## Purchasing Advantage
### Case Studies With Metrics

<table>
<thead>
<tr>
<th>Pain Point Focus Area</th>
<th>Current Situation</th>
<th>Desired Situation</th>
<th>Gap Closing Actions</th>
<th>Proof Point/Use Case</th>
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<tbody>
<tr>
<td><strong>Analyzing spends</strong></td>
<td>Purchasing ...</td>
<td>Purchasing ...</td>
<td>Since changing ...</td>
<td>A Fortune 50 company had a geographic region of their organization that put in a new policy: All purchase orders over $10,000 needed to go out to bid. They paraded this new TCO strategy, demonstrating how nothing above this materiality threshold would slip through the cracks again. The problem is that it was wrong. It was a reactive and time consuming approach, and there was no strategy at all – they were reacting to mostly pre-cooked PO’s.</td>
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<td>problem with ...</td>
<td>quick and easy to</td>
<td>following a step by step methodology to first establish a very strategically thought through Tier 1, Tier 2, and Tier 3 all serving very different roles, and then funnelling expenditures in a pre-defined manner so that the Tier 1 and Tier 2 suppliers (only) become the primary expenditure reporting and forecasting entities. The purchasing professional’s focus then shifts from scrambling after individual deals to strategic supplier management and TCO reduction activities, which is what purchasing is paid to do.</td>
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<td>capturing spends</td>
<td>access to where ...</td>
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<td>By using the principles and steps outlined in our program, they were able to restructure their supply base, put their employees in more leveraged supplier management positions, and save 22% in their next purchasing expenditure plan cycle.</td>
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<td>data. The problem ...</td>
<td>their biggest expenditures are going to, on both a historical and forward looking basis, structured by category/commodity and supplier. This information is used to set impactful front end strategies that influence where the money goes, how it is spent, with which suppliers, and also to use this information to negotiate more powerful contracts that represent spends aggregation and supplier reduction strategies that maximize supplier economies of scale, the savings of which are passed onto purchasing in the form of TCO reductions.</td>
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<td>is almost exclusively related to the systems that their company is using, and the inability for those systems to pull and report expenditures by category or commodity. The net result is that purchasing is only able to understand where the money is going through manual tracking, individual supplier queries in the system, and from what key customers tell them. This process is time consuming, inefficient, and on the whole inaccurate. Purchasing professionals therefore have insufficient information to make more impactful strategic decisions, and spend much of their time in exception management activities, negotiating deals that customers come to them with instead of having a more proactive and defined approach that carries value to the entire organization.</td>
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<td>Many purchasing ...</td>
<td>A centralized commodity management function exists that needn’t be geographically centralized, but rather focused</td>
<td>The incredible thing about shifting to this approach is that it doesn’t require more headcount to do it! A careful</td>
<td>A large technology conglomerate had grown rapidly through acquisitions all over the world; they had</td>
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3. It is important to understand the current state of procurement, including the number of suppliers being managed, and the number of purchasing personnel needed to manage them. This information is crucial for making informed decisions and implementing effective strategies.

4. A virtual team approach can be effective for commodity buyers and regional purchasing specialists. By collaborating together, they can set global strategies and goals for the organization, and make binding decisions on behalf of the organization. This approach allows for greater cooperation and efficiency.

5. Analyzing expenditures and identifying where they are coming from can help optimize spending. By understanding the existing skillsets and leveraging them, employees can generate better results, positively impacting their career and their compensation model.

6. In the case of a company that acquired 50 or more small acquisitions in a short period, their corporate purchasing office was comprised of one person, a senior manager who had no headcount and no budget. They had to make a change and adopt a new approach that would enable all regions to work together for the good of the company and the company's bottom line.

7. By carefully following the correct management process steps, the purchasing function in this company was able to start acting like one organization instead of 50. The first step was to focus on transportation, then on air travel. From there, they were able to roll out this model to all commodities, without adding headcount! Savings in the first year alone were over 15%, and they continued to deploy and enjoy the success of this model to even greater effect.

