

Professional practitioners and powerful new technology

# PURCH POWER

BY LESLIE HANSEN HARPS

Whether you call it purchasing or procurement, the function is undergoing tremendous change, particularly in those companies that recognize its bottom-line contribution. Improving procurement could lead to a four- to eight-percent bottom-line gain in two or three years, says Luis F. Solis, CEO of Symbius Corporation, a supply chain consulting firm headquartered in Boulder, Colo.

"Improvements in the purchasing cost structure and processes can bring very quick gains," Solis says. And in today's world, corporate boards of directors are looking for quick gains. So he expects the light to shine even more brightly on purchasing in the coming months.

Changes in the procurement function are just beginning, according to Solis. "As much as purchasing has

changed up to now, we think we will see even more change in the next two years as companies recognize the significant contributions that can be made by improving procurement," he says.

The change is already well underway in some companies. Take Leach International, North America, a privately held manufacturer of electronic switches, relays, and contactors headquartered in Buena Park, Calif. The company operates in a very competitive environment, with constant pressure to contain costs while continually trimming cycle time and improving service. Leach manufactures 10,000 subassemblies and builds nearly 6,000 final assemblies that it sells to customers in the aerospace and rail industries. A typical relay may be made up of 150 parts, with some containing as many as 750 parts.

are transforming procurement into a strategic weapon.

# HASTENING OVER!

The manufacturer's operations unit, headed up by Vice President of Operations Dennis Sheredy, handles the procurement of materials for Leach's facilities in Buena Park and Anaheim, Calif., Tijuana, Mexico, and a joint venture in Zunyi, China. The unit's mission is growing increasingly challenging.

"Every year we are required to reduce lead times to our customers," Sheredy says. At eight to 12 weeks for key OEMs (original equipment manufacturers), lead times today are just one-third of what they once were.

As part of its effort to meet the challenge, Leach continually strives to work with its suppliers and to improve its procurement practices. From a materials point of view, "where we are today vs. five years ago is like night and day," notes John H. Bringis, Leach's director of materials.

Here are some changes taking place at Leach:

■ **From purchase orders to blanket orders.** Continually ratcheting up its efforts to keep inventory levels low, Leach is moving away from traditional purchase orders to blanket purchase orders, with MRP requirements transmitted electronically to suppliers. The key is to communicate net weekly factory demands to the supply chain, resulting in lower inventory levels and improved supplier capacity utilization.

Moving from one-year to longer contracts with suppliers enables the company to lock in better price breaks and threefold reductions in lead times. In addition, the company is starting to receive longer-term forecasts from its customers, which enables scheduling weekly or biweekly shipments from ship-to-stock programs.

■ **Moving to direct supplier delivery.** "Within 18 months, we've migrated more into direct supplier delivery to kanbans on the factory floor," Bringis says. Twice a week, suppliers visit the facility, pick up kanban cards, and replenish the kanbans from their facility. These suppliers issue monthly invoices, which helps streamline administrative tasks.

■ **Certifying suppliers to perform inspection duties.** Leach is working to delegate inspection authority to certified suppliers. Certification allows Leach to investigate a supplier's internal control mechanisms, training, inspection equipment and criteria, and make sure the vendor meets all the necessary requirements.

"We have certified two suppliers," Sheredy says. "Over the next 24 months, we want all our suppliers to

be certified. We want our supplier base to be ISO-certified, so that they all follow the same rules and requirements of the aerospace industry.”

■ **Managing the supplier base.**

Leach is consolidating its supplier base, expecting to reduce its current 250 vendors to perhaps 80 to 100, with the goal of forming strategic partnerships. “We’re assessing our current supplier base, evaluating suppliers’ capabilities, and comparing that to the 11,000 piece parts we have to buy,” Sheredy says. “We’re also looking to see which suppliers offer synergy.”

Leach evaluates suppliers for financial stability, technical competence, demonstrated quality requirements, flexibility regarding scheduling and inventory, and price competitiveness. In addition, Bringis says, Leach looks for suppliers who are willing to maintain a certain level of contingency or buffer inventory at their facility.

