Implementing Strategic Sourcing Recommendations – Part I

By Mason Lee, a Manager in the Strategy & Operations Practice of The Hackett Group

Many companies are becoming quite capable at designing and executing a stage gate strategic sourcing process and identifying savings (at least on paper). In my experience, few companies have a standard, consistent approach for Implementation – a process to convert those paper savings to bottom line benefits. In terms of the overall supplier lifecycle, Strategic Sourcing itself is really only a third of the effort. Implementing the negotiated agreements and managing supplier relationships between sourcing events comprise the balance. Because they involve complex relationships and organizational change, these two activities are arguably much more challenging and arduous than the sourcing process itself. What is needed is a framework for implementing recommendations developed from strategic sourcing processes. I’ve used the following approach with companies to realize great success. In the first post on this topic, I’ll describe the process steps for the initial mobilization phase on an implementation effort.

1. Planning

Ben Franklin once said, "by failing to prepare, you are preparing to fail." Before embarking on any serious Implementation program, it is extremely important to allocate some time towards planning the roll-out. During the planning stages, one should consider and decide upon a laundry list of items such as:

- Legal requirements (i.e. the need for a contract)
- Initial transition timing
- Savings and implementation progress measurement methodologies
- Savings and implementation targets
- Communication strategy
- Kick-off approach
- Transition priorities
- Testing & qualification requirements
- Risk mitigation strategies

In the planning stage, involvement and buy-in from operations, engineering, quality, and Executive leadership is essential for accelerating the implementation program.

2. Agreement Conversion

Strategic sourcing processes often terminate with some form of negotiated agreement; albeit it is not always codified in an actionable document. Oftentimes, the terms of a negotiation are captured in documents like tenets of agreement (TOA) or memorandums of understanding (MOU) which are almost always non-binding. After planning, the next step in Implementation is converting these terms into a formal agreement with suppliers. This may range from a non-binding supply agreement that clearly lays out the terms of the relationship to a legal contract. While offering enhanced protections, keep in mind that converting an agreement to a legal contract can take a significant amount of time; 3-6 months to formal sign-off is not uncommon if you are dealing with large organizations. You can shorten this time if you’ve contemplated some
of these requirements during sourcing. However, you can oftentimes move forward with Implementation while some of these details are being worked out.

3. Internal Communications

Silent sabotage, the act of individuals or departments passively aggressively resisting an initiative, is inherent in all 'change' endeavors but the problem can be particularly acute when changing suppliers (as long-standing relationships may need to be broken and operations altered). Symptoms of silent sabotage include new, never-before-mentioned business requirements cropping up, rejections for previously approved deviations, or general foot-dragging. An internal communication strategy can greatly help mitigate this issue and begin to mobilize the organization towards the transition effort. Elements of an effective internal communication strategy include: Executive support, a focus on selling the benefits of the new agreement(s), and targeted messages to all impacted stakeholders. The concept of a road show presentations (preferably in person and with Executive participation) should be a cornerstone of the communication strategy.

4. External Communications

In addition to managing communications internally, a plan is needed for interacting with external stakeholders such as suppliers and customers. Suppliers who participated in the sourcing process but were ultimately unsuccessful need to be informed. The level of time, effort, and customization given to this communication process should be proportional to the suppliers' level of investment in the sourcing process (i.e. suppliers that made it to the final round deserve a phone call or face-to-face meeting). In these communications, I recommend focusing on the elements of winning proposals as opposed to strictly what a supplier did wrong. The concept of using a SPOC (single point of contact) to carefully manage these non-award communications is often helpful in controlling risk. To the extent possible, direct the organization to drive all communications regarding unsuccessful suppliers to one individual. While certainly not enjoyable to conduct, there is value in having these conversations with suppliers. Smart suppliers will take the lesson to heart and improve their offering for the next time you go-to-market. Additionally, if your new supplier stumbles for whatever reason, you may need to rely on one of these suppliers; your previous candor will go a long way in preserving this fallback option.

