

St. Thomas University Lecture Overview

Presented By: Jim DeLeo, Performance Management Group

Supply chain management (SCM), the science and art of gathering and aligning inputs required to produce goods and services that another entity values, is a relatively young concept, and even younger discipline, though it has been practiced in varying forms ever since commerce began. This lecture described four phases of SCM in order of maturity.

The first stage is simple buying. This phase is characterized by transactional based acquisition of goods, expedience, and a lack of strategy. It is generally not triggered by any pre-planning, it simply happens when a need arises, and is generally carried out by the person who identified the need. In many cases, it is as simple as a team member using a company credit card to purchase paper for a copier.

A step above buying lies what we call systemic purchasing. In this phase, someone in the organization has recognized a need for controls and rudimentary procedures for acquiring supply. Here you will generally find the use of basic tools such as requisitions with some approval levels, purchase orders, packing slips, receipt acknowledgements, and invoice matching. Certain team members may have responsibilities in this area, with titles such as “Buyer” or “Purchasing Agent”, with responsibilities for making the system work. However there still is little centralization of purchasing, analysis of data, or leverage of spend.

When an organization realizes the need and opportunity for greater leverage of its buying power, it generally enters a third phase. Procurement departments are created at this time, and certain basic strategies for purchasing emerge. Centralization of the function, led by managers, and identification of spend categories occurs. Competition is created through the use of RFPs (requests for proposal) and RFQs (requests for quote) and in some cases basic technology such as procure to pay systems are implemented. In this phase greater attention is paid to spend analysis, so that the organization understands better where its committed dollars are going. Enforcement of spending policies allows greater control over discretionary spend. Tactical buying is made easier and more efficient by technology, freeing time to create strategic approaches to procurement.

The fourth and highest level of maturity is often called supply chain management. In this phase the organization has enjoyed the savings and procedural improvements generated by procurement, and is committed to the strategic and competitive differentiation created by world class supply chain management. In this phase many supply chain divisions are deeply embedded in the operation of the company and led by a C-level executive (Chief Procurement Officer). Buyers graduate to more strategic supply chain management roles, in which RFQ's lessen in importance compared to key supplier relationships. These firms attempt to “extend the enterprise”, studying the processes of the key suppliers and aligning them with their own, thereby driving significant cost out of the transactional nature of the commerce. Firms that aggressively pursue supply chain management in this phase are able to practice demand management, better align all internal workings of the organization, and eventually attract the top suppliers in any category.

Any organization, large or small, can practice better supply chain management. The sooner the business leaders recognize the competitive advantages it brings, the better positioned the business will be to compete.