



March Professional Development Event  
Tuesday, March 9, 2010

**Consensus Sourcing for Total Cost Management**  
**Presented by: Mary Lu Harding, C.P.M., CPSM, CPIM, CIRM of Harding & Associates**

*Holiday Inn West (Off I-131 @ Stadium Dr. Exit-36)*

Registration is available at [www.apicsswmi.com](http://www.apicsswmi.com) under Monthly PDM's

Schedule: 5:30 PM Hors d'oeuvres; 6:00 PM Speaker begins



Mary Lu is a principal of Harding & Associates, and specializes in Supply chain management doesn't end with delivery. When examining your supply chain, look carefully within your own organization. Internal issues offer more opportunity than external issues in many cases. It is important that supply managers have both the eyes to see opportunity and the skills to capitalize on it. All stakeholders should have a say in sourcing decisions, and their issues (translate costs) should be considered if the organization wants to obtain the lowest total cost. Ignoring stakeholder issues in a sourcing decision can be expensive and dangerous.

The first task is to flush all issues out into the open. To do that, follow the item through its processes as far upstream and downstream as possible. Follow not only the physical flow but also administrative processes such as purchasing and accounts payable. Write down that flow and make notes including the name of a key stakeholder in each part of the process. Ask these people what their issues are. Make note of them. When finished, you'll have a map of the process flow and identification of the issues.

Stakeholders should be included in the Unit Total Cost (UTC) process from this point on. They have information about issues and their magnitude, and a key benefit of using UTC is its inclusiveness. Stakeholders have access to the process to champion their own issues and will also learn what others' issues are. Cross-functional education is a significant benefit for many organizations.

When using UTC, identify and get agreement on how to handle issues likely to come up repeatedly, such as the cost of non-quality or non-delivery, etc. One way to do this is to start with a common item, identify the factors to be included and start the calculations. The first item will generate the most discussion since UTC is a new way of looking at a cost profile. Once issues are successfully negotiated for this item, a pattern is established for future items.

Next, quantify the costs associated with identified issues. Costs can be sorted in to two major groups: hard dollars (costs for which there is an invoice or direct cash outlay) and soft dollars (costs that have no direct cash outlay but consume resources – alias productivity). Evaluate and calculated both. If the organization is hesitant to include productivity losses as supply chain costs, keep them separate, but do report them. It is important that the organization begin to understand that productivity losses are indeed costly. When those costs are calculated and published, the resulting education may lead to recognition and behavior change.

Once handling of soft costs is resolved, factors can be sorted further into three categories for inclusion in UTC calculations: