



A Monograph on Purchasing

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June 2020

Originally published in Nip Impressions®

(www.nipimpressions.com)

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What is the role of purchasing?

Purchasing experiences in my career are legion and become cuter and cuter as time goes by. I have five columns to explain this statement, so I'll not bother doing so now, but faithful readers will see it unfold as we go along.

What is the first and most important job of purchasing? It is to procure all the materials required by the mill on time and without damage.

There are three key pieces to the last sentence. First is "all the materials." Not some of the materials, not most of the materials but "all" the materials. "All the materials" implies that the materials are within the required specifications. For receiving materials outside specifications is not receiving "all the materials." It is receiving some of the material and a bunch of useless junk. "All the materials" has consequences.

"On time" is the second key element from above. "Almost here" or "it will be here tomorrow" is not "on time." In order for items to arrive on time, they must be ordered on time, the delivery time must be verified with the seller and the logistics provider, and all these moving parts must be followed up with a rigorous expediting protocol. If Amazon can tell me exactly where the \$10 bonnet I ordered for Aunt Sally is in the procurement, picking and transportation process, your purchasing department should be able to tell you the exact status and location of your roll recovering project any time, any day. If they can't you may need a new purchasing manager, software system, roll cover supplier or all three.

If the material needed arrives on time, but the packaging it came in is damaged (possibly damaging the materials), or the tanker truck ran over a high railroad crossing and damaged the discharge valve on the bottom of his tank, it is worthless. You don't have "all the materials" for although they arrived at your mill, they are useless and the same as if you had not received them at all. If they were "just in time" and damaged, well, no they weren't. You may incur downtime because you did not receive what you needed when you needed it.

Then there is the special case of material that is properly logged in as being on site, but no one can find it. I think this is purchasing's job, too, and they should be judged on where they put materials and the handover procedure they use to transfer care, custody, and control to the proper department. Often this is an informal procedure when it should not be.

Notice, I have not said one word about price this. Price is important, but when machine time costs \$30,000 to \$50,000 per hour, there are few things purchasing buys that can compete with this. Get what the mill needs when they need it and where they need it first. Everything else is less important than this.

For safety, consider this. Seldom are employees injured by just the air around them. They are nearly always injured by encounters with things the mill procures. This should be a consideration in every purchase.

Purchasing and Education

Previously, we talked about the role of purchasing. I never once brought up negotiating a good price. I am not going to bring up negotiating a good price in this column, either.

Instead, we will talk about educating the purchasing department. And we are not going to talk about contract writing as we talk about education.

It is important that purchasing agents and purchasing department personnel understand the business for which they are procuring. If they do not understand the business and its needs, they will make dumb and expensive purchasing decisions.

True story. An acquaintance sells and services doctor blades. He was at a mill that he normally services. He got a message that the purchasing agent was upset and wanted to see him.

The purchasing agent was upset because the mill was constantly paying rush charges to get doctor blades they needed. Our helpful friend asked to go over the list of blades regularly purchased. The purchasing agent pulled it out.

“I see the problem,” our doctor blade tech said.

“What’s that?”

“You have got your min/max levels set too low. If you will raise the minimum quantity that you keep in stores, you will not get into a pinch. You will always have blades. Here, let me help you,” he finished.

The grateful purchasing agent gladly accepted his “help.” They went down the list and adjusted the inventory quantities.

Our tech friend laughed as he told the story. He said he sold over \$30,000 worth of blades in that meeting. Some of the positions on which he was able to change the stocking levels required a blade change only every ten years!

This is what I mean by educating the purchasing department. That mill closed a few years later. I wonder why...

I saw a similar situation in a printing plant long ago. The ink companies offered to help. There were two ink companies and they kept two separate fireproof rooms on site. Each company, as part of their service, had an employee on site to maintain inventories, restock as necessary and take away the partial batches left over from print runs. This was all built into the ink costs; these people were “invisible” to the plant.

