



Book The Purchasing Machine

How the Top Ten Companies Use Best Practices to Manage Their Supply Chains

Jonathon Stegner, Patricia E. Moody and Dave Nelson
Free Press, 2001

Recommendation

One of this book’s mantras is that purchasing is a lot more important these days than in decades past. The authors, Dave Nelson, Patricia Moody and Jonathon Stegner, have spent decades in the field of purchasing. Their principal argument is that now that most companies outsource their equipment and even their parts (for example, very few Dell parts are made in-house), purchasing has become not only more important, but a potential source of incredible savings. The dozen companies profiled in this book - which is meant to detail the best practices in purchasing worldwide - have realized millions of dollars in savings simply by optimizing supply-chain management. The authors emphasize that this isn’t an individual task. Change in purchasing management requires an internal team and management support. *BooksInShort.com* recommends this book not only to purchasing managers, but to all corporate executives, any of whom will glean some invaluable pointers about how to save money in day-to-day operations.

Take-Aways

- Today’s outsourcing has made purchasing decisions much more important.
- Many companies have missed the fact that purchasing has become critical.
- Top organizations usually excel at only one or two purchasing best practices.
- Your supply management leader should be a vice-president in your company.
- Management support is the key to successfully changing purchasing practices.
- Using 20 best practices in purchasing will change your business.
- Don’t try to utilize all 20 best practices at once.
- Find out whether your company engages in bad-practices purchasing.
- Don’t try to utilize best practices alone. This is a team effort.
- Enterprise Resource Planning is not recommended as a purchasing solution.

Summary

Procurement Proficiency Produces Profits

Procurement should no longer be seen as a necessary evil or as some minor function that can't help your company become more competitive. In fact, the crucial step that corporations must take to capture more market share in the 21st century is procurement and supply-chain management.

“Use best practices as the launching pad, not the destination.”

If you haven't addressed your purchasing process, the future is now. Over the next 10 to 20 years, the most exciting place for a manufacturing professional will be supply management, which will encompass these functions:

- Purchasing
- Materials flows
- Acquisitions
- Sourcing strategies
- Movement and control of intellectual property

“Bad practices will take your team nowhere. They will drain energy and responsiveness, leak hard-earned profits and prevent you from capturing the gold from brilliant and well-intentioned new product initiatives.”

To find the best path to achieve purchasing and supply-chain improvements, you need to create real change and leapfrog the competition with out-of-the-box ideas. Today, every part of manufacturing is being designed for better, more predictable performance. This is performance that can be achieved only by doing the work very well, every time. The companies profiled here don't perform all of the best practices, but each one does some things extremely well under high quality leadership.

Benchmark Purchasing Performance

Reforming your purchasing management and maximizing the savings potential in your supply chain relies on understanding that purchasing is important, and can be improved with benchmarking to set tough performance goals. Building better supply-chain management relies upon sharing knowledge, institutionalizing best practices and addressing each step along the entire supply chain.

The Evolution of Purchasing

During the 1960s, manufacturing changed in many ways, yet many companies failed to realize that as manufacturing evolved, so did the needs for traditional purchasing. Most organizations missed the big change and, instead, built systems that supported traditional massive-batch and queue-production processes.

“Moving a single organization, and then an entire supply chain, along an aggressive improvement journey that started about 150 years ago in manufacturing can be a blinding challenge for a single dedicated individual. We don't recommend that anyone attempt this alone.”

The three major shifts involved:

- Money - More money started to flow through the purchasing structure as companies changed from vertical integration to outsourcing.
- Power - Internal power shifted away from previous balances and moved into areas outside traditional manufacturing.
- Intelligence - Before outsourcing, manufacturers needed employees with traditional, hands-on skills. Today, manufacturers have more of a need for people with less traditional expertise, such as contract management and procurement.

The Purchasing Challenge

Purchasing professionals now face several pivotal challenges:

- They must understand and direct the quick completion of many high-technology tasks.
- They must lead their team in material and intellectual property acquisition and use.
- Not only must they continue to mind the store and keep costs down, but they have to become tech gurus, and experts in communication and costing.

The Supply Chain Top 10

The top 10 companies known for their superb supply-chain management are:

1. American Express excels at breakthrough computer systems.
2. SmithKline Beecham is structured to meet commodity market goals.
3. Daimler-Chrysler enjoys a great reputation among its suppliers.
4. Harley-Davidson/Buell has renewed itself.
5. Honda of America set the benchmark for supplier development and training.
6. IBM continues to be an innovator.
7. John Deere is known for supplier development and strong processes.
8. Whirlpool combines leveraged purchasing and cost-management skills.
9. Flextronics has developed superior procurement systems.
10. Sun Microsystems continues to improve supplier partnerships and networking.

