

CHAPTER 1: TALES FROM SUPPLY CHAIN MANAGEMENT TRENCHES

In this book, I've decided to use a different approach to sharing my supply management knowledge with readers. I believe people learn more from stories and a real-life events than from a textbook. The following stories are meant to get you to think about improving your supply management strategy. Some of the stories are good management lessons. In some of these tales, I was very fortuitous (lucky); others were the result of having talented people work for me and teamwork, and still others were the result of just hard work and massive amounts of homework. I do hope that you, the reader, enjoy the stories and learn from them.

Mega-Negotiations Story

A supply management colleague and I had been working diligently for a year to try to standardize MRO (Maintenance Repair and Operating) parts to include pumps, pipes-valves, electrical, and operating supplies. We divided the storeroom parts into these four bucket areas. These were storeroom-related parts for a multi-national chemical company. We used a market-basket sourcing approach. We had conducted numerous strategic sourcing cross-functional teams and had worked hard to get our engineers to select standardized parts for our plants. These sessions

were long and arduous. We had reduced the number of suppliers or OEMs (Original Equipment Manufacturers) in many categories to one or two. Our goal was to gradually replace the existing parts as they wore out with the new OEMs and strive for standardization in the MRO arena. We had a systematic, well thought-out plan for doing this, and had negotiated contracts with the OEMs and distributors. We were approximately 80-percent complete, which was quite an accomplishment for the fifty North American plants.

Then the company suddenly announced that they were in the initial stages of planning a \$5-billion expansion in the United States. The winning five plants had already been selected. Some of them would be entirely new plants, and the others would involve major rebuilds. The capital expansion was to start in six months. We were faced with managing a major capital expansion and a significant spend in the MRO area. We met with the vice president of engineering and decided to have a strategy session with him and the five selected plant engineers. We decided to have a one-shot bidding meeting with our preferred suppliers in Louisiana. We had a very good idea about the dollar amount of spending in the various buckets for the expansion. The capital job estimates had already been made and approved. We had four bucket areas in MRO: mechanical, electrical, pipes-valves, and operating supplies. We already had cost-plus pricing contracts for 80-percent of our MRO. We did, however, still have at least two preferred suppliers in almost every major component MRO area, such as pumps.

I suggested that we leverage the hard work that we had already accomplished. We would announce the capital expansion at a preferred-supplier meeting and give an approximate future-dollar spend in each of the four buckets (areas). We obviously had considerable leverage, and many of the bucket dollar numbers

were huge. We had fairly accurate data from recent expansions and the capital-job estimates. We then established these ground rules for the bidding process:

1. There would be only one round of bids. We urged the suppliers to give the bid their best shot. We didn't have the time to manage multiple bids.
2. We announced that we would, in many cases, narrow down the areas where we had two preferred suppliers to one, unless we had a good business reason for keeping two.
3. Although we'd negotiated some significant total-cost-of-ownership savings in the current contracts, we were open to enhancements from the suppliers and distributors.
4. We told the suppliers that we would not accept their standard spare parts packages as we had in the past. We would challenge their typical spares packages, but would be especially open to creative ways of them controlling and managing the spares at minimal or no cost to us.
5. OEMs could work with distributors to propose any additional creative services to provide us.

Quite frankly, we had no idea how this mega-negotiations process would work. Fortunately, we had done a lot of supplier consolidation before this process. We had not even predicted cost savings or eventual outcomes—we just did it. As the bids rolled back in, it was obvious that our suppliers had done their homework. All told, the cost and other savings amounted to 20 percent of the \$5 billion. We were stunned. For the next year, my

supply management colleague and I had to endure “Here come the *billion-dollar boys*,” whenever we entered a meeting.

Yes, we were good and worked hard, but we were also very lucky. The fact that the company was spending that much capital at one time when we were transforming to supply management really helped our leverage.

Mega Change: or, Getting Everyone Out of the Comfort Zone (Including Me)

One particularly difficult transformation process was my third—which meant that I should have learned many lessons already! Nonetheless, only two people in a department of twenty showed any enthusiasm for supply management transformation. Most of the personnel had long-established relationships with suppliers, and the department was divided into subgroups identified by the materials or services that they purchased. Thus, people were so-called “experts” in their particular material or service. Unfortunately, many pursued their own materials and services without regard to the impact on the total product or machine.