A new plant manager decided he would hire his own ink managers and take over this function. There was an instant 30% drop in ink costs. The plant had been used by the ink companies to absorb problems they had elsewhere.

I still have not talked about negotiating prices.

For safety, make sure your purchasing department is as tuned into your safety rules and training as anyone else in your facility.

You are not fooling anybody

Once in a while, a purchasing department decides to get clever and extend payment terms. You can pull this stunt about once with each supplier. For when they figure it out, your prices are going up. Your suppliers and their competitors do not have to collude to raise your prices, they all instinctively know that if you are doing this to everyone, all your suppliers are going to pay you back in kind.

I was a tiny, but vital supplier on a large long-term contract with a gigantic company a few years ago. They were in trouble throughout their divisions, everyone knew it, because they were big enough to make the national news, along with all their problems. Their purchasing department kept extending terms—got them all the way out to 120 days—a third of a year!

Then they had the gall to write their suppliers a letter that went something like this: “Good news, we are now offering as low as 30 day terms, all you have to do is agree to a 1% discount for every 15 days you want to reduce terms from 120 days.” I raised Cain and threatened to quit. I got back to thirty days because I called their bluff and they needed me at the time.

Suppliers figure these things out and if you start getting cute on terms, they will find ways to get back at you. However, consider going the other way with highly valued suppliers.

First, though, this involves education like we talked about previously. Talk to your users of services within the mill and ask them to name the suppliers they really need to be on top of mill conditions. Then, pay those within 15 days or less. Your supplier will notice, and you’ll have the best services available in that category. Do this for all the key areas.

I have a client right now that pays in eight or less days, and each invoice is a substantial sum, at least to me. Do you think their numbers are in my cell phone with their own distinctive ring? Of course, they are. I’ll jump through hoops for them. They have treated me this way for a long time, and I reciprocate. They are important to me.

On the other hand, if you treat a supplier poorly, do you think they are going to answer the phone on Saturday night when they are the only one who has the bearing you need to get the machine up and running again? Maybe, maybe not.

Playing with payment terms is an area where I have seen many purchasing agents attempt to look good and curry internal favor over the years. They usually just end up looking foolish.

All suppliers are not desperate for your business at any cost, in fact, the good ones expect you to treat them with respect and on equal footing. What you are doing when you don’t treat suppliers with respect is assuring that your supplier posse is the worst of the lot, all the way around. Only the poorest will tolerate abuse. This is not good for your company.

For safety, valued suppliers will throw in little goodies—sort of a swag bag. We are not talking corruption style items here, we are talking things like PPE and other materials to make your people safe. They will do this because they want to make sure you run without incident and they are just doing their part to assure this happens.

Providing true expediting service to your mill

Granted, it is a long time since I was internal to a mill as an employee and just maybe this probably has been fixed by now, but I doubt it. I am talking about expediting services. By the way, Amazon provides expediting updates for free on the tiniest of orders—it is part of their overall service. So, do not tell me, purchasing department, you cannot do this.

Back in the day, the mill purchasing department jumped right on expediting if...(1) the day had come when the delivery was promised, (2) you noticed that the delivery had not arrived and (3) you called the purchasing department and screamed at them. Well, no longer are we allowed to scream at people (it was not very effective anyway).

Enlightened companies will have a couple of places you can check on your internal order form. One of these might be “Is the delivery date critical?” The second might be “How many days after ordering would you like us to start checking fulfillment progress?” I do not think we need a question for this because it should go without saying: when the purchasing department starts their expediting activities, they will keep you informed in a timely fashion.

Story (I have told before). We were doing a rebuild starting in May of a certain year. Part of the installation was a new DCS system (is it redundant to say DCS system?). Along about January our chief instrumentation engineer came to me in a panic. This new system was supposed to be shipping soon. He had just called the factory and they had not even started on it yet.