“We may ask selected suppliers if they would like to go beyond their

current products and carry more types of commodities,” Sheredy says. For example, Leach may explore with a stamped parts supplier the possibility of adding some screw machine type of work.

The ultimate goal is to achieve one-stop shopping by entering into strategic partnerships with selected suppliers. “Right now, I have to go through many operations to produce a contact system for relays,” Sheredy says. In the future, Leach wants its suppliers to provide an entire assembly, rather than just the components.

■ **Streamlining MRO.**

As recently as one year ago, Leach procured its maintenance, repair and operations (MRO) supplies via purchase orders. Today, the company buys office supplies electronically, eliminating purchase orders and telephone calls.

MRO supplies are procured using purchasing cards. Some 30 or 40 key individuals within the company — such as production and administra-

tive supervisors — place orders using the purchase card, which is similar to a credit card. The supplier ships the order, the material arrives two days later, and Leach receives a single monthly invoice from the purchasing card, according to Bringis.

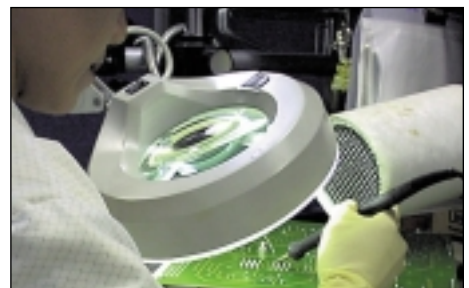
■ **Harnessing the Internet.**

In January 2001, Leach began working with iSuppli Corporation’s supply network to source components for its factories in the United States and Mexico. iSuppli, based in El Segundo, Calif., provides procurement and supply chain management services for the electronic components industry. Leach uses iSuppli’s peer-to-peer, web-enabled supply network that brings together buyers and suppliers of electronic components.

“A severe shortage of capacitors in the world market led Leach to work with iSuppli,” Sheredy says.

A central person at iSuppli procures similar types of commodities from suppliers around the world, who ship

Leach International manufactures electronic switches, relays and contactors (*below*). The company operates in a very competitive environment while continually trimming cycle time and improving service. To meet its challenges, Leach continually strives to work with its suppliers and improve procurement practices. Leach is headquartered in Buena Park, Calif. (*lower right*).



to iSuppli's crossdocking facilities in Asia, Europe, and the United States. The aggregated orders are broken down and shipped to individual customers, such as Leach.

Channeling orders to iSuppli — which is able to buy in much larger quantities — gives Leach greater clout in the marketplace. "In some cases we have very little purchasing power," Bringis notes. For example, the company may have demand for 100 capacitors, while other companies are ordering one million a day. As a result of working through iSuppli, which will be using the manufacturer's approved supply base, Leach is seeing drastically shorter leadtimes.

"We will still have a relationship with our suppliers, but it may not be as direct as what it was originally," Bringis says. "On the other hand, working with iSuppli creates opportunities for new relationships with different OEMs, people we may not have worked with before. It really does expand our horizons."

Leach's initial experience with iSuppli — focused on capacitors — has been so positive that the manufacturer is considering expanding its use to other commodities. In addition, the company will start to channel to iSuppli purchases of some commodities for its sister division, Leach International, Europe S.A. in France and medical operations in Indiana.

"We are in a world market with increasingly higher customer expectations and competitive positions," Sheredy adds. "Strategic philosophies must be embraced, weaving procurement direction into supply chain integration. Measuring achievement is not a singular event; it is the transformation of a vision into a seamless supply chain alliance."

Leach International is one good example of how companies are treating procurement as a strategic weapon to gain competitive advantage. Here's a look at the evolution of procurement, and the progress that has yet to be made.

## PURCHASING'S EVOLUTION

"It used to be that purchasing was focused on material cost," notes Peter Bolstorff, senior management consultant with Pragmatek Consulting Group Ltd., Minneapolis. Bolstorff's career

## BUYERS VS. "GETTERS"

"A heavy percentage of purchasing professionals today are 'getters,' not buyers," observes Robi Bendorf, CPM, president of Bendorf & Associates, a Pittsburgh, Pa.-based firm that specializes in purchasing/supply chain consulting and training.