Twenty Best Practices

To change your purchasing processes, incorporate each of the following 20 best practices, but don't work on all of them at once. The above companies each excel at one or two of these performance points.

1. Cost Management.
2. Supplier development.
3. Value analysis.
4. MRO management, which includes maintenance and repair, indirect materials and services, and nontraditional purchasing.
5. Supplier circles.
6. Training.
7. Supplier information sharing.
8. Supplier study groups.
9. Supplier conferences.
10. Supplier performance reporting.
11. Supplier surveys.
12. Delivery improvement.
13. Tool and technical assistance centers.
14. Supplier support (SWAT) teams.
15. Loaned executives.
16. Early supplier involvement.
17. New Model Development Groups.
18. Written strategies for every supplier, every part and every commodity.
19. Strategic planning, administration, career-path and academic outreach programs.
20. Purchasing systems.

“Clarity - not simply being clear about objectives and tactics to deliver on goals but clarity of vision - will take purchasing executives from a chaotic landscape up to the clear, high winner's advantage.”

Of course, no one person can manage all this. To attempt any of these practices, management must support a small team of dedicated individuals. For example, to take just one of these practices, improving supplier development, requires following twelve separate

steps:

1. Review performance gaps.
2. Explore project analysis and execution methods.
3. Work to align mutual agreement on project focus.
4. Identify processes that result in waste.
5. Compare performance gaps with the results you want.
6. Establish project metrics and baseline metrics.
7. Gather and analyze data.
8. Develop improvement strategies.
9. Create an implementation plan.
10. Create a project proposal.
11. Review the proposal with your suppliers' management.
12. Execute the project.

Worst Practices

Even though traditional purchasing techniques are faulty, many companies simply aren't following best practices in supply-chain management. Companies find themselves saddled with cumbersome organizational structures, compensation schemes and protocols.

“Why would top management choose to support engineering, or sales and marketing, when 80% to 90% of the cost of their product is controlled by supply management?”

Even worse, some companies fall into procurement habits and structures dating from the era of all-powerful manufacturing housed in vertically integrated functional silos. Watch for the 10 signs of worst-practices purchasing:

- Your company's highest level purchasing executive is purchasing manager.
- Your buyers or planners earn less than one-third of your highest purchasing pro's salary.
- No representative of the supply chain sits on your board of directors.
- Strategic alliances are guaranteed by written contracts.
- All of your new product expertise is centered in engineering.
- Your purchasing planning systems are loosely tied to manufacturing planning and execution software.
- Faxed requirements determine supplier delivery schedules.
- Cost date determines the compensation of purchasing professionals.
- Ten percent of receipts represent point-of-consumption deliveries of certified materials.
- Manufacturing believes it can assure product quality by commodity and part classification.

“As manufacturing changed, so did the needs for traditional purchasing, but the buying function in most organizations missed the change and continued to structure and build systems to support a massive batch and queue production process.”

Most companies don't spend enough of their resources on human assets. We don't see the right caliber of professionals dedicated to areas that manage 70% of company spending. Every company should have a vice-president of purchasing or supply management.

However, Enterprise Resource Programs (ERP) are not a solution to purchasing problems. ERP simply doesn't have the tools to solve factory-flow problems. The answers to your supply chain problems exist on the shop floor over the next five or 10 years, and cannot be effective if they are afterthoughts by the software houses and their handmaidens, big consulting.

Predictions for the Future

Companies that use best practices can achieve 25% to 30% cost reductions in purchasing and productivity savings. Meanwhile, procurement specialists will make increasingly strategic contributions to their organizations. The future will include:

- More variety, not less - Customers will be able to design their own products on-site, perhaps even in transit. All sorts of

misplaced design efforts will mean that procurement and supply-chain professionals will have to save even more time in the pipeline. This trend also means that supply chain managers, who already need intellectual property expertise, will also become experts at outsourced ideas and royalty schedules.

- Lock down - In the next 20 years, big companies may lock down smaller and mid-sized suppliers out of both necessity and evolution. Big manufacturers will integrate these suppliers much in the same way that Microsoft controls entire markets.

About the Authors

Dave Nelson a vice president at Deere and Co., previously led the growth of Honda's purchasing division, which received the Medal of Professional Excellence from *Purchasing Magazine*. **Patricia Moody** was profiled by *Fortune* as one of the 10 pioneering women in manufacturing and is a consultant to such companies as Cisco, Honda and Solectron. **Jonathon Stegner** is a director of supply management at Deere and a 20-year supply management practitioner.
