture**
- **Overcoming Initial Obstacles**
- **Utilizing Professional Staffing Resources regardless of Location**
- **Create a Team Effort with Consensus-related Goals**
- **Be Flexible**