

Competence Center σ for Supply Management

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Founded by expert organizations in Supply Management



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1 Background

As demonstrated in various research studies from university institutions such as University of St Gallen, Switzerland and University of Ulm, Germany, and supported by consulting work by Capitum (*affiliate of Capitum AG - expertise in strategy & innovation and process & technology management*) and Total Management Group (*TMG - expertise in supply management, provided by hands-on experience by former CPOs and purchasing experts*) service-oriented companies do not put enough emphasis on their external cost portfolios.

Significant cost advantages could be expected by the implementation of a more target oriented and flexible Supply Management organization. Further improvements are to be expected by IT-supported process development.

In a time where service-oriented companies (without manufacturing capability or needs) in the financial, insurance, telecoms and other industries are looking into a higher degree of outsourcing or even off-shoring of large portions of their non-core activities, an efficient and successful handling of external cost items become even more important. Such companies could have an external cost ratio of 50% of the turnover or higher.

Success in this important area will create a competitive advantage resulting in immediate bottom line effects. Capitum and TMG have seen examples where companies have increased their demonstrated savings from 5% of the total purchasing volume to 10-12%, thereby adding 20% to the bottom line profits of the company by improving their purchasing organizations performance.

The Competence Center σ (CC σ) for Supply Management will address these challenges and develop tailor-made proposals for improvements in Supply Management, Strategic Sourcing, Purchasing, Transaction and Contract Management in the service-oriented industry.

With the CC σ we aim at providing companies with new thinking in this important area which will create a very significant contribution towards improved profitability.

2 Supply Management

What the manufacturing industry understood and acted on a long-time ago, has not yet fully transcended onto the service-oriented industry: %A dollar saved is a dollar more profit.+This simple wisdom should be put in relation to the possible gains in relation to sales. With a 20 % gross margin in your company, an extra dollar of sales only translates into 20 cents of increased profits.

Naturally, the focus on sales has been and remains a very important issue. However, in times of increased competition, shrinking margins and an increased portion of a company's value generation being provided by suppliers and partners, there is a lot to be gained by taking better care of the external spend.

3 Objective

The objective of the CC σ for Supply Management is to create a common understanding and road-map for a world-class Supply Management organization, based on best practices implemented in the organizations of the companies participating in the CC σ as well as generally accepted best practices of world leaders in the area. The work in the CC σ will be structured according to a four-tiered work process:

1. **Mapping** of existing know-how and methodologies
 - a. Structured collection of best practices.
 - b. Analysis of existing methods.
2. **Development** of new know-how and methodologies
 - a. Development of methodology to provide improvements in the Supply Management processes and organization.
 - b. Research possible organizational improvements.
3. **Exchange** of experiences
 - a. Platform for exchange of information and best practises across industry and geographic borders.
 - b. Streamlining communication by implementing a standardized vocabulary in the area of Supply Management.
4. **Implementation** of know-how and methodology in a real world
 - a. Implement and support pilot projects in partner companies.
 - b. Development of a model to anchor the results in the organization and develop a culture based on cost awareness and transaction management efficiency.

4 Target Audience

Participation in the Competence Center σ for Supply Management is valuable for all companies who want to further explore and develop its full potential with regards to external cost management and who are willing to invest in new thinking to achieve such results. We invite CEOs, CFOs, CPOs and Business Unit heads to participate in the CC σ for Supply Management.

5 Content

The content of the CC σ for Supply Management is assigned to four main building blocks, covering different areas (see fig 5.1). Each area runs through an individual work process as described in chapter 3.

5.1 Supplier Relationship Management

- Information flow
- Key Supplier Management
- Sourcing strategies

5.2 Supply Projects Management

- Early involvement
- Internal communication
- Category team / cross functional sourcing team formation

5.3 Transaction Management

- Processes
- eProcurement and other fast transaction systems
- Product categories
- Closing the loop on orders / goods received/ payments/ accounts

5.4 Contract Management

- Process for contract approval and signing
- Contract management system
- Cost management

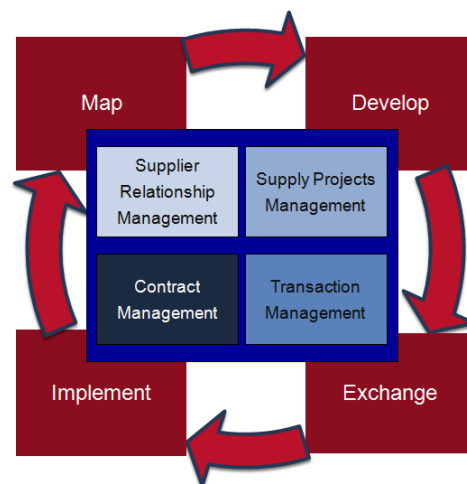


Figure 5.1: Content and work processes

In the following we will describe the different areas and building blocks. Examples will also be given.

