LEAN MANAGEMENT IN PROCUREMENT

Lean has driven success in many business functions, and now it’s time to further explore how lean management can help procurement leaders build organizational capability and get their ducks in a row.

By Dave Wood
Lean management, a set of routines that combine structured coaching and scientific improvement cycles, first garnered attention within manufacturing, which makes sense because that’s where the concept of lean has its origins. However, there’s not been much discussion about the use of lean management in procurement, which is surprising given Toyota’s success in driving lean with its suppliers. Lean management can be powerful in procurement because of its ability to both improve processes and develop employees when it’s embedded into management practices.

Of course, there are challenges to sustainably embedding lean characteristics in a large supply management organization. These include:

- Determining how and where to apply leader standard work in a function that tends to mix project work with cyclical work
- Finding the correct level of policy
- Knowing the best place to start developing effective lean management coaches.

Procurement interacts with many internal and external business partners, and is involved in many management activities, complex projects and processes. Although procurement performance cycles are often longer than in manufacturing and the waste may be less visual, supply management is suitable for instilling a behavioral framework that uses regular, built-in experiments and coaching cycles to facilitate incremental improvements and adaptability over time. In other words, it’s a ripe environment for lean management.

In his book, Toyota Kata, Mike Rother defines management as “the systematic pursuit of desired conditions by utilizing human capabilities in a concerted way.” It’s within this context that lean management can play an important role in procurement disciplines such as supplier relationship management, category management and risk management. Here are some steps you can take to adapt lean to improve your own organizational capabilities.

**Lean’s Role in Supplier Performance**

Lean management can be useful in supplier relationship management — specifically, performance management. If you aren’t cautious, supplier performance management can quickly devolve into a series of supplier scorecards that get shared, but not acted on. It’s a problem that can be called “scorecard wallpaper.”

A lean approach to the problem...
borrows direction from David Mann’s book, Creating a Lean Culture: Tools to Sustain Lean Conversations, to ensure that leader standard work is in place, including robust dialogue with suppliers to review the visual tools that intuitively illustrate performance versus goals in key areas such as quality, cost and delivery. These supplier discussions should include an accountability process that ensures ownership for problems and follow-up.

According to the Lean Enterprise Institute, leader standard work changes the focus of managers and employees from being the primary problem-solvers to building the problem-solving muscle of their organizations. I intend to take leader standard work a step further to focus on helping category managers and performance analysts more effectively coach their suppliers, ask the right questions and trigger effective problem-solving. If you develop your procurement teams to be effective at coaching suppliers in problem-solving, the potential gains can be huge.

**Lean’s Role in Category Management**

Category management is the heart and soul of many procurement organizations, and can be leveraged both within an organization and with its suppliers. For critical categories, it’s important to develop a multiyear strategy, then craft tangible action plans in smaller time frames of a year or less, for instance. A simple example of an action plan could be: 1) standardize demand requirements for category X in the first quarter, then 2) conduct modular RFP on category X in the second quarter.

It’s critical to build in periodic “reflection” steps that allow the category team to reflect on what it’s learned and, if necessary, adapt the multiyear strategy accordingly. This approach can incorporate some elements of Toyota Kata with setting a target condition (a desired interim future state) and allowing for adaptation as the team learns something new with each step toward the target condition.

A common challenge is effectively aligning your organization’s value measurements with its stakeholders, especially in areas such as planning, measuring and reporting cost savings, cost avoidance and cash flow. This alignment is necessary to guide decisions about procurement scope (spend under management), facilitate project prioritization and provide transparency in reporting. Some supply management organizations submit a monthly “kitchen sink” savings number to business stakeholders, even though those stakeholders have no idea what the number includes, and probably don’t believe it.

A more effective policy deployment and ongoing alignment process can help ensure that procurement savings projects are built into the objectives, plans and measurements of your organization’s functions and business units. This approach falls under the broader umbrella of continuous improvement as it ties with hoshin kanri. Developed by the Japanese in the 1960s and 1970s, hoshin kanri’s key component is creating alignment. And, it’s difficult to create alignment when value-reporting measures are weak or unclear.

With that in mind, I implemented a monthly value-alignment process with our finance partners across the business units and functions to discuss upcoming projects and project savings actuals from the prior period. For each upcoming project, we obtain guidance on the affected profit-and-loss line item(s), align on the value classification (cost savings versus cost avoidance), and determine whether the project’s impact should be embedded in a budget or treated as a variance.

