



Strategic Supply Management Alignment: The Itinerary for Your Next Level Supply Management Journey PART II

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Introduction

In the first part of our series, we defined strategic supply management alignment; indicated the core requirements for setting out to achieve it; and overviewed what your organization needed to do to reach an organizational consensus on philosophy, strategy and goals. We then discussed how your Supply Management organization identifies the gaps between where the organization is today and where it needs to be, puts together an initial multi-year plan to close that gap, and, most importantly, puts together a communication plan to communicate the plan, the need, and the benefits of working together to achieve the common philosophy, strategy, and goals.

However, that is just the first step on one's next level supply management journey. Once the initial high-level multi-year action plan is put together, each action has to be expanded into detailed work plans capable of being executed by the organization. In addition, measurable outcomes that will define the desired future state need to be defined in a way that will allow an organization to measure its progress and decide when it has made enough progress on the initial goals to move onto the next goals.

Once the measurable outcomes and targets for each action have been defined, the organization will have to create a more detailed gap analysis. During the creation of this detailed gap analysis, the organization will likely identify additional skill requirements, new technology-based tools, or additional processes its talent will need to acquire and use to accomplish the goal. But that's okay. It's impossible to discover every need at once, and as long as the need is identified before the activity is undertaken, then the organization is able to adjust the plan to acquire the needed skill, tool, or process up-front and ensure success later. Failure typically occurs when an organization jumps into an activity without first meeting the fundamental requirements for success. And it's always better to delay the implementation of a new tool or process expected to save time or money by six months than rush the project, spend six or seven figures, and then fail because the team wasn't ready. This is what sets Supply Management organizations back years, if not decades.

For example, even though waiting six months to implement invoice automation might theoretically cost the organization seven figures in unrecoverable overpayments, if the organization rushes the implementation, it doesn't go as planned, and seven figures has to be spent to clean up the resulting mess, the organization will lose double. Plus, when the groundwork has been laid, an organization can often achieve the throughput it desires at the lower end of the "success window". For example, while a typical large company will take anywhere from 18 to 36 months to reach 90% plus throughput, if the organization has a well-thought out and communicated implementation plan ready to go, it is likely to see more benefits faster, and win bigger in the long run.

After it creates the detailed gap analysis against the measurable objectives, Supply Management might find that it needs to update the plan, put more activities in year one, push some activities out to year two, and even pull one or two activities back. This is okay too. It's important to get it right.

Only when the plan is right does the organization implement the plan, monitor progress regularly, and react accordingly if something isn't going according to plan.

In this paper we not only take you throughout the process of going from a high level plan through a detailed plan with measurable outcomes to implementation and measurement, but we provide you with plenty of examples along the way to help you understand the difference between a Big 6's template organizational improvement plan and a customized transformation plan that will truly make your organization a strategic business enabler.

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Tracing the Trail and Weaving the Tapestry

When the organization mapped the topography, it created a map at 30,000 feet that told it where it was, where it needs to be, and the route it needs to take to get there. For example, like Dora the Explorer, it needed to climb the mountain, find the right path through the forest, and cross the chasm.

And even though the organization has climbed the mountain and can see the path through the forest, it's a lot harder to find the right path when the team is down on the ground, the trees are towering high over head, and what it thought was a relatively straight path is actually a forked path and no one knows if the organization should be forking left or right.

But if the supply management organization conducted its survey right and took the right measurements, packed its compass, and prepared for the journey, it can find its way through the forest, and provided the team brought enough rope, even cross the chasm (if the weave of the rope is strong enough to hold the organization's collective weight).