6 Project Plan

The project plan is given in fig 6.1. The core of the project are four one-day workshops plus a kick-off and a finalization event. The workshops (WS) will be based on the four Content Building Blocks in Section 5 above: Each of the building blocks will be approached in the same way. The results will be transferred onto one or several pilot projects in the participating organizations. Thus, each participating organization will benefit directly from the results of the WS in that an implementation project can be started immediately. Implementation projects are of course voluntary and depend on the participating organizations' detailed needs and background and will allow participants to maximize their output of the Competence Center σ . Content of the Workshops will overlap. This will enable users to prepare and perform homework in the period between workshops and so get the most out of the Competence Center σ . A company joining the Competence Center σ needs to invest at least the time to participate in the workshops. However, the biggest benefit results from transferring the lessons learnt into the own organization.

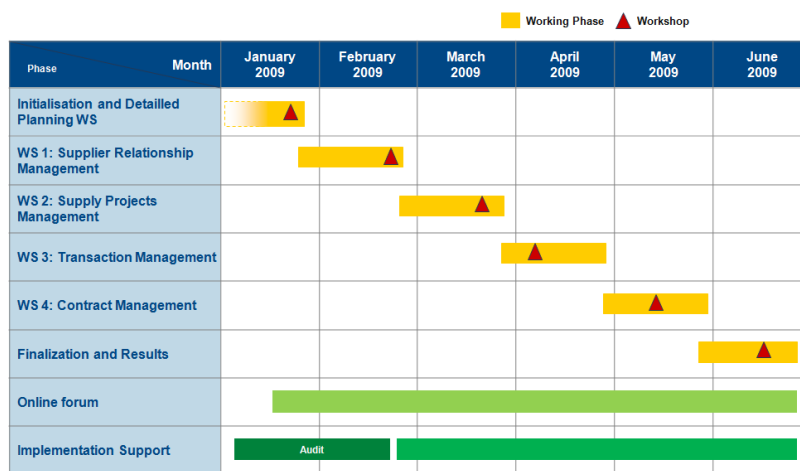


Figure 6.1: Project plan

Online Forum

Day-to-day support and discussions between the participants will be carried out over an on-line discussion forum. Intermediate results will also be delivered on this platform. Capitum and TMG will moderate and closely monitor the on-line discussions to maximize the output of this important tool.

The online forum will enable participants to communicate effectively with each other and with the program managers. We trust that this will be a major improvement over standard working methods. Less time will be spent in workshops but the exchange of information will improve. See fig 6.2 for an example.



FORUM	TOPICS	POSTS	LAST POST
Workshop 1 - Supplier Relationship Management	0	0	No posts
Workshop 2 - Supply Projects Management	0	0	No posts
Workshop 3 - Transaction Management	0	0	No posts
Workshop 4 - Contract Management	0	0	No posts

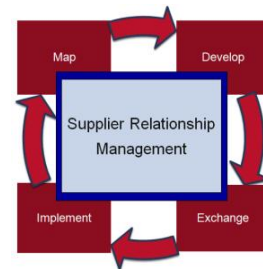
Figure 6.2: Online forum competence center

6.1 Evaluation of CC Partners & Audit

Prior to the first workshop, Capitum and TMG will perform a quick audit of all participating organizations in order to better assess the status of the different organizations in terms of sourcing. Capitum and TMG will invest one day per company and the audit is based on a predefined questionnaire.

6.2 Workshop 1 & Supplier Relationship Management

A critical success factor is how the purchasing department interacts with suppliers and ensures that vendor interaction is controlled. TMG and Capitum have seen examples of very problematic situations where suppliers had full view of their customers' budgets, decision processes and organization. This allowed the suppliers to tailor their quotations to exactly meet budgets available rather than providing a commercial offer.



Another challenge is to ensure that only negotiation professionals are allowed to negotiate. In some companies, a surprising number of deals are made by engineers, marketing people and managers who are skilled at what they do but not necessarily in commercial deal-making.

In the course of this workshop, we shall review methods to improve in this important area. We will go through concepts such as Key supplier management and key performance indicators as well as different sourcing strategies.

6.3 Workshop 2 – Supply Projects Management

This workshop will focus on the important interaction of your purchasing department with the rest of your organization. How do you ensure that your purchasing department always is involved from the start in all projects? Who coordinates between your company's departments, ensuring that all your purchases from one vendor are pooled and considered when negotiating? These are common problems, present in most organizations.