The process helps supply management move from an unaligned kitchen-sink mentality to an approach that pulls the team together on shared objectives. There will be less likelihood of double-counts, broader visibility into procurement projects and a higher level of endorsement for procurement’s ROI. Supply chain leaders need to drive standardization in the financial alignment process, and ensure there is a well-understood set of definitions regarding value type (cost savings versus cost avoidance versus cash flow) and budget treatment for projects. When you apply these hoshin principles, you’re also driving the lean concept of waste elimination in various forms: for example, reducing the need for rework (reconciliation of mismatching reports).

**Lean’s Role in Data Management**

Data management is a tremendous challenge for many procurement teams, as supplier spend data tends to appear in many different systems and formats across a large organization. However, effective data management is a key differentiator of world-class organizations, and can eliminate much waste in the form of rework and data scrubbing while enabling your team to increase its value by identifying key opportunities. Spend data is the lifeblood of category management, and this presents an opportunity for leaders to continuously work to ensure visibility to data integrity and to set ongoing improvement goals. An improvement goal could be to increase data accuracy by X percent and increase data completeness by Y percent.

By using the lean management approach to create understanding of the gap, you can help team members pay attention to the quantifiable...
Regardless, you can apply the coaching and measurement cycles. In particular, the practicality of frequent follow-up. This is a concept I have experimented with in my own procurement organization. Admittedly I’ve seen an effective, leader-led process that recurs on a frequent interval to examine both the current cost forecast and evaluate the forecasting process itself. Repetition of this consistent, frequent (yet short in duration) interval process over a number of years has yielded tremendous improvements in the sophistication and robustness of the forecasting processes over time.

Additionally, participants in this process will conduct many different experiments together, and will learn which things are or are not effective. For example, they can experiment with using different weighting of forecast inputs. This collective knowledge helps guide the selection of future experiments. This lean management practice is suggested in Mann’s book, where he encourages managers to help their team focus on the process, not just the results.

**Lean’s Role in Procurement Improvement**

_Toyota Kata_ suggests a set of daily behavioral routines that ensure regular, structured experiments to take place in alignment with organizational goals, complemented with effective coaching and follow-up. This is a concept I have experimented with in my own procurement organization. Admittedly there are some challenges, in particular, the practicality of frequent coaching and measurement cycles. Regardless, you can apply the concept of the improvement kata and coaching kata suggested in the book in procurement organizations.

One aspect for leaders is to set an effective target condition for a process. One target condition I set was that the contract management database becomes so intuitive that anyone in the organization can use it without training. It was a one-year target condition for us, which was probably too long of a horizon, but it was still an effective description of our objective. The target condition guided our development and testing iterations of a new contract management solution, and led us to use a simple, team site-based solution that was already in place within the company.

The coaching kata is a mentor-led approach, which helps a mentee learn to clarify a gap between actual and target goals, identify obstacles, identify the next step and reflect on the last step. The following mentor/mentee dialogue is an example of how coaching can provide focus and remove the noise from a similar large change effort:

**Mentor:** “As an outcome of the RFP, we implemented a preferred supplier program across our facilities. How is this actually progressing versus plan?”

**Mentee:** “We’re seeing mixed results in terms of adoption, 55 percent actual versus 70 percent goal, and actual cost reductions are 72 percent of the target.”

**Mentor:** “What obstacles are preventing us from achieving the adoption and savings targets?”

**Mentee:** “Two of the facilities have not yet received updated pricing catalogs, and one of the new suppliers isn’t meeting delivery expectations.”

**Mentor:** “What’s the next step? What do you expect to result from the next step?”

The dialogue uses portions of the _Toyota Kata_ to progress from gap clarification to obstacles to next steps. Over time, this dialogue should become routine, and the mentee will learn to come prepared to answer the kata questions — launching a recurring cycle of continuous experimentation, learning and improvement.

**Overcoming Challenges**

The lean community continues to evolve its understanding of lean management and its critical role in continuous improvement. In my opinion, the management aspect of lean can resonate more loudly in the procurement function than some of the classic lean tools, such as one-piece flow or kanban. That’s because much of what procurement does is some form of management — managing suppliers, projects and risk. Some of the classic lean tools can have a procurement application, such as using an IT _poka-yoke_ (Japanese for mistake-proofing) to help error-proof the data setup of a new supplier.

The lean management approach has the potential to build procurement organizational capability over time. My experience has just scratched the surface, and I know there are challenges, such as gaining enough organizational momentum to build and sustain the improvement kata and the coaching kata on a large scale, and to truly develop effective leader standard work within the procurement function. Despite these challenges, those of you who find a way to use lean management in your organizations will enjoy a sustainable competitive advantage. _ISM_

**Dave Wood** is a supply chain director for Tyson Foods in Chicago. For more information, send an email to author@ism.ws.