

Same Process ... Same Results ... Change it for Better Results

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In Six Sigma Quality Training, we were taught that a good repeatable process should always produce the same results ... with little variation and few errors. That is a good thing for many processes such as manufacturing widgets, processing customer orders, paying bills, etc. It is not a good thing in a Strategic Sourcing project. In Sourcing, uncertainty, variation, and supplier agitation is a good thing. Add competition, especially new competition, and incumbent suppliers get nervous about losing the business and potential new suppliers get encouraged and excited about winning new business. Everyone sharpens their pencils ... which is a good thing ... for buyers at least!!

At a recent client, we were engaged to review their Indirect Purchase Base. We were told, 'see what you can do' to improve on what the client had already completed. In most spend categories we looked at, the client had recently 'renegotiated' the current pricing with the incumbent supplier (repeatedly for years in some cases) but had not completed a rigorous, and competitive RFQ process. In most cases, the client was informed that their current prices were the best that could be offered. All good sales people say that, right?? So, nothing for a new Sourcing Team to do?? Wrong.

We reviewed many of the categories, researched the markets, and set up various competitive sourcing events (paper RFQs, e-RFIs/RFQs, e-Auctions), introduced alternate suppliers, and conducted fair and open competitive bidding and negotiations. In some cases, we found errors in specs, poorly administered contracts, and other issues with the current suppliers. In all cases, we improved the clients previously negotiated prices (generally double digit improvements), improved contract terms, and maintained or improved service levels, often without changing

suppliers!! So much for sales people claims about the 'best prices that can be offered'. Maybe it was the best that they could offer, but when faced with losing business supplier management at higher levels (with higher discount authority) usually will get involved to improve on those 'best prices'!!

Several lessons or reminders. First, "Different Process ... Better Results" is the rule in Strategic Sourcing. High quality and high impact sourcing results often come from changing the way things are done. Change the process for best results. Second, introduce uncertainty into the process. By engaging Paladin Associates, the client completely 'changed the game' and introduced a huge amount of concern for the incumbent suppliers. The suppliers didn't know us and didn't know what we knew about the market value of their products. Many did know our reputation for obtaining the best value for our clients. That alone, is a good reason to engage outside resources to help to quickly source non-strategic spend categories. Third, identify and introduce new suppliers to the client. New suppliers are hungry, have new ideas, take a fresh look at the opportunity, and again, generate uncertainty for the incumbent. And generally have great attitudes!! And finally, 'the best price that can be offered' is usually not the lowest price (or best value) when RFQs are properly structured and competition is introduced.

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