"Getters are the people who go out and get stuff, and don't use the best practices that buyers use," he explains. "Getters don't do much in justifying the prices they pay; they just get the lowest price, rather than looking at the total cost of ownership."

Buyers, on the other hand, have a commodity plan that details the strategic direction they're taking, spells out the continuous improvement programs they're implementing, plus plans to improve supplier quality and reduce material cost.

"Buyers also have a spend profile," Bendorf says. They analyze their entire spend, categorizing A, B and C items so that they know where to invest their energy and effort, then do everything they can to get rid of C items.

"Getters don't bother to take the time," Bendorf says. "That means they spend as much time on C items as they do on A items."

An illustration of the differences between buyers and getters lies in the way each type would handle energy shortages and escalating fuel prices, he says.

"A getter would say, 'We're getting hit with a surcharge,' and accept it. A buyer would say, 'Can I change my packaging? Can I get my supplier to put a facility across the street? Can I find a new source? Can I build it somewhere else?'" The buyer — today's procurement professional — has the mentality that insists on continuous improvement no matter what the situation, according to Bendorf.

includes significant purchasing responsibility at a Fortune 50 manufacturer. In many companies in the past, "the focus was on the selling price, getting the lowest unit cost, negotiating the best price," he says.

Over the last 10 years, companies have transitioned to considering total landed cost. "This means considering not only how much a specific unit costs, but also such factors as how to get the best delivery, which logistics team to use, or who will manage the inventory, whether it's staged or in-transit," Bolstorff says.

With this shift, "purchasing managers have to worry not only about the cost of the goods, but also about planning, sourcing, and managing the total cost of the item," he says.

## MOVE TO OUTSOURCING

Another important development has been the move from insourcing to contract management or outsourcing. Purchasing people now have to consider what type of product they're dealing with, such as a commodity item or a niche product that requires a unique relationship with suppliers who support that type of product, Bolstorff says. Or suppliers may become strategic

partners, involved in designing and introducing a new product.

Today, purchasing professionals handle a wide variety of activities, ranging from tactical purchasing to supplier selection and development — all the way to strategic decisions to make or buy. In today's marketplace, it's a challenging and complex job.

Just ask Andy Winterbottom, vice president, electronic component supply chain, iSuppli Corporation. As a former purchasing executive for IBM, Hewlett Packard, Black & Decker and Ford Motor Company, he has overseen teams that have purchased tens of billions of dollars of material. Winterbottom says astute procurement people are striving to achieve multiple goals, including:

■ **Staying ahead of the price curve.** That may mean staying ahead of the price decline curve in the high-tech industry, or resisting upward price pressures in other industries. The key, Winterbottom says, is to pay less than your competitors do.

■ **Ensuring continuity of supply.** Even in the high-tech industry, where key components can be scarce, purchasing professionals take steps to maintain continuity of supply. Options

include designing in technology from the right set of suppliers, identifying suppliers with good manufacturing yields, double- or triple-sourcing, and using industry standard components that are more widely available.

■ **Building good relationships with suppliers, which can be a foundation for procurement success.** For example, Winterbottom says, establishing long-term agreements with suppliers can provide collateral and equity that the supplier can take to its board of directors and to the bank, resulting in more competitive pricing for the customer.

## PLANNING TO MANAGE SUPPLIERS

Progressive companies today use supplier management as an effective strategy. "At its highest level, supplier management is about achieving the best total landed cost from a mix of strategic and non-strategic suppliers, with the information that enables the corporation to provide excellent service," says Luis Solis. "We define supplier management as optimizing a company's relationship to its full set of suppliers."

Supplier management requires more than just reducing the number of vendors in a company's supplier base, according to Solis. "It's not just that the fewest is the best," he says. "It's determining the right number of suppliers, the right mix, and underlying rationale."

While reducing the supplier base may be a key objective, at the same time purchases "have to balance the risk of downtime and have some redundancy to protect their supply," Solis notes.

