FIVE-YEAR STRATEGIC PLAN GUIDE FOR PURCHASING AND SUPPLY MANAGEMENT

By

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Over 95% of purchasing or supply management organizations do not have a long-term strategic plan. This is not surprising given the dynamic and hectic pace of purchasing organizations. Many of the plans that are completed are done once, and put in a three ring binder or a hard drive to never be referenced again. These plans do require a lot of effort and support from top management to become useful and meaningful. They are essential to keeping purchasing on track and focused on the most important supply chain improvement efforts. Long-term plans serve as a great focal point for purchasing and insure that constant fire fighting and other upsets do not overwhelm their efforts. They can serve as guides for the stages of organizational transformation that a purchasing department wants to achieve, and reveal to non-purchasing personnel, purchasing’s long-range direction. First off, create a vision and mission statement that aligns with the organization’s vision and mission statement. Be bold and make sure people realize that you are aiming for supply management not traditional bureaucratic purchasing. Try to gain a broad consensus and gather input from surveys, one-on-one meetings, research and as many employees, suppliers and customers as possible.

There are limitations to this guide. I am certain that I have missed some areas but I have tried to be as comprehensive as possible. Use this document as a guide and checklist not a dogmatic methodology. It is extremely difficult to predict the future as technology and the macro environment are rapidly changing. Global events can radically alter the supply chain and require new innovative strategies. Collaboration is the norm now, but collaboration can also be cyclical and have peaks and valleys of cooperation. People are the strength of an organization and any strategic plan that does not focus on people development is woefully inadequate. Many companies also have to cope with dealing with multi-generational group differences.

New products can require new supply chain tactics and alter your product mix landscape. Competitive pressures can often dictate rapid responses and major changes in product marketing and sourcing. Communication is becoming even more critical in this rapid paced world. The selling or marketing of the strategic plan is even more crucial.

Once in place, a strategic plan is much easier to update, review and fine tune. It is important to keep it dynamic, up to date and a living document. I hope this guide motivates the reader to take the journey of completing a strategic plan. Good luck in the journey!
Here are some suggested objectives of a long-term strategic plan:

- Present a five year comprehensive purchasing strategy
- Identify all the resources required
- Make recommendations
- Explain expected results & benefits
- Introduce performance measures
- Make modern supply management a reality

Here are some major focus areas that should be included in the strategic plan:

- New organization and reporting structure
- Lead-time and cycle time reduction with the use of process improvement methodology such as Lean and Lean Six Sigma
- Improved customer service initiatives (all customers) and measurements for the Voice of the Customer (VOC)
- Material flow and materials planning across the entire supply chain
- Pride and professionalism initiatives for people
- World class supplier strategies
- Information systems upgrades
- End-user empowerment both internal and customer
- Communications and marketing plans
- Performance measures and metrics
FOCUS AREA: NEW ORGANIZATION AND REPORTING STRUCTURE

Some Recommendations to Consider

- Form an executive steering committee to lead the supply management transformation
- Evolve to a product structured purchasing. Purchasing professionals will be product, not material specialists.
- Encourage purchasing professionals to gain industry expertise
- Supply Management needs to include procurement, logistics, production scheduling and contract management under its organization
- Change all titles and nomenclature to reflect a supply management strategy. Eliminate traditional nomenclature and titles.
- Establish champions in each internal department to facilitate the structure change and support supply management
- Establish cross-functional teams company wide as the normal structure for problem solving
- Integrate on site suppliers and key customers on cross functional teams
- Encourage purchasing persons to develop versatility and multiple skills
- Break down department barriers via frequent use of special assignments for purchasing professionals
- Establish strong sensible policies and controls. Get strong buy-in for the policies.

Possible Goals and Benefits to Consider

- Fully utilize suppliers capabilities and on site expertise
- Improve cooperation, communication, and problem solving between departments especially purchasing and sales
- The new purchasing product focus will help focus improved velocity efforts and improved new product time to market
- Better total overall business understanding by more individuals
- Improved company flexibility and stronger bonds between areas

"If reengineering is to succeed; departmental barriers must be torn down."
FOCUS AREA: LEAD-TIME REDUCTION AND REDUCTION OF CYCLE TIME - PROCESS IMPROVEMENT

