

Seven Action Steps for Purchasing as the Recovery Starts

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The following suggestions were included in a presentation that I made to the Association of IT Professionals on September 16 at their Supply Chain Special Interest Group meeting. These ideas generated a lot of discussion from the audience of supply chain and IT professionals.

1. Lock in low prices – Global markets are still soft. Purchasing should review all of the key raw materials, components, and services that are purchased by your company. If the price dropped during the recession, now may be a great time to lock in that price for 1, 2, or more years. Start negotiations now, do not wait for year-end or first quarter. When you reach new agreements, look carefully at the contract language that you use. This may be a good time to adjust the terms to be more favorable to your company.
2. Re-build key supplier relationships – It has been a tough 18 months. Acknowledge the efforts of the suppliers who helped you survive the worst of the downturn. Set up meetings with the management of your key suppliers to discuss plans for growth, reducing total cost, lead times, etc.
3. Some suppliers may still be at risk due to the recession. Purchasing and Finance should be working together to monitor suppliers where there have been disruptions in production or delivery. The cause may be cash constraints, or worse.
4. Reduce lead times – Purchasing and Inventory Planning should update lead times in your ERP system to reflect current reality. If lead times for purchased materials have been reduced, follow through by reducing safety stocks and total inventory levels.
5. Outsourcing/in sourcing – Many companies have brought production back in house to utilize available capacity. The total cost equation has probably changed for many of the materials that were outsourced during the years leading up to the recession. Now is the time to evaluate in country suppliers that may be more competitive and offer shorter lead times than suppliers in Asia and Eastern Europe.
6. Continue to reduce total cost. Energy costs are continuing to decline. Natural gas and electricity rates are very low compared to recent years. Transportation rates are still negotiable and you should not be incurring any surcharges.
7. Review your sourcing strategy – Your industry and your suppliers' industry have gone through a very difficult period of time. As you look ahead to 2010, for each commodity, what changes in the number and mix of suppliers need to be planned to ensure lowest total cost and adequate capacity?