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Sourcing Network

IMPLEMENTING CHANGE MANAGEMENT WITHIN YOUR ORGANIZATION

Without an effective approach to Change Management, attempting to implement a new program can be very costly and lead to little or no results.

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Establishing Change Management

Strategic Sourcing for indirect materials – items that are necessary for a business to operate but are not used directly in the final product – is a huge focus for many large businesses. There are significant cost savings opportunities in this area of spend by consolidating vendors utilizing national preferred supplier programs. That said, building and managing these programs is not always as straightforward as one may think. Procurement strategies for indirect materials is much different from that of direct materials, and typically requires a much more deliberate focus on Change Management. This can be a crucial, make-or-break factor that'll determine whether a new supplier program will be successful or not.

There are many distinct challenges in the indirect space including lack of data visibility, vast number of suppliers, out-of-control inventory, and rogue spend. These challenges present significant savings opportunities for large organizations, which can be seized by consolidating their supplier base to a short list of preferred suppliers.

The formula is not very complex at surface level: Choose your suppliers, negotiate contracts, and shift spend to those suppliers. The desired outcomes are financial cost savings, improving data visibility for ongoing program management, and improving service levels leading to increased productivity. Sounds Simple… Right?? Well, if it were that simple, there would not be entire teams dedicated to this group of categories. And I probably wouldn't have been able to build a whole career helping companies tackle their indirect spend management.

Where Change Begins

Typically, the bulk of an organization's efforts tend to be on negotiating purchasing contracts with suppliers. All procurement professionals must be extremely adept at this skill, which requires negotiating great deals with capable, dependable suppliers. Unfortunately, once the contract is signed, this is only the beginning of the journey.

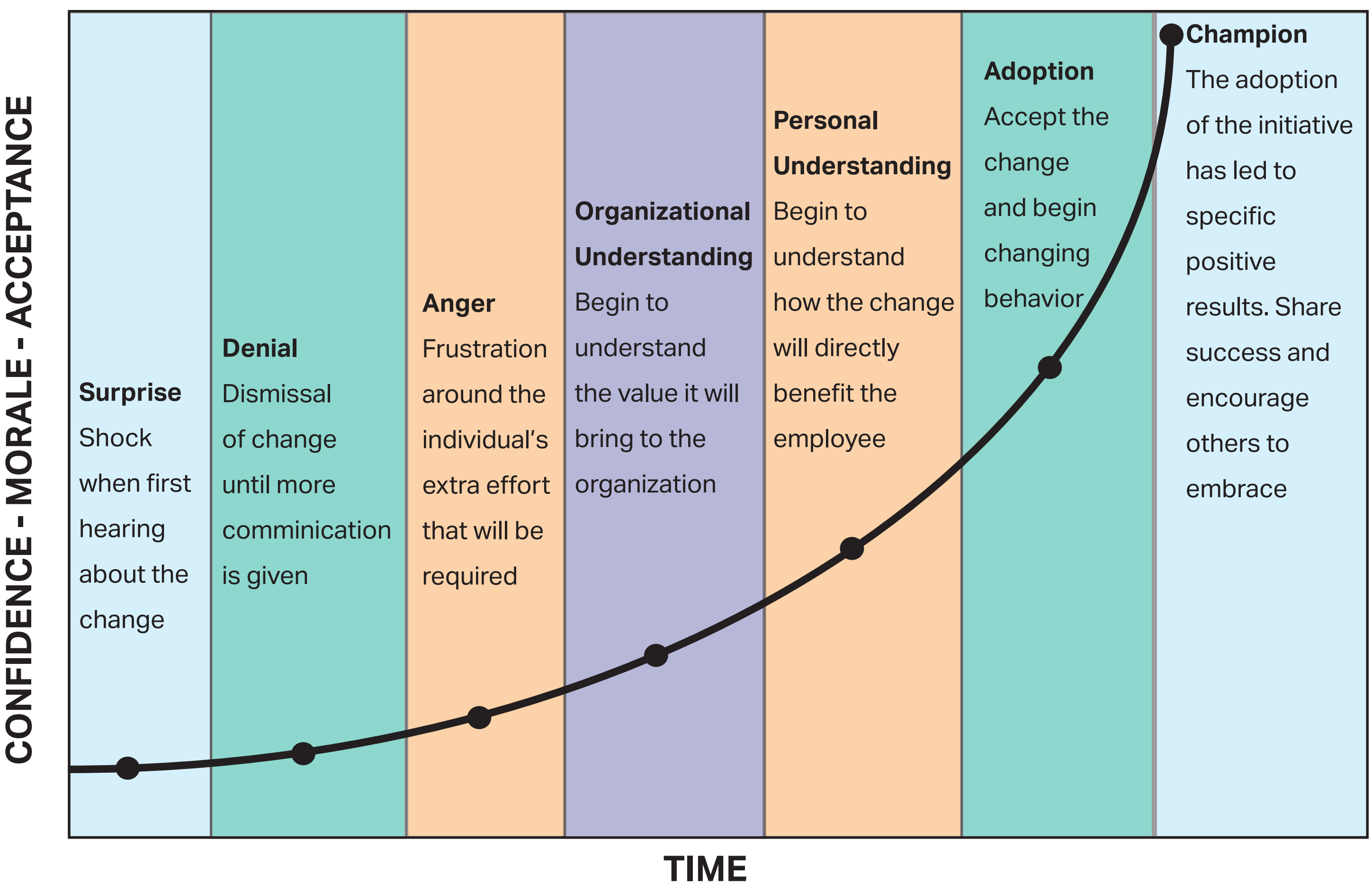
The cost savings opportunities in the indirect space can be complex and affect a broad group of departments and stakeholders within an organization. This is not necessarily a one-size-fits-all blanket statement, as there can be a wide range of complexity among categories, industry, or organization.

