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## The Order to Putting Your Purchasing Group in Order

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Advanced Purchasing Dynamics  
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As purchasing professionals, we understand that measurements are important. We must also understand the proper sequencing of events can mean the difference between success and disappointment.

An Excellence Assessment, or an objective analysis of existing purchasing practices to pinpoint challenges and strengths as compared with the industry ideal, is the first step toward optimization. These assessments can help companies determine a blueprint to quickly accelerate cost reductions. The evaluation begins with a thorough benchmarking process that compares purchasing practices against industry best practices.

Of the ten detailed Excellence Assessments I've conducted over the past 18 months, the results validate findings derived over 20 years of procurement experience. I have found a correlation not only between specific practices utilized and a company's ability to achieve material cost reductions but also between the order of best practice implementation and cost performance.

Predictably, companies whose buyers had the best performance measures and received frequent feedback had better cost reduction outcomes. Surprisingly, there appeared to be no correlation between cost reduction performance and good supplier relationship management or the use of well-defined cost reduction tools. By further investigating the data, we found that the order of implementing best practices has a significant impact on achievable results.

The blueprint – as determined through extensive work automotive and other manufacturing companies with \$40 million to \$2.5 billion in revenues – indicates that key measures, sound employee objectives and performance measurement must be put in-place first. Only after these steps are accomplished, do companies see any benefits from implementing collaborative cost reduction tools, improving buyer commodity and negotiation knowledge or improving supplier communication. These improvements were only effective *after* key measures and sound performance management processes were established. To help illustrate, here's a recent case study:

A large automotive supplier was underperforming on cost reduction and reactive to customer-driven design changes. The Excellence Assessment identified a host of issues ripe for change, from “buyers have too many objectives” to “poor supplier relations.”



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The company's journey to optimization began with prioritizing where to turn its attention. We first re-established buyer objectives, making them specific, measurable and achievable with ongoing performance feedback. Next, we determined a process for measuring and managing cost reduction performance. This step was followed by negotiation education, development of buyer commodity knowledge and establishment and implementation of a low-cost country strategy.

As you might have guessed, the automotive supplier achieved measurable results. Cost reduction performance improved from <2% (nobody really knew for sure) to 5%. Additionally, buyer employee satisfaction scores improved.

This example leads us to general truths, including:

- What gets measured improves;
- Good employees want clear measures and desire frequent feedback. Poor employees survive in the fog of ambiguity.
- Excellent results come from strong adherence to sound processes that evolve over time and are tied to key measures.
- Simply put, key measures and buyer objectives set the course for the organization. The other tools only are effective once the course is set.

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