

RATIONALIZING AND RIGHTSIZING PROCUREMENT

AN EKS CASE STUDY

Situation Analysis

A highly diversified global corporation with businesses ranging from bulk chemicals to industrial systems had rapidly expanded and broadened its North American operations through acquisition of a number of mid-size firms. A major element of the acquisition strategy depended on integrating and streamlining sourcing and procurement across the combined organization to affect major cost savings and to effectively exploit the buying leverage of the parent company.

A multi-year corporate initiative, including major investments in IT, had been deemed a failure by the CEO. While significant cost reductions had been affected in the procurement activities for the historical core businesses, the competitiveness of the new acquisitions was suffering. On-going supply-chain disruptions associated with the integrated and centralized procurement that interfered with their manufacturing schedules, cost management, and inventory control. The working relationship between the individual business units and corporate procurement organization had become antagonistic and at times combative. Many of the business units were developing and utilizing “pirate” systems to circumvent central procurement and better address their individual requirements. The CIO resigned, and his replacement made rationalization of the procurement system his primary initiative.

Desired Outcome

The new CIO's priorities were identifying dysfunctional and/or ineffective processes, developing a template for change and a consensus on implementation, and providing a mechanism for effectively monitoring, managing, and reporting progress, including internal benchmarking.

Intervention

A small consulting team used the EnCompass Enterprise (E²TM) software suite comprised of the EnCompass[®] Organizational Process Mapping and the OrgAnalyst[®] Organizational Activity Cost Management modules. Both utilize intuitive, web-based survey-style

data collection to facilitate the process and allow key suppliers and partners to be included to deliver the “big picture” perspective.

EnCompass enabled the team to automatically map the relevant organizational processes in each of the business units as well as synthesize and assess alternatives. The consulting team was augmented by internal process owners and subject matter specialists who could identify ineffective or misaligned processes and systems. The EnCompass maps revealed organizational disconnects and uncovered key areas where process coordination was not well executed.

OrgAnalyst was used to identify and capture opportunities for cost reduction and to provide a basis for inter-organizational benchmarking and the identification of best practices.

In just twelve weeks, an “internal contract for change” and implementation plan was established based on the E² findings. Provisioning was completed over the next eight months, with EnCompass being employed periodically to provide in-process measures of progress.

Results

The fully integrated corporate procurement system was replaced by a federated approach in which procurement responsibilities were partitioned between the centralized system and business unit-tailored satellite systems based on the character, commonality, and size of the procurements and sourcing alternatives and priorities. The administrative cost of the procurement activities was reduced by over 10% in the first year, and by nearly 30% by the end of the third year. Procurement cycle time reductions ranged from 15 to 70%, and the reduction in purchased material inventories ranged from 5 to 45%. The project was deemed a success by the CEO and the Business Unit Council that consisted of the General Managers and Controllers of the Strategic Business Units.