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| Managing regional purchasing organizations for success | While corporate commodity managers are worried about strategy, regional purchasing organizations are dealing with the realities of day to day purchasing. POs getting placed on time, tension from local customers wanting more attention and use of specific suppliers, trying to undo purchase orders that were pre-cooked with suppliers without purchasing involvement, diverse suppliers hammering on the door wanting to get in, managing the procurement card program at the site level, sitting on commodity teams and trying to leverage corporate commodity contracts that often don’t meet site needs, preparing for and responding to internal audits, managing supplier on time delivery, chasing safety excursions that happened in site services or construction, trying to get in front of over-spent and expired contracts because there are no systems in place to provide forewarning, conflicting directives because purchasing often reports into the customer group that they are trying to wrangle with, meaning the customer can call the shots because they are writing purchasing’s review! | Purchasing sits in a proactive position where they are managing results instead of reacting to process excursions. Customers are aligned with purchasing processes and drive early involvement, not because they have to, but because they want to – purchasing consistently gets them better results when they do. Commodity team and regional purchasing strategies have clear linkage points and commodity strategies accommodate regional needs. Supplier performance is being managed instead of reacted to. Working in regional purchasing offers challenges and growth opportunities for purchasing professionals. Regional purchasing organizations are viewed as both strategy and execution arms of the purchasing organization, and are viewed as critical components of the overall purchasing organization’s success. | Execution to this new model takes time, but the result is an entirely different approach, with an entirely different set of results. Service level agreements need to be put in place with customers that also binds them to a set of performance criteria, regional support arrangements need to be negotiated with commodity teams, a special package must be put together that makes engaging purchasing early a “no brainer” for the customers, a punitive measure needs to be negotiated for customers with “after the fact PO’s”, and purchasing metrics reported to management need to be renegotiated to be more strictly focused on TCO. If the process steps behind these actions are followed, great results can be expected over time. | The Northwestern region purchasing department for a Fortune 100 company was struggling. They were responsible for $500M in annual spends but still struggling! All of their buyers had been converted to be customer focused – which was time consuming with little return – and they were managing their business under a “management by distraction” model. The problem is, when it came time to report results, all they could say was they had very happy customers. By shifting to this model, implementing each step successively, they were able to become the top performing purchasing organization in this entire company of 100,000 people. Customers, who started out as resistant, soon became ambassadors of the change, because they saw by “getting on the bus”, as it was called, they were able to get much better results than they were able to before. It turned out to be a win for all parties involved. |

| Hybrid purchasing roles (order) | Purchasing professionals everywhere are getting bogged down by lead weights called purchase orders. | Purchasing departments have senior skilled personnel that are trained in negotiations, contract | There is a 4 step proven process methodology that must be used when wanting | This process has been successfully used with a number of employees in large |
Trained to negotiate contracts and save the company hundreds of thousands if not millions of dollars, these employees are also bogged down with the administrative task of placing purchase orders, which they could have done straight out of high school with one day's training. What a situation! Management agrees this is not ideal, but can't get the headcount approved to have other more junior personnel place the orders. And since the purchasing professional stuck in this situation can't ignore the POs, all of which are urgent, what gets left on the back burner is not the negotiations, but the proper preparation for the negotiations. Ouch. This then impacts results, and as a consequence, management never gets the justification they are looking for to hire more personnel, because the results just aren't there. It's the ultimate vicious circle and it's happening everywhere that purchasing is happening. People stuck in this cycle are having their frustrations peaked, their workplace motivation crushed, and their careers suppressed. Something has got to give.

Software contract pitfalls

Non-standard software procurement has to be the #1 way to make huge TCO mistakes that can risk your entire career as a purchasing professional. Non-Standard software buyers everywhere are getting burned by clever software firms. Such buyers frequently focus on purchase price of the software. No problem! Suppliers will make their money. They will management, and supplier management. There are then a separate set of very junior purchasing personnel that place orders. There is a career path from an order placement job to becoming a buyer, but the two positions don't overlap naturally or by force. The # of orders coming through are mostly against pre-negotiated contracts rather than being mostly emergency purchases with new supplies with whom purchasing has not engaged. Management recognizes the value of negotiators and recognizes the opportunity cost associated with misusing them as PO placers. Everyone in the various roles feels like their respective skills are being used to the maximum possible, department morale is high, and so are group results.

Non-standard software procurement is done with flexibility and and TCO in mind. Software negotiators enter negotiations with a complete understanding of the software TCO picture and negotiate all unique software TCO drivers in such a way that future needs are accommodated for, allowing for
to escape the confines of PO placement responsibilities when you are also responsible for negotiating contracts with suppliers. This process starts with a no-risk pitch to management, and ends with indisputable demonstration of results to management, such that management, who wants to help you, is finally given the data they need to justify more headcount for the department and then classify roles by negotiators and administrative PO placement personnel.

