

Buying in to Commodity Buyers

Adding Value to OEM Procurement

Marlia Fontaine-Weisse

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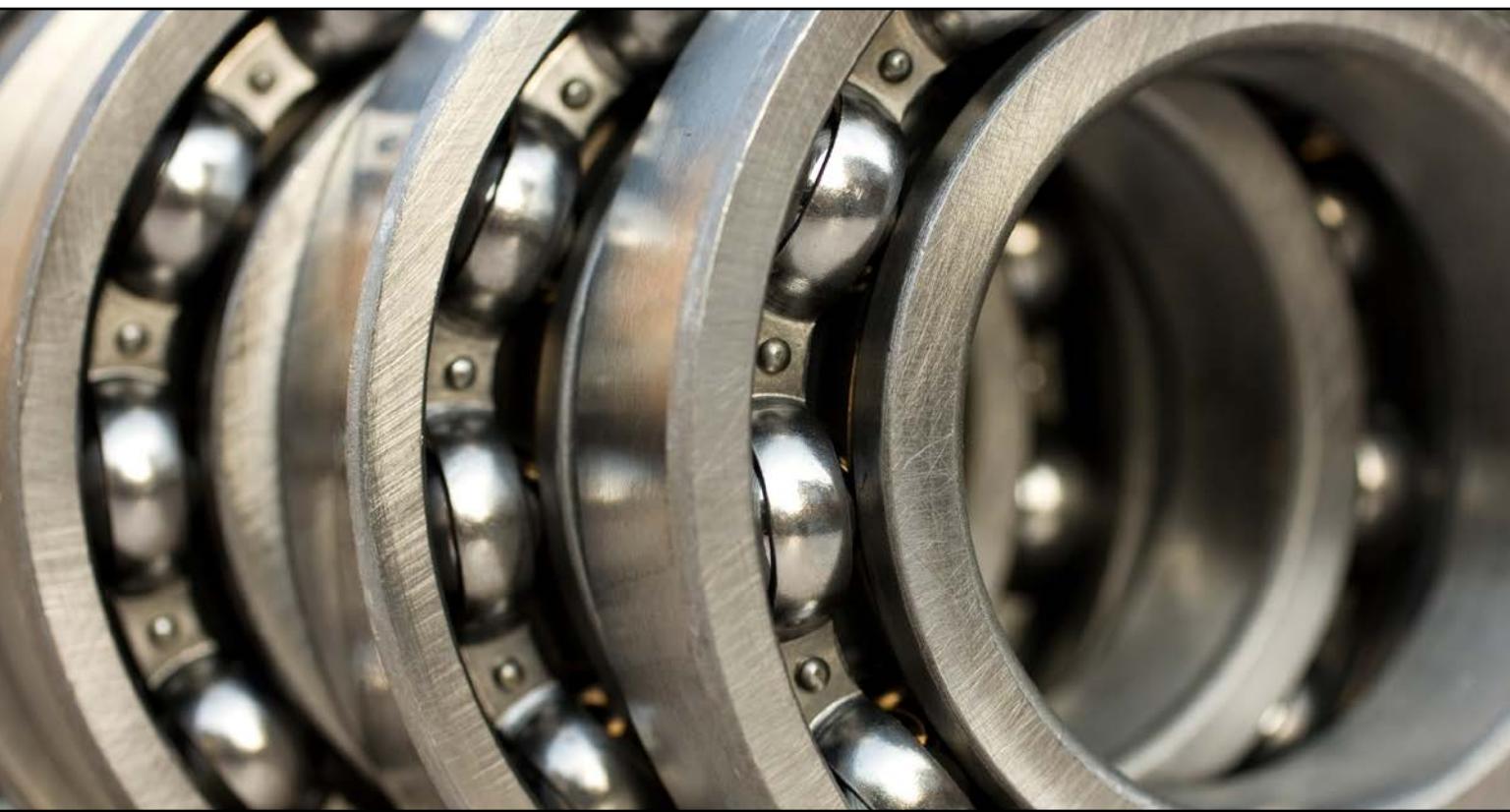
The economic outlook for the future of the manufacturing industry is unstable, especially with the volatility of raw materials costs and fluctuating consumer demand. According to an article published by Thinking Cap Solutions Inc., even though materials are currently at a manageable price, overall “margins have slumped below year-ago levels for 59 percent of U.S. manufacturers” between January 2012 and January 2013 (Ref. 6). As growth margins decrease, it becomes increasingly important that OEMs do more with less and find ways to shave costs. Integral in this cost-savings strategy are procurement organizations that proactively manage company assets efficiently and can negotiate with suppliers to help drive down costs.

