

**IS PURCHASING THE**

**Under-valued Link**  
**in Your Supply-Chain**

**IN YOUR ORGANIZATION?**

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**What kind of job is Purchasing?**

- **A profession?**
  - - accountant
  - - plant manager
  - - salesman
  
- **or a glorified clerical position?**
  - - get the stuff here on time
  - - make sure it's the right stuff
  - - make sure prices are "competitive"
  - - get the paper-work right

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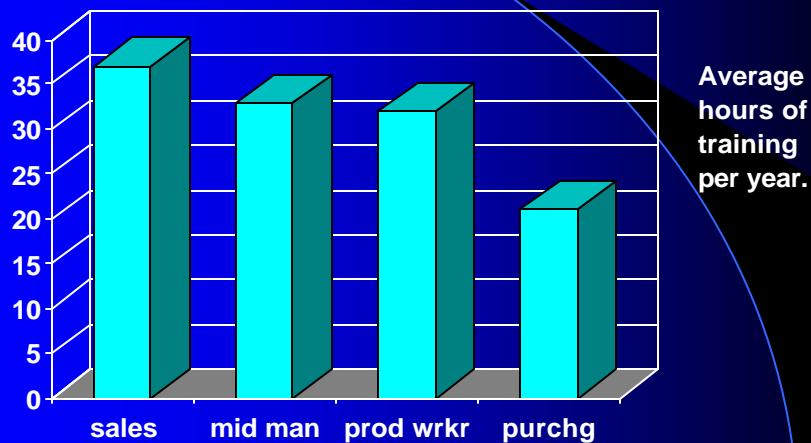
## **UNFORTUNATE FACT: Most senior managers still view Purchasing as a clerical function.**

### **Witness:**

- they pay low salaries
- do not invest in training
- put in little personal time or effort
- and certainly do not see it as a strategic function

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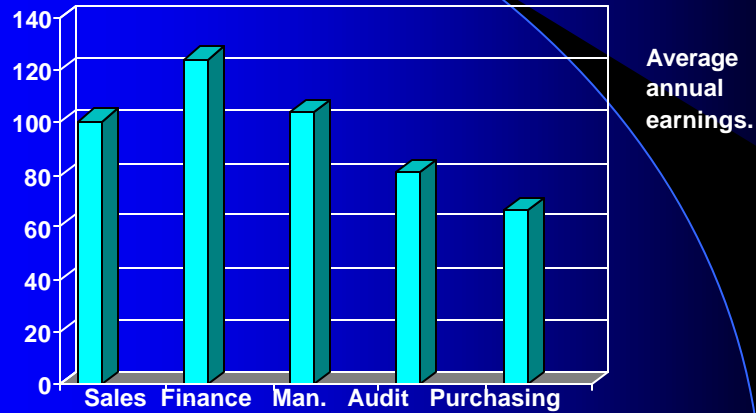
## **Purchasing people receive less training than everyone else**



Source: Training Magazine

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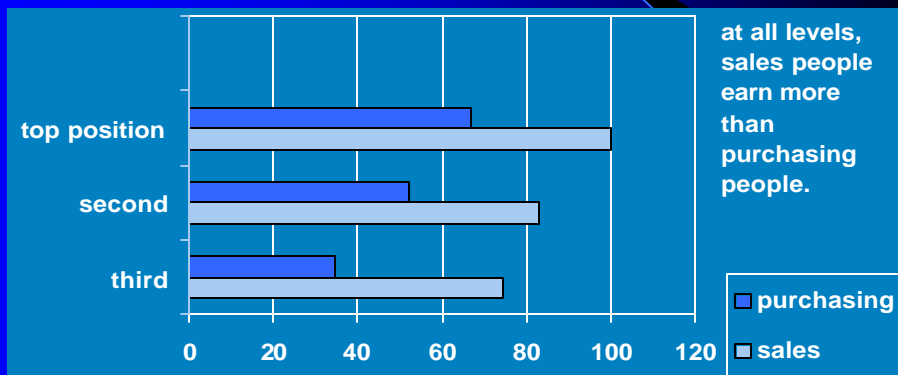
## Top Purchasing people earn less than their colleagues



Source: Peat Marwick Stevenson & Kellogg salary survey

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## MOST PROFESSIONAL PURCHASERS EARN LESS MONEY THAN THE PEOPLE THEY FACE DAILY IN NEGOTIATIONS.