For instance, a car rental program is fairly straight forward because there are only a small handful of supplier options and car selections. On the other end of the spectrum, MRO categories include millions of different SKU options, hundreds or even thousands of potential suppliers, and is much more complex. The good news is that implementing and managing these programs can be greatly simplified with the execution of an effective change management strategy.

Before digging into the specifics of Change Management and how it relates to rolling out new supplier programs, it is important to understand human nature regarding change. You must remember that for a program to be successful, the behavior change must occur with your employees. However, people by nature tend to resist change to various degrees.

Below is my interpretation of a fairly common change curve as it relates to implementing and managing indirect spend programs on a national scale:

Corporate Involvement Chart



This adaptation demonstrates how employee morale and acceptance of an initiative can increase over time, and the different stages that individuals go through along the way. As morale and acceptance increases, the success rate increases and results are closer to initial expectations. The goal is to help each employee reach the point of being a champion / advocate of the program. The most important factor is the level of involvement from Corporate-Level and Department-Level leadership. In other words, a well-thought out change management plan that remains consistent throughout the lifecycle of an initiative.

What is Change Management?

Organizations constantly create projects, programs, and initiatives to improve performance or seize opportunities that will result in some form of widespread impact. This often involves adjusting processes, job roles, and incorporating new technology. This is a very broad practice and can take many shapes and forms.

The success of any new program, as well as the predictability of an outcome, is directly impacted on an organization's ability to change the behavior of its employees. To do this effectively it is crucial to prepare, equip, and support the employees along the way. I have witnessed and rolled out many new vendor programs from a Supplier perspective, a customer perspective, and from a Group Purchasing Organization perspective. Throughout these experiences I have seen many programs succeed and just as many crash and burn. The difference between success and failure is acknowledging that individual employees make the change.

Change Management does not necessarily need to be over-engineered, but considering the dynamics of the indirect spend world, it should always be deliberate and planned out. I will outline the most common critical success factors below, but first I want to address two very risky fallacies associated with implementing and maintaining a national preferred supplier program in the indirect spend world.

Fallacies of a National Preferred Supplier Program

1 - Build it and they will come

Time and time again, I have heard potential and existing clients assure me that compliance to a new program will be no issue at all if the program is "strong enough." Translation: "the preferred supplier has the lowest price on every item under the program." This approach is a sure-fire way for a program to fail. For starters, there is not a single supplier in existence that will have the lowest pricing on every single item they offer. In today's market, access to low-cost products is more readily available than ever. It is easy to shop for the lowest price and there is always someone out there that will be able to beat someone else's pricing on an item or service.

For a large organization, your supplier must have the resources and infrastructure to support a successful program. World class supply chain, data / reporting capabilities, widespread sales coverage and expertise, and other service-related resources all add to the cost of doing business.

Another problem with the "Build it and they will come" approach is that you are assuming that lowest price is the MOST IMPORTANT factor when individual locations or employees choose their supplier. This is especially tricky in the manufacturing industry, there tends to be a lot of tenure in the facilities. Employees have been doing their jobs for many years and over time they have put forth a lot of effort hand-selecting the exact products they see as the "best" and building long-standing relationships with their current suppliers. Often times this leads to personal relationships which can make employees feel like they are not being loyal if they make a change. This makes it difficult for employees to have an open mind about looking at processes, partners, etc. in a new way that will greatly benefit them.

Fallacy of a National Preferred Supplier Program

2 - If we tell them to do it, they will do it

This answer often comes up during my initial conversations about how to implement a new program or process. This approach is not inclusive and gives the appearance that the leaders do not respect the employees, nor do they understand the employees' job functions enough to take into account their day-to-day challenges. Additionally, employees are faced with a steady barrage of new processes, initiatives, changes, etc across various aspects of their jobs. It is the nature of all large organizations driven by the need to continuously improve and adapt to grow or maintain market share. Unfortunately, a significant percentage of these initiatives start strong and then fade away due to various reasons. It is only natural that this will often lead to an initial period of denial / resistance as demonstrated in the graph above.

So What *IS* The Correct Approach?

Every organization, category, and industry is different, so unfortunately there is no "magic wand" solution that will work for every situation. That said, there are key elements of change management that should be applied to implementation and long-term sustainability of any national preferred supplier program. From my experience, these critical success factors have been proven to help shorten the change curve and produce more predictable, desired results.