In order to trace the trail -- which is not as simple as following a linear trajectory as the world of Supply Management is full of pot-holes, road-blocks, and detours -- and weave the tapestry, the organization will first need to:

Define measurable outcomes that define the desired future state

For example, given the goals and objectives that were defined in Part I, our Supply Management team might define the following measurable outcomes with respect to its improvement plans

PLAN ELEMENT	MEASUREABLE OUTCOME
Invoice Automation	60% of invoices automated year 1 80% of invoices automated year 2 95% of invoices automated year 3
Overpayment Reduction	Reduce identified overpayments by the recovery audit firm from 1.5% to 1.0% in year 1, 0.5% in year 2, and 0.1% in year 3
Savings Identification	Identify an average of 5% per sourced category and save 5M in year 1; 6% per sourced category and increase Spend Under Management (SUM and save 10 M in year 2; 7% per sourced category and increase SUM and save 15M in year 3;

Faster Invoice Processing Time	Reduce average invoice processing time, and subsequent late penalties, from 60 days to 45 days in year 1, to 30 days in year 2, and to 15 days in year 3, as this will allow Finance to better optimize working capital and reduce DPO
New Supplier Identification	Identify new suppliers for the top 3 custom manufactured products by spend in the first year, for the top 5 products in the second year, and the top 10 products in the third year
Market Data Collection	Archive 100% of all data collected in RFX and auctions and 98% of all data pulled in from punch-out searches for analysis by the end of year 1 and integrate feeds for market data on all commodity purchases by the end of year 2
Spend Under Management	Increase Spend Under Management through better sourcing and procurement processes from 40% to 55% in year 1, to 70% in year 2, and to 90% in year 3

Create A Detailed Gap Analysis

Once the measurable outcomes are defined for each activity the Supply Management organization plans to undertake, the organization will have to conduct a detailed gap analysis between the current state and goal state for each initiative that it plans to undertake with respect to the measurable outcomes. This will require that the organization measure where it is today, where the market is today, and where best-in-class competitor is today on the 3 basic T's: talent, technology, and transition. This is the only way the organization will be able to truly define an actionable plan to get to the defined outcomes. During the conduction of this detailed gap analysis, the organization might discover that additional talent, technology, or transitions to new processes are required, and that's okay. It's better to discover a gap during the initial stages of plan implementation, when there is still time to modify the plan and fix it, then at the end of the project when final acceptance tests and reviews are being conducted.

For example, when lining up the organization's initiatives with its desired outcomes, an analyst might identify the following additional gaps in the initial plan:

Initiative	Desired Outcomes	Gaps
Invoice automation	More touch-less invoices Overpayment reduction Faster processing time Spend Under Management	* failure to identify the need for multiple levels of approvals and overrides for invoices that don't match POs; * tracking and reporting of error invoices to identify prevented overpayments required;
Market Price Data Warehouse	More Market Data Better Sourcing	* failure to identify the need to also support EDI and third-party APIs to extract data from non punch-out/(c)XML sites; * failure to identify the need to track historical currency tables for proper trending
Spend Analysis	Better Sourcing 5M Spend Reduction Spend Under Management	* current spend analysis tools do not allow for the definition of multiple cubes against multiple schemas; better tools are needed; * the sourcing tool does not allow for component-based breakdowns of bids in e-Auctions; * the current sourcing system does not integrate with the identified invoice automation systems;
New Supplier Identification	More Supplier Options Better Sourcing More Market Data	* no performance or global market data in the supplier risk profiles from current intelligence provider; * no formal processes in place to evaluate suppliers or new products; * the collaboration platforms identified do not support the stricter security controls that would be necessary for third party (supplier) collaboration;
Better Collaboration	Better Sourcing 5M Spend Reduction Spend Under Management	* the marketing and advertising teams are uncomfortable with technology and want more face-to-face collaboration; * the engineering team needs a product that can natively handle and manipulate the special formats their CAD programs use, attachment capability is not enough

Training	Overpayment reduction Faster processing time 5M Spend Reduction Better Sourcing More Supplier Options	* there won't be enough time to cover everything in the hands-on sessions and not everyone will make it – these sessions will have to be recorded and the recordings made available on-demand through an e-learning environment * in addition to the basic training, walk-through videos will need to be produced for standard tasks; * an online real-time environment where people can ask questions and get responses will also be required, not just a knowledge center
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As a result, the plan will need to be deepened and modified to address all of these gaps.