The challenge facing OEM procurement organizations is that the orga-

nizations themselves need improving before they can be proficient in a cost reduction program. In the Ardent Partners’ *CPO Rising 2011: Innovative Ideas for the Decade Ahead*, 250 chief procurement officers reported on the current state of procurement and suggested ways to increase successful performance for the future. According to respondents, the areas “that CPOs typically decry as the two areas most in need of significant improvement and the major constraints to success—their people and their processes,” a problem that can appear daunting without a viable strategy in place to appropriately counteract both areas of need (Ref. 2).

Procurement personnel need to understand the importance of the materials they purchase, be knowledgeable

about the various processes by which these materials are manufactured, the factors affecting their cost, and the criteria for their selection; otherwise, quick decisions are made that will negatively affect a company’s bottom line. A knowledge base that captures manufacturing process information, combined with a system that captures supplier capabilities, can be a powerful combination to facilitate right value decisions. Making right value decisions will increase cost savings and the value and functionality of the procurement procedure. This article offers a practical solution to overcoming the learning obstacle and the challenges in storing and accessing institutional knowledge that procurement organizations currently face.



Challenges Facing OEM Procurement Organizations

One of the biggest challenges facing procurement organizations is acquiring knowledgeable and skilled personnel. Andreas Gocke, managing director of Boston Consulting Group, explains that at the BCG-sponsored procurement roundtable, "Surprisingly enough, people—training and development—was the number one topic as the key challenge for procurement organizations" (Ref. 4). The reason is easy to explain: "Unlike most other functions, there is not the academic purchasing manager education. You don't find, or very seldom find, a master education in purchasing. Very few universities around the world really focus and specialize on purchasing as an education path by itself" (Ref. 4). Not only that, universities seldom offer courses specific to the manufacturing industry, so finding a candidate with the appropriate background in either manufacturing, procurement, or both, is proven difficult. Most employees who join the procurement function learn about manufacturing processes on the job, leading to a drawn out onboarding process. Similarly, it is difficult to gauge the competency of an individual's manufacturing exposure since some manufacturing experience may not develop the right capabilities for procurement.

Additionally, the processes and tools currently utilized by procurement organizations do not contain all the necessary information to properly input and retain important details, or are too difficult to maintain. ERP and MRP systems, for example, attempt to standardize data stored; however, the categories are often generic and do not allow users to input commodity-specific supplier capabilities. Given the challenges in bandwidth, the supplier capabilities are rarely kept up to date by

"Procurement leaders overseeing fully manual processes are not well-positioned to take on the challenges of the decades ahead."

Andrew Bertolini, Ardent Partners Buying



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companies who use spreadsheets or home-grown databases to organize their data, forcing expensive purchasing decisions to be made from outdated information. As stated in the Ardent Partners' report, since "63 percent of CPOs believe that their procurement departments are short-staffed, the ability to use technology to, among other things, help scale resources, gain greater visibility, and make smarter decisions becomes a critical competency" (Ref. 2). But the right kind of technology is crucial. A.T. Kearney's 2011 "Assessment of Excellence in Procurement" study suggests procurement organizations "get connected" by focusing "on technology, the kind that will fundamentally change processes, not just automate them" (Ref. 1). With companies like THORS (The Helpful Online Resource Site), OEM procurement organizations can increase the knowledge of their employees and increase the efficiency of their processes in one convenient online portal.

