

## **Are Supply Managers Just Gold Diggers?**

**Robert A. Kemp, Ph.D., C.P.M., President**  
**Kemp Enterprises**  
**515-221-2503; <[kempr@mchsi.com](mailto:kempr@mchsi.com)>**

**89<sup>th</sup> Annual International Supply Management Conference, April 2004**

**Abstract.** Organizations have huge reservoirs of gold in their operations. Supply management means creating and leading the supply chain to ensure continuity of supply, better service and more involvement with suppliers and others to provide our stakeholders unexpected positive cash flow. The key concept making this all possible is to understand where the gold is and how to dig it. The discussions and examples involve several different operations and processes and were purposely selected to challenge everyone in supply management to "dig for the gold" at their respective level of organizational influence and responsibility. Our challenge is to find the will and the way and learn to recover that Gold!

"There is a better way. Find it!"

Thomas Edison

**Introduction.** This presentation will show where the gold is and identify and examine the ten most important strategic gold digging processes. These synergistic processes must involve our suppliers and their support for the supply chain program. Lean thinking along with supplier relations and cost control are critical concepts that hold great potential to improve our operations, reduce cycle time, control costs and enhance quality along with process productivity. We will look at several processes that can quickly help any organization dig for gold by controlling or eliminating waste and eliminating costly operations. We will learn to evaluate existing procedures, extend the range of knowledge concerning strategic supply operations along with supplier relations and cost control and to consider new ideas concerning change that lead to gold. Gold comes from rethinking; time, waste, suppliers and the total supply processes.

**Objectives.** Our objectives for this program are described below.

- \* Understand that most operations have huge reservoirs of gold to be mined.
- \* Learn the ten most important tools for mining their gold and creating positive cash flow.
- \* See how digging for gold welds operations into a cohesive, competitive and cost effective system creating positive cash flow.

As supply managers, our goal is to find and recover gold to create positive cash flow for our stakeholders. We have the tools and processes. Our challenge is to find the will and the way to make the needed investments. Learn to dig that Gold!

**Why Supply Managers Should Be Gold Diggers.** The world around our organizations is changing everyday and that change process will become ever more complex in the years ahead. Factors such as globalization, increased technological growth, the need for increases

in productivity, and the increasing demands for more value from our customers and stakeholders combine to force us to eliminate waste by improving our processes, and creating ways to reduce costs. Finding the most gold and long-term organizational survival will belong to the organizations with the best supply chains and lean operations.

**Strategic Spend Analysis.** Analysis of American industry shows us that the average firm spends 54 percent of total revenues for purchased goods and services. The average varies across industries from about 15 to 85 percent. The average climbs to about 57 percent if you include capital equipment. We also know that many firms spend huge amounts for contingent things or processes outside the purchasing processes. There is a lot of gold in the purchasing process.

R. David Nelson, vice president of Global Supply Management at Delphi, a major automotive supplier, argues that 30 percent of purchased cost is waste in the value stream. Customers and suppliers who work collaboratively can mine this waste and produce real cost reduction, not just price reduction. Gene Richter, formerly at IBM, took more than 30 percent out of purchased costs, and those cost reductions were instrumental in helping to turn IBM around during its darkest hours. In the late '90s, Toyota set a goal to design 30 percent out of the cost of the new Camry. They achieved that goal, and it's a very popular vehicle. Honda achieved a 26.8 percent cost reduction for their Accord, which competes with the Camry. One small company that I have worked with took 50 percent from the cost of a significant part by changing to a direct buy process through a subordinate operation in Europe. This action, in effect, created a wholly owned IPO. Mr. Nelson strongly believes that organizations should be willing to make significant investments in supply management processes to capture returns equal to or up to three times greater than their investment—remembering that results are always on a case-by-case basis. He clearly sees the gold waiting to be mined – much of it is right near the surface.

Fortunately we have the tools and concepts needed to achieve purchased cost reductions equal or even greater than 30 percent. The ten broad concepts that everyone can accomplish are all tried and true, but we need determined application over the long term. Each concept or process is discussed briefly in the next sections. Map your process and begin piling up the gold.

**Strong Leadership.** Real leaders know that organizations can only be changed by investments in better people, better technology and better processes. This means that they understand that you have to make significant investment in developing your staff. They also understand that organizational culture controls structure, policy, roles, relationships and the flow of communication. Strong leaders also understand that it is difficult to change culture. The greatest value of strong leadership is the dedication to continuous change—short and long-term. These people know what has to be done and they get it done over the long term.

**Training And Development.** In the early 1900s the great philosopher, Albert Einstein wrote, "We cannot solve problems with the same thinking we used to create the problems." His profound thought that is ignored by many organizations today tells us that before we can correct problems or make major innovations in terms of process or operations we have to do two things. First we have to "get out of the box", and second we must provide our people the requisite skills and insights by training or professional development. Professor Einstein was

right and we should be providing training in a broad base of skills and knowledge needed to create the requisite capabilities in lean operations, cost management, supplier development, supply management, communications and process change.