Update and Detail the Plan

Based on the detailed gap analysis performed with respect to each initiative, the Supply Management team updates the plan, paying special attention to the biggest opportunities and the biggest gaps, and then dives into the detail required for transition management.

The plan will have to detail, at a minimum, the

- i) talent (and skills) required, the
- ii) technology required, and the
- iii) transition (management) required

and be sure to reference the gap analysis and measurable outcomes and how the changes will address each of the needs, where relevant.

The first step is to update the multi-year plan to fill all of the gaps and address all of the mixed opportunities, which may now look something like this.

Year 1

1. collaborate with the CFO, CEO, and critical stakeholders to prioritize the goals, define the KPIs, and ensure support for plan adoption
2. define and implement a communication and reinforcement strategy to make sure all key participants are aware of the plan, understand what they need to do, and understand that C-suite support is behind the initiative
3. document the new processes and the transition management plan(s)
4. implement a training platform where users can access video walkthroughs, manuals, and other training materials

5. define a new invoice submission, processing, and approval process to support invoice automation that will support multiple approval levels
6. implement invoice automation, making sure that the source of each invoice, all exceptions, and supervisory overrides are tracked, reportable, and auditable
7. implement a better reporting tool that will automatically generate monthly reports on percentage of invoices automatically processed, overpayments prevented by way of identified overcharges, average invoice processing time, and Spend Under Management
8. implement middleware that supports EDI, XML, and the necessary APIs that will push all RFX, auction, and commodity data feeds from the organization's market data provider into the ERP system
9. search for new suppliers that can increase sustainability and reduce costs
10. define and implement transition plans to migrate production from current suppliers to new suppliers

Year 2

11. implement the progress reporting methodology and communicate the progress reports to the key stakeholders
12. implement a collaboration platform where everyone can review the progress reports, input ideas, ask questions, get answers, and find out where to get, and provide suggestions for, the training; the collaboration platform must also allow restricted access for suppliers and support CAD drawings
13. implement a proper spend analysis tool that allows for multiple cubes built against multiple data schemas
14. use spend analysis identify indirect and second tier categories that may yield good sourcing opportunities
15. store results and benchmark against the market

Year 3

16. share the benchmarks
17. implement a sourcing platform which supports complex lotting and expressive bidding
18. integrate a feed from a market intelligence provider
19. compare current and potential suppliers and identify suppliers who could outperform the market on indirect and second tier spend categories

Then each step is detailed to identify the talent, technology, and transition management required. When writing the plan, the most important thing to do is focus on talent first.

While the organization will have a lot of things to work on from a talent, technology, finance, process, etc. perspective, and will need to borrow some ideas and techniques from project portfolio management, getting the solid talent the skills and tools they need is critical to success. If the organization's talent still doesn't know how to cut a purchase order without paper and the talent is still working with a stone, a tin can and a string when they should have a Louisville slugger, a modern computer, and an internet connection to a modern SaaS software platform, getting the organization's talent the tools they need and the skills they need to use those tools is critical. Furthermore, even if the biggest gaps are not talent, people still drive the process and focusing on what the people need to make the project successful is the key to success; sometimes it's training, sometimes it's tools, and sometimes it's transition support – it depends on the situation.

The outline for the change plan for talent might look something like:

i) Identify the skills required by the current team to:

- use a new invoice automation platform
- identify errors and prevent overpayments
- obtain the necessary approvals when required
- use a new reporting tool to track and report on invoice throughput, average processing time, overpayment prevention, and Spend Under Management
- use a new reporting tool to extract pricing data related to a commodity over time from the ERP system and determine average price paid, average price quoted, trends, and potential opportunity
- identify new suppliers with the capabilities required to service the organization at least as good as current suppliers but with the potential to provide more value
- use a collaboration platform to work with team members, get additional training, and collaborate with suppliers as necessary
- use a proper spend analysis tool to slice and dice the data in the ERP to identify appropriate categories for sourcing with significant savings opportunities
- do should cost modeling and identify cost breakdowns that could be used in auctions and other complex bidding events to identify opportunities for additional savings

ii) Assess current employee skill levels, particularly with respect to the skills identified in part i)

iii) Identify the gaps between current skill levels and the skills identified in part i)

iv) Develop appropriate training programs for each of these skill requirements with hands-on and online components and deliver them at the appropriate time

iii) Collect regular feedback and improve the training programs as required

Once the organization has addressed the talent requirements, then it can dive into a detailed technology transition plan. The outline for the change plan for technology might look something like:

For each new system to be integrated that uses an existing external data store,

- i) identify the inputs, outputs, and data store
- ii) create a test environment that contains the software that provides the inputs, outputs, and data store
- iii) implement the new system in the test environment and make sure all the data flows in, out, and to the data store without issue
- iv) take the system(s) being replaced off the network on Friday night, shut them down, implement the new system, then put the new system on the network

If the new system uses an internal data store, then the plan might modify the process as follows:

- i) identify the inputs, outputs, and data store
- ii) create a test environment that contains the software that provides the inputs, outputs, and data store
- iii) implement the new system in the test environment and make sure all the data flows in, out, and to the data store without issue
- iv) a week before go-live, do a complete export of the current system, push it into the new system, and verify its accuracy
- v) take the system(s) being replaced off of the network on Friday night, do an incremental export of all data added in the past week, shut them down, push the data into the new system's data store, implement the new system, then put the new system on the network (which will have complete data due to the complete export up to one week ago)

Note that, when selecting the technology, one must be sure to evaluate it on the following data-based dimensions:

- *Acquisition*: Can the organization use the tool to obtain the data that it requires for analysis?
- *Analysis*: Can the organization use the tool to process the data and extract information?
- *Actionable Intelligence*: Can the organization act on the information provided by the tool in a manner that will allow it to gain competitive advantage?
- *Accomplishment*: Can the organization train its user base on the tool with the expectation that the users will be more productive?

Finally, outline the necessary transitions to get the processes and organization from the current state to the goal state by way of the talent and technology.

Be sure that the transition plan addresses key points, such as

- employee recognition
- identified risks
- timely decisions
- governance
- a formal steering team
- visible success measurements
- adoption measurements

Taking all this into consideration, the multi-year plan will be expounded upon and two additional sections detailing the change plan for talent and the change plan for technology will be added.

Implement the plan

Finally, the plan will be put into action.

When the organization is implementing the transition plan, it is critical that it:

- Understands the problem
- Prepares for the transition, as per the plan
- Communicates the plan
- Engages the stakeholders, who should be ready for change because the organization took the time to prepare them with the ADKAR methodology
- Implements the transition as planned and communicated
- Monitors the progress by comparing the current state against the previous state
- Achieves forward motion

For example, when it is implementing the plan, supply management would be on constant look out for any issues that might arise and respond quickly and correctly.

For example, let's assume that three months after the implementation of the invoice automation platform, the first set of benchmarks are run and only 30% of invoices are flowing through the system, no duplicate invoices have been detected, and the average approval time is still 40 days.

If the Supply Management team was expecting 50% of invoices to flow through the system because they expected to have 90 of their top 120 suppliers (who collectively accounted for approximately 60% of invoices) on-board; was expecting 100+ duplicate invoices to be detected because the organization typically gets 1,000+ duplicate invoices a year; and had hoped to cut the average approval time, which is currently 45 days, to 30 days (because it had hoped to approve the 50% of invoices going through the system in 15 days or less each), then it knows it has issues.

The first thing the team would need to do in this situation is figure out how many of the suppliers were actually on-board and using the system. If a quick query indicated that only 60 of the 90 target suppliers were sending invoices through EDI, cXML, or the built-in PO-flip mechanism, then it would need to figure out why the other 30 target suppliers were not. Upon diving in, it might find that 10 suppliers were not yet using it and 20 suppliers who logged in and found the "upload PDF" option decided to submit all their invoices that way because it was "*quicker, didn't require them to work with their IT team, and was through the system and therefore automated, right?*". In this latter case, the Supply Management team would have to reach back out to each supplier and inform them that this does not qualify as invoice automation, will not get them paid faster (and, in fact, might get them paid slower), and they need them to do the integration they promised as a result of the initial reach-out. Furthermore, if the policy is to only allow small suppliers to use the feature, the Supply Management organization would have to make sure that either it either disabled this feature for large suppliers or limited the maximum number of invoices per month/year that could be submitted as PDF.