By applying this model to a critical sole sourced software supplier that previously had this Fortune 75 company by the neck, the contract was able to be renegotiated, with a multitude of risks shifting back to the supplier (where they belonged), and every supplier strategy to balloon companies. The benefit has been that it only takes one or two employees to pilot it, and then the ammunition is there for department wide deployment. Most hybrid buyers are able to increase their cost savings results by over 30% once making the transition, which of course has paved the way for improvements in compensation and career path.
Managing rogue internal customers

Purchasing organizations around the world are plagued by the lack of hard and fast corporate policies with punitive measures for non-compliance related to customers being required to use the purchasing organization and being required to engage them early. They don’t exist. Plenty of companies say they do, but further review, without exception, indicates they are either guidelines or they are not enforced or there is no consequence for lack of compliance. This implicit green light to all internal customers means pre-cooked purchase orders, customers have intrinsic motivation to work with purchasing and are ambassadors of the purchasing organization. Customers work with purchasing because they want to, not because they have to. They have bought into the model because they’ve seen the results: engage purchasing early, and get what you want better, faster, and at a lower TCO – and they understand what TCO means! The supply base is shrinking and expenditures are being funneled without the loss of sunk funds. Insider secrets are given to ensure maintenance is negotiated as a percentage of price negotiated and not as a percentage of the supplier’s highly inflated list price. Intellectual property usage rights are granted for key materials, thus allowing the customer to educate themselves rather than relying on consulting, and payment is done on a pay for performance model instead of on a pay for due date model. Finally, critical terms that you won’t find in any software contract template are inserted and negotiated such that the buyer has complete control over supplier product performance, with dollars tied to every such deliverable.

A Pareto analysis has to be done with expenditures, by customer, and a step by step methodology followed with customer groups that historically have not engaged purchasing early. This is done with one such customer group at a time, and starting with just one high profile negotiation at a time. Absent an executive mandate, an intrinsic motivation model is developed with customers, using a defined 4 step engage, A Fortune 50 company had a Marketing department that did not like purchasing. They so disliked purchasing that they developed their own in-house purchasing department! In talks with them, they were completely unwilling to even entertain the idea of working with purchasing – their business was too critical.

The purchasing department decided to try this
undesirable supplier discussions held by customers, unauthorized budget disclosures, non-competitive supplier selections, and in the aggregate, supply base growth and TCO reduction.

to the desired suppliers. Fewer purchasing personnel are needed because of less excursion management and less placement of orders for the wrong suppliers, however, the personnel that are left are strategic and able to now focus on supplier management, contract management, and TCO reduction.

prove, create loyalty, and create agreement business model. Once the model starts to work, the results will grow, and quickly. In a short period of time, customers will no longer need to be chased after, and they will come to purchasing, though in a much more strategic engagement model.

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| Measuring TCO and capturing purchasing value for customers and management | Purchasing professionals, almost more than any other business function, need to capture cold hard metrics to keep their headcount and funding in place, and to continue to justify their value add. However, while these metrics are well understood by the purchasing ranks, they are rarely recognized and accepted by customers and senior management that the purchasing ranks eventually report into. Frequently, purchasing departments are only allowed to report and roll up direct cost savings — those costs savings associated with price reductions — and are not allowed to roll up indirect/soft cost savings or cost avoidance savings. This is never a purchasing executive decision; it’s always someone in the ranks not trained in purchasing who Management, customers, finance, and the executive chain all recognize that purchasing’s role is not just to expedite materials and secure better prices. They see purchasing as a value added profit center for the company. Not only are the various types of savings recognized, pursued, tracked, reported, and valued, but the concept of TCO is well understood and purchasing is valued as a key function that can also pursue cost savings and streamlining opportunities in the supply chain. Purchasing is not just a service provider or an expeditor. Purchasing is a strategic capability and Purchasing department personnel must first themselves be trained on all aspects of TCO and supply chain costs, cost drivers, and cost types. This level of deep and broad TCO training is not typically found inside most internal corporate training organizations; even Fortune 50 companies lack it. From there, a bounty of examples and proof points need to be gathered, both internally and externally, of examples of dramatic TCO opportunities both captured and missed. This helps to portray the vast difference between short sighted price reduction efforts

