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This is a three part series on Sourcing Effectiveness Teams. The Sourcing Effectiveness Team (SET[©]) process is a proven, practical process for establishing lowest total cost commodity strategies. The process was developed by Integrated Strategies of East Lansing, Michigan. Steven J. Trecha, President & CEO overviews the SET process in Parts I and II. Part III looks at the result of the Cross-Functional Sourcing Team Effectiveness Study conducted by the Center for Advanced Purchasing Studies (CAPS).

MULTI-FUNCTIONAL SOURCING

What sourcing teams can do, and why they may fail

If companies could learn to break down the old functional barriers and protocols, they might achieve 3-8% reductions in cost of operating materials, 10-15% reductions in MRO costs, 3-15% reductions in capital construction expenditures, 2-8% reductions in inbound transportation costs, 5-25% reductions in purchased inventory, 10-20% improvements in supplier delivery times, 40-60% shorter product development cycles; and quality im-

provements of 10-15%.

“These are conservative but impressive numbers,” says Steven J. Trecha, VP and founder of Integrated Strategies Inc., but they aren’t merely estimates. Trecha claims that these figures represent actual improvements logged by multi-functional “Sourcing Effectiveness Teams” at more than 50 companies from all walks of industry. Consider the following cases (to protect competitive advantage, company names and

other identifying details have been withheld):

- A \$2 billion/year producer of building products and materials spends approximately \$20 million on a particular packaging commodity. A Sourcing Effectiveness Team or SET, reduced immediate measurable cost—combination of price, transaction processing, logistics, and design—by 16%. The SET also reduced inventory by 25%

- A manufacturing firm once spent \$3 million annually for a

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family of mechanical parts; it also spent \$1.5 million to inventory the parts. A SET achieved a 12% price reduction, and 50% inventory reduction.

• A \$2.5 billion multi-national firm implemented a SET to investigate a production support material that it used in large quantity. The team assembled nine user locations and discovered that the firm had 135 specifications to complete the same basic function. The team reduced 135 specs to fifteen, and reduced from nine to two suppliers. Price reduction tallied to 26%.

“Each of these improvements,” says Trecha, “are in commodities that people have been buying for decades.” Standing between a typical company and similar achievements is an inherent discomfort with internal communication and cooperation, he argues.

The basic role of the team, says Trecha, is to help the corporation become comfortable with its new standard of communication and cooperation. “The team is a transition to get the organization comfortable with sharing information. It also encourages

advanced thinking and risk-taking.”

Early on the learning curve, sourcing teams may comprise 8-15 representatives from various corporate functions. With experience, says Trecha, new projects may be managed with just one or two people because the traditional information barriers no longer exist, and new ways of doing business are understood across functions.

Getting to that point is difficult. Based on extensive experience working with sourcing teams, Trecha has compiled a list of reasons why they either fail or fall short of potential:

• **Strategic Mission.**

Corporate executives have not progressed beyond lip service in acknowledging strategic signifi-

“Most departments make good decisions within the context of their own function. Breakthrough improvements come by integrating the respective strategies and best practices among the departments within a corporation,” says Trecha.

cance of the sourcing function.

• **Empowerment.** Team members fail to feel empowered. “Early team members will always ask, does my boss believe in this?” says Trecha.

• **Goals.** Team leaders fail to establish aggressive goals at the outset of their project.

• **Coordination.** Team lacks effective coordination.

• **Expertise.** Team members don’t understand the process.

• **Appraisal.** Team fails to keep senior management informed of its activities and progress.

• **Learning.** Team fails to share knowledge and information.

• **Complexity.** Team underestimates project complexity.

• **Anticipation.** Team fails to correctly anticipate potential impediments and outsiders’ response to its activities.

To address such obstacles, Trecha and colleagues at ISI have created a model for what they call Sourcing Effectiveness Teams or SETs. (Note: SET process is copyrighted). We’ll look more closely at the model in Part II of the series.

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Part II

MULTI-FUNCTIONAL SOURCING

Sourcing teams may benefit from 12-step SET process

At companies around the nation, multifunctional sourcing teams routinely log breakthrough advances in sourcing performance. Still—as many companies have discovered—converting team theory to practice is never simple.

What is the team goal? Who will participate on a team? How will the team accomplish its goal? How will it measure its performance? How will participants divide time between team activity and regular work? Who will finance team activities? How will the company leverage knowledge developed by the team? What if one team member suffers from OPD (obnoxious personality disorder)? When will a team disband?

To manage conversion of a team theory into effective team sourcing, the folks at Integrated Strategies Inc. (ISI) in East Lansing, Mich. offer both an organization framework and a 12-step process for sourcing team implementation.