Source: Peat Marwick Stevenson & Kellogg salary survey and Modern Purchasing salary survey

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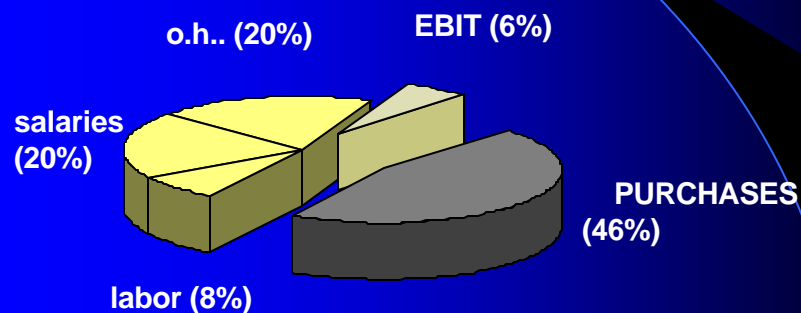
# DOES THIS MAKE GOOD BUSINESS SENSE?

AFTER ALL, SENIOR MANAGERS SEE SO MANY OTHER CORPORATE PRIORITIES

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## DEFINITELY NOT.

Purchases, by far, represent the biggest part of most manufacturers' P&L

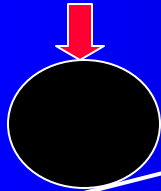


Source: U.S. Department of Commerce and Statistics Canada

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## THE **LEVERAGE** IN PURCHASING IS REMARKABLE

SAVE 3% in Purchasing



Lever profits up by 21%

TYPICALLY SEVEN TO ONE

## WHY DO SO MANY SENIOR MANAGERS MISS THE BOAT THEN?

Daniel Carroll\* sheds some light. When approached by his boss, William Marx, to take on a purchasing position, Carroll's first reaction was:

**'What did I do wrong?'**

Twelve months later he is quoted as saying:

**'This isn't a high-glamour area. But I've delivered far more dollars to the bottom line than I ever could have done in Switching. We are on target to boost our bottom line this year by 21%!'**

\* Daniel Carroll: was CEO of the \$6 billion Switching Manufacturing Division, AT&T

## INTERESTING FACT

IT IS NOT JUST THE AT&T'S OF THE WORLD WHO CAN MAKE HUGE PROFIT GAINS (LIKE 21%) THROUGH PURCHASING

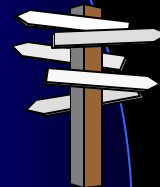
The math is simple: it only takes a 3% reduction in Purchasing costs to boost most manufacturers' bottom lines by the same 21%.

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OK, LET'S SUPPOSE THAT YOU ARE NOW CONVINCED (or at least interested).

THE NEXT QUESTION IS:

How do I go about Exploiting Purchasing's Potential?



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## Two things need to be done:

- **First, raise the profile and effectiveness of your company's Purchasing function.**

*This is senior management's job.*

- **Purchasers need to work on value-adding activities. (AKA what good Purchasing looks like).**

*This is the Purchaser's job.*

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## Five Principles for better Purchasing

*A Guide for Senior Managers*

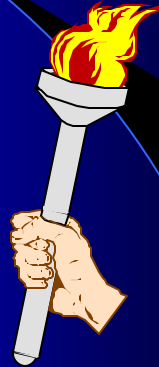
- 1) **Senior management involvement**
- 2) **People development**
- 3) **Good measurement systems**
- 4) **Multi-function task teams**
- 5) **Position rotation**

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## Senior management involvement

Become a champion

Promote Purchasing's importance



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### Senior management involvement

## Raise the department's profile

- \* take part in strategy sessions, goal setting
- \* develop relationships with key suppliers
- \* participate on negotiating teams
- \* publicly celebrate successes
- \* make it attractive to "career track" people

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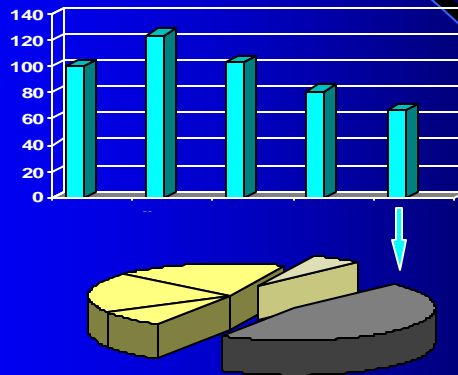
## **Look for specific characteristics when choosing Purchasing people**

- \* naturally curious about how things work
- \* comfortable in a technical setting
- \* methodical, fact and detail oriented
- \* slightly skeptical but open to new ideas
- \* good communicators/team players & leaders

## **Encourage and train**

- \* product manufacturing processes
- \* product cost structures
- \* suppliers' equipment, cultures
- \* “win-win” negotiation techniques
- \* integrate into senior management
- \* effective task team management

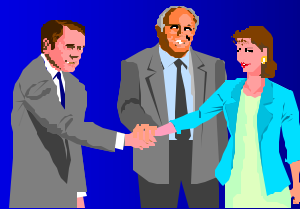
## What's wrong with this picture?