Many companies, from small to industry gorillas, have been trained on this model. Going through this methodology invariably produces dramatic results. In most cases, the result has been a shift from the tracking of only the most basic and conservative savings, usually direct cost savings only to pursuing, achieving, reporting, and being rewarded for a full arsenal of purchasing TCO metrics both in the company and in the supply chain. The results are dramatic. One big company had their purchasing function report up through the finance chain.
has made this call – often times someone in finance. Finance is taught to track cold, hard, numbers and only direct cost savings fit that mold. The travesty is that, as a consequence, purchasing professionals that aren’t allowed to track and report these other savings opportunities won’t pursue achieving them either. It is a devastating loss to the company, and a complete misuse of the purchasing function. Moreover, there are purchasing professionals who aren’t well trained on recognizing and capturing these savings types, and so they either don’t, or they do them very conservatively, for fear of doing them wrong and not being able to justify the savings. Another travesty, and it is very, very common.

advantage that makes not only the company better, but the supply chain better too.

and tracking and concerted efforts that have the support of management, customer, and finance that have depth and breadth of focus on TCO with the supplier and in the supply chain. These proof points will open the door for a new era of TCO focus, training, pursuing, reporting, and REWARDING – those purchasing professionals that can sail to these new heights will experience dramatic career and income growth. Bank on it, as this is a proven model.

SOW Development, RFP/RFQ process, & Supplier Selection

| Purchasing personnel are distracted, all day long, by the multitude of issues they have to respond to day in and day out that prevent them from getting strategic or putting the proper time allocations into activities that really need it. We have already established that, and those who are in the job | Purchasing personnel and the customer are spending their time on the front end with SOW development, inclusion of such in RFP/RFQ solicitations and as critical criteria in supplier selection. These requirements are baked into the contract in | Purchasing professionals need to follow a documented methodology that tests for and fills in all SOW gaps to ensure that escapes don’t happen later with no recourse. Additionally, this methodology will instruct on |

Once purchasing received this training, walking senior finance management through the internal and external examples cinched the deal; these weren’t obscure and questionable savings opportunities to them anymore. Question was not told to go pursue them! Savings went from reporting direct cost savings only of ~12% on an annual basis to achieving total cost savings of closer to 28% in the first year! This gave the purchasing department corporate visibility, which invited a lot of questions. Only this time, finance wasn’t asking the questions, they were responding to and defending them! Purchasing’s perception of value add in the company started to get cemented. This same model has been duplicated at many companies with similar results. In terms of low hanging fruit, this is watermelon. Don’t let this one pass you by.

This process has consistently shown outstanding results. Skeptical purchasing professionals who don’t have the time to do this and feel it is “one more thing on their plate” are shocked to find that they are not adding more
know it well. The SOW development process, and the RFP/RFQ and supplier selection process that follows require time and energy – lots of it. Sometimes it doesn’t happen and a supplier is just selected! The customer may have similarly rushed the SOW development process. This is a “pay now or pay later” process. You reap what you sow. If you decide to pay later, this is a recipe for endless frustration and career stagnation. And this is in fact what happens to most purchasing professionals, though most of them don’t recognize the root cause. Purchasing professionals spend up to 75% of their time reacting to customer and supplier problems, excursions, emergencies, and issues. These are just symptoms however. Who is doing the root cause analysis on this? The VAST majority of these can be tied back to not having done the SOW, RFP/RFQ, and supplier selection processes properly. For those purchasing professionals in this undesirable state – which again, is most of them – the root cause may not be clear, but the symptoms are painfully clear. Supplier performance issues, late deliveries, emergencies that come up that were never addressed in the contract, the supplier is doing exactly what is defined in the SOW but the customer is not happy, and so on. Meanwhile, you have 10 other contracts you need to be getting to…. And the cycle repeats. How do you get out of this mess?

<table>
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<th>Three categories:</th>
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<td>1) Extremely specific expectations on how the supplier is to perform, in what exact capacity, and how success will be measured</td>
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<tr>
<td>2) Preventative measures to ensure excursions don’t happen</td>
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<tr>
<td>3) PRE-DEFINED remedies in the event of breach of the above.</td>
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These items above result in the RIGHT supplier performing to the RIGHT expectations with contractual measures that both prevent and remedy excursions. The net result is that both purchasing and the customer have at least half of every working day to focus on strategy, supplier continuous improvement measures, and other forward looking purchasing initiatives. It’s a dream scenario for everyone involved – supplier, customer, and purchasing.