Before establishing what ISI calls a Sourcing Effectiveness Team (SET), Steven J. Trecha, President, CEO and founder, urges companies to install a team support-system comprising three basic elements:

- An executive sourcing team.
- A company-wide sourcing steering committee
- And a cadre of strategic facilitators and sourcing analysts.

Executive sourcing team is very straightforward. Once the corporate entity commits to sourcing as a matter of competitive strategy, upper echelons convene a team of high-powered indi-

viduals to ensure implementation of corporate strategy. Executive committee puts teeth into teaming process.

Sourcing steering committee is multi-functional comprising all relevant personnel—purchasing pro, plant managers, engineers, finance managers, logistics professional, etc. Steering committee evaluates sourcing history, sets priorities, convenes teams, receives team feedback, mediates intra-team conflict, and approves team actions.

Strategic facilitator might be compared to the Wizard of Oz. Operating behind the scenes, the facilitator orchestrates the SET process. Facilitator is a person with prior sourcing team experience who helps the sourcing team to anticipate results of its actions and avoid common pitfalls.

To illustrate the importance of the strategic facilitator, Trecha poses a scenario: A team has been designated to develop a total lowest cost long-term supplier relationship in a production commodity. This may mean a number of current suppliers stand to lose business. “Typically,” says Trecha, “when suppliers catch wind of the team and its goal, they will lobby their contract within the firm.” Strategic facilitator would help team to anticipate supplier lobbying—and to ensure that all relevant communications are funneled through the team.

Strategic facilitators, according to Trecha, may play an array of different roles: they may aid a team in reaching consensus decisions, conduct initial assessments to ensure the team has necessary information at its disposal, provide critical review of alternative sourcing strategies, and help team members

to what is popularly termed “thinking outside of the box.” Of note: firms that are new to sourcing team practice may need to look outside for strategic facilitators—others may send internal people out for training. Strategy facilitators and sourcing analysts are perfect roles for seasoned purchasing professionals to play, says Trecha.

With such an organizational support-system in place, Trecha says a corporation would be just 12 simple steps away from breakthrough improvements in its sourcing practice. Here’s a quick run-down on SET steps:

• **ID commodities and SET make-up.** This is a job for the steering committee. “At this stage,” says Trecha, “the steering committee has to pose questions. What are the important commodities? Where do we want to focus our talent and resources? What is an appropriate balance between risk and strategic relevance of commodities targeted for sourcing team projects?”

Trecha notes that some firms will find that they aren’t prepared to focus on a particular commodity. In some cases, steering committee may need to convene teams to glean historical purchasing, inventory, and customer sales information and supplier performance measurements systems.

• **Organize SETs.** Steering committee is uniquely positioned to appoint SET team members. “There’s no set formula for deciding who should participate on a team,” says Trecha. “In all cases, you will want personnel that represent the multiple key functions in the commodity in addition to complementing the team with creativity and risk-tak-

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ing thinkers. These folks may not have detailed commodity knowledge.”

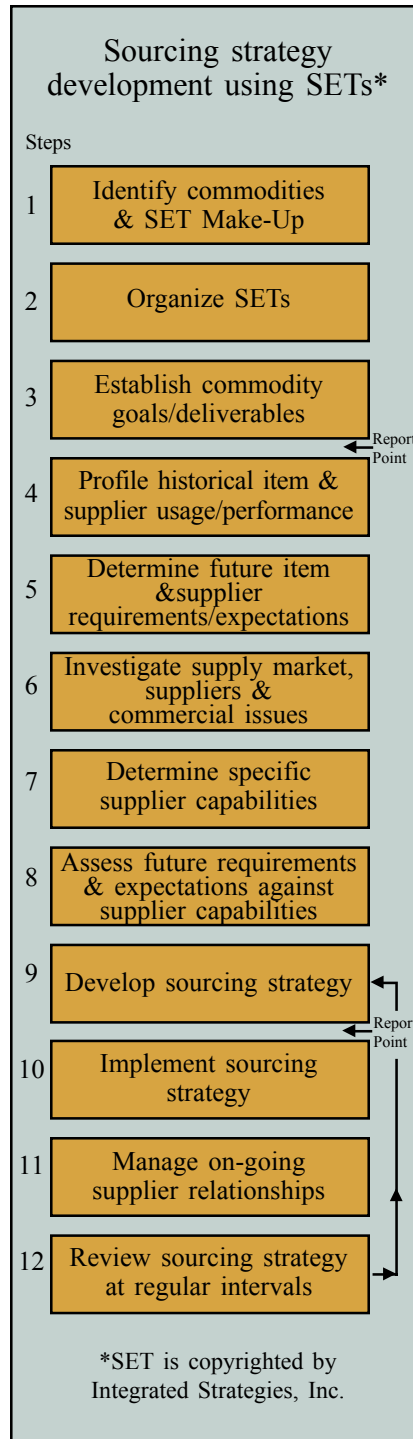
Trecha warns that a person with experience in a commodity may at times impede team progress because they feel personally criticized for the way business was conducted in the past. This is one area where the strategic facilitator would step in to help. “The facilitator would help the team to adopt an attitude that the past was the result of the old corporate organization. Let’s not look back and chastise, let’s take an opportunistic approach to developing a new supply strategy,” remarks Trecha.