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People development

## Demand performance and *pay for it.*

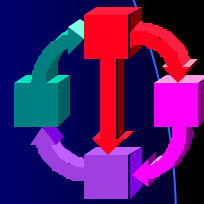


Include an incentive system based on goals and measured results.

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## Measure with Benchmarks

- \* good targets/benchmarks
- \* good data
- \* well understood variables
- \* clear cause and effect relationships



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### Principle # 3 - Measure With Benchmarks

Purchase prices are influenced mainly by external, marketplace factors.

You need to regularly measure Purchasing performance; and measure it against benchmarks that come from outside your organization. Purchase prices are influenced mainly by external factors such as better technologies, stronger supply-chains, re-valued currencies, etc. Do not fall into the trap of treating Purchasing as just another direct cost area (like labor), where results are compared only to internal standards such as budgets or last year's numbers. Actively seek out "best practices" (wherever they are) and use these to establish benchmarks.

Good benchmarks have very useful second function: they provide a window onto *how you are doing versus competition.*

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## Multi-function task teams

- \* clear tasks, timelines, budget and goals
- \* simple, agreed to measurement variables
- \* wide participation (include suppliers)
- \* high level sponsorship, autonomy, decision-making authority

**Make Your purchasing professionals responsible for leadership, closure and results.**

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## Position rotation

- \* adds depth to staff skills and experience
- \* enriches jobs
- \* refreshes perspectives, ideas, priorities
- \* suppliers focus on providing benefits not cultivating relationships

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## Reviewing the Five Principles for Better Purchasing

- 1) Senior management involvement
- 2) People development
- 3) Good measurement systems
- 4) Multi-function task teams
- 5) Position rotation

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## Look Familiar?

**shorter planning cycles**  
(AKA flexible manufacturing)

**smaller inventories**  
(less safety stock)



**unreliable information**  
(late, missing, incomplete)

**fewer support people**

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**Oh! Almost forgot!**



**Continual pressure to increase the value received for dollars spent**



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**Trapped in the  
“Everything is Urgent” Zone.**

**SAD FACT:**

**Most purchasing professionals spend  
over 90% of their time responding  
to day-to-day urgent matters.**

**That leaves precious little time for  
adding value!**

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# Urgent work versus Non-urgent

## Causes of urgent work

- Materials/services are late, short, defective, or missing.
- “Surprise” shortage due to higher than expected usage.
- “Surprise” shortage due to incorrect reported inventory
- Supplier’s plant goes down.

## Non-urgent work

- Developing value adding alternative sources.
- Working with Engineering, Production, and Suppliers to improve materials, processes.
- Improving marketplace and technical knowledge to increase negotiating effectiveness

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**The joys of escaping from the  
“Everything is Urgent” zone.**

**First carve out time;  
then drive down purchase costs.**

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**How to Escape from the  
"EVERYTHING IS URGENT" ZONE**

**Manage the major causes of entrapment**

**CAUSE #1:  
Price Hassles**

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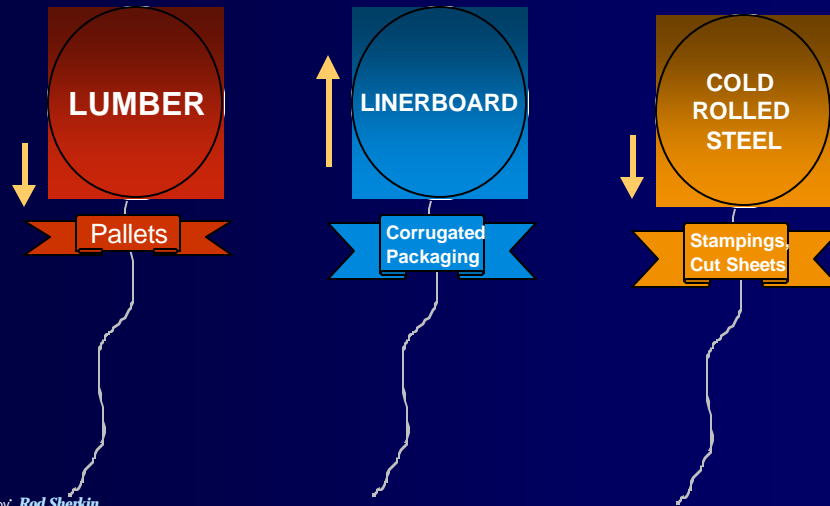
**COMMODITY PRICES  
AND THE INTERNET**

