



**Materials  
Management  
Group**



# ISM Materials Management News

*December 2009, VOL 5, ISSUE 6*

## **FEATURED IN THIS ISSUE:**

### **Materials Management “So Why Should We Hire You?”**

Deborah Walker, Certified Career Management Coach  
AlphaAdvantage  
<http://www.AlphaAdvantage.com>

### **Purchasing “Documenting Your Value to the Organization”**

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**Upcoming Seminar**  
**MMG Sponsored Seminar/Workshop**  
**“Negotiating the Supply Chain”**  
Coming in May, 2010

### **MMG Leadership**

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### **About ISM**

Founded in 1915, the Institute for Supply Management™ (ISM) is the largest supply management association in the world as well as one of the most respected. ISM's mission is to lead the supply management profession through its standards of excellence, research, promotional activities, and education. ISM's membership base includes more than 45,000 supply management professionals with a network of domestic and international affiliated associations. ISM is a not-for-profit association that provides opportunities for the promotion of the profession and the expansion of professional skill and knowledge.



## *Letter from the Editor*

*Dear Members of the ISM MMG/Electronics focus group.*

*I have had the pleasure of both editing and contributing to the Newsletter for the past five and a half years. I have learned much and met many wonderful people along this journey.*

*I am very proud of the twenty-nine issues we have produced for our members. We worked to provide articles that were informative and educational, as well as a pleasure to read.*

*I have been fortunate to have the support of such wonderful contributors; whom I thank for their continuous help over the years. I also thank Mr. Richard Weissman who was not only a constant source of entertaining and educational articles, but was a great help in editing our productions. And a sincere thank you to Mr. Charles Eckert who made certain our newsletters got distributed.*

*I hope to continue to provide quality contributions for the new editor to follow. And I thank you for your readership over these past years.*

*Happiest of Holidays to you and your families,  
Sheila Petcavage*



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## CONTENTS of NEWSLETTER

### FEATURED IN THIS ISSUE:

#### **Materials Management “So Why Should We Hire You?”**

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<http://www.AlphaAdvantage.com>

Page 4

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Page 6

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**“Negotiating the Supply Chain”**

Competitive Edge through integrated efforts!

Page 14

#### **MMG LEADERSHIP**

Page 17

# MATERIALS MANAGEMENT



## **“So Why Should We