Taking costs out of the supply

The primary contract negotiation strategies that purchasing has and uses

Without the need for connected ERP systems or special tools,

A 4 step methodology is followed that starts with one

Purchasing professionals that have implemented this model work, but in the end, subtracting work --- almost all the excursion chasing they do on the back end goes away. Then the revelation: *not following this process* is what has been adding so many things onto their plate. In most cases, purchasing professionals find that they have on average 3 extra hours in their day to focus on strategy, meanwhile, their supply base is performing at a much higher level – resulting in improved job results, and ultimately, career trajectory and income capability.

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### Chain

- **suppliers** – all of which result in more 
  - **business aggregated** to fewer suppliers 
  - that compete for the business through 
    - bids, resulting in greater economies of 
  - **scale and reduced supplier profit margins**, with savings passed onto the 
  - purchasing professional. That’s great, right? Well, guess what? That model is 
  - at least 30 years old, and while it will 
  - never go away, it is only a small 
  - component of what should be focused on. The vast majority of cost savings 
  - opportunity are still sitting on the table, long after purchasing closed the 
  - chapters on the negotiation and moved onto the next one.

### Purchasing Professionals

- **establish collaborative supply chain cost councils** that focus on 
  - taking costs out of the supply chain. These costs are often 
    - related to supply chain inventory 
      - build up, supply chain shipping 
        - and logistics procedures, 
      - insurance levels on goods in the 
        - supply chain, over and under 
      - engineering of specs and process 
        - flows in the supply chain, 
      - maintenance and repair 
        - requirements in the supply chain 
          - that contribute to TCO. 
      - manufacturing yield and quality 
        - issues in the supply chain, 
      - exchange rates being exercised, 
      - custom parts and processes in 
        - the chain that can be 
          - standardized, surplus sales 
            - improvement opportunities, 
          - redundant or unnecessary 
            - processes that can be eliminated 
              - in the supply chain, and any 
              - supply chain policies or practices 
                - that add non-value added costs. 
            - These costs are then removed 
              - from the supply chain by 
                - members that are outside of 
                  - purchasing’s traditional scope of 
                    - control, and done in such a way 
                      - to ensure that the removal of 
                        - such does not result in quality, 
                          - supply line, public relations, or 
                            - other critical issues that 
                              - negatively impact TCO in some way. 
            - The resultant TCO output is so much greater than what can 
              - be achieved with the traditional 

### Supplier

- **supplier and one supply chain focus area**, then expanding to 
  - all supply chain focus areas 
    - with that supplier, then 
    - expanding to other suppliers. 
  - The supplier is trained on 
    - supply chain cost savings and 
      - they do the work for you! You 
        - are the maestro and they are 
          - the orchestra. You oversee 
            - the results and make 
              - decisions on what does and 
                - doesn’t get implemented. 
            - When this process is 
              - implemented correctly, then 
                - supply chain council meetings 
                  - are established, with metrics, 
                    - report outs, implementation 
                      - status reviews, and ongoing 
                        - savings reports of TCO 
                          - reductions that have been 
                            - passed onto your firm. 
            - Breakthrough cost savings 
              - results start happening, and 
                - they happen every month – 
                  - not once every 1, 2, or 3 or 
                    - more years when the contract 
                      - expires and you renegotiate. 
            - Cost savings and a lean supply 
              - chain become the new way of 
                - life with this model.

### Examples

- **17% supply chain cost removal** because miles of pipe that was to be 
  - buried underground had to have the customer’s name stamped every 3’ – 
  - removing this 
    - requirement made it a 
      - standard pipe and 
        - reduced the costs dramatically.
- **Supplier was doing** 
  - outcoming inspection and 
    - buyer was doing incoming 
      - inspection to same criteria. 
    - This was reduced down to 1 inspection, 
      - providing annual supply chain savings of $100K.
- **Supply chain inventory buildup was significant, due to lack of timely and quality forecasts from** 
  - Buyer. Weekly demand 
    - review sessions resulted in 
      - 70% reduced inventory requirements in three 
        - affected links of supply chain.
- **Analysis done showing 8 out of 10 calls to supplier** 
  - call center were asking the same set of customer 
    - questions over and over. This was replaced by a 
      - FAQ web page, passing 
        - 80% cost avoidance 
          - savings onto purchasing.
purchasing methods, which only focus on spends aggregation, economies of scale, competitive bidding, and supplier profit reduction. The beauty is, none of these traditional methods are thrown out — they become the core off of which the rest of these strategies are built off of. And while this core only happens once, when the contract is negotiated, the supply chain cost savings keep happening on a regular basis, as they are not tied to contract negotiations. All parties keep winning by making the supply chain leaner, more cost effective, and more competitive. And purchasing looks like a hero for capturing all these benefits in the form of **dramatically** improved cost savings results.