According to Solis, companies need to take five steps to effective supplier management:

- 1. Understand the spend.** "Believe it or not, most corporations don't understand their spend," Solis says. So the first step toward effective supplier management is to get a complete, integrated look at purchasing across the company, including buying done by divisions or plants, as well as what Solis calls maverick buying.
- 2. Prioritize the categories of SKUs and suppliers.** Identify which suppliers are strategic and non-

strategic, and which products are commodities or value-added.

- 3. Build on these classifications to define the best supplier management strategy for your company.**
- 4. Create a business process that will make that strategy happen.**
- 5. Purchase and install enabling technology.**

"What usually happens is that companies complete Step 5 before Step 4. Plus it's not always clear that Steps 1 and 2 are done," Solis says. When that occurs, companies often don't get the results they're looking for.

"Companies sometimes make a lot of decisions, a lot of spends, with no written business game plan," he says. "It's crucial to understand the business process requirements, prioritize them, and develop a solid strategy and plan. You can't get anywhere if you don't know where you're going."

## E-PROCUREMENT

Despite a lot of media attention on e-procurement, "most companies are still in the early stages of Internet adoption, with firms just beginning to buy online and use the Internet for other parts of their procurement processes." So say the National Association of Purchasing Management (NAPM) and Forrester Research, which have released a report on eBusiness.

"Almost half the corporate purchasers surveyed report being in the earliest stages of adopting the Internet," says Bruce D. Temkin, Forrester group director. "At the same time, an overwhelming number of these respondents see the Internet as an important part of their plans."

Last year, 61 percent of respondents had bought indirect materials online, with nearly 40 percent of manufacturers buying direct materials online, notes the NAPM/Forrester report. Companies that have stuck their toes in the e-procurement water include:

■ **Del Monte Foods Company**, which is using Datastream Systems Inc.'s iProcure network as its online procurement solution. The network automates e-commerce for MRO procurement, and offers access to maintenance parts and suppliers from a list of distributors. Del Monte Foods expects to achieve both operating efficiencies and cost savings by using the purchasing network.

## INGERSOLL-RAND HELPS VENDORS COMPLY

Manufacturing giant Ingersoll-Rand (IR) has implemented a massive new e-procurement program, using Oracle iSupplier Portal 4.0. An integral part of the program is a zero-cost, web-based compliance labeling program that IR is offering its global mid-tier suppliers. Using e-Barcode 2000 bar-code and label printing software, suppliers are able to print compliance labels over the web. Suppliers access IR's web site, fill out the appropriate information, then print the label locally through a browser.

The program eliminates the need for suppliers to implement on-site software requirements, and enables suppliers to comply with IR's labeling and bar-coding requirements regardless of their own technology level. The capability is expected to save each supplier thousands of dollars annually in meeting bar code and compliance label requirements.

"This cost-free system for our suppliers not only helps them but offers great advantages to us as well," says Steve Wright, procurement process owner/project leader for Ingersoll-Rand.

The compliance labeling program will reduce Ingersoll-Rand's processing costs on purchase orders significantly. IR, which processes tens of thousands of POs a year, expects to cut processing costs by \$20 to \$120 per purchase order.

Ingersoll-Rand anticipates a two- to three-year rollout for the web-based compliance label program.



IR's new web-based compliance labeling program lets suppliers print bar-code labels over the web.

■ **Sunoco Inc.**, which has implemented Ariba's B2B Commerce Platform to provide a streamlined, cost-efficient private procurement marketplace. Sunoco will use Ariba's Buyer system to improve management of direct and indirect goods and services throughout the company. With 80 users and access to four suppliers through Ariba's Commerce Services Network today, Sunoco expects the entire company to access the system and to have 100 of its major suppliers in the system by the end of the year.

■ **Cendant Member Services Inc.**, which services and direct markets memberships to shopping clubs, is e-enabling its entire vendor network. "Our original plan was to electronically enable the bottom half of our supplier base," says Evan Guttman, director of logistics for Cendant, based in Trumbull, Conn. The company works with some 400 vendors that drop ship direct to consumers. But as the company explored electronic options, it decided to move all its vendors online through SPS Commerce's online purchasing solution, and to outsource its electronic data interchange operation to SPS as well.