Another important aspect of SET organization is explicit internal communications (via steering and executive committees) to inform all employees that the team has come into existence and that all activity relating to its target commodity be directed to the team.

- **Establish commodity goals/deliverables.** Team plots courses, goals, and performance measures. “It’s critical,” says Trecha, “that aggressive stretch goals are developed early on in the process. Stretch goals should be established prior to detailed investigation of internal history, external market factors, and possible futures for their target commodity.”

- **Profile historical item & supplier usage/performance.** Team spends its initial weeks investigating commodity history. What are the part numbers? Who are the suppliers? What’s the inventory history? How has each supplier performed in the past? At companies with poor history of tracking supplier performance, a sourcing team could become hopelessly hung-up at this phase. To avoid such a scenario, Trecha says a strategy facilitator and sourcing analyst would have conducted a pre-team reconnaissance mission to ensure that the team would have actionable information.

- **Determine future item and supplier requirements/expectations.** Primarily a team brainstorming exercise, according to Trecha. “We expect the list to be fuller than in the past—especially with significant improvement goals tied to customer expectations.”



- **Investigate supply market.** The team opens its requirements to a more-than-traditional set of suppliers. “This is an opportunity to investigate the commodity on a global basis,” says Trecha. At this stage, team asks: How do suppliers compete in this market? What are

the capacity issues? Who are the suppliers and who are their major customers? What is the supplier industry’s cost structure?

- **Determine specific supplier capabilities.** Team visits select suppliers. This isn’t the canned plant tour—team arrives armed with questions. Another job for the strategy facilitator is to anticipate supplier response and to help ensure that suppliers will feel comfortable sharing information

- **Assess future requirements and capabilities against supplier capabilities.** Information gathered in steps four through six meets information gathered in step seven

- **Develop sourcing strategy.** Team reaches consensus decision and presents it to steering committee for approval. “Team reaches agreement with the supplier on a relationship structure which will reduce cost through the agreement period, with measurable buying and selling performance standards in place.” Presentation to the steering committee is a mere formality according to Trecha. “Steering committee ratifies the strategy,” he says, adding, “There are no surprises at this point; steering committee has been continually apprised of team activity.”

- **Implement, manage, and review sourcing strategy.** Last three SET steps may be lumped together insofar as they represent the only part of the process that continues indefinitely. In some cases, the entire team may maintain a role; in other cases, the team may decide to disband (placing a contract administrator in charge of the supply relationship) or to meet only infrequently.

End Note. Trecha notes that to ensure continued executive level support, it is extremely important to track both cost reductions and costs associated with the sourcing effectiveness team activities. One simple mechanism is to set up separate team accounts and track time and expenses directly related to the team activities.

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Part III

MULTI-FUNCTIONAL SOURCING

How to ensure sourcing team effectiveness

In 1992, researchers led by Dr. Robert M. Monczka, Ph.D. and Robert J. Trent, Ph.D. undertook a study to assess factors influencing effectiveness on cross-functional sourcing teams. The study documented perceptions among 700-plus team members, leaders, and external raters, covering 107 cross-functional sourcing teams at 18 U.S. firms.

Conducted at the Eli Broad Graduate School of Management at Michigan State University, the study was devised in view of a prior study in which 80% of U.S. firms indicated plans to “emphasize the use of cross-functional teams to support procurement and sourcing decisions over the next three years.”

The new study was intended neither to support nor to discredit the use of cross-functional sourcing teams, according to Monczka and Trent. Rather, the study was designed to reveal the factors affecting team *effectiveness*. “There was an increasing utiliza-

tion of sourcing teams, but very little information about how to drive effectiveness into the team,” they say. Still, Monczka and Trent say the study associates “significant benefits” with cross-functional sourcing. Highest-rated benefit, according to the report, is “the ability to bring greater knowledge and skill together at one time.”

Lowest-rated benefit, meantime, is “a reduction in the time required to solve a problem or complete an assigned task.” Monczka and Trent say a team format may or may not bring efficiency to the sourcing decision: “An individual could make a sourcing decision in thirty seconds; that would be efficient, but it may not be effective.” Alternatively, the researchers explain: “An individual may research a decision, but a team may be more efficient at assembling quality information.”