With regards to the 10 suppliers who had not yet used the system, Supply Management would have to reach out and find out if it's because the supplier did not get to the integration project yet, was having difficulty (and needed technical assistance), or decided that they just weren't going to do it. In the first case, the organization, as it's only the first quarter into the project, will have to have some patience. In the second case, they will have to make sure their technical team works with the supplier's technical team to get their issues resolved as quickly as possible. In the latter case, they will have to decide whether or not they are going to force use of the system for large suppliers, and, if so, to what level. Will they accept PDFs (scanned or faxed to an e-Fax number) even for suppliers sending thousands of invoices a year? Or will the organization make it a requirement that the supplier must switch to an acceptable form of e-Invoicing within a certain amount of time (or else lose all business from the organization as soon as any current contracts expire).

At this point, the invoice throughput problem will have been addressed, if not solved, but there is still the lack of duplicate detection to deal with. Knowing that certain suppliers send duplicate invoices after 60 days, it will have to determine why there has not been a single duplicate detection. Is the invoice module installed and functioning properly? If so, are invoices being captured properly in the system? Do the automated invoices contain the supplier invoice ids and are these ids being recorded in the system? When an AP clerk is entering the paper invoices and verifying the OCR on the PDF invoices, is the supplier invoice id being captured, verified, and entered? If it is discovered that the supplier invoice id is not forced since the system always creates a unique buyer invoice id upon new invoice creation, and the AP clerks are not entering the supplier invoice ids because it's optional, then this could be the reason for lack of duplicate detection because the duplicate detection module works on supplier invoice id. The team will have to work with their IT department and/or the vendor to force supplier invoice ids.

Most importantly, if the reason for lack of duplicate detection is lack of supplier ids on a significant number of invoices, someone will have to spend the time and go back and fill in the supplier id for every invoice in the system without it so proper duplicate detection and invoice analysis can be performed.

The root-cause of the average approval time could be tricky to figure out. Obviously part of the reason is that only 30% of invoices are flowing through the system, not 50%, which would indicate, if all invoices were processed in expected time frames, an average processing time of 36 days could be expected. In other words, the majority of invoices flowing through the system are not being processed faster. Is a significant percentage of them incomplete or incorrect? If so, then these invoices would need to be held until the supplier completed or corrected them. And the reasons for these issues would have to be identified and addressed.

However, if the invoices are good, are reviewers having problems reviewing and approving them in the system? Are the invoices not being matched to purchase orders, work orders, contracts, goods receipts, time cards and other documents they are supposed to be matched with to speed up verification and approval? Are users not logging in? Or, are all of the invoices, by default, routed through the department head (even when multiple people could approve) when the invoices exceed a certain spending threshold. Considering department heads are usually out of the office, non-technical, and don't check anything but e-mail on a daily basis, if this is the case, then Supply Management will have to work with AP to define different, or parallel, routings to the lowest-ranking individual with approval authority most likely to be in the office and in the system on a regular basis.

In other words, while measurement will be easy if the outcomes are well defined, determining why an outcome hasn't been hit, and what to do about it, will often be challenging. This is where good preparation, and a solid understanding of what Supply Management is trying to accomplish, becomes critical.

Check progress and alignment regularly

The Supply Management organization's progress should be measured and tracked on a monthly basis using a set of KPIs derived from the measurable outcomes that were identified during the planning phase, and which were then refined as necessary during the detailing of the plan.

Furthermore, on a quarterly basis, the organization should check if it is making progress towards aligning Supply Management with the organization as a whole.

How will the organization know when it has reached alignment? It'll know that it's aligned when it can send out a survey that asks each stakeholder to specify the organizational goals, strategy, philosophy, and maturity on all of the key dimensions identified in the first paper of our series and the surveys are returned with no major disagreement on any dimension.