"Originally, we did 30 percent of our business with about 70 percent of our vendors, and it was all done manually. It was impossible to manage," Guttman says. Under the new model, every three hours Cendant sends purchase order files electronically to SPS, which converts the files into four formats. The purchase order files are sent to each of Cendant's suppliers, who then send back one to three documents, including a shipping notification, order acknowledgement and/or invoice.

Cendant's information system's thousands of business rules take the information transmitted by vendors and use it to perform such tasks as update the customer record and web site, generate order correspondence to customers, and cut checks to vendors.

Guttman expects to see significant benefits on both the front and the back end, including eliminating the need for faxing, multiple phone calls and manual data entry. "We need less labor, and we have fewer exceptions and fewer open orders to manage," he says. "We have fewer invoice problems, and vendors are paid more quickly." In

addition, faster, more accurate information from suppliers means that Cendant will be able to be more proactive with customers.

## TARGETING TRANSPORT

A significant change in the last five years has been an "increased awareness of the impact transportation can have on total cost of ownership," says Randy Garber, vice president of the operations service practice at A.T. Kearney Inc., Alexandria, Va. "In the past, a lot of companies typically bundled inbound transportation into the delivered pricing that buyers got. Some companies also were reluctant to take possession of the goods, and

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**Luis F. Solis, CEO  
Symbius Corporation**

ceded transportation to their vendor," he recalls.

Many companies pay a lot of attention to the transportation of outbound finished goods, and traditionally focused significantly less on inbound transportation. "But we typically find much higher transportation savings in the inbound area," Garber says.

Because of that, "more purchasing organizations have added expertise within the procurement function to deal with inbound transportation and logistics," he says. "Or they have established formal links with transportation to help them analyze the transportation aspects of a buy."

The effort is paying off for these companies. "When companies that historically have not paid a lot of attention to inbound transportation start putting into place processes that rigorously analyze transportation, they find gold," Garber says. Double-digit savings on inbound transportation are not uncommon.

Technological tools enable more efficient transportation decisions. "The benefits are two-fold," Garber says. "There's better visibility, plus more optimal and intelligent decision-making. If I have good inbound visibility and some shipment planning support tools, I have a much better opportunity to take advantage of the transportation equipment."

Technology is also having an impact on procuring transportation. "Most people have been through several generations of core carrier programs, so they're in a better position now to match up their network with their carriers' networks," Garber notes. "Better transportation tools available now give companies the capability of managing more complexity than they did in the past. They have the ability to maintain more sophisticated rate files and control load tendering much better today than they did in the past."

Collaborative tools will enable even greater results in the future. "There are two sides to supply chain collaboration," he says. "First, collaborating to eliminate empty miles and make better use of transportation capacity. Second, collaborating to eliminate an entire distribution echelon, which has even greater potential."

Because of that, purchasing executives "should be looking at inbound suppliers and their transportation capacity," Garber says. In the short term, he suggests that purchasing professionals make sure inbound shipments are plugged into their transportation management system or collaborative platform. In the future, evaluating how different suppliers fit into a company's overall supply chain network may be a factor in the final buy decision.

## THE NEW PROFESSIONAL

"We are seeing purchasing evolve from a back-end transaction or administrative function to an upstream strategic function," Garber notes. With purchasing people increasingly involved in product development and strategic issues, companies are seeking professionals who are strategic thinkers and "are comfortable with and able to exploit technology," he says. "In addition, procurement people will have to become supply chain people."

Companies today should invest in developing excellent procurement

professionals. "Recruit them from leading universities with good supply chain curricula," Andy Winterbottom advises, "then provide your own in-house training for a year or two."

He suggests giving purchasing people a broad view of the corporation, having them spend time in the planning and supply sides of the corporation, in support finance areas, and in manufacturing. "This way, when they get turned loose full-time on a buying challenge, they understand the enterprise and the products they're buying for," he says.