For successful suppliers, play the role of ambassador for your company and determine how to best connect the suppliers' personnel to the various stakeholders within your organization. You want to make it easy for the supplier to understand and communicate with your company. Common tools to consider include: company overviews the supplier can distribute to its personnel, announcement letters, facility lists, contact information sheets, and on-boarding training.

This completes the discussion on Implementation mobilization. After working through these process steps, you should have signed supplier contracts/agreements, preliminary implementation plans, risk management plans as well as a communication strategy. Additionally, through step 3, internal communications, you will have engaged stakeholders broadly throughout your organization to secure alignment and buy-in on these deliverables. At this point, you are ready to engage the suppliers and begin the actual execution of your Implementation effort. Phase II, execution, will be the subject of the second entry on this topic.
Implementing Strategic Sourcing Recommendations – Part II

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In my first entry on the topic of Implementation, I explored phase I of the Implementation process – mobilizing the organization. In this entry, I will discuss the critical elements of phase II – execution. The process steps in this phase are geared towards deeply engaging your suppliers to effectively manage through the transition.

5. Supplier Kick-offs

A kick-off meeting sets the tone for the new supplier relationship both within your and the suppliers’ organizations. Kick-offs can take many forms ranging from business unit specific face-to-face events to large forums where all successful suppliers are introduced to your organization at once. The common thread in all approaches to supplier kick-offs is that they should include cross-functional support from your company as well as the suppliers'; sourcing alone is a recipe for failure.

The effort exhausted in preparing for kick-offs will correlate directly with implementation results (e.g. faster implementation with less savings "leakage"). A well executed kick-off can jump-start an Implementation and literally be worth millions of dollars (due to speed of transition). For Implementations involving highly engineered products or multiple business units, preparation may last several weeks. Your objectives in coming out of a kick-off event should include:

- Agreement on transition timing, priorities (by part, service, or business unit), and resources
- Establishing preliminary performance metrics
- Determining initial transition goals and milestones
- Creating cross-organizational communication matrices and protocols
- Continuing to build Executive level relationships at the supplier
- Setting the date for the first alliance review

When planning your supplier kick-off meetings, one final consideration should be whether to hold an internal kick-off event prior to bringing in the supplier. Internal kick-off events are typically half-day sessions the day before the kick-off involving all those slated to participate. The purpose of the meeting is to review the kick-off materials and game plan, gain alignment, and ferret out any internal dissent so there are no surprises when the supplier arrives.

6. Phase In/Out

Consisting of the block and tackle activities of any Implementation effort, the goals of the phase-in/out implementation step are somewhat diametric: maximizing the speed and realization of benefits of the transition while zealously protecting continuity of supply. Phase in/out is characterized by frequent meetings of the operational elements within both organizations, setup, configuration, qualification and testing activities, as well as
risk management. Critical success factors at this stage include dedicated resourcing, established communication channels, formal tracking of performance metrics, and careful monitoring for any risks to continuity of supply. At this stage, companies will find it helpful to create a regular cadence to internal/external communications and to standardize transition status reporting across suppliers.

7. Supplier Management

The final stage in Implementation is laying the ground-work to initiate a supplier relationship management (SRM) program. The objective at this point is to not only protect the benefits obtained through strategic sourcing, but to grow the overall value of the new relationships through continuous improvement efforts. A well-defined and resourced SRM program is one of the primary tools used to accomplish this. The value can be significant; the Hackett Group's 2011 SRM Performance Study illustrated that companies with top performing SRM programs can realize benefits in excess of 3% of spend from SRM. Effective supplier relationship management programs will be articulated by an overall strategy and governance, stratify the supply base to prioritize resources, and include processes for performance management & supplier development. Supplier score-carding and quarterly business reviews can be used as a quick start to this process.

The approach I've described above and in part I provides a framework for you to develop your company's Implementation process. One of the hallmarks of an effective strategic sourcing organization is the diligent, rigorous, and consistent application of a standard strategic sourcing process. By applying that same discipline and quality of process execution to Implementation, companies are far more likely to realize the bottom-line benefits they worked so hard to identify.