



LEAN PROCUREMENT

BACKGROUND

Procurement's core responsibilities have traditionally provided purchased materials and services on time, at the lowest costs, and highest quality to meet their customer demands. However, its role has expanded to play a critical part in improving the flow of information and materials throughout the entire supply chain.

Best practice procurement management functions move far beyond contract negotiation by establishing fundamental operational requirements, engaging in strategic sourcing activities such as market research, vendor evaluation and integration.

Inventory management and sourcing supply chain decisions are critical components of a company's financial performance. In fact, most organisations' manufacturing activities add less than 25% of the total product value. Because supply chains hold so much potential for lead time, quality improvement and cost reductions, they are excellent candidates for Lean Solutions.

CHALLENGES

A disproportionate amount of waste in a value chain is directly linked to procurement processes not working properly. Companies often lack clarity over their supply chain and therefore struggle to localise and differentiate value from waste.

Balancing procurement related activities that are "necessary waste" with those that create value presents an ongoing struggle for companies of all sizes. The benefits of applying Lean Principles for procurement managers and purchasing activities can dramatically affect a company's cash flow and its bottom line.

APPLYING LEAN TO QUESTIONS LIKE THESE CAN ENSURE A COMPETITIVE EDGE:

- How do you prevent production disruptions due to inventory or material shortages and still remain flexible to meet changes in customer demand or cope with market volatility?
- How does a company optimise buying quantity?
- How can a company move from reactive to proactive purchasing operations?
- How does a company reduce its working capital investment in carrying inventory at the right levels while at the same time maximising reaction time?

FOCUS AREAS

Waste in procurement processes can be identified, classified and minimised in the same way as waste in manufacturing as well as create tremendous savings potential. Lean principles, Kaizen methods, and re-engineering approaches can be applied in every phase of the supply chain. The right Lean Solutions can improve product quality, reduce lead-time and reduce working capital.

AREAS OF WASTE OFTEN IDENTIFIED IN PROCUREMENT MANAGEMENT AND SUPPLY CHAIN ORGANISATIONS:

TRANSPORTATION & HANDLING

Internal storage and movement of inventory - "stock inventory on shelves just to take it down again".

INVENTORY

Excess inventory due to poor visibility or inaccurate information in material requirements planning (MRP) systems. Purchasing or making things before they are needed. Batch ordering of materials and assemblies.

MOVEMENT

Manual inventory tracking and control, internal material stocks not directly accessible where value is being created.

WAITING

People, systems and tools wait or delays in non-transparent processes. Waiting for deliveries, approvals, waiting for data or waiting for correct materials and services to arrive.

OVER-PRODUCTION

Stocking more work-in-process or finished goods than necessary. Ordering materials without internal customer need.

OVER-PROCESSING

Important information is stalled in the system. Guidelines that require too many competitive bids. More approvals require than necessary to proceed with issuing purchase orders.

DEFECTS

Information from material or service requester is not efficiently received or processed (e.g. missing or wrong standards) or information is wrong or does not have the quality it should have. No confirmation from supplier on purchase orders.

UNSYNCHRONISED PROCESSES

Frequent changes to decisions already made, long lead time, wrong material delivery schedule.

LEAN SOLUTIONS

Designing and implementing a Lean procurement management process can dramatically change the way a company does business. A clear and standardised process to source materials or parts and just-in-time inventory policies reduces the burden on the balance sheet as well as stabilises the entire value chain.

Suppliers selected and assessed the same way will have the same purchasing structure and can be more easily integrated into flexible production processes. Being reliable and flexible means a competitive edge.

We implement Lean Solutions in procurement functions in a similar way to other functions. The solutions must fit the challenges without sacrificing quality, increasing lead time and costs.

PULL

- Enable FIFO at the batch level
- Reduce inventory levels throughout processes
- Avoid over-production
- Increase visibility of bottlenecks in the process

ONE PIECE FLOW

- Enable FIFO to a single product / service level
- Create transparency of the real process lead time
- Reduce lead time
- Reduce inventory levels throughout process
- Increase quality
- Reorganise the processes in the right sequence

TAKT

- Process transparency
- Balanced distribution of the workload across resources
- Process flexibility
- Ability to plan resource capacity and / or improve forecasting
- Optimal efficiency in resource utilisation

ZERO DEFECTS

- Enables problem root cause analysis and solving
- Prevents problems snowballing through the process
- Increases quality
- Enables an open culture of problem solving vs. finger pointing



TANGIBLE IMPROVEMENTS

LEAD TIME

- Implementing inventory reporting and accuracy standards allowed for faster decision making and ordering reducing lead time for non-standard items by four hours - 50%
- Optimising an insurances claims process decreased average throughput time from nine business days to just under four business days (-56%)

COSTS

- Inventory accuracy improvements from Lean MRP solution reduced inventory by EUR 2.5 million

QUALITY

- Optimising and standardising B2B data exchange process decreased supplier caused defects 98% over the entire process
- Lean MRP solutions helped inventory reconciliation to be minimised to an annual activity increasing inventory data quality
- Optimising an insurances claims process decreased errors by 98% over the entire process



Should you be interested to know more about our Lean services regarding this topic, then please contact us:

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