**A POWERFUL COMBINATION THAT  
CAN SAVE TIME  
AND REDUCE COSTS  
(and help you set tighter budgets)**

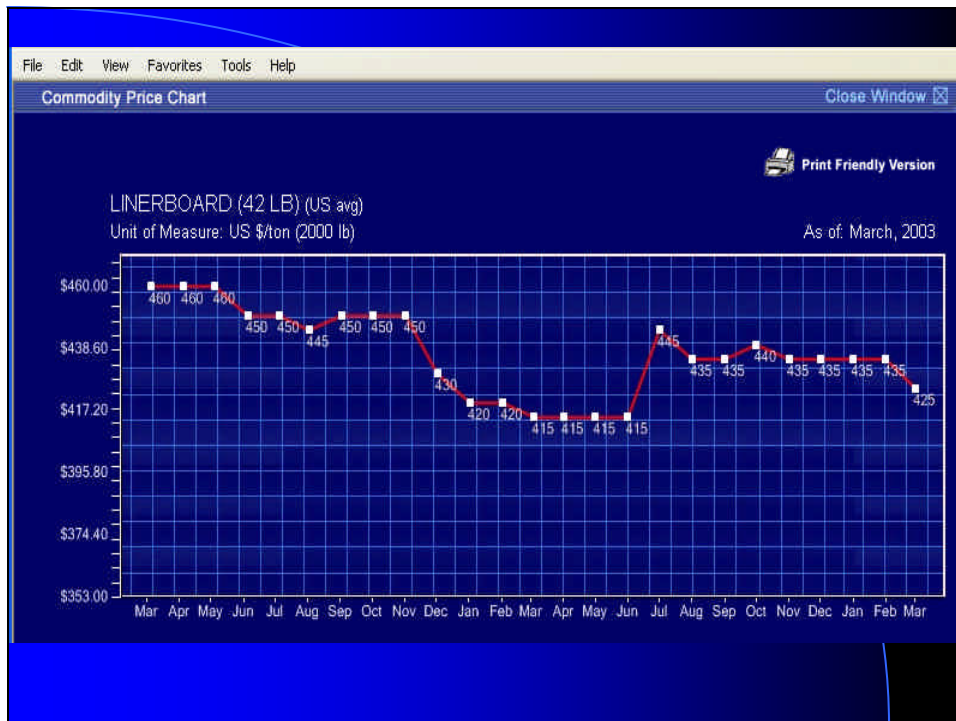
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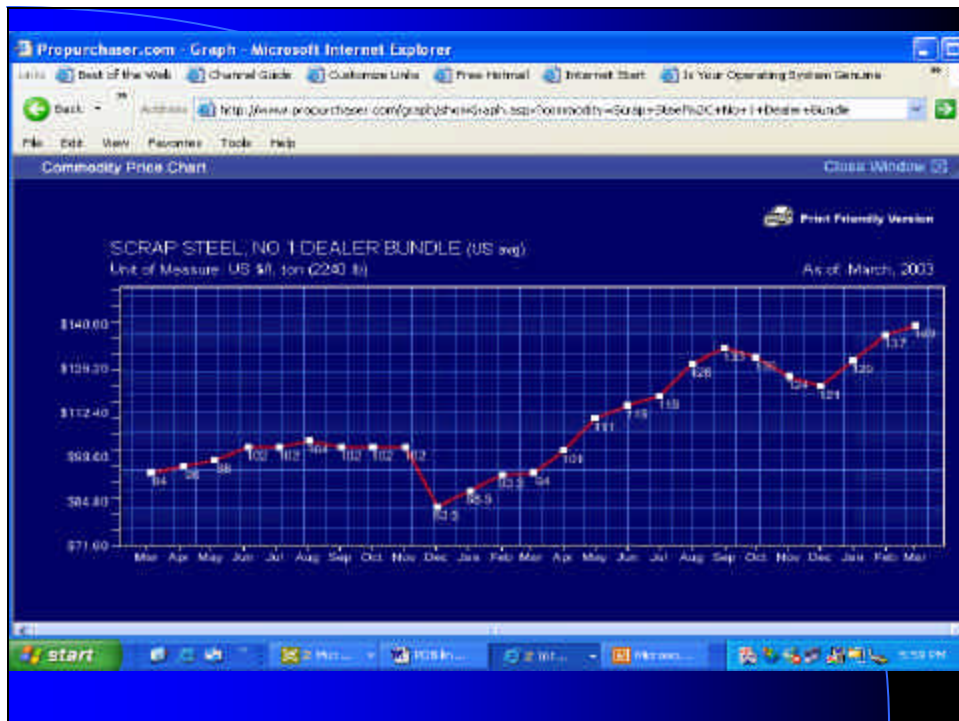
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As prices for commodities go up & down,



