



Performance Improvement

COST REDUCTION PROGRAMMES	
SUMMARY	<p>The need for cost reduction is a continuing business pressure. The specific focus may be upon a total project, a commodity, product, service or supplier. Purchasing is a key player but success will only happen when technical and related disciplines play an active part in the programme. There are quick lists which can be made as well as longer term lists requiring redesign or resourcing actions. These assignments are typically self funding and bottom line impact.</p>
CASE HISTORIES	<p>A defence, engineering based organisation.</p> <p>At a critical time in our client's tendering process we were asked to work with the purchasing team and technical specialists to identify ways in which cost could be reduced. A wide range of options were targeted for action, including design processes (at the supplier), procurement of raw material and Bought Out Finished items, cost of logistics, programme impact by rescheduling lead times and value engineering/shop floor activities. In this way purchasing became an integral element of the tendering process for the first time. Major cost reduction was achieved which helped to gain the contract award.</p>
	<p>A European ship repair organisation.</p> <p>This assignment was triggered by a merchant bank who were the major shareholder. The holding company was making huge losses and was losing work because of uncompetitive pricing and cost overruns on existing work. The initial work was done on a vessel where most of the large cost drivers were monopoly suppliers, such as, engines, radar, electronics, communications and specialised deck gear. Within a six week period the cost base was reduced by 6% by holding a series of negotiations with key suppliers. The group of shipyards have been successfully turned around.</p>
DURATION OF ASSIGNMENT	<p>The initial review can take circa 10-20 days but this depends on the complexity of the purchase(s). Each assignment is costed and fees are charged. We do not work on a percentage of savings because of ensuring the agreements stick. Short termism is not our strategy when working with clients on this important business dimension.</p>



UTILISATION OF WORKING CAPITAL	
SUMMARY	<p>The purchasing operation in an organisation is in a key position to impact on working capital. This is a hidden benefit, which can be realised and can be derived from various approaches. The impact of positive action can have a major impact on the cash position of an organisation.</p>
CASE HISTORIES	<p>Excessive stockholding in a multi-national engineering group.</p> <p>This study concentrated upon 24 manufacturing locations in the UK and Holland. Each company purchased steel for its own production. This was often to the same specification. We analysed the purchases and issued an enquiry to steel producers and stockholders who were known, through research, to have a suitable logistics network. There were complex negotiations which took place over a period of two months. These led to three year contracts being placed with two suppliers. A significant cost reduction was obtained but the most benefit was attributable to the improved use of working capital. Consignment stock equal to one month of average usage and payment 60 days thereafter were agreed in the contract.</p>
	<p>Payment profiles on high value capital projects.</p> <p>This assignment swept in capital 'projects' which included I.T. equipment and engineering capital equipment. In all cases either buyers, I.T. staff, engineers and Directors were agreeing payment schedules which had a significant up front payment (often 30%), milestone payments which bore no relationship to value of work done, and no retentions. This practice was giving suppliers positive cash flow. A new policy was introduced which put the brake on the drain on working capital. This work had an impact in £millions on the outflow of cash.</p>
DURATION OF ASSIGNMENT	<p>An analysis of the use and abuse of working capital usually takes 8-15 days. At that stage the practices can be quantified and an agreed action plan put into place.</p>



CONTRACTUAL RISK MANAGEMENT	
SUMMARY	<p>Our usual focus is upon the contractual risk which relates to purchases. Whilst many organisations have a risk management policy, a weakness and potentially devastating consequences exist in contracts formed between buyer and seller. The risks are often not known by audit operations and, in consequence, not signalled to the Board of Directors. Typically, there is a knowledge shortfall in commercial and technical areas of an organisation.</p>
CASE HISTORIES	<p>A U.K. Government Department.</p> <p>This assignment arose when it was realised internally that a very superficial approach was taken to manage contractual risk. It was prompted by a potential claim from a contractor at the end of a major works contract. Our analysis took place over a period of three months, identifying in excess of 400 contracts which needed urgent review and, in some cases, renegotiation. Standard Conditions of Contract were written by us for major expenditure areas including Goods, Services and facets of communications. The whole purchasing team were trained in contract law and how to negotiate tough contract clauses in such areas as liabilities, obligations, cost, termination, etc. A risk management process is now in place and operating satisfactorily.</p>
	<p>A U.K. Nuclear Engineering Organisation.</p> <p>The technical, safety, design, manufacturing, installation and product support requirements of a major multi-million £ project were the subject of our study. The 'head contract' with our client's customer was evaluated and compared with flow down requirements to the supplier base. Significant risk existed and we were commissioned to write the contract to be used with major suppliers. This document has circa 100 pages of detailed contractual clauses. It has been successfully negotiated and implemented with the majority of suppliers. It has been necessary to agree the detail with technical, commercial and legal advisers within the organisation.</p>
DURATION OF ASSIGNMENT	<p>A highly focused assignment, using exception sampling can provide meaningful analysis in about 15-20 days. The activity can be related to a 'product' specific analysis, a supplier specific analysis or a wide ranging analysis incorporating all categories.</p>