Critical Success Factors

Choose the right supplier partner(s): This may sound obvious, but there are thousands of suppliers who will claim that they are best equipped to help you accomplish your goals and objectives. The fact is, every company is different, and it is very important to understand which partner is the best one for you. There are many factors to consider, including pricing, supply chain / delivery capabilities, technical expertise, services, support teams and resources, trust, ease of use, and the list goes on and on. Many potential new supplier partners will assume they know how you stack rank these important factors, but essentially no one knows your business and specific needs better than you do. Therefore, it is essential to focus closely on what is most important to your organizational goals and do not overlook this when choosing your new supplier partner.

Critical Success Factors

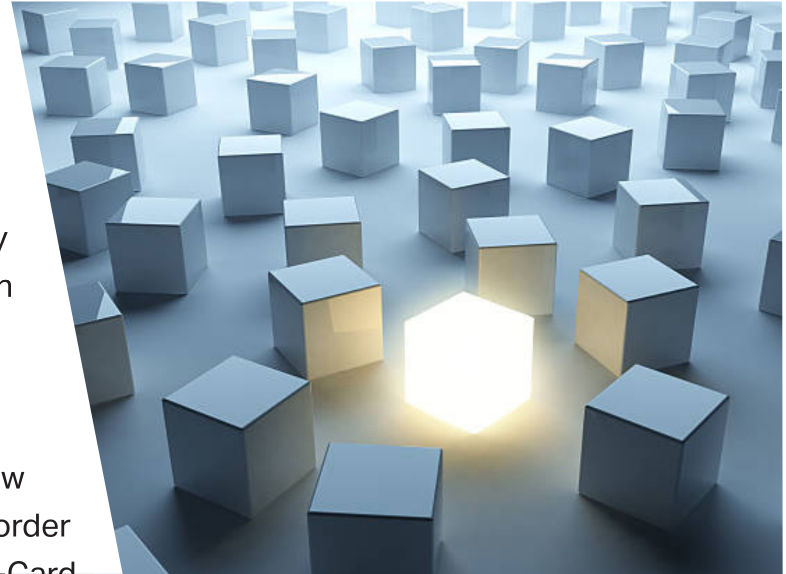
Lead change from the top: Any new initiative, including shifting spend to a new supplier, will have greater traction when all levels of leadership are involved. This includes leaders of support teams, specific departments and business units, and executive sponsorship. No single Procurement Manager can drive the required change without the support and partnership of multiple direct-leader stakeholders.

Involve multiple layers: It is important that every layer of business affected by the change is considered and represented. In a large organization, every department has specific metrics / goals, and often times these are conflicting. For budget owners, overall spend may be the most important factor. For maintenance teams, availability of product may be most important. For accounting departments, ease of invoicing may be most important. For Safety departments, the focus may be on employee safety or regulatory compliance. Involving multiple stakeholders can help bridge those gaps and ensure that the program is helping EVERYONE accomplish organizational, departmental, and personal goals.

Communicate and Over-Communicate: It is important to communicate the "WHY" behind an initiative and to be clear on expected actions and desired outcomes. Everyone needs to be aware how they will collectively and individually benefit from the change. You will also need to establish a clearly defined goal or set of KPI's to measure the success of a program. This often requires a combination of communication methods throughout the lifecycle of a program. Endorsement letters and intranet postings are great tools for the initial announcement. From there, kick off meetings will reinforce the message and give an opportunity to discuss the employees' call to action and expectations.

Throughout the implementation, progress reports, active barrier removal, and update calls can be very effective. Also, it is very important to communicate individual and collective wins and successes to showcase the fact that everyone's work and efforts led to great results that have had an impact on the business.

Lead by Example: Actions speak louder than words. Leaders must demonstrate the behaviors they are asking of their employees in order for the employees to jump in and do the work they are being asked to do. It is very important to show employees that their leaders embrace the change and understand the impact and efforts required beyond an academic level.



Critical Success Factors

Create Systematic Guard Rails: Another great way to help drive behavior change and lead people down the path of compliance is to establish processes that help lead employees to the desired actions. Some examples include purging suppliers from PO systems or E-procurement platforms, restricting new supplier additions, blocking IP addresses, creating order approval workflows, and eliminating or restricting P-Card usage.

Be Consistent and Follow Through: Initial implementation activities often start strong and then fade away once a program appears to be "installed" or "complete." Additionally, many initiatives come with inconsistent or conflicting messaging to employees. Either of these scenarios will take the wind out of any sail. It is important to be consistent and stay involved in driving compliance and barrier removal, sharing site-level best practices as well as overall performance against established goals.

Conclusion

Implementing and managing national indirect spend programs provides a massive opportunity for an organization with the right mix of strategy and execution. Without an effective approach to Change Management, attempting to implement a new program can be very costly and lead to little or no results. Although no two categories, industries, or organizations are the same, generally speaking the broad realm of indirect materials is complex, involves a lot of stakeholders and moving pieces. With the amount of work required to implement an indirect program, your company will expect to see results. Utilizing a thoughtful and effective change management approach can easily be the most important deciding factor of whether a program is successful or not.

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