Presented by: *Rod Sherkin*

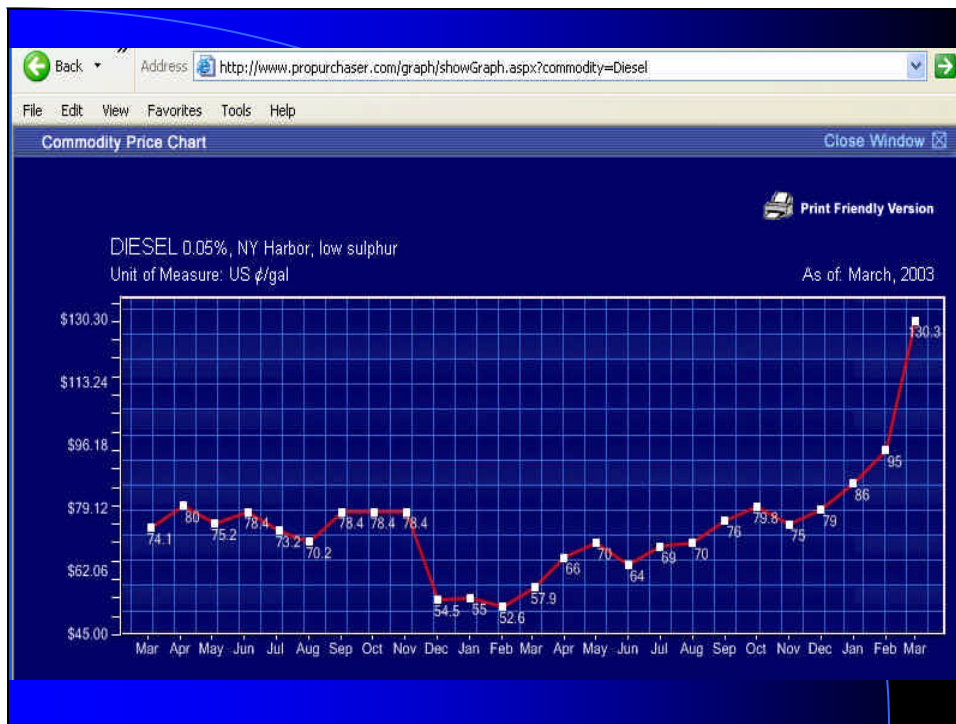












**Let's Suppose You've Been Able to Make a Deal.**

**How do maintain it?**

**The basic problem is most purchasers simply do not have time to keep track of commodity prices, on an ongoing basis.**



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Enter the Internet



*For the first time,*

***INFORMATION can  
seek out PEOPLE!***

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***And the information can be  
personalized***

***These two features are the Major Drivers  
of the current  
Information Revolution***

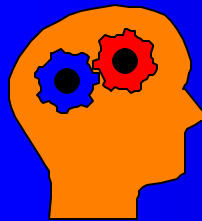


# What can Purchasers do with their new-found time?

(even if it's only an hour a day)

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## Devote more time to value-adding work, like:



- Developing better value alternative sources.
- Working with Engineering, Production, and Suppliers to improve materials, processes.
- Improving marketplace and technical knowledge to increase negotiating effectiveness
- Play hockey

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## **WRAPPING UP:**

**IN CASE ANYONE STILL HAS  
ANY DOUBT THAT  
FOCUSING ON PURCHASING  
MAKES GOOD BUSINESS  
SENSE?**

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**Here is what Larry Bossidy of  
Allied Signal says about purchasing:**

**“This thoroughfare to savings is  
broad and fast -- yet so unsexy  
that even seasoned managers  
pass it by.”**

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**Here is what William Marx\*  
has to say on the subject.**

**\*William Marx, Executive vice president of Telephone  
Products, AT&T**

**“Purchasing is by far the  
largest single function at  
AT&T.**

***Nothing we do is more  
important.”***