Marketing the services of Purchasing is another important item. A strategy to bring everyone, including your top management, on board is needed.



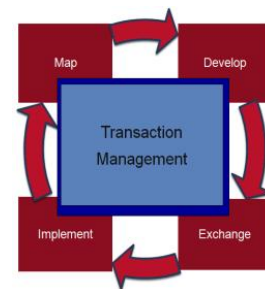
6.4 Workshop 3 – Transaction Management

In this workshop, we will discuss the different purchasing processes needed in your organization. We will use this information to paint a process landscape.

Corporate governance rules and purchasing policies will be discussed with a view on setting targets for the optimization of purchasing processes and getting rid of unnecessary buying in all forms and shapes.

We shall also review work processes for the different purchasing processes. Should all processes be electronic and what are the criteria for investing in process improvements?

Purchasing processes must also dovetail into the accounting of a company. We shall review goods receipt and open purchasing order processes and discuss how to deal with weaknesses in this field.



6.5 Workshop 4 – Contract Management

The contract is central to the work of a purchasing organization and needs to be well managed. Is there a systematic approach to contract management in your company? Are contracts stored centrally? Who is allowed to sign a contract and who needs to be involved? How do you feed your contract data into the organization?

A powerful contract management system can be essential for your business performance. Contractual vendor commitments make up a very large portion of your cost portfolio and need to be correctly mirrored in your budget and reporting systems.

Designing such processes in the right way will create a very powerful tool for purchasing, also ensuring early involvement.



7 Organization of the CC σ

The Competence Centre σ is designed to promote active partnering. Partnering is understood by bringing together organizations which contribute with their core competencies. This will lead to synergies and generation of new ideas.

The Competence Centre σ combines the know-how and experience of four organizations:

- The Institute for Operations Management of the University of St. Gallen
- The Institute for Technology and Process Management of the University of Ulm
- Capitum Suisse Ltd.
- Total Management Group GmbH

The basis for the successful execution of a Competence Centre σ is based on the practical implementation of projects. The cooperation and partnering between the participants is essential to achieve success. The industry representatives, consultants and university institutions brings different strengths to the CC.

The institutions from the universities of St. Gallen and Ulm bring in their expertise in process and technology management. Total Management Group and Capitem have particular strengths in Best Practices from consulting as well as hands-on industrial experience. The following distribution of roles and responsibilities is foreseen:

University Institutions

- Definition of topics and focus points together with partner companies
- Guarantee a neutral and objective formulation of results
- Consolidation of specific results
- Questioning and challenging results in terms of usability and benefits

Total Management Group GmbH / Capitem Suisse Ltd.

- Serve as organizational platform for the Competence Centre σ
- Bring best practices from consulting projects
- Bring best practices from more than hundreds of many years of hands-on experience in various industries
- Coaching and user support for the participants
- Online platform for communication between the workshops

Partner companies

- Ensure usability and relevance of results
- Active participation in workshops to share and learn best practices
- Transfer of project results into real-world change management

8 Benefits and Investments

The benefits for participants in the Competence Centre σ are:

- *Support and acceleration of internal projects:* Each project can be supported by a coach who helps defining the planning, concepts and implementation of lessons learned in the course of the CC σ program.
- *State-of-the-art and up-to-date:* The cooperation with leading university institutions enables access to current research and know-how in the relevant disciplines.
- *Know-how transfer:* Workshops and consecutive network will enable frequent exchange of information with senior staff members of the different participating companies gives a unique opportunity to bench-mark and test ideas, to develop working models and optimizing value for money by avoiding spending money on the wrong things.
- *Cost savings:* The support of internal projects through the Competence Centre σ saves money which would otherwise be spent on external consulting. The cooperation in the CC will secure immediate access to proven and cost efficient solutions, further reducing costs.
- *Leverage:* The total benefit of participating is the sum of all experiences brought to the Competence Center σ . The jointly financed project will create a value which is several times larger than the individual contribution.

The Competence Center σ begins on January 1st, 2009 and is laid out for a duration of six months in order to achieve tangible results in a short time.

Four workshops (plus kick-off and finalization) will be held in the six months. Furthermore, the online platform will be available for another six months after the completion of the CC.

The investment for participating in the Competence Center σ for six months is SFr 27'500 (excl. VAT) per company.

The Competence Center σ is limited to a maximum of 10 participating companies (up to two people allowed to attend the workshops).

9 Contact

Interested? Please don't hesitate to contact us. We shall be happy to discuss the Competence Center σ with you.



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