There are many more such examples, these are just a few. The opportunities for supply chain cost reductions are limitless, and are over and above what can be achieved through traditional methods at purchasing’s disposal.

| Understanding and negotiating contract terms and conditions | Purchasing professionals are generally afraid of contract terms and conditions. They don’t understand all of them in the level of detail they should, and so they save these for last in negotiations and they also hand any contract change requests from the supplier that involve legal terms straight to the legal department, which is where contracts go to die. Waiting forever for legal to get to the contract is a frustrating experience, and then watching the lawyers wrangle. Legal does not share your urgency, because they are not interested in making concessions in areas that may introduce undesirable legal risk to the company. | Purchasing contract negotiations are conducted in such a way to ensure that suppliers never mark up the contract to begin with and that purchasing has enough content knowledge to carry their own weight, absent the legal department’s involvement in 99% of the cases. As a consequence, when every purchasing professional acts in this manner, the legal department is no longer overwhelmed with piles of redlined contracts to review, and when you do get a messy contract to them, they are able to jump on it and run it through the redlining process. | Purchasing professionals need to be trained on contract law principles – Uniform Commercial Code (UCC), Common Law, and the U.N. Convention on Contracts for the International Sale of Goods (CISG). They need to be trained in a way that makes them *understand* these clauses instead of memorizing them, or worse yet, just avoiding them and handing the redlined contract to the legal department. This gives the purchasing department the ability to focus on other deals results in increased TCO for the department, as deals that wouldn’t have been gotten to... | Purchasing organizations that have instituted this approach and have leveraged these insider secrets have slashed their contract Ts and Cs time allocations by over 90% on average. As a consequence, they have much more time to spend on the next strategic deal instead of wrangling back and forth with lawyers on the one they should have already finished. Further, this ability to focus on other deals results in increased TCO for the department, as deals that wouldn’t have been gotten to... |
company, and they get paid to mitigate such risks, not to expedite purchasing contracts and keep purchasing happy. Meanwhile, suppliers liberally redline contracts and create heartaches for purchasing by demanding changes in such legally contentious clauses as limitation of liability, insurance, damages, intellectual property, and indemnification. The lawyers don’t like it any better, and that’s why they take their sweet time to get these clauses fixed to their satisfaction. Meanwhile, your customer gets more and more frustrated at YOU, and you sit helplessly waiting and hoping for things to resolve.

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| Negotiation Strategies | More than 99% of purchasing professionals first landed in purchasing by accident. They didn’t intend on landing there, they didn’t study purchasing, and they didn’t know much about it. Baptism by fire was their on the job training, and the internal training wasn’t that good, and depended on tribal knowledge of the people around them – the same people who also went through the same suboptimal “welcome to purchasing, now get to work” training and integration model. The field is under-developed and the industry knowledge base is not strong enough. Corporations often teach their own employees by trial and error. | When things are working right, purchasing professionals first off have the time to properly plan for negotiations. 80% of your time should be spent preparing for negotiations. Most purchasing professionals don’t get in more than 25%, if they are lucky. When planning, the purchasing professional is developing an arsenal of both behavioral and data-based negotiation strategies that are custom to that particular negotiation. These are then used to develop a strategy that gives the buyer great confidence, because the probability of | What needs to be learned is the specific set of behavioral and data-based negotiation strategies, and identifying which should be used and when. These strategies are not meant to “get the upper hand” in negotiations or to extort leverage or to put the supplier on the brink of bankruptcy. The goal is to get the best total cost package possible, while also allowing the supplier to win. A strategic concession methodology is used that specifically ensures that the | Organizations that take this approach have on average increased their cost savings by 10% annually. We are talking about companies which already had skilled negotiators doing their best. For those companies who are lower on the negotiations learning curve, closer to 20% annual total cost savings may be expected. |
purchasing courses, but they are rarely adequate. Famous outside purchasing and negotiation training courses teach how to gain psychological leverage over the supplier, hardly a recipe for win-win, and they don’t teach anything about total cost models, should cost models, must cost models, supplier financial analysis, or benchmarking. These courses teach that “getting the upper hand” is all it takes to win in purchasing. No wonder the industry is wrought with problems: new employees know nothing about purchasing, institutional knowledge is weak at best, and the most famous training authorities are teaching 1970’s practices that are completely irrelevant in a day and age of supply chain management.

