

Value-Focused Supply Management

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Value Focused Supply Management is an approach for creating and implementing long-term strategies for key purchase categories and their suppliers that goes beyond just competitive sourcing. This concept was presented at the 2010 Institute of Supply Management Annual International Supply Management Conference in a major research initiative by CAPS (Center for Advanced Purchasing Studies) Research and A. T. Kearney, Inc., entitled “Value Focused Supply — Linking Supply to Competitive Business Strategies.”

Basically, what this means is an organization must go beyond just adopting a competitive buying program to reduce costs. It must institute a technologically sophisticated program that includes executive level involvement, centralized purchasing, strategic procurement, total transparency, data/information collection and analysis, greater efficiencies, strengthened controls, enhanced flexibility, increased competitiveness and ensured fairness in the process. The ultimate goal is to improve the overall competitiveness of an organization by adding additional value for both customers and shareholders.

Looking back over the past 20 years, according to the CAPS research paper, it is clear that competitive sourcing created significant value for companies, driving major cost savings directly to the bottom line. However, the widespread use of competitive sourcing techniques and tools has eroded the major advantage that it gave pioneers in the 1990s. A.T. Kearney has found that the savings gap between leader and follower companies had shrunk by half just since 2004. “Just saving money on external expenditures will not be enough to survive, let alone thrive in

the years to come.”

That said, to achieve Value Focused Supply Management, an organization must move beyond traditional procurement approaches that are driven by buyer-vendor negotiations in which the buyer looks to a limited number of vendors in hopes of getting preferred pricing, quality and on-time delivery. Traditional approaches can only deliver two out of the three of those objectives. To ensure quality and on-time delivery, prices are typically high. Prices may be reduced if quality or on-time delivery is compromised. The two out of three approach runs counter to Value Focused Supply Management where all three — quality, pricing and on-time delivery — must be expected on every purchase.

This requires newly available technology. This new technology plus the use of procurement best practices will allow an organization to get reduced pricing without compromising quality or on-time delivery. It also provides total transparency, data collection and analysis, greater efficiencies, strengthened controls, enhanced flexibility, increased competitiveness and ensured fairness in the process.

The basis for this breakthrough is AVS Technology™ that provides an automated vendor selection procedure once the buyer has established a database of a dozen to two dozen prequalified vendors and also entered into another database all details for a job or a service that is needed. The vetting of the vendors is rigorous to ensure that, regardless of pricing, each vendor in the database will deliver quality work on time. The job specifications must be equally as exacting so the computer will be able to select from the vendor database only those vendors truly capable of doing the work. Then the computer will match job specifications with vendors and invite only those qualified to bid on the work.

This establishes a unique competitive bidding environment because all participating vendors know that low bid wins. To reduce pricing, vendors look at their production schedules and fill gaps or periods during which they otherwise would have no work. Hence, prices are lowered by the vendor but quality and on-time delivery requirements are not. Competition also is increased from just a few vendors to an expanded field. Fairness is appreciated by the vendors because they know from the beginning that they are competing with others who also are lowering prices to fill downtime. They also know that a low price on one job will not be expected on all jobs because the buyer knows that production downtime will vary with vendors from job to job.

The automated vendor selection procedure is repeatable so the buyer is not constantly looking for vendors. They are in the buyer's vendor database, and all that has to be done is enter the job or service specifications and let the computer do the matching.

Once a job or service is awarded, then to gain maximum benefits associated with AVS Technology, the buyer and vendor must apply best procurement practices including use of a SaaS (software as a service) communications and workflow system that documents and archives every detail of a job, from conceptualization and production through completion and invoicing. From this process comes secure

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web-based communications, full accountability for all buyer and vendor staff participants, total transparency, thorough data collection, stronger quality controls and greater efficiencies.

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