It turns out there was certain work that the representative was supposed to do to get the order moving. However, where the mill was located and where the engineering firm was located were in different representative’s territories so they were arguing over who should do the work and how the commission was to be split. As the customer, we were hanging out to dry.

I grabbed the instrument engineer and he and I headed to the airport. Now, he was a non-confrontational sort of person and did not want to be involved in this exercise. My response—you have no choice, I don’t know what I am talking about when it comes to this stuff, so you have to be along to tell me what is important and what is not.

We got to the HQ for the supplier the next morning. We had a day long meeting. It was amazing how little they seemed interested in serving their customer—us. However, when the day was over they had made promises about what they would do. They promised to start our project the next day—in a new facility they had in another city about 500 miles away.

As we went to the nearby airport, the instrument engineer was relieved—we had accomplished the task as far as he was concerned, and we were going home. My reaction? No, no, no. We are going to the distant city and we will be there, waiting for them to open their lobby doors tomorrow morning. Crestfallen, he went along. Drastic times call for drastic responses.

We had to make a couple of more trips before startup just to make sure things stayed on track. But I can tell you, that DCS system never became a stumbling block as far as getting the project done on time was concerned.

But a decent purchasing department expediting system could have eliminated all the drama and all the cost to start with.

Expediting can be a way the purchasing department promotes safety. A project or daily consumable arriving on time is less likely to be the progenitor of an accident than is a late shipment.

Purchasing and Graft

There is a certain area of the United States where I will not bother calling on the mills and, for any supplier who asks me, I will tell them not to bother, either. It is a very distinctively defined area and my admonishment has held true for over thirty years. I do not know what it was like before then, I just know my experience there dates back just a little over thirty years and it has been a universally poor one. I suspect that attitudes there go back many decades before that.

A colleague of mine had a project in this region one time (and told me there was no graft involved in his case). I suspect that was true, he has a special service and there are few who can perform what he does. Hence, competition is low, and he feels little pressure to compete for projects. As a hobby, he collects guns. While out at lunch one day, he walked into a local gun shop. The owner struck up a conversation with him, ask him why he was in town (it is a small town). After he told the owner this information, without further conversation, the owner took him over to a wall with many nice shotguns, "Well, I can fix you right up, these are the ones the boys at the mill want right now."

The graft in these mills does not start with the mill employees—I have watched one mill where corporate has come in a dozen times in the last twenty-five years and wholesale fired the purchasing and the engineering departments. They are replaced with honest people. The locals then corrupt them, for the locals know no other way to do business than with bribes. They do not care that the people they corrupt are going to be fired, that just gives them a new crop to work on in a couple of years. Corporate never catches on, the cycle just repeats.

The purchasing department should not only set the example for dealing with suppliers, the purchasing department should be the department that sets the policy for the entire mill. And, then, they should be the one that polices it, too.

What is the right limit to be allowed for favors brought in by suppliers?

The best mills tolerate nothing. By nothing they not only mean lunch, dinner, and golf outings, they mean no hats, pens, or calendars. You see, when you tolerate a little, that is a wedge to allow a lot.

What is wrong with graft? Two things. First, it says you allow something other than value to be a determining factor in your purchasing decisions. Second, it says you are willing to steal from your employer, because everything given to you by a supplier comes from money your employer pays for goods or services with that supplier. It is as simple as that. Looks innocent, it is not innocent.

So, here in June, I am wrapping up a series of five columns on purchasing. We have covered the role of purchasing; purchasing and education; payment terms; true expediting services and graft. Not once did we talk about negotiating the deal. Why? Because negotiations are the skills you should have when you arrive in the position of purchasing agent. It is a given that you can negotiate. This is not where you need to focus. It is the five peripheral items we have mentioned this month that will distinguish you from your run-of-the-mill purchasing agent.

You have a vital role; you are a fiduciary. Excel at your job.

Along with everything else, as if I have not given you enough to do already, be an exemplary model of safety in all that you touch; and you touch many, many things.