meeting objectives is very high, consistently. Purchasing professionals doing this right are recognized in their department as a rising star, and they don’t have to look for jobs – others in the larger purchasing organization are looking to hire them in a more senior capacity to help bring their department to a higher level as well. Consistently deploying these practices will catapult your career and your income potential, guaranteed.

supplier’s highest value objectives that have the lowest TCO impact to purchasing are granted, such that the supplier feels great about the deal, and purchasing still met all of their most aggressive high value objectives. You won’t get this from any of the industry famous negotiation courses and seminars.

The purchasing professional will have Tier 1 & 2 suppliers that are robust, capable, and with sufficient presence to support all global requirements wherever possible. These suppliers will have regular supplier business reviews and score cards in place that grade and guide their performance. Money can be tied to these reviews, or business allocation can be tied to them, in a multi-sourcing model (especially with direct materials). The primary work associated with preparation for supplier business reviews will be borne by the SUPPLIER. Purchasing is the maestro and the supplier is the orchestra in this model (too)

Companies that have created a Tier 1 & 2 supply base segment per the defined process steps and have implemented the supplier business review and report card process, also to the defined process steps, have shown dramatic improvements in all typical report card categories: Cost, Quality, Safety, Customer Service, Processes/Tools, & Environment. Suppliers that were once on the brink of elimination thrived under this structure. Purchasing professionals that spent all their time chasing excursions
being endlessly distracted due to these issues – sometimes coming from the customer, other times from the supplier, and still other times from internal stakeholders. The root cause is still the same though, exactly as described above.

many purchasing professionals have this model completely backwards). Continuous improvement becomes a way of life, and the need to bid out the business becomes less and less frequent. The model in place is improved over time to being best in class – and who would want to bid that out?

does need to be followed in detail.

These suppliers then need to be trained on a specific methodology behind supplier business reviews and score cards, and then given what their specific metrics are and how they are to track and report those for purchasing’s review. The vast majority of the work behind supplier business reviews and score cards should be happening on the supplier’s end and not purchasing. Purchasing is a reviewer and approver in this process.

If both methodologies are learned and implemented correctly, the purchasing professional’s job becomes MUCH easier – world class results, with far less effort than they are putting forth now.

now spend a fraction of their time on forward looking supplier initiatives and reviewing supplier data reports in support of business reviews and score cards. Meanwhile, purchasing operational results dramatically improve across the board, as measured by a set of shared metrics between purchasing and the supplier.

| Supply base reduction strategies | Purchasing professionals are all being told to chase down the supply base size and reduce it. So what do they do? They go into the database and manually remove suppliers – a big, fat, waste of time. Then which suppliers do they reduce? The ones that have not received a PO in the longest period of time. In other words, the suppliers that didn’t count anyways. All that effort, and all that was done was a number was changed, but department results | When this is working well, supply base size stops being a focus, and the real focus shifts to tiering of the supply base and having ALL of your energies on the Tier 1 and Tier 2 suppliers, with Tier 3 completely forgotten about. The supply base is structured by the purchasing manager such that all the right suppliers are in these 2 tiers. Having the right number of suppliers means having fewer | First, purchasing professionals need training on what Tier 1, 2, and 3 is. This is important, because these are not industry definitions. These are proven insider practices of the pros. Then the purchasing professional needs to structure their supply base accordingly. From there, efforts need to take place to ensure that 90-95% of the | Companies that have transitioned to this strategy did so rather quickly. There were two up front efforts required: one was to convince management that a change in metric is needed from supply base size to % of business going to Tier 1 & 2 suppliers. The second is establishing a Tier 1 & 2 supply base, which may or may not be of |
weren’t and won’t be improved in any way as a result. The idea is right, but the implementation and focus is completely wrong. Meanwhile, purchasing management is still hammering one purchasing professionals about the size of the supply base, meanwhile high opportunity negotiations sit and wait while purchasing professionals tediously go through a corporate supplier database riddled with problems (such as thousands of duplicate entries with different spellings and supplier name variations), only to manage perceptions, while losing the opportunity to get real results.

