

CUSTOMIZE, REORGANIZE AND MAXIMIZE

A strategic supply chain with a well-tailored supply management organization brings competitive advantage to all kinds of companies. Here's how to get involved at the best time and place in the product life cycle to make supply an invaluable team player.

By Jim Sanderson, MBA, CPSM, C.P.M.

Here's a million-dollar supply chain question — one that could literally involve millions of dollars' worth of spend: Does your supply management organization have the correct structure to add value to your company?

To find out, take a look at how well supply management collaborates with other core business units. In some companies, the engineering or design department is considered central to the organization, and supply management must find ways to deliver strategic value as a team player as well as a support function.

Making sure your procurement organization's structure is designed to be a strategic player is important in any company regardless of industry. As an example, consider an engineered-to-order (ETO) organization. ETO companies are engineering-driven and view their custom solutions as a core competency to set them apart from their competition. They often are large oil, gas, mining, robotic or capital equipment companies.

Because of the emphasis on engineering custom solutions or parts, it's often difficult for the supply management team to add value unless it works collaboratively with the engineering department throughout the entire engineered-to-order process. In an ETO company, supply management departments often consist of a few buyers to place and expedite purchase orders and/or a warehouse clerk to arrange inbound/outbound shipments. But no matter what business you are in, if your supply management organizational structure is too







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focused on tactical work, it will most likely struggle to efficiently manage the supply base and control costs in a strategic manner. That's why it's worthwhile to examine and evaluate your supply organization to be certain it is structured for success.

The following is a three-step process, involving:

- 1) Assessing the current supply organization structure
- 2) Customizing supply management's organizational support and value add
- 3) Reorganizing for optimal strategic value.

Step 1: Assess the Current Structure

Organizational structure is always unique, so there is no single strategic design that can be implemented across any organization. However, to create the best structure for your supply management organization, there are several key elements to consider:

Company size. Are you working with just a couple of business units, or are there 60 business units spread across the globe? The answer will help determine such elements as the size of your organization and needed skills and location of team members.

Companywide structure. Is your company centralized or decentralized? The supply organization will need to be aligned with the overall company structure. For example, if a company is highly decentralized, its supply management team will have to gain support and meet the needs of customers (internal and external) at various locations.

Industries served. Know the industries your company serves in order to better serve your internal customers. This aspect takes on added importance if you serve multiple industries. For example, I worked for a firm that served companies in the mining, gas and nuclear industries. Obviously, there were product lines unique to each, but

supply management was able to find many synergies among the industries and products that helped to streamline our supply chain.

Once the data is gathered to outline the structure, work collaboratively to define supply management's organizational goals. This is the stage where you begin to list the organizational needs that will support the new structure. Start with executive leaders to ensure top-down alignment. Without this alignment, departments often have conflicting goals.

Supply management is a support function to the entire organization; therefore, each department should perform a supply management "needs assessment." It can be completed through a questionnaire or by speaking with each department head. The assessment will help you understand what each department needs from its suppliers, what type of relationship it has with current suppliers, how products and/or services are sourced and how various departments interact with the supply base.

Typical needs by department may include:

- **Quality:** Quality requirements, industry certifications and specifications
- **Operations:** Delivery — for example, items must be on time and defect-free
- **Finance:** Cash-flow neutral or positive
- **Engineering:** Design support, technology and industry expertise
- **Sales:** Cost competitive, quote support and quick to market
- **HR:** Talent and training requirements
- **Sourcing:** Cost, supplier support/responsiveness and supplier development.

To keep action plans cohesive and organized in times of change, it is imperative to have a single person or department own the supplier

relationships. Generally, this would be supply management because it already negotiates all pricing and terms with suppliers. Additionally, supply management is not only responsible for spend and controlling cost within the categories under its control, but it regularly adheres to ethics policies to avoid favoritism or unethical practices.

Next, it's important to have the appropriate KPIs in place. It's especially crucial in terms of lean manufacturing, because you need to measure things before you can improve them. The supply management function needs to measure the appropriate KPIs and establish a baseline to show the improvements and value back to the organization. Some common KPIs may include: cost savings, on-time delivery, number of active suppliers, PPV and/or budgetary costs versus actual costs. These KPIs are meant to drive improvement and performance to support corporate goals and objectives.