Some Recommendations to Consider
- Establish cross-functional work teams to reduce lead-times. Use teams in as many endeavors as possible.
- Lead and expand Lean or Lean Six Sigma initiatives. Start process mapping for key materials and services.
- Create design review work teams to standardize and simplify components especially OEMs. Involve engineering in all decisions.
- Create powerful direct information links with key suppliers that enhance visibility all along the supply chain
- Establish a system to track supply chain accountability and make it visible to all employees
- Institute a company wide time based management program for all processes
- Utilize supplier’s skills to improve velocity and reduce lead time

Possible Goals and Benefits to Consider
- Reduce purchased component or service lead-time by 50%
- Cut product or service delivery time by 50%

"Time Based Competition will rule the future.”
FOCUS AREA: IMPROVED CUSTOMER SERVICE

Some Recommendations to Consider
- Empower customer service to handle many routine purchasing related issues on the spot
- Consolidate service or replacement parts suppliers and improve replacement parts lead-times
- Invite key suppliers and customers to participate on customer service improvement teams
- Conduct a purchasing customer service surveys of internal customers
- Conduct a customer service surveys of your key suppliers
- Utilize expertise of your key supplier distributors to assist you in service and inventory parts management

Possible Goals and Benefits to Consider
- Reduce the cycle time for service parts orders
- Reduce lead-times for service parts by 50%
- Gain a better understanding of both internal and external customer needs
- Increase the sales of service or replacement parts

“Virtual customers will demand virtual suppliers.”
FOCUS AREA: MATERIAL FLOW AND MATERIALS PLANNING

Some Recommendations to Consider
- Utilize best practices in receiving to include RFID, bar coding and continuous replenishment
- Establish a technology evaluation committee for the latest purchasing software and technology
- Load level or spread out the planned receipt of all purchased parts and inbound materials to balance resource usage
- Utilize supplier’s skills in stockroom layout, inventory control and services
- Provide specific areas in the stockroom that suppliers virtually turnkey manage
- Consider installing the latest automatic storage and retrieval systems
- Track inbound and outbound transportation costs
- Establish quantifiable goals for the stockroom including space and capacity limits
- Put in place best practices of inventory control to include more supplier controlled inventory. Reduce company owned inventory.
- Wherever possible create standard delivery days and routine procedures
- Maximize the direct delivery of consumables to the internal end user at the point of use
- Establish an optimal internal materials flow plan

Possible Goals and Benefits to Consider
- Improved inventory accuracy and space utilization
- Increased productivity of stockroom personnel
- Reduced inbound and outbound transportation costs
- Reduced internal materials movement costs
- Reduce transaction costs for small parts by over 80%

"All material movement is essentially waste."
FOCUS AREA: PRIDE AND PROFESSIONALISM

Some Recommendations to Consider

- Require specific core competency training for all department personnel
- Require and support 15-20 hours of professional training per year
- Support membership in ISM Institute of Supply Management
- Encourage then require professional certifications
- Continue networking and councils with other purchasing professionals
- Train department members in leading cross functional teams
- Start technical training on equipment and services. Encourage purchasing professionals to understand key business factors.
- Support utilizing suppliers to present seminars on various topics
- Encourage purchasing professionals to obtain advanced degrees
- Train all personnel in base level software skills such as Microsoft Office and social media usage

Possible Goals and Benefits to Consider

- Improvements from networked purchasing professionals
- Better communication with entire company
- Increased understanding of our equipment and customer needs
- Improved professionalism and pride

“Companies need to provide core competence to all employees.”
FOCUS AREA: WORLD CLASS SUPPLIER STRATEGIES

Some Recommendations to Consider

- Continue consolidation of suppliers. Emphasize Total Cost of Ownership (TCO) savings.
- Increase long-term supplier contracts to include mutual cost savings clauses and most favored customer status
- Start participation of onsite suppliers with your operation. Involve as many employees as possible in supplier reviews and scorecards.
- Establish alliances with a some key suppliers and start regular supplier roundtable discussions
- Develop supplier certification, require ISO certification, and quarterly reviews of suppliers
- Involve suppliers in the design review phase and start simultaneous engineering processes with cross functional teams
- Standardize the selection and sourcing process for suppliers especially preferred suppliers
- Establish powerful and direct communication links with preferred suppliers
- Use information best practices with suppliers such as EDI, bar coding, ERS etc.
- Utilize the skills of suppliers to start components standardization teams
- Continue to drive to concentrate dollars spent among top 20% suppliers who typically account for 80% of your spend.