suppliers to manage (since Tier 3 suppliers will be ignored), ease of managing suppliers, ease of negotiating savings (since most of the spending is going to Tier 1 & 2 suppliers), and ease of continuous improvement efforts (since there are fewer suppliers to deploy them across). There are many more benefits. Focusing on Tier 1 & 2 suppliers only and forgetting about the 90 – 95% of suppliers in Tier 3 is THE way to manage your time and get world class results as a purchasing professional.

business is going to Tier 1 & 2 suppliers. This should be easy to do. If the suppliers selected are truly world class, and the right type of internal marketing is done, then internal customers will flock to these suppliers instead of needing to be begged and pleaded to do so. If you have to beg and plead, then there is something wrong with your supply base or your marketing strategy, or both. In a Darwinian fashion, the Tier 3 suppliers will go into extinction (from your supply base list, that is) – without you having to endlessly waste time inside your company’s corporate supplier database. World class results with far less effort than you are exerting now – this is the only way to go, and it is one of the secrets to purchasing excellence.

significant effort UP FRONT, but the time and cost savings on the back end are immeasurable – your results will make you a hero!!

Most groups that implemented this and that were able to get 90-95% of their expenditures going through Tier 1 & 2 suppliers were able to increase their annual cost savings by 10% - which is a tremendous figure in our lean operating environment.

| Risk assessment, controls, business continuity, and internal audit | Purchasing professionals scramble before internal audits, trying to hide everything they might find, and also trying to fix everything that can be fixed. It’s a crazy model, no different than cramming a year’s worth of flossing before an annual dentist visit. Internal auditors with lots of audit experience and zero purchasing experience come around and present a number of findings. Then they force your department into coming up with systemic solutions to problems that... | When this is working well, purchasing and internal audit are in perfect synch. Purchasing is not getting surprise audit findings and internal audit is not trying to find their way in a business environment that they don’t really understand. Both groups are aligned on what specific risks and controls are being audited for and how they will be measured. Because purchasing’s risk and control documentation is... | In this model, purchasing gets trained on a best in class methodology for doing risk assessments. Risks are identified and categorized in terms of their levels of impact and probability of manifestation. From there, corresponding controls are assessed and classified by whether they are preventative, detective, manual, or automated. The... | Organizations implementing this model typically start experiencing 100% pass results in internal audits, starting with their first audit! Additionally, most report that their frequency of audits is at least reduced by 50% thereafter. Finally, the time allocation preparing for audits is reduced by close to 90% in most cases, because there are no loops to go and close... |
often times don’t need fixing, or don’t make sense to fix for the business, or worst of all, take away from the purchasing department’s ability to be agile and nimble. In the end, it’s never a good experience, and while it may be a good outcome from a risk and controls perspective, it’s rarely a good outcome from the perspective of enabling purchasing to best be able to achieve lowest TCO.

so precise and well understood, internal audit comes around far less frequently to the purchasing organization, because they are no longer considered an area of medium or high risk. Purchasing professionals don’t scramble before internal audits because, once again, the audit criteria were developed by purchasing, and the processes therein are baked into the fabric of how purchasing runs their business – there’s nothing to scramble about. In the end, an internal audit becomes a short time allocation effort and they happen infrequently. When they do happen, there are no surprise findings and both parties are in lockstep on what to measure and how. Both parties can run their business efficiently and with a good partnership model in place.

right controls are ensured to be in place for the right risks, and this is done in a way to ensure the organization has the right level of risk exposure, while still staying agile and nimble. Having received this training, purchasing then does their own risk assessment and defines gaps between desired and existing controls, and then closes those gaps and makes this a part of their standard operating procedures. This document is then showed to internal audit for inputs. They like this. They like it because risk assessments are something they understand. Now you are talking their language. You are also saving them, because they don’t have any training in purchasing. They don’t like trying to discover findings in a business they don’t understand. Now every time they come knocking, internal audit will dust off the risk assessment document and audit purchasing to their own defined set of controls. No surprises for purchasing!

when this model is followed right. The end result is a huge time savings for purchasing, and in addition, the risk of excursions is dramatically reduced – which is of great importance to the company's senior management team.
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