

Workshop: Strategic Purchasing that Drives Profits **April 15, 2019 | 1:30 – 5:30 pm**

While many distributors invest in systems and training to improve margins by selling at higher prices, most do not build world-class purchasing organizations to ensure they're buying at the lowest-possible costs. Yet this is an area of enormous opportunity for distributors. There are many ways of buying at lower total prices and – unlike customer price increases – these methods allow distributors to grow market share more easily while preserving or enhancing gross margins.

In this workshop, distribution purchasing executive, Brad Johnson, will explain each area of opportunity in detail and give you the information you need to see immediate gains – and position your organization to achieve significant cost advantages in the long term.

Distributors can achieve better purchasing costs through four types of activities:

- **Category/Product Management**
- **Supplier Selection and Management (including Sourcing)**
- **Sales, Inventory, Operations Planning (SIOP)/Inventory Management**
- **Procurement**

Category/Product Management

- Identification of target customer and market segments
- Corresponding categories, product lines, service model for segments
- Specific product mix, pricing, expected service level
- Product marketing, promotions, and other sales support tools needed to support sales execution

Supplier Management and Selection

After understanding customer/market needs from a product/service perspective, you must develop supplier solutions. Supplier management and selection can be broken into three distinct groups:

- Brand specific products (e.g., these are your main lines and primary suppliers)
 - Strategic purchasing agreements (SPAs)
 - Negotiating best total cost (volume rebates, payment terms, opening order rebates, revisited yearly if beneficial)
 - Line reviews depending on supplier/buyer power in space
 - Best practices on SPAs with a list of key areas that should be considered if not included
 - Converting “Proof of Purchase” marketing funds versus “non-Proof of Purchase” marketing funds
 - Managing cost through reducing cost increases, postponing cost increases, gaining cost decreases
- Brand neutral or commodity products
 - This can leverage the SBA process as identified previously
 - In this arena, suppliers have much less power and negotiations are truly around dimensions that push toward lower/lowest cost
 - Block buys
 - Winter buys
 - Volume commitments
 - Moving spend across a set of Preferred Suppliers
 - Tracking of raw materials indices a must

- Tying cost to change in indices
- Proprietary brands (e.g., those fostered by the distributor)
 - In addition to leveraging some of the SPA process above, this becomes more of a true Sourcing (Global or Domestic) effort
 - Must have clearly identified specifications for product, packaging, labeling, container loading, etc.
 - Requires quality program throughout the process to ensure product meets specs

Sales, Inventory, Operations Planning (SIOP)/Inventory Management

With the customers, products and suppliers identified, we need to deliver that product to the customer, applying best practices in SIOP/Inventory Management in these areas:

- Demand planning: determine how much is needed for the sales team based on their Sales Forecast and the desired service level for the customer by product (e.g., 98%)
- Supply planning: what capacity does the supplier have, what are their manufacturing lead times, what are the transportation lead times

After completing proper demand and supply planning, you can define the requirements (how much we need to buy) and the inventory (how much we need to carry)

- The three levers that determine this amount are the variability of demand, variability of supply and service level
- When the process is optimized, *you maximize your service levels to customers while minimizing your working capital needs*

Procurement/Purchasing Execution

- This is the actual placement of purchase orders and the management of those orders until they arrive into inventory
- Applies all components of SBA (cost, payment terms, etc.)
- Applies any block buys
- Uses requirements/product needs defined by SIOP process
- Critical area for leakage in many companies
 - Payment terms are often changed
 - Cost concessions that are temporary are often overlooked
 - Delays in shipments impacting service level to customers

Brad will provide a framework for organizing your strategic purchasing activities and help you understand how to get started so you can see immediate gains. Additionally, Brad will lay out a blueprint for building longer-term capabilities that will enable you to achieve sustainable purchasing advantages vs. competitors.