I first moved the entire department to a new area in the company. I changed everyone’s title. I developed a glossary of supply chain management terminology that they were to use in all their correspondence. I challenged them to prove to me that they were not only getting the best price for their particular materials, but also the best total cost of ownership. I also made them create or refine metrics to measure their suppliers’ performances. I expected strong data to prove it. I insisted on monthly written reports from everyone. I gave them a template for the report, and

they had to adhere to it. I insisted that they evaluated their savings in terms of the market for their materials. Thus they had to learn the market well for their particular materials. If the market price had gone down by 5 percent for the year, and they only saved 2 percent that was not good performance. For the first month, just about everyone was in an uproar just trying to cope with all the changes. This was beneficial; they had less time to resist the changes.

Finally, I started to broaden their knowledge of our final product. The engineering department and I conducted training classes on the packaging machine that we sold. The engineers educated us on the particular sections of the equipment and their functions. Although they were experts in a particular material, I reminded them, our paying customers wanted to dialogue with us about the machine they had purchased, not just a particular material. We all had to become better at understanding total-machine functions and technology. The purpose was to make them realize the possible impact of some of their material change decisions on the function of the machine. I wanted to transform them into machine-function experts—not just particular-material experts.

This tactic paid off. Our salesmen and engineers became more comfortable with my department members and invited them into meetings with our paying customers. They directly interacted with the customers and could understand their needs and concerns. When serious issues developed, we brought in our preferred suppliers to help in the problem-solving sessions.

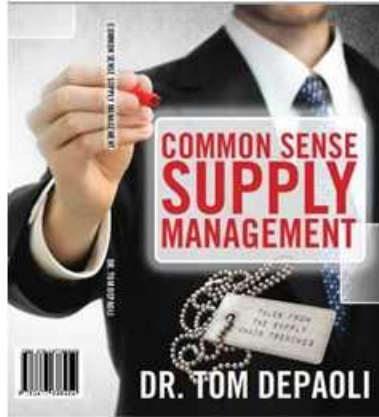
I also insisted that our people accompany our field reps periodically on service calls to get a better feel for what they had to go through with a customer while servicing the machine. Their feet-

on-the-floor time in a third-world country, working side-by-side with a service rep, gave them an enlightened perspective of the challenges we faced with our worldwide customers.

Amazingly we all survived this massive change, and we gained enormous respect with our colleagues in the company. Customers would call customer service and then ask to talk to some of my supply management people about issues.

Dr. Tom DePaoli

Common Sense Supply Management - Tales from the Supply Chain Trenches



In his new guide to supply management, author Dr. Tom DePaoli offers no-nonsense strategies learned from his diverse career in many organizations. Told in part via a story format, [*Common Sense Supply Management - Tales from the Supply Chain Trenches*](#) uses real life examples to discuss what goes right, and often wrong, in the supply chain management trenches. The stories are told factually without any embellishing notes to distract the reader. By carefully following this book's accounts, supply management professionals can learn a career's worth of what to do and what not to do. DePaoli provides practical lessons launched from real-life cases and tested in the unforgiving supply chain management reality.

Like many good business leaders, the author places business relationships first and foremost in his guide. "Supply management covers more breadth and depth than any other discipline in an organization," says DePaoli. "It is the art of building multiple relationships."

His book advances to tackle best practices, Lean Six Sigma, and information-based negotiations. He includes an extensive chapter on planning and strategy that prepares the reader for his multi-dimensional approach to suppliers, offers proven tactics for testing and sourcing suppliers, and is candid about the possible pitfalls of using international sourcing. A stickler for robust, data-driven decisions, he shows the sorts of metrics supply managers should be tracking. He discusses a range of computer-based tools that allow professionals to conduct their business. He warns managers about adopting slick-looking technologies that remain incompatible with an organization's culture.

He remains convinced that his story-telling strategy will allow readers to learn more than what any textbook offers. "Some of the stories are good management lessons," says DePaoli. "Others are the result of having great people work for me and teamwork, while some are the result of just hard work and massive amounts of tough homework." Supply chain management continues to form the backbone of most companies. Knowing how to orchestrate its complexity can give an organization a strong competitive edge. The supply managers who are willing to take the journey and possess the indomitable spirit necessary to succeed will greatly benefit from this unorthodox but powerful guide. Dr. DePaoli has previously published [*Common Sense Purchasing*](#) also available on Amazon.

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