

RELEASING THE SUPPLY BALL AND CHAIN

MANAGING THE SUPPLY CHAIN IS CLEARLY A CRUCIAL ASPECT OF ANY BUSINESS'S OPERATIONS. BUT AS SUPPLY CHAINS HAVE BECOME MORE COMPLEX, AND THE PUSH TO IMPROVE EFFICIENCY AND REDUCE OPERATING COSTS HAS SHOWN NO SIGNS OF ABATING, THE SUPPLY CHAIN CAN BECOME A BALL AND CHAIN WHICH HAMPERS RATHER THAN HELPS EFFICIENCY AND PRODUCTIVITY. DOES IT HAVE TO BE THIS WAY?



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As Professor Alan Braithwaite, Head of the Supply Chain Research Centre at Cranfield School of Management, pointed out in a recent *ERIKS* Whitepaper on Acquisition Cost Saving, purchasing and procurement are 'accountable for between 55% and 85% of companies' revenue as an intake cost [so] the consequential costs of waste, markdowns, write-offs, variances and lost revenues due to non-supply can easily overwhelm the direct costs of procurement and the conventionally anticipated associated cost impacts'.

At the same time, too often the burden of purchasing and procurement falls on staff whose key skills lie in other areas and who would be far more effectively employed carrying out their principal tasks. In fact, Andy Silver, Commercial and Operations Director, On-Site Solutions, for *ERIKS UK*, estimates that approximately 20% of MRO spend takes approximately 80% of purchasing time to source, and engineers who are highly paid to keep plants running can instead spend 30–40% of their time sourcing and buying product.

One of the most challenging issues is achieving the balance between managing the indirect and direct supply chains.

The direct spend can have a real influence on a company's profitability. This is where maintenance engineers and others given purchasing responsibility have the most knowledge, and therefore the best opportunity to build relationships with suppliers, develop efficiencies in the purchasing process, and create savings. However, indirect spend – which can range from maintenance parts to janitorial supplies – is usually outside the scope of most engineers' experience, and therefore provides fewer opportunities for achieving positive influences.

One possible solution is to – in effect – turn the indirect supply chain into a direct one.

Change of direction

This change can be achieved by handing responsibility for indirect supplies to a company for whom these materials are actually direct supplies. In other words, to a supplier of everything from maintenance

parts to janitorial supplies, whose daily business is sourcing and purchasing these types of items.

A company of this kind will have the same kind of relationships with their suppliers, the same kind of knowledge and expertise, and the same kind of opportunities to have a positive influence on supply, quality and price, as engineers have on their own direct supply chain.

Of course no supply chain manager – however reluctantly they might be at tackling the task – would want to hand over complete control to a third party operation. And no reputable operation would expect to make a complete take-over. Rather, they would work with the supply chain manager to actually increase their control, by providing high levels of useful data, setting KPIs which identify how well they are performing, and enabling the in-house manager to have a clear view of what's happening, and therefore to manage it more effectively.

In many cases, companies lack a detailed breakdown of their indirect purchasing spend, of what it is spent on and where it is spent. They lack the data – and perhaps the experience and expertise – to analyse the limited figures available, and therefore have no chance whatsoever of changing or improving them. However, with the support of a company with indirect purchasing know-how, they can expect to quickly gain a clear picture of everything from part numbers to prices, including:

- What they have in stock
- what they need to stock
- How it is stocked
- How it is utilised
- What is overstocked
- What is understocked
- Where it is purchased
- How it could be purchased better
- How much it costs and, perhaps more importantly
- How much less it could cost



The result will be that, far from losing control to the outside supplier, whoever has responsibility for indirect purchasing within the company will be regaining control and accountability, and gaining the information and tools to make more effective decisions which can lead to more cost-effective purchasing.

And it should not be forgotten that this increased control and increased opportunity to make efficiencies and savings is in addition to the benefits to be gained from allowing indirect purchasing experts to handle indirect purchasing. With less time spent managing indirect purchases, supply chain managers will be freed up to concentrate on their area of expertise, to make their direct purchasing even more efficient and cost-effective. And inevitably, this will have a positive effect on the whole production process.

The reverse of Andy Silver's management-to-procurement-spend ratio, is that supply chain managers can spend as little as around 20% of their time managing approximately 80% of their spend. But by employing a knowledgeable indirect supply chain management company, they can increase the time spent, with predictably positive results.

As a manufacturer of luxury cars admitted recently to *ERIKS*' Andy Silver: "We make cars. We're not experts at supply chain management. So we employ a company which has that expertise."

If you would be interested in improving your indirect supply chain management, *ERIKS* has supply chain experts who are ready to discuss the available options with you.

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