At a basic level, all of the (key) stakeholders in an organization that is aligned will agree on a set of foundational dimensions that is defined as follows:

- philosophy
- operational structure, governance, and financial support
- strategy
- goals
- talent
- technology
- operational processes and practices
- supply base and supplier management
- acceptable level of supplier risk
- benchmarks and KPIs

Strategic Supply Management Alignment is an internal state of affairs, not an external one. It doesn't matter what a Big 6 Consultancy thinks -- it matters what all of the relevant stakeholders in the organization think. If Supply Management believes that its contracts are in-line with the expectations of Engineering and Manufacturing believes that Supply Management's contracts are worse than having no contract at all, alignment has not been achieved.

Getting to strategic supply management alignment will take time and effort. It won't be achieved after the first year, and in a large global organization, might not even be achieved in the third year, but the organization needs to continually work toward this goal if it wants to get to the next level of Supply Management.

However, even when the organization has achieved alignment on these ten dimensions, it has not reached the end of its alignment journey, it has only reached the beginning. First of all, this is only the first level of strategic supply management alignment and only the second stage on your organization's next level supply management journey. Achieving this alignment will bring operational excellence, but operational excellence is only the foundation required for strategic business enablement. And strategic business enablement is what is required to be a Supply Management Leader -- The Hackett Group Top 8%.

More work will be required to reach the next level of alignment and achieve true strategic business enablement. But if the organization can reach the next level of strategic supply management alignment and achieve strategic business enablement, it can generate value and ROI that is not only beyond the average, but beyond the best. The organization can take flight and truly soar. And we will tell you what the next level of alignment is, how to reach it, and how to use it to get best-in-class results in the third and final part of this series.

Summary

Your organization wants to reach the third and final plateau on its next level supply management journey and achieve strategic business enablement because Supply Management organizations at the top of their game -- like the Hackett Group 8% -- save more and generate more value than their peers. These Supply Management organizations are the heart of their corporation and idolized by the other departments in the company. It's a great place to be, but first your organization has to get there.

Getting there is not easy. It requires achieving strategic supply management alignment, which, in and of itself, is not an easy task. In the first paper in this series, we described the starting point, which is mapping the organizational topography; figuring out where all of the different stakeholder departments are with respect to their understanding and viewpoints on organizational philosophy, strategy, and goals; doing a high-level gap analysis; putting together a multi-year action plan consisting of high level activities designed to close the gap; and then coming up with a communication plan to communicate the plan and get all of the relevant stakeholders on-board before the implementation begins.

This paper picked up where the first paper left off. Once the communication plan has been executed and the key stakeholders are on board, the organization needs to dive into the first-year of the multi-year high-level plan and detail it to the level necessary for implementation and execution. That's what this paper addressed.

The first thing the organization needs to do is define measurable outcomes for each action that will define the desired future state, and any mechanisms need to take the measure against the measurable outcomes. Once these measurable outcomes are defined, a detailed gap analysis between the current state and the goal state needs to be conducted for each action. During the conduction of this detailed gap analysis, the organization may discover that additional talent, technology, or transitions to new processes are required, and that's okay. It's better to discover a gap during the initial stages of plan definition and implementation, when there is still time to modify the plan and fix it, then at the end of the project during final acceptance testing.

After these gap analyses between the current state and goal states for each action are completed, the plan is updated as required and a detailed transition plan is put together. This plan, as outlined in this paper, will include training; new technology introduction in a phased or controlled manner; change management to upgrade organizational processes; situations to watch for, and react to, during implementation; measurable outcomes; measurement windows; and potential actions if the outcomes are not as expected.

If everything is done right, the organization will not only reach strategic business enablement, but it will be strategically aligned and an organization that is strategically aligned will soar. It will not only make the Hackett Group top 8%, but it will be the superstar department of the organization and not only deliver more value than any other department, but potentially deliver more value than every other department combined. How? Come back for part III where we describe some of the strategies used by strategically aligned organizations that soar above the rest.