Winterbottom also suggests that procurement, logistics and transportation people move back and forth among the disciplines to share knowledge and gain understanding of each other's environments.

Procurement professionals need a wide range of skills and traits in addition to traditional ones. Purchasers today "need financial analysis skills, curiosity, the ability to challenge the status quo. They need to like to work with people — even difficult people," Winterbottom says.

Buyers need to be persuasive, persistent, and creative. "The buyer is really selling — selling their company, themselves, and the fact that they want to enjoy a competitive advantage from their suppliers so their company can win in the marketplace," he says.

"Companies that want to go world class will insist that their purchasing people develop their skill sets and qualifications," says Robi Bendorf, CPM, president of Bendorf & Associates, a Pittsburgh, Pa.-based firm that specializes in purchasing/supply chain consulting and training. "And they will invest in the productivity tools that are necessary for their purchasing people to do their jobs."

Of course, not every company is world class — or even on the way to becoming so. Despite significant changes in purchasing philosophy, strategy and techniques in some companies, "probably 75 percent of purchasing departments in the United States still do things the way they did 25 years ago. They were very tactically focused then, and they're tactically focused now," says Bendorf. That doesn't leave a lot of time for purchasing professionals to transition to a more strategic approach.

"Some companies seem to stay locked in the past," Winterbottom agrees. "They're always chasing down cost and expenses." Of greater importance are ensuring continuity of supply and recognizing the competitive advantage that can be gained by getting new products to market on time, as opposed to getting to market with the lowest cost set of components.

Many companies still pay lip service to the importance of building supplier relationships, overlooking or downplaying them, Winterbottom says. He cites the case of one well-known company where "the procurement people were criticized because

**"Procurement executives generally don't get the recognition they should from their bosses.**

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**Andy Winterbottom**

Vice President  
Electronic Component Supply Chain  
iSuppli Corp.

they talked about developing relationships and long-term agreements with suppliers." While the purchasing department was striving to achieve continuity of supply, the critics thought that they would be soft on suppliers, and would wind up paying higher prices.

"Procurement executives generally don't get the recognition they should from their bosses," Winterbottom notes. "What they do get is generally a kick in the rear to 'Go get me another cost reduction, and make sure there are no shortages.' Too often, procurement people don't enjoy the sort of strategic or core competency mindshare in their corporation that they should receive."

"Corporate executives, the champions of the supply chain, have been slow to recognize the value that the true purchasing professional can

bring," says Pragmatek's Bolstorff. Some think of a purchasing professional as "a person writing requisitions and purchase orders, rather than as a professional managing a chain of suppliers with a product portfolio."

"A world-class procurement function today needs to be highly integrated with the entire supply chain," Randy Garber says. "We're not even half there yet, but the promise is tremendous." Because of that, he predicts that procurement will earn increasing respect in the near future.

"We will continue to see the purchasing function become more strategic," he says. "A lot of companies that couldn't spell 'cost' three years ago are all of a sudden concerned about it." When these companies look at their cost structure, they recognize that they need to pay close attention to the total cost of ownership as well as supplier reliability.

#### REALIZING THE PROMISE

"Leading companies are looking at purchasing, manufacturing, and customer service as the supply chain, and are organizing to support that," notes Peter Bolstorff. Purchasing professionals need to develop the skills and experience to be successful in that environment.

"Look for job opportunities that give you a broader view than just the supplier," he advises. He suggests several steps to take, including:

- Seek out assignments that will provide broader exposure to manufacturing and logistics.
- Learn more about supply chain integration from a process view.
- Strengthen your technological knowledge and skills, especially with web-based e-business tools.
- Find ways to demonstrate the total contribution value of the purchasing professional.
- Make sure your goals and objectives are aligned with those of the top purchasing executive.

For purchasing professionals, the future is bright. "This is the most exciting time ever to be in purchasing," notes Robi Bendorf. "The opportunities we have been screaming about for years — the attention we've sought from top management — are finally here. We need to make sure we don't blow our chance." ■