Possible Goals and Benefits to Consider

- Reduce the percentage of dollars spent on materials or services by 15-20% of the total cost of goods sold
- Cut purchased parts and services lead-times by 50%
- Increase the number of standard easily obtainable parts on our equipment
- Utilize suppliers skills in design, innovation, and administration of transactions
- Start more efforts to consign materials to suppliers and thus reduce inventory costs
- Significantly reduce transaction costs across the board

"One page supplier contracts based on trust should be the norm.”
FOCUS AREA: INFORMATION SYSTEMS UPGRADES

Some Recommendations to Consider

- Provide direct electronic and communication links with major suppliers
- Provide personal information technology such as smartphones for all department members
- Provide all purchasing personnel with electronic buying capability 24/7
- Provide email and social media communication capability with major suppliers
- Provide the capability to use paperless purchase orders as broadly as possible
- Provide electronic or paperless purchase order capability for the end-user for routine purchases
- Use purchase cards if appropriate

Possible Goals and Benefits to Consider

- Increase the possibility of obtaining purchase discounts
- Solidifies supplier partnerships
- Cuts overall transaction costs
- Provides more purchasing options for rush items
- Reduces administrative hours spent trying to contact suppliers via old technology such as phone etc.

"Collaboration requires tight linkages across all areas of the mutual partners’ businesses.”
FOCUS AREA: END-USER EMPOWERMENT

Some Recommendations to Consider

- Utilize online purchasing or purchase cards for all routine items possible within the organization
- Evaluate the use of a single source supplier for all MRO and consumables
- Provide a Purchasing Information Manual (PIM) or online training to assist end-users in purchasing routine items
- Maximize the use of system buying techniques and continuous stocking of parts
- Target that all of the typical 40% of all purchase orders that are routine, be streamlined or eliminated
- Establish a purchasing champion or contact in each department who has enhanced purchasing knowledge (power user)

Possible Goals and Benefits to Consider

- Reduce transaction costs and the number of processing steps
- Provides enhanced data reporting about purchased items
- Eliminate any manual three way matching process. Consider pay upon receipt.
- Lets employees focus on their primary mission or job and key materials and services, not routine consumables
- Promote better a understanding of purchasing and cost awareness by employees

“Most routine purchased items logistics and administrative costs are 5-8 times their price.”
FOCUS AREA: COMMUNICATION PLANS

Some Recommendations to Consider
- Continue to educate top management on the strategic importance of supply management
- Conduct surveys of suppliers, internal customers and final customers and publish the results
- Provide continuing purchasing education for selected key end-users (power users)
- Start quarterly reviews with key suppliers and publish the results
- Continue quarterly open purchasing forums or town meetings
- Publish a supply chain newsletter at least monthly
- Conduct joint supplier roundtable discussions as required
- Require monthly letters from purchasing department professionals in a standard format
- Start visible tracking of purchasing goals and use graphs and visible aids

Possible Goals and Benefits to Consider
- Less resistance to changes and better feedback from end-users
- Better site understanding of your goals
- Greater end-user participation and input in supply management process
- Better linkages and understanding with suppliers
- Improved innovations from suppliers

“True alliances with suppliers demand a comprehensive communication plan.”
FOCUS AREA: PERFORMANCE MEASURES

Some Recommendations to Consider Performance measures

- The number of preferred suppliers under long term contract
- The number of supplier alliance relationships
- The number of single source parts, commodities, services
- The number of suppliers providing on site service
- The number of new products or design reviews that suppliers participated in on a team
- The total number of transactions processed direct by the end-user without any purchasing middle-person involvement
- The number and dollar value of mutual cost reductions with suppliers
- The total number and dollar volume of purchase card purchases
- The number of cross functional teams that purchasing professionals are contributing members
- The dollar value on continuous replenishment stocking plans
- The percent of purchasing personnel pursuing an advanced degree or certification
- The number of continuing education hours or seminar hours by purchasing personnel
- The number of suppliers registered to ISO-9000 or other quality or green certification
- The number of suppliers with direct electronic links to you
- The total number of active suppliers
- The average lead-time of purchased components and parts
- The cycle time or velocity of delivery of our equipment to the customer
- Cycle time from sales order placement to purchased part acquisition
- Creation and updating of a five year strategic purchasing plan

Possible Goals and Benefits to Consider

1) Clear and easily definable objectives visible to everyone

“Unless you have clear goals you are a nomad not an explorer.”
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