

PROCUREMENT METRIC OF THE MONTH

NUMBER OF FTE DAYS SPENT ANNUALLY ON SUPPLIER MANAGEMENT AND DEVELOPMENT PER MAJOR SUPPLIER

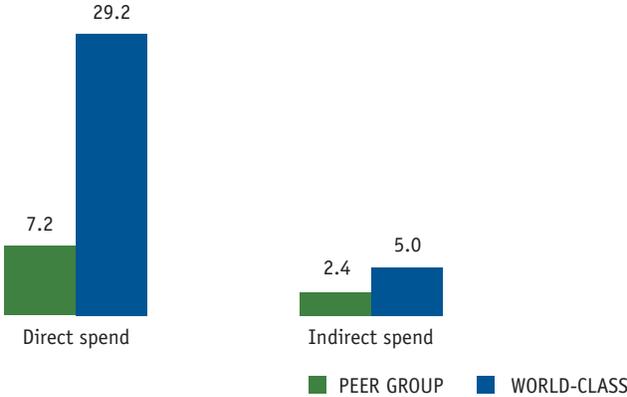
METRIC DEFINITION

This metric represents the number of person-days¹ that a full-time equivalent (FTE) spends on supplier management and development processes per major supplier. This type of supplier is defined as one of the top “N” suppliers that make up 80% of a company’s total annual supplier expenditures. The FTE may be an individual person, but is usually comprised of different functional personnel performing the activity.

WHY IT’S IMPORTANT

As companies move beyond just rationalizing their supply base and driving savings from strategic sourcing, they must also move toward strategic supplier management in order to extract more value from their inbound value chains from their strategically sourced suppliers. As such, they must invest in the people and tools that will allow them to collaborate with suppliers to reduce total cost and increase innovation. This is particularly important in direct spend, where strategic suppliers and core spend directly influence overall firm performance. World-class organizations outperform their peers in managing their direct spend, devoting about four times more FTE days per major supplier per year than the peer group (Fig. 1). Within indirect spend, the 2X difference is still large on a relative basis, but less stark overall, given the typical non-strategic aspect of most indirect spend.

FIG. 1 Number of FTE days spent annually on supplier management and development per major supplier (i.e, one representing 80% of spend), 2009



Source: The Hackett Group, 2009

¹ Assumes a 250-day work-year.

STRATEGIC IMPLICATIONS

This metric is a composite of sorts. It means that the organizations that are able to reduce and concentrate their overall supply base and simultaneously make investments in supplier management and development resources will be better-positioned to work their suppliers to improve supply performance.

Of course, not only is the investment important, but also the best practices that are adopted. World-class organizations adopt a measurably higher degree of best practices in the form of:

- More time spent on supplier partnering, versus supplier measurement.
- Higher degree of cross-functional teaming for supplier management and development.
- Greater sharing of best practices across a range of practices.
- More focus on total cost of ownership rather than just purchased costs.

The bottom line is that companies must focus their strategic supplier management activities on the truly critical few. This requires a focus on using category management processes to link sourcing and supplier management activities in order to identify the best suppliers and then work with them in the best way.

ABOUT THE HACKETT GROUP

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