



Adherence to “best business practices” can guide diverse companies in their pursuit of corporate excellence. One of purchasing world’s best practices is a written commodity strategy to help identify and communicate detailed plans for managing improvement efforts.

At Advanced Purchasing Dynamics, our hands-on experience has proven the key step in developing an effective commodity strategy is a clear defining all objectives. If the objectives are unambiguous, the strategy will remain strong and can succeed. If the objectives are muddled, the strategy will fail to deliver benefits.

To help clients create successful strategies, we endorse, and include in our strategy training, the “SMART” format. The acronym stands for “Specific, Measurable, Achievable, Realistic and Timely.” This format, originally developed for employee performance objectives, can also be applied to commodity strategies. Let’s examine each component in detail:

- **Specific** indicates an objective is focused and well-defined, usually with action verbs. Examples for basic commodity strategies:
 - Reduce material costs for castings.
 - Improve supplier quality for castings.

To take it a step further, information about why this objective is important and who is responsible should also be included. Our enhanced examples are:

- In order to achieve profitability goals for the XX product line, the castings team will reduce material costs.
 - In order to reduce our cost of quality, the Supplier Development Group will improve castings supplier quality.
- **Measurable** provides the yardstick by which the objective’s achievement will be tracked. The measures should be readily available and easy to understand. Here are our examples with measures applied:
 - In order to achieve profitability goals for the XX product line, the castings team will reduce **current** material costs of **\$10 by 3%**.
 - In order to reduce our cost of quality, the Supplier Development Group will improve castings incoming quality **by 10% from their 1/1/2007 levels**, as measured by **defects per million**.



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A SMART Approach to Maximize Savings from Commodity Strategies by Jeff Burris, Principal

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- **Timely or time-bounded** indicates the time frame given to achieve the objectives. Without a specific time-frame, objectives are meaningless or confusing. Applying time to our objectives, we progress to:
 - In order to achieve profitability goals for the XX product line, the castings team will, **by 12/31/2007**, reduce current material costs of \$10 by 3%.
 - In order to reduce our cost of quality, the Supplier Development Group will, **by 12/31/2007**, improve castings incoming quality by 10% from their 1/1/2007 levels, as measured by defects per million.
- **Achievable and Realistic** are the final quality checks to make sure that the specific, measurable and time-bounded objectives can be attained given the resources and skills available. If those responsible for the objectives believe they are not achievable, then what resources or skills can be added to achieve feasibility? If the objectives are too effortless, should the improvement goal be raised or the time-frame adjusted?

Teams and individuals who are working to achieve objectives that meet the SMART format are more focused, and therefore, more likely to achieve the results the organization desires.

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