**Quality and Productivity Improvements.** Quality that creates gold means that we consistently meet, or even better, exceed customer expectations. We do it right the first time and every time. No defects! As the waste of poor quality reduces productivity we must first achieve and maintain the requisite quality levels to increase productivity. Similarly, productivity that puts gold in the bank means that we can create more outputs with reduced inputs. We have learned how to make our creative processes work better at lower total cost relative to outputs.

**Kemp's Rules of Productivity**

P↑ - O↑ Faster Than I  
P↑ - O↑ While I Is Steady  
P↑ - O Is steady I Is ↓  
P↑ - O ↓ But I↓ Faster  
P↑ - O ↑ But I↓ Big Time

**Process Change.** Changing the traditional organizational culture to lean operations, close and dedicated supplier involvement, detailed training and development to enhance operations, and careful cost control and management to reduce and eliminate waste requires major cultural, structural and operational changes. In my mind the need to change age-old organizational policies concerning budgets, fund control, supplier involvement and communication are the most difficult changes to execute. Similarly, employee involvement, delegation and training are difficult to achieve. The idea of investing in supply management processes to create gold is also very difficult to sell.

**Lean Programs.** It is totally incorrect to think of lean operations as just applying in the operations or manufacturing areas. Nothing could be further from the truth. Lean ideas, concepts and processes apply literally across all organizational processes from the very top down, operational and administrative.

**Ten Steps To Create Lean Operations**

Recognition That Opportunities Exist  
Leadership Support To Ensure Cultural Change  
Education And Development Support For People  
Plan With Objectives, Resources And Buy-off  
Execute The Plan With Meaningful Metrics  
Verify, Track & Capture Savings For Strategic Use  
Expand Program Up And Down The Supply Chain  
Communicate Successes And Progress Widely  
Recognition And Rewards--Internally And Externally  
Repetition—It is a Never-Ending Process

In my mind these ten steps must be started in sequence and the steps once started are ongoing dynamic processes. Many managers have difficulty believing that we can plan, reorganize, cut costs, train our staffs,

develop and use meaningful metrics, and track and verify cost savings. Similarly it is difficult for many to communicate openly and freely with suppliers, customers and employees. The idea of meaningful recognition and rewards is even more difficult for many managers. Greed and secretiveness seem to control many processes. Finally, many people think that we can work at being lean for a while and it is accomplished, but that is simply incorrect. We must start over and work even more diligently to find new and better ways to execute our operations with ever better processes, thinking and execution. Once we recognize that we can be lean it is a never-ending quest to be even better.

**Supplier Development.** A few years ago we used the words “Supplier Development” to describe programs aimed at managerial discussions to motivate suppliers to think and try to do better. This even included discussions of quality and perhaps increased business. The process may or may not have led to the desired business results. Now when leading firms talk about “Supplier Development” they mean change to lean—change in technology, change in layout, change to cells, change to alliances, change to eliminate waste, change to seamless operations, change to reduce inventories, and finally we want change that reduces cost.

**Supplier Development Techniques That Put Gold In the Bank**

Supply Chain Management/Seamless Operations  
Supplier Selection Processes  
Supplier Evaluation Processes  
Supplier Development Processes To Include  
    Lean Thinking And Operations  
    Theory Of Constraints  
Partnerships and Alliances  
Early Supplier Involvement  
Supplier Managed Inventories and Operations  
Supplier Input to Cost Control and Cost Reduction

Now when leading firms talk about “Supplier Development” they mean change to lean—change in technology, change in layout, change to cells, change to alliances, change to eliminate waste, change to seamless operations, change to reduce inventories, and finally we want change that reduces cost.

The five key and absolute concepts to achieve significant results that create gold up and down the supply chain are shown here.

- 1) Dedicated senior leadership that embraces and actively involves the entire supply chain.
- 2) Education, training and development that build the supply chain.
- 3) Investments in people, process and technology as needed.
- 4) Dedication to making all operations and processes lean.
- 5) Honest and open communication that reaches across the supply chain.

These changes and processes all lead to the elimination of waste and reduction of costs. The better job that we do to learn and apply the processes the more costs we cut and the more gold that we put in the bank. One small firm I know had MRO costs equal to about 20 percent of the total buy. They introduced an integrator to handle part of the MRO buy and reduced MRO cost by 20 percent. That quick cost reduction equaled four percent of the total buy. Your CEO will love to hear the words; “We just cut total costs by four percent!” Moving to lean thinking and processes will significantly reduce cost of operations, inventories and inventory costs, and cycle times. You must invest to develop the lean processes that help find the huge gold nuggets.

**Elimination of Waste.** Over the years we have become inculcated by organizational culture to accept waste as a matter of process. Indeed, much of what we do is just waste, but we work overtime to create it. Why? Why do we accept that? There are many lists of waste, but I like and use this list developed by Professor Rajan SURI.