E-Learning and the Benefits of Commodity-Specific Training

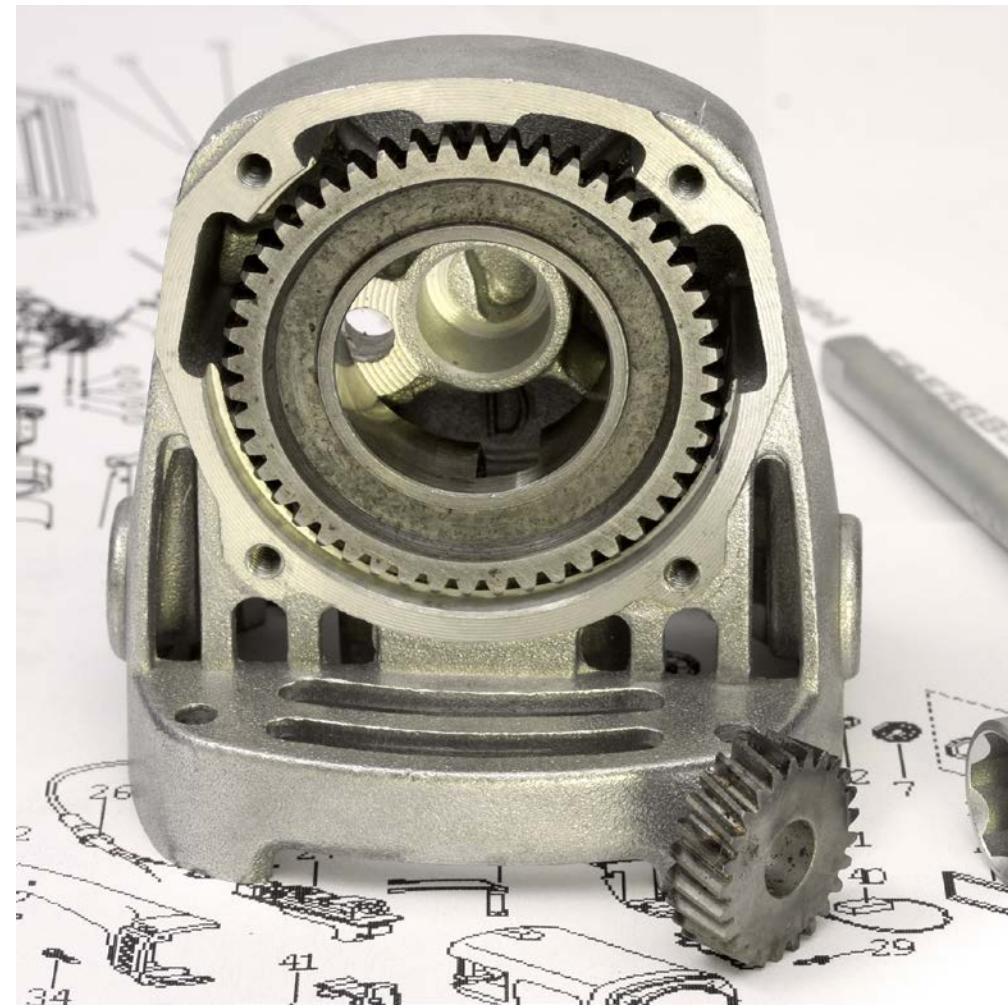
Currently, a typical person entering the purchasing field has a liberal arts degree or a business background, while there is a smaller subset of people entering with a supply chain, accounting, or engineering background.

Although taking the time to attain a degree highlights a number of transferable skills, the lack of commodity-specific foundational knowledge in manufacturing procurement is troublesome for OEMs. Buyers make expensive, real-world decisions daily without a deeper understanding of how the commodities they purchase are manufactured, the factors affecting their cost, and the criteria for their selection, which result in companies' finished products becoming more costly in the long run. While liberal arts, business, supply chain, and accounting degrees do not cover manufacturing processes in their curriculum, even engineering students are usually only given a crash course on manufacturing processes. How can the right purchasing decisions be made without the

right knowledge? How does one fill the knowledge gap?

Companies try to solve this problem with one of two conventional methods: sending people to seminars, or letting them learn on-the-job. Educating people by sending them to seminars is an expensive proposition, where too many PowerPoint slides are presented in a short amount of time, and usually one leaves with a three-ring binder. The three-ring binder usually sits on a desk where it is rarely referred to because of the difficulty in searching for information, and it is usually not shared with other people in the organization. Learning on the job, with or without a mentor, is a challenge, as generally there is no structure to the entire process. If in fact the mentorship approach is followed, its effectiveness is based on the time available to the mentor, as today people are spread thin. With the onset of the baby boomer retirement, this poses a huge challenge.

A much more viable option for education than expensive seminars that allow little time for knowledge retention or unstructured on-the-job mentor training is e-learning. Ellen Wagner explains that "E-learning is gradually upstaging conventional training methods, thanks to the immense benefits e-learning offers in terms of cost savings and employee productivity" (Ref. 7). Although there are different kinds of e-learning atmospheres, a "common type of e-learning is online learning, where the personalized learning environment is contained within the internet and not also associated with a formal education space" (Ref. 3). Advantages of online learning include ease of access, increased knowledge retention, and, as Tom Snyder, president of Ivy Tech Community College, states in a *Huffington Post* article, "Online learning not only trains the workers of the future, it can also provide a career path for someone employed, who



needs to learn new skills" (Ref. 5). With an online learning solutions provider like THORS, procurement organizations can provide the vital commodity-specific manufacturing education purchasers need to make better value decisions, which effectively overcomes all of the challenges with the conventional methods of seminar and on-the-job-based learning.

Developing content pertinent to the manufacturing industry makes companies like THORS unique. Online learning centers spanning large industry-specific categories like castings, machining, gears, steel manufacturing, polymer manufacturing, forgings, motors, reading engineering drawings for non-engineers, and so on contain easy-to-understand courses purposely created to build foundational knowledge and expand on it with advanced courses. Subject matter experts with decades of experience collaborate to

"THORS's commodity management solution is certainly a procurement solution that doesn't exist anywhere else."

