

JANUARY 2012

Happy New Year!

NAPM-DENVER CALENDAR

<p><u>JANUARY 19</u> Dinner Meeting Renaissance Denver Hotel 5:30 (Seminars) 6:45 (Dinner) Dinner Reservation Form</p>	<p><u>JANUARY 21</u> CPSM/C.P.M. Review for Exam 1 Renaissance Denver Hotel 8:00 - 5:00</p>	<p><u>FEBRUARY 18</u> Dinner Meeting Renaissance Denver Hotel 5:30 (Seminars) 6:45 (Dinner)</p>
<p><u>MARCH 8</u> NAPM-Denver Seminar Contract Writing - Risk Mitigation in Ts and Cs - Contract and Outsource Labor Renaissance Denver Hotel 8:00-4:30</p>	<p><u>MARCH 9</u> NAPM-Denver Seminar International Contracting - Key Provisions & Concerns; Dispute Resolution; UCC vs UNCISG - Protecting your Company Brand Renaissance Denver Hotel 8:00-4:30</p>	<p><u>MARCH 15</u> Dinner Meeting Renaissance Denver Hotel 5:30 (Seminars) 6:45 (Dinner)</p>

DINNER MEETING



Off-shoring/On-shoring – Supply Chain Management as a Core Competency across the Organization

presented by Bob Forshay

Off-shoring has many challenges and pitfalls which are often costly and painful. Many challenges can be overcome with a structured approach using basic lean concepts. As we learn how to apply those concepts we become effective at minimizing the risk by seeing supply chain management as a core competency.

Most people are familiar with the fundamental concept of LEAN to eliminate waste. Few, however, are proactive in this arena and even fewer approach this as a core competency. Off-shoring requires more than proactive management of costs and risks. Successful off-shoring requires working from various different perspectives and disciplines, across all the organization to achieve operational goals. Supply chain management is a structured approach to doing business as a system, not as Purchasing alone. This presentation discusses strategies to effectively manage off-shoring or deciding when it's time for alternatives such as on-shoring.

Bob Forshay, CPIM, CIRM, CSCP, CSCA, CSCM, CLM, is an expert in training and implementing Lean supply chain improvements. As Vice President and consultant with Transformance Advisors, Bob offers training to help companies achieve and maintain a competitive advantage. Bob is a Past President and current Board Member for APICS NoCo Chapter in Colorado and is currently the Value Stream Manager for the Certified Production and Inventory Management (CPIM) program as well as instructor for APICS certifications and workshops.

Make your reservation at:

<http://www.napmdenver.org/DinnerReservationForm.html>

PRE-DINNER SEMINARS

Social Media for Purchasing Professionals - How does it apply to us? Speaker: Tom Cross

Resumes and Cover Letters that Get Noticed - Speaker: Teri O'Sullivan

BUSINESS CONDITIONS SURVEY

By Rogers Coke, CPSM, C.P.M.

The local Denver manufacturing economic index increased faster in November with an index of 72.5. The October index was 66. The Production index for November was 75.

The Denver Manufacturing PMI compares to the Institute for Supply Management's (ISM) PMI of 52.7 percent, an increase of 1.9 percentage points when compared to October's reading of 50.8 percent. (ISM publishes the

The overall Price Index of the Denver Manufacturing Survey increased faster with an index of 70 in November. Prices increased in all sectors. The Lead Time Index increased at a faster rate with an index of 76.7 in November. Lead Times increased in all sectors.

The Raw Materials Inventory Index increased and the Finished Goods Inventory Index decreased in November.

November's Employment Index increased faster with an index of 80. The Availability of Skilled Workers Index increased and the Availability of Unskilled Workers Index remained unchanged in November.

Supplier performance in our Denver survey remained unchanged with an index of 50 in all sectors.

The local Denver Non-Manufacturing economy increased with an index of 60.2 in November. The Denver Non-Manufacturing PMI in October was 58.1. The Production Index in November was 65. The Denver Non-Manufacturing Index compares to the Institute for Supply Management's (ISM) Non-Manufacturing Index (NMI) of 52 percent, indicating continued growth in the non-manufacturing sector for the 24th consecutive month.

ISM's Non-Manufacturing Business Activity (Production) Index in November registered 56.2 percent, an increase of 2.4 percentage points when compared to the 53.8 percent registered in October.

The overall Price Index of the Denver Non-Manufacturing Survey registered 54.5 in November. Prices increased in the MRO, Raw Materials, and Components sectors and remained unchanged in all other sectors. The Lead Time Index was 59.9 in November. Lead times increased in the Capital Goods, Raw Materials, and Components sectors, remained unchanged in the Services and Computers sectors and decreased in the MRO sector.

For the latest Denver business surveys, go to www.napmdenver.org. For the latest national surveys, go to www.ism.ws.

