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TOOLS

SIX SIGMA AND SOURCING: A PROFITABLE PARTNERSHIP

It was Darrell Huff, in 1954, who wrote the now famous (and often misquoted) book "How to Lie with Statistics". It is remarkable how frequently one hears this book quoted when confronting a raft of statistical data. Nevertheless, the intelligent use of statistics has undergone a renaissance in recent years. The two key drivers of this revolution are firstly, business intelligence and statistical software tools that simplify the manipulation and analysis of data, and, secondly, widely-adopted process improvement techniques such as Six Sigma, that are data-driven in their approach.

Six Sigma is a methodology and toolset that is used to identify and rectify variations in a process. Six Sigma improves processes using a thorough and measurable approach to problem identification and repair. The methodology was originally designed for manufacturing organisations, but it has seen a rapid and successful evolution into other areas, including transaction processing, where improvements in quality, speed, and cost are sought. Six Sigma is now used extensively in a wide variety of industrial sectors around the world and has delivered spectacular bottom-line results for a number of companies.

However, based on quite extensive dialogue with sourcing and procurement professionals, there appears to be a limited adoption of these techniques within the sourcing or procurement worlds, even though a number of companies have achieved significant results using these methods. This is surprising consid-

ering that procure-to-pay, supplier relationship management, contract management, and a range of other procurement activities, all depend on quality processes to make them operate effectively and efficiently.

THE ABC OF DMAIC AND SIX SIGMA

The basic Six Sigma methodology revolves around its 'DMAIC' phases, namely: DEFINE (understand the problem), MEASURE (what do we know about how it works), ANALYSE (what do the data tell us), IMPROVE (evaluate and measure the proposed change) and CONTROL (track that it works). Operational data and statistical techniques are used to conduct the phases and to drive both improvement and implementation stages.

Good spend analysis tools and techniques can do much to facilitate the improvement by bridging the data 'gap', or lack of information. Data can be notoriously difficult to obtain, particularly if both the buying organisation and the supplier hold key elements of the transaction. Fortunately, these tools are making access to value-based information significantly easier, and companies are uncovering lucrative savings opportunities as a result. This is especially true for transaction processing applications where variations in a process are far less transparent and far more dependent on flexible data analysis.

Once data is available, DMAIC principles can be used quite effectively in the sourcing and procurement space. As an example, if we take procure-to-pay processes, there are a number of key financial indicators that will tell you the state of

your relationship with the supplier: days to pay, numbers of duplicates, overpayments, invoice volume to dollar amount ratios, and so on. All are metrics that can deliver considerable benefits to organisations that use DMAIC concepts. For example, sourcers place much emphasis on supplier relationship management, but, in the area of payments alone, there can be many pitfalls that undermine healthy relationships. Poorly functioning purchase and pay functions often lead to stressful dialogue between organisations and suppliers. Six Sigma techniques can help organisations to work collaboratively with suppliers to understand problems in detail and then to use data to drive change and improvements.

SIX SIGMA IN ACTION

Many companies that use purchasing cards and expense managers are not fully leveraging their investment. The real savings from these systems are eroded by 'noise' in the system that could be eliminated with Six Sigma techniques. For example, consider just one organisation that processes over 100,000 transactions per annum for mobile phones at an average of \$56 per transaction (on invoice). The effect of passing paper transactions, calls from the supplier to accounts payables ("I haven't been paid"), calls to the invoice owner ("Have you paid the invoice yet?"), lost invoices, duplicates and poor internal customer experience, all scream for a Six Sigma solution.

Statistically, you can measure invoice date-to-payment, number of successful payment location calls, customer satisfaction (pre- and post-improvement), and costs to both supplier and organisation that result from poor process functions. Using the IMPROVE phase techniques, a rapid experiment can be conducted (using 'Design of Experiments') that can prove whether changes in some of the parameters involved (payment method, ease of use, payment dates, auto-billing direct to credit card, and payment cycle times) can be determined

prior to implementation. There is often no reason to run an uncontrolled 'pilot' where the real variables are never truly monitored and controlled. As many readers will know from experience, poorly structured pilots often deliver poorly structured rollouts.

The net effect of a well managed process improvement project can be a benefit for all parties, resulting in an efficient and effective process, faster payment (and a corresponding early settlement discount), better relationship management, better transparency of the spend, and happy customers. Using control phase techniques, monitoring of residual invoices coming through from the vendor can be tracked for amount variation and longer term volume patterns (i.e. "is the process creeping back to its old state?"). Control phase monitoring is where immediate benefits are often delivered. For example, simple spend analysis techniques can easily identify a failing process.

GETTING STARTED

It's certainly clear that a structured process improvement approach that is statistically driven can deliver significant benefits to organisations. But how easy is Six Sigma to implement?

Six Sigma can be complex and costly to implement, and skill sets in this domain are still comparatively scarce. Training can also be costly, but investment in the tools and techniques can deliver considerable benefits. In the sourcing arena, the potential for process improvement can be significant. Consider the following:

- Can we eliminate all the defects in a draft contract quickly and more effectively?
- Is there a faster and better way to order and pay for a commodity that is currently problematic?
- Can we eradicate duplicate payments to vendors - are there particular vendors, commodities, business units/individuals, or keying staff that are creating an issue?

Using Six Sigma techniques, you can define and analyse quickly where

errors are occurring, and then test the remedial actions that will fix the problems under controlled, measured conditions.

An easy and fast way to start using these powerful techniques is to start with a Lean Six Sigma course that is around one week's duration. Process improvement projects using simple, well tried and tested techniques and some very simple statistics can be initiated immediately.

If used carefully and in a focused manner, Six Sigma can certainly start to overturn the view that "statistics are like lamp posts: they are good to lean on, but they don't shed much light." ■

Tony Bridger is the Northern Region sales manager for Inlogik, an Australian technology development company with implementations in over 40 countries worldwide of its expense management tool, ProMaster. InLogik was an exhibitor at the recent CIPS Australia 2nd Annual Conference. Tony is a certified and accredited Six Sigma Black Belt.



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