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How To Get The Most Out of Your 3rd Party Integrated Supply Partner by Linda Allen, Lead Consultant

MRO

Advanced Purchasing Dynamics
September, 2008

The rapid increases in commodity prices in 2008 have significantly impacted companies' plans for material cost savings. As a result, many companies are moving rapidly to find savings in spends that have been neglected such as MRO and other indirect materials.

Based upon their ability to find and implement savings rapidly, 3rd Party Integrated Supply Partners for MRO are becoming much more popular than they were 5-8 years ago. Over the past 3 years, Advanced Purchasing Dynamics has led the successful implementation of 3rd party MRO procurement solutions at numerous Tier 1 automotive suppliers resulting in 6-12% savings on average across all commodities. To maximize a company's savings and service results using a supply partner for indirect procurement, one must consider each of the following:

- **Identify/Install a Project Manager:** Leverage the company's organizational structure (centralized, decentralized, matrix, etc.) by having one individual located centrally who can function as a Project Manager for total coordination, focus and interface to the 3rd Party Integrated MRO Supply Partner. The ideal candidate would have experience in launching an integrated supply solution and be charged with project development, program metrics, reporting, charting and process flows.
- **Communication Within the Company:** Communication from the heads of Purchasing and Operations (at a minimum) needs to occur before the activities begin. An announcement to all those involved and/or affected by the 3rd Party Integrated Supply Partner must be sent outlining the intent, partnership arrangement, roles and responsibilities, development/launch process and the training that will occur for certain job roles. It is essential that top management endorses the partnership.
- **Accurate Information Gathering Elicits Greater Results:** If current and projected supplier spend information, historical and projected commodity volumes/usage, manufacturer brand details, order quantities and target prices are shared early in the process, there will be greater results for sustainable improvements for the indirect purchases. It has been proven that for every \$600K of "accurate" data, results can have an additional savings potential between \$75 and \$100K annually.
- **Identify Customer Directed Indirect Items and/or Services:** It is important to identify initially those items that are customer directed and not managed or selected by the purchasing organization. Knowing the supplier names early on in the process can assist in adjusting the initial savings target in correlation to the spend level.



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- **Use of 3rd Party Integrated Supply Partner's Workplace Environment:** It is usually beneficial to embrace the supply partner's Procurement Management System for effective execution and order processing. A supply partner's web-based system allows customers, suppliers and their own personnel to transact business within the same online tool greatly reducing the number of steps or programming interfaces necessary. This will increase and improve productivity, workflow, budget tracking, invoicing, sourcing, ordering and status reviews/reporting.
- **Standardization:** Plan on standardization efforts across all using locations. This is the difference between a non-standard price at a company location and a newly established standard across all locations times the quantity. This could be a weighted average.
- **Centralization:** Plan on centralization efforts across all using locations. This is the difference between a company location's price and the lowest baseline price applied and/or used within the company's plants time the quantity.
- **Weekly Meetings Between 3rd Party Integrated Supply Partner and Company:** It is important to have weekly meetings to share information, review status to launch plan, discuss lessons learned, and manage progress for open issues/action items. Meeting minutes need to be taken and published to keep accurate records. Bi-weekly or monthly Management Steering Committee Team meetings are equally important to update key senior staff members within both the company and supply partner's organization.

MRO supply partners provide many service offerings and will construct a working arrangement that is unique and beneficial to their customers as well as themselves so that it is a win-win for both. It is important for companies to do their due diligence for provider selection to bring a true partner into their supply chain enterprise.

Advanced Purchasing Dynamics was founded in 2004 with the mission of helping manufacturing companies profoundly expand their procurement skills. Since then, APD has helped numerous clients achieve accelerated and sustainable reductions in MRO costs through the selection and launch of 3rd party integrated supply solutions.

For information on how APD can help you or your company identify and implement significant MRO cost reduction opportunities call 734-927-0836 or e-mail jburriss@apurchasingqd.com.

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