CONGRATULATIONS TO....

New CPSM

Jeffrey Claxton, CPSM - Matheson

Recertified C.P.M.

Dorothy Cohen, C.P.M.

Joye McAnallen, C.P.M.

Welcome New Members

Warren Babcock - American Blue Ribbon Holdings
Roxann Emerson - Smalley and Company
Ralph Fuller - State of Colorado Department of Labor
Tom Harper - ProBuild
Zachary Hill - Colorado State University
Amy Holt - ProBuild
Andreas Kabelitz - Vail Resorts
Carly Marriott - National Eco Wholesale
Jami Maselli - Teledyne
Paul Metzger - Level 3 Communications
John Sturgeon - American Blue Ribbon Holdings
Kathleen Vigars - Gates Corporation

COMMITTEE OF THE MONTH: PROFESSIONAL DEVELOPMENT

The Professional Development Committee manages the one and two-day seminars that are given three or four times a year and the Certified Professional in Supply Management (CPSM) review classes. Tasks include contracting for speakers and obtaining a local facility to host the seminars. Recent seminars have been held at the Denver Renaissance Hotel, 3801 Quebec St, Denver.

The committee also manages one-half day ISM Satellite Seminars by providing a facilitator and materials for the seminar.

The Committee also promotes the Certified Professional in Supply Management (CPSM) and the new Certified Supply Manager (CSM) certification programs by providing information at the check-in table at monthly dinner meetings.

Please contact the chair, Susan Kellar, C.P.M. for questions and to volunteer on the committee:

Susan Kellar, C.P.M.

IHS

Tele: (303) 397-2257

Email: sue.kellar@ihs.com

SPEAKERS NEEDED FOR PRE-DINNER SEMINARS

Are you knowledgeable about a subject in the field of Supply Chain Management? The NAPM-Denver Pre-Dinner Seminar Committee is looking for members to share their knowledge of supply chain management in a one-hour pre-dinner seminar. If you are available to speak or lead a discussion, please contact Dorothy_cohen@q.com.

CONTACT INFORMATION

Has your contact information changed?

If so, please e-mail your new information to the NAPM-Denver office carol@napmdenver.org.

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Visit our website at www.napmdenver.org

Featured Speaker – Bob Forshay

SCRM - Supply Chain Risk Management

Supply Chain Risk Management? What exactly does this cover and what should be done about it? Let's look at a few areas where it will pay to proactively develop successful strategies.

Leadership and Priority

CEOs most often hold the Chief Procurement Officer (“CPO”) accountable for supply chain disruptions. A 2008 Procurement Strategy Council report indicated that CEOs most often look to the CPO. Who owns the resolution from there? Seldom is there clarity to leadership at the operational level. A May 2011 study by W. P. Carey showed that leadership is as critical as effective systems for a crisis response. Strong leadership, identified and empowered in advance, armed with a system and a planned response process, trained and equipped with information, tools and a crisis response infrastructure can help the CPO appear to be in control, rather than at the mercy of the event. Another important aspect comes from outside the supply chain operations teams, from upstream and downstream or tangent contributions. How often does new product launch severely impact delivery processes, or at a minimum greatly increase the cost? And what of process engineering, production control in the factory or quality organization. Sure, if the production is outsourced the CPO should be driving supplier quality management strategies to minimize potential for disruption yet the technical resources are not often under the CPO umbrella. This makes top down leadership and infrastructure all the more important. Leadership effectiveness according to Jim Collins in his book “Good To Great” comes best when fostering cohesive teams with leadership cast by humility. Cross functional skills make for multilateral solutions for effective application at the system level.

Einstein has told us we can never solve problems from the same perspective that caused them. Effective problem solving requires taking a team (cross function is often better) out of the box and that requires leadership with vision and a strong team. I've seen many organizations with leaders managing by “squeaky wheel mandate” letting dominant players control the agenda of the moment. This undermines continuity, systemic improvements (required for sustainability) and generally creates chaos and higher stress levels.

Regardless of what structure we operate in, if there is lack of clarity and leadership, we too often struggle even for mediocre results. We can all relate to the “firefighter” mode where we spring into action, champion a “fix”, work like crazies to push through a Band Aid solution and move ahead. Maybe we get a pat on the back from the Boss. And then as we step back for a deep breath to recover, we realize the exercise was;

- a) Not fun, leaves everyone grumpy
- b) Painful, working hard on too many things at once, not in excellence
- c) Grueling, barely any rest in between status updates
- d) Stressful, everyone is physically stressed in unhealthy ways
- e) Taking us away from productive work
- f) Taking us away from family, friends, weekends, evenings, fun and/or sleep
- g) Does not generally help advance our health and well-being or career.