In their examination of team limitations, the researchers say 30-40% of their survey respon-

dents agree with the following statements:

- Team has no real power or authority to make major decisions.
- Team has little insight into how it is performing over time
- Managers outside the team attempt to control activities or influence team decisions
- Certain members dominate team meetings or control team activities
- Commitment of resources does not meet the team’s requirements.

In context of team limitations, the researchers conclude that “team members in this study are basically satisfied with internal team processes and interaction (which the team controls) but less satisfied with externally related issues (which others external to the team control).” Incidentally, the study finds a set of factors that “consistently relate” to effectiveness in team sourcing:

- Organizational resource availability. Study identifies re-

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sources most critical to team effectiveness (in order of importance): supplier participation; availability of required services and help from others; time availability; budgetary support; and adequate team member task preparation.

“Management commitment of the necessary resources has the potential, therefore, to separate marginally from exceptionally performing sourcing teams,” conclude the researchers.

• **Supplier participation and involvement.**

“Teams that included suppliers as formal team members were, on average, more effective compared to teams that did not include suppliers as formal members, particularly in the areas of time reduction performance goals and supply base management performance,” say the researchers. Assuming that (1) suppliers are willing and able to support team activities, and (2) that supplier participation is relevant to the team’s objective, the researchers recommend that organizations “consider suppliers for formal team membership at an appropriate time in the sourcing process when a team’s task can

benefit from closer supplier-team interaction and greater supplier involvement.”

• **Team authority.** The researchers studies four aspects of team authority: ability to sched-

- *Team has no real power or authority to make major decisions.*
- *Team has little insight into how it is performing over time.*
- *Managers outside the team attempt to control activities or influence team decisions.*
- *Certain members dominate team meetings or control team activities.*
- *Commitment of resources does not meet the team’s requirements.*

ule team meetings; ability to select team members and leadership; ability to control internal team processes; and ability to make decisions that bind an organization and affect others external to the team. While the first factor showed little significant impact on team effectiveness, the

study finds a definite relationship between internal team process-authority and team performance.

“These findings suggest that teams granted a higher level of internal process authority are more likely to realize many of the positive team process and performance outcomes sought by firms,” say the researchers. Likewise, they find that “Teams with greater external decision authority received, on average, slightly higher effectiveness ratings for the performance dimensions of time reduction and supply base management performance. This suggests that teams empowered to make external sourcing decisions re able to channel this empowerment into greater results.”

• **Team effort.** “An understanding of what drives team effort is critical because firms can take action to promote greater effort and member commitment,” argue Monczka and Trent. “A meaningful task, however, is only a necessary but not sufficient condition for encouraging team effort and commitment. Certain factors work against team members putting forth the effort required to complete successfully a cross-

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functional sourcing team's task." According to the survey results, those factors include: treating sourcing teams as add-on assignments with minimal or no recognition for individual participation or team performance; limited time available for team participation, and use of non-purchasing functional personnel to support tasks traditionally associated with the purchasing function.

• **Team leadership.** The study found a compelling relationship between team performance and effective team leadership. Likewise, say the researchers, "A critical relationship also exists between effective leadership and (1) team effort and (2) organization resource availability." Furthermore, they say, "there is an important connection between task-oriented leadership behavior and sourcing team effort and performance."

While sourcing team leaders are most often from purchasing, the study finds no negative impact on performance when teams are led by non-purchasing professionals. "Motivated team members may be found in functions that do not typically drive sourcing decisions. This suggests that

executive management should assign, promote, or rotate team leadership responsibilities among different functions to encourage greater and broader team member effort and commitment to cross-functional sourcing teams throughout the firm."

• **Performance evaluation and rewards.** Monczka and Trent report that "no major findings resulted that linked performance evaluation and reward systems to cross-functional sourcing team effectiveness." However, the researchers attribute this to a lack of formal evaluation and reward systems. "This finding is a result of a lack of formal cross-functional sourcing team evaluation and rewarded systems and does not indicate such systems are unimportant or ineffective."

Meanwhile, the study documents a relationship between time spent on team activities (team effort) and existence of performance evaluation and rewards. "In other words, team members whole performance evaluation includes a larger component for team participation will commit more time, on average, to sourcing team activities. In turn, the amount of time a team com-

mits to team activities relates directly to team effort, which is a major predictor of sourcing team success."

Sourcing Effectiveness Teams (SET[©]) are used to develop lowest total cost commodity strategies and are primary drivers of achieving and sustaining competitive advantage. SETs are particularly effective when:

- Marketing pressures and/or competitive forces are driving aggressive cost cutting programs
- Supply chain costs including product design, purchase expenditures, inventory investments, business process and material logistics costs are significant
- Supplier performance is key to achieving overall business success

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