Tim Mohs, Sivyer Steel

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ensure content remains relevant and accurate, and the infusion of computer-generated animations and frequent quizzes helps users easily break down complex concepts and test retention.

Learning management systems (LMS) are just as essential to the effectiveness of online learning as the content that is available. "When used in conjunction with reliable, valid, and predictive assessments, and when correlated with an individual's learning path," Wagner tells us, "a learning management system can generate data for diagnosing skills gaps and prescribing activities and experiences that link learning events with on-the-job experience" (Ref. 7). Through LMSs like the one THORS created, users can "create, house, administer, and monitor courses and users' progress through these courses" (Ref. 3). Additionally, administrators can create custom learning paths for specific roles within their organization.

The distinctive education experience provided by THORS has been proven to positively impact learning. In a study conducted for a \$4 billion OEM customer with a \$500 million spend, six procurement personnel completed a pre-assessment quiz testing their knowledge of castings processes. The same test was administered to participants after learning from the THORS Castings Knowledge Center for one year. Despite this customer identifying a fundamental challenge to the knowledge their purchasing employees con-

tained, it is clear from the results below that using THORS works.

Knowledge gained through online learning environments is only part of the solution; procurement personnel need to also apply the manufacturing knowledge they gain to purchasing processes and supply management. In addition, procurement organizations need to take advantage of newer technologies to increase productivity. In fact, "Procurement departments cannot afford to wait for the current generation of less tech-savvy staff to retire before using supply management solutions to drive greater value" (Ref. 2).

Supplier management tools allow suppliers to enter and maintain their capabilities themselves, relieving the purchasing organization of maintaining the constantly changing supplier capability on spreadsheets or internal databases. Purchasers can classify each of their suppliers by commodity to stay organized. They can also search suppliers in their network or in the THORS network based on their capabilities, store important supplier documentation for easy access, and keep current with real-time, automated certification management.

Intelligent Supplier Selection solves a very important problem of selecting the wrong supplier for a package of parts. Manufacturing companies state that 40 percent of RFQs are sent to the wrong supplier. THORS's *Intelligent Supplier Selection* solves the problem by the system intelligently mapping

the part profile to the supplier capability and recommends the right supplier for each part. RFQs are then sent to suppliers for a package clearly identified as a fit for their company, enhancing productivity on both sides. This tool also contains a quote comparison tool, tracks communications between suppliers and buyers, and stores old quotes for instant retrieval.

THORS also solves the big problem of efficiently tracking all tooling, like pattern equipment, dies, cutting tools, gauges, and fixtures, and organizes tools by commodity, part, supplier, and process. With the *THORS Tooling Manager*, data can be entered and maintained in commodity-specific templates by the suppliers or the procurement teams. The *Tooling Manager* also lets you proactively manage replacement schedules, maintenance, and repairs, with a robust change log to track changes and tooling history. And the *Parts Manager* further helps with organization by linking parts with suppliers and the tooling used to manufacture each part. Through e-learning solutions providers like THORS that offer commodity-specific training with commodity management solutions, procurement organizations can streamline workflow, thus adding value to their teams while saving time and money.

Summary and Conclusions

A substantial portion of the CPOs surveyed in the Ardent Partners' report, "Roughly three-quarters (76 percent)...feel that the skills of their staff either 'need improvement' (65 percent) or have a 'significant skills gap (11 percent)" (Ref. 2). At a time when profitability is questionable, investing in solutions that provide the commodity- and industry-specific training for procurement personnel and giving them the tools that help them track supplier capability, intelligently select the right supplier for the right part, and keep track of the company assets efficiently, will help them effectively combat costs. **PTE**



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is the lead instructional writer for THORS, where she collaborates with SME chapters to write online course content for the manufacturing industry. A former Miss Ohio (2005), she traveled the state as a motivational speaker, vocalist and spokesperson, while also representing her state at the Miss America competition. Fontaine-Weisse used the \$31,000 in scholarships earned to eventually receive a master's degree in English literature from The University of Akron. While pursuing her degree she taught freshman composition, published the English department's first monthly newsletter, Academic Pursuits, was editor-in-chief for the department's first ejournal, First Year Voices, and was assistant editor and Web designer for the revised ejournal, Selected Papers of the Ohio Valley Shakespeare Conference. She also traveled across the United States and Europe presenting scholarly research, which included her essay, "Romantic Poison: Making Grimm Lessons Less Grim," at 2012's The Brothers Grimm and the Folktale conference in Athens, Greece.



"(It) pays to invest in new approaches to measure performance, more sophisticated technology to embed best practices and broaden professionals' skills."

John Blascovich, A.T. Kearney

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