Yet how often do we take time to seek a better result? Do we plan or implement a standard response or better still, work to prevent this avoidable waste? Consider the following conditions and potential responses:

Condition	Reactive	Proactive
Tires wearing bald that may blowout	Blowout, crash, tow, repair, replace, unscheduled delay	Check regularly and replace, scheduled and predictable
Personal checkbook balance unknown	Discover after the fact our bank has charged numerous overdraft charges when overdrawn, current payments disallowed, additional checks returned, scramble to find cash to correct and recover	Regularly scheduled review and minor corrective actions prevent overdrafts, NSF events, extra costs, lost time to correct and recover
Supply Chain supplies interrupted; Weather, materials quality, equipment breakdown, labor unrest, communication failure	Who owns the problem? Who has expertise? What are acceptable alternatives? How are deviation authorizations documented and approved? Inventing process and updating the entire organization on the fly. Rewriting test scripts, specifications, work instructions, product management documentation. Status and communication confusing, hourly updates not reliable ('tell them what they want to hear' thinking) Costly freight and expediting premiums	Have a pre-defined response mechanism documented, available and standardized. Decision Tree for each "kind" of problem leaving a minimum up to interpretation. Having a priority matrix of triage approaches to manage each in turn. Clear line of communication and authority well defined in advance. Minimum of cost adding impacts, delays and confusion to waste everyone's time and energy.

While this probably sounds familiar, the challenge remains - finding time and energy to establish a better solution - making it a priority. It's not so different from any other strategic planning effort, Strategy, Initiative, Operational, followed by Implementation and Maintenance, all basic to an effective plan. The issue usually is prioritization, or more correctly, lack of priority. Activities perceived not to be important, serving an immediate and urgent need, tend to get less attention or deprioritized. The sense of urgency is lost to short term performance targets; cost reduction for current quarter, inventory turns, inventory reduction plans, purchase price variance (PPV), time to market and other unproductive activities.

Visibility

How much visibility do we truly have in our supply chains? How often do we source from supply chains that now are more than ever overlapping or even the same if you go up a few more tiers? Knowing where the pinch points are will serve us well as we look at the potential for "single points of failure". This requires thoughtful management. Not everything we deal with requires equal attention or approaches.

Spend vs. Impact Management Approach

A comprehensive risk mitigation strategy looks at critical chain sourcing with an eye to the impact of the potential disruption. Most of us are well acquainted with Pareto's Law and the 80/20 classification for inventory, for spend analysis and for resource alignment. The traditional approach is to focus on the biggest spend with the most resources and attention.

This is important and useful but...it tends to ignore the sole sourced label that costs little but just as easily shuts down shipments when disruptions occur. The key is in having a layered strategy for each element in the supply chain where risk and impact are substantial. Set up your risk assessment strategy according not only to spend of high value dollar usage items but also according to:

- a) Potential impact to revenue
- b) Sole sourced
- c) Custom dependencies

This offers you a balance to the "spend" perspective and reduces exposure to risk.

Wrong Metrics = Wrong Behaviors = Wrong Results

Too often we drive short term results, quarterly performance metrics for immediate outcomes with little regard to removing the root cause or wrong motivators. This is usually a result of isolated departmental goals designed to maximize one specific group or function. A classic example of this is the common practice of outsourcing. The initiative usually has single goal to reduce inventory and cost. With top priority at the C level but only encompassing operations folks this exposes many gaps and opportunities. With only one element of the business taking steps to support the outsourcing effort, the impact is often broadly negative, impacting not only employees across the company responding to out of control processes but also the customer as the quality deteriorates. Repairs, returns and On-Time-Delivery all suffer. The stated goal is met. Inventory is reduced. Cost is taken out. The out sourcing initiative is deemed successful. The overall outcome however is higher overhead in many other departments not showing up as cost of product on the books, yet is an increased cost to operate. And the risk grows because the supplier now has the material on hand and on order based on customer forecast which does often carry liability albeit not on the books as the customer's own inventory. Increased cost to deal with quality issues, returns and E&O are common, more regularly than you might think. The lead time to the customer usually becomes longer for a time with more rework and changes more difficult to deal with. Often by the time the wrinkles are sorted out, new products are released and the learning starts over. This approach severely stresses an organization with long lasting negative effects. One outsourcing effort I saw placed sourcing of steel parts into China with many items experiencing quality issues. At the end of the 1st year, more than half were costing more than before the outsourcing when looking at Total Landed Cost elements. But the unit price was lower than before...

This is not to say outsourcing is bad. It is to say a successful implementation prepares the whole organization, not just one functional department. It requires engaged and thoughtful leadership with a systematic goal. It requires the right performance metrics to drive the best outcomes.

Environment To Do Business Well

Risk in supply chains can come in many forms and at unexpected times. Scenario planning is a practical exercise that we seldom do but which could make disruptions far less painful. How often we don't learn from history. Too often we know of a risk yet categorize it as something that is more likely to affect the other guy, not us. Here are some important concerns.