PURCHASE RESEARCH	
SUMMARY	The majority of purchasing departments do not have either the resource or the ability to undertake complex purchase research studies. The lack of economic, supplier or supply market knowledge is unacceptable business practice.
CASE HISTORIES	World wide study for engineered sintered products. This piece of research, partly funded by an automotive manufacturer, led to our Managing Director being awarded an M.Sc Research Degree. This award is a testimony to the methodology used and the analysis, interpretation of the data. A world wide survey revealed over 200 suppliers of complex sintered products. The results were then tested against the knowledge of specialist buyers. Even the best were shown to only be aware of 10% of the available supply. One company resourced its items overseas and saved over £1 million.
	Supplies of specialised design/research facilities. This study was undertaken for a highly specialised engineering company involved in the shipping industry. Part of their work required design/research facilities which were capable of supporting innovative developments, including work associated with sensitive developments for defence contracts. The study showed that an in-house resource, hitherto used, was woefully inadequate for the task. A contract was agreed with external resources, partly using academic facilities.
DURATION OF ASSIGNMENT	Assignments can be completed in 1 day for a simple, single commodity but, obviously, far more time, up to 20 days may be required for more involved research studies.



METRICAL ANALYSIS IN KEY PERFORMANCE AREAS	
SUMMARY	We have developed 120 metrics which are analysed against world class standards. The output is used to develop an action plan to bring individuals and the procurement function to enhanced levels.
CASE HISTORIES	<p>A public sector utilities organisation.</p> <p>This assignment was prompted by the merger of two large organisations in the electricity generation and supply market. Our outputs were primarily used for staff development and restructuring of procurement. The work was undertaken for the Purchasing Executive who directly reports to the Managing Director of the organisation. We developed an integrated personnel development programme and were put forward for a National training award.</p>
	<p>A South African Bank, Insurance and Building Society Organisation.</p> <p>This assignment involved work in locations in Johannesburg, Cape Town and Durban. The staff were involved in procurement of facilities management, premises refurbishment, capital projects, equipment, security, catering and other major expenditure areas. A report was submitted to the Purchasing Executive and Board of Directors. This led to an action plan to change the strategies and policies for the whole of procurement. This excluded Information Technology and proves that we don't win them all!</p>
DURATION OF ASSIGNMENT	The analysis is focused on individuals in the total supply chain. The interview takes 4 hours per person and a report can be issued in 5 working days after completion of the interviews.



COST ANALYSIS OF GOODS AND SERVICES	
SUMMARY	In many situations the buyer of goods and services lacks detailed knowledge of the cost drivers. In consequence purchase prices are too high and this makes the buyer's organisation uncompetitive in their market.
CASE HISTORIES	<p>An automotive manufacturer.</p> <p>The volume purchases are opportunities for major cost investigation. In this situation it was suspected that costings were too expensive despite numerous efforts, largely through Value Analysis techniques, to lower them. A joint study was set up with the supplier and every aspect of cost was studied, including, material infeeds, energy melt costs, reworked scrap, overheads, wages, plant investment depreciation, etc. The supplier was permitted to keep a percentage of the benefits in recognition of their change in approach and the preparedness to be more open. The cost reduction exceeded £100,000, and the benefit continued across other models in the range.</p>
	<p>A Government Ministry.</p> <p>This situation required cost analysis of the provision of secretarial services amounting to £millions a year. At no time had the supplier's charges been scrutinised. The cost drivers were related to hourly/weekly/monthly charges which included labour rates, National Insurance, sickness claims, pensions, overheads and profit. It also included a study of the supplier's recruitment costs, staff training, relocation and legal costs, transport, head office charges, etc. The precise savings cannot be released but exceeded £750,000 in a year. No reduction in service levels was suffered as a consequence of these actions.</p>
DURATION OF ASSIGNMENT	In the second of these cases 20 days were involved. Clearly the effort will vary from case to case.