**Types Of Waste**

Waste Of More Than Is Needed  
Waste Of Things In Inventory  
Waste Of Waiting For Things  
Waste Of Non-Value Adding Motion  
Waste Of Transportation Of All Kinds  
Waste Of Making Defects Anywhere  
Waste Of Non-Value Processing

Waste costs us money—lots of money! And it is our job to reduce or eliminate waste from every process and operation. Traditionally, when we think of waste our minds go to scrap, obsolete

inventory, quality and processes. But I challenge you to think wider. Look outside the traditional box and consider managerial processes, meetings, information flow and

communication, movement in terms of time and distance. Dr. Deming used to say that managers were 85 percent of the problem. He was correct, and I guarantee that you will find that existing organizational policy and procedure cause much of the waste. Sometime ago, a plant on the East Coast had to shut down due to a shipment delay from the West Coast. They airlifted in the heavy parts to get the plant running. Much later they discovered that they were still airlifting those shipments even though there was a two-week supply on the shelf. Many organizations have restricted the use of procurement cards and e-processes due to antiquated accounting policy and procedures. Similarly, many organizations have refused to use in-house supplier activities due to exaggerated fear of security, etc. Look back at your calendars and determine how many meetings you attended this past month. Were they good meetings? Was there an agenda? Did we come away with an action plan? Did you really need to be there? All that time, paper, meaningless processes and interaction is waste. Waste is all needless cost that we can and should convert to “gold in the pot.”

**High Value Projects First.** Priorities, productivity and value are the Siamese triplets of change. Certainly we should accomplish high priority projects first. Conversely, common sense tells us that we can use quick hit projects to train and develop our staff, hone our many analytical techniques and most importantly convince others that multiple change efforts can put gold in the bank. For most of us establishing priorities is a great tool to allocate constrained resources to important projects that will quickly create gold in the form of cost reductions.

**Cost Management.** For many products or services the cost is fixed in design or

#### Steps To Cost Management

Recognition That Opportunities Exist  
Leadership Support To Ensure Cultural Change  
Plan With Objectives, Resources And MGR/EMP Buy-In  
Use Established Tools With Metrics--Measure Everything  
Education and Development Support For People  
Expand Program To Your Suppliers And Supply Chains  
Verify, Track & Control Savings For Strategic Uses  
Communicate Successes And Progress Widely  
Recognition And Rewards In-House And To The SC  
Repeat And Improve The Never-Ending Program

organizational processes with little or no consideration to expected profit margins or sale price. As design or organizational process move along the product/service becomes fixed and more and more difficult to change. We ignore the fact that price, cost and profit are the ultimate metrics. To succeed over the long-term business firms must make a profit. This means that

total costs must always be less than total revenues and for any given product we can say:

$$\text{Target Profit} = \text{Target Price} - \text{Allowable Cost.}$$

When everyone knows the absolute maximum for costs, we can then design and create systems to meet targeted prices and profits. We must have objectives based on opportunities and organizational buy-in that includes the supply chain. As cost management requires significant organizational change, it will require strong, up-front leadership support.

Most of us today are blessed by the fact that we have so many tools and processes available to help create and operate the cost management process. We have list upon list of cost drivers to help identify and calculate costs. We have tried and true models such as value analysis and value engineering that takes us through detailed processes to create new processes and cost decisions. Recently I watched a company team work through a very

complicated VA/VE study using an Excel Spreadsheet created by one of its engineers. The spreadsheet did the calculations, arranged ideas by significance, tracked the discussions and when the team was finished, it calculated the results to include cost reductions generated by their ideas. More importantly, it assigned responsibility, included report dates and tracks ongoing progress.

As we generate our cost management processes we want to have systems for recognition and rewards, and we want to communicate successes. For many firms, the most difficult part of cost management is recovering the savings. To be meaningful, cost reductions must be recovered to create positive cash flow in the organization. This takes strong leadership.

Our cost management processes should all take a total cost approach. By this I mean that we should consider applicable cost input from everybody to include suppliers and the supply chain. Every operation should have its map of activities, list of cost drivers and analysis of costs.

**Constraints to Generating Gold.** Given that the gold is everywhere, what keeps us from just picking it up? These five barriers time, resources, training, strategy and resistance to change exist everywhere. We cannot eliminate them, but we can certainly work to reduce their impact. By investing in requisite resources and training while supporting change that gets us to working on strategic processes we can reduce the negative impact of the constraints and move ahead.

**Five Golden Thoughts.** I want to leave you with five golden thoughts.

- 😊 Better-led and trained people are better miners.
- 😊 Eliminating waste means gold in the bank.
- 😊 Better supply management will provide more gold.
- 😊 Lean operations create even more gold.
- 😊 We have all the tools we need to find and mine the gold.

Supply managers are indeed gold diggers and the gold rush is on in many organizations.

## **References.**

### **Book References:**

Suri, Rajan, *Quick Response Manufacturing*, Productivity Press, Portland, OR, 1998.

Womack, James P., and Daniel T. Jones, *Lean Thinking*, Simon & Schuster, New York, NY, 1996.