Step 2: Customize for Organizational and Supply Chain Support

Some organizations are not sure when to include supply management during the product life cycle. Many ETO organizations, for example, will toss the design over the wall from engineering to supply management once the design is complete. However, this practice can lead to problems down the line if a supplier cannot deliver or if final quality expectations are not met. Rather, the supply management group should be included throughout the process. It may not be necessary to have full engagement at each stage, but supply management should at least be consulted when there is uncertainty. It's far better to get facts than to make guesses, no matter how educated.

Among the key phases in which supply management team members could add value and insights:

Firm quote to the customer.

Supply management practitioners should jointly review cost and timing assumptions for purchased components/services. This allows for collaborative discussions and/or solutions and better customer service. It is always best to notify the customer of realistic expectations and risks. This demonstrates your expertise and robust process to support customers' requirements compared to competitors that overpromise and under-deliver.

Project or product kick off.

Procurement should directly understand what has been sold to the customer along with timing, budgetary costs, specifications and/or customer requirements. Supply management also can work collaboratively with engineering to keep the project on schedule and attain supplier involvement if there is a problem in the early stages.

Design phase. Suppliers understand the costs and opportunities for improvements of their own manufacturing practices. Thus, it is important to include suppliers and supply management in the design process. It is less costly to change designs during the design phase compared to later in the product life cycle.

Project reviews. Supply management can provide updates on production timing, budgeted versus actual costs, specific issues that need support or attention (perhaps a certain supplier responds best to personal meetings rather than emails if a quality concern arises), and other areas that could be inadvertently overlooked.

Manufacturing. When issues occur either at the supplier location and/or during the on-site build, supply management professionals can work efficiently with suppliers to resolve any challenges. For example, I've found that the challenges often involve a quality issue, and suppliers

usually have the experts and solutions to solve it. A good working relationship between supply management and the supplier can facilitate a resolution to most challenges that occur in this stage.

Postmortem. Meeting after the fact often seems to be a low priority as companies are always on to the next project, but this step is imperative for continuous improvement throughout the organization. Supply management can bring key insights to the table regarding the entire product life cycle.

Step 3: Reorganize for Optimal Strategic Value

What is the optimal time to reorganize or create your strategic supply management organization?

In general, it is best to reorganize your supply function in preparation for or part of another major business transformation. If you restructure as a stand-alone reorganization, you could struggle to get the necessary support and alignment for success. But if it is part of a larger project or reorganization, the organization's leaders will know it makes solid business sense to include the supply management structure as part of the overall business plan.

Three opportune times to reorganize the function are:

During a mass corporate reorganization rollout. In preparation for a mass corporate rollout, the top executive team is already in a collaborative mode; goals and objectives of each business unit should align. It's an ideal time to ensure supply management is represented in alignment discussions.

In anticipation of organic or acquisition growth. A trend or forecast of company growth often forces leadership to focus on and re-evaluate business strategies for success. In certain cases, there may be redundancies and opportunities for redeployment. This could also lead to a

mass corporate restructuring. Again, if you act on restructuring the supply management function at this point, you're more likely to get top executives' attention and support for a collaborative rollout.

Prior to ERP implementation. An ERP implementation is a major impact to the business. If all company leaders are not involved in the process, it can lead to a poor rollout and adoption, which can be devastating to the business. In the planning phases for ERP implementation, it is critical to map out existing roles and processes to determine if any need to be changed, enhanced or even created to support a successful launch. This is a good opportunity to reevaluate and optimize the supply management organization's structure.

Overall, a supply management reorganization needs one thing above all else to be successful — support. Once you have a well-thought-out supply chain strategy to address short- and long-term objectives, you can focus on internal transformation and implementation. This process requires change management support, training and organizational support.

Business transformations are major undertakings for any organization, no matter how large or small. Senior executive support is critical to be successful. A well-designed, strategic supply management organization brings considerable value to the table, and smart senior leaders know this and use it to their company's advantage. Thus, don't be afraid to step up when opportunities arise. Present your strategic supply management potential and offer to make even the best-case scenarios even better. **ISM**

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