Transportation:

- Fuel - if you haven't already figured this out, fuel pricing is controlled less by supply and demand than by speculators hedging on where crude is and is not and capacity to make it into the right kind of transportation fuel for a given market. You cannot control this so maybe better to plan for

an alternate long term strategy that leverages competitive advantage - a different supply chain network less dependent on petroleum.

- Capacity - economic forces since 2008 have shown us what happens when operating costs rise while demand for business drops. The surviving transporters had less overall capacity. This takes time to recover. Again, what alternate strategies might be in order, such as more collaborative planning and distribution networks?

Global sourcing from multinationals:

- Product availability constrained by global firms to manage local pricing and capacities
- Conservative capacity investment and deployment in times of consolidation. China reported this week its third straight month of reduced output. The longer these cycles last the harder recovery will be and more costly.
- SMEs (small to medium enterprises) affected in down cycles. Globalized business means often less responsive international sources with larger impacts from SMEs stumbling.
 - OECD - Organization for Economic Co-operation and Development, Policy Brief, 2000 noted;
 - Small and medium-sized enterprises (SMEs) account for over 95% of firms and 60%-70% of employment and generate a large share of new jobs in OECD economies. These resources are lost faster in down cycles with longer rebound.
 - Small firms need to upgrade their management skills, their capacity to gather information and their technology base.
 - Governments need to improve SME access to financing, information infrastructures and international markets.
 - SME's account for 93% of firms smaller than 10 employees in EU and 50% in US, with another 38% in firms in US smaller than 100.
 - This means SME's will be the ones to take on risk of new efforts, products and services more than large firms.
- Cost cutting impacting quality to meet cost targets. Again, this is the shell game, moving cost to someone else's budget, no longer found in product cost. Always reactive and wasteful.
- Less investment in people, more in technology opening service gaps, the "doing more with less" approach. We've all experienced the service gaps encountered when call centers are moved to other countries enabled by cheap internet communication, just one example.
- Security - At the border, in the products themselves;
 - Delays at customs
 - Stricter security screening - seldom scheduled by you
 - Increasingly we are realizing the risk of overseas (China) sourced IT or hardware having embedded Trojan viruses or dormant hardware capabilities installed and shipped into United States. Greg Shaffer, of Department of Homeland Security queried by

Representative Jason Chaffetz, a Republican from Utah about the level of risk was quoted, he is “aware of instances where that has happened.” Botnet components, keylogging software, and software specifically designed to overpower existing security software on the same computer has been uncovered in product shipped to US from China. The House Oversight and Government Reform Committee is considering a proposal by President Obama to tighten controls and monitoring of computer equipment destined for either communications or government infrastructure.

- Transactional - the Internet
 - Are you prepared and able to do business if the internet goes off line for an extended period? Most firms have no plan let alone a tested plan. Recent unrest in Middle East countries experiencing civil unrest have turned to internet, Facebook, Twitter and other means to communicate locally. In more than one instance since May2011, governments have shut down country wide internet access to disrupt communication for resisters. US response to this is similar with the Protecting Cyberspace as a National Asset Act of 2010. If this is implemented, the President of the United States of America could shut down the Internet for up to four months. According to Wikipedia, the bill allows for a President to control the network up to 120 days. After this period, the networks will have to be brought up, unless Congress approves an extension. More detail can be found here; <http://www.opencongress.org/bill/111-s3480/show>.
- Growth Rates of expanding economies - China pricing itself out?
 - Strategies now demand moving to new sources and having active sourcing expertise in action more often. Less stability in off shore sourcing. More affected by cultural and geopolitical activities we cannot control.
- Joint Ventures & Virtual Organizations
 - How to “fix” the EU economy when one country needs leadership and money? What will happen to capital resource availability if one or two large defaults implode the EU and world banking community?

Solutions specific to your own operation are needed in each of these areas;

1. Quality - (and cost and delivery) = Least Total Cost, not just unit cost.
2. Capacity - Flexibility needs to be measured and valued.
3. Supplier Management - Openness and willingness for cooperation.
4. Transportation - Definitely need to understand alternatives.
5. Technology - adaptive is the key word. Too often we try to make process and people conform to technology which limits our flexibility. “If all you have is a hammer everything looks like a nail”. We have more than nails to deal with. Technology simply will not fix broken process.
6. People - Leverage creativity and employee energy to work across systems. Learn to see employees as assets instead of liabilities.
7. Performance Measurement - Balanced Scorecard, balanced approach for sustainable gains.
8. Annual overall risk assessment and management plan as a critical success factor.

Bob Forshay does consulting and training on LEAN business process and supply chain management delivering solutions since 1988. As a CLM, Certified Lean Master, Bob helps supply chain and operations leaders get better results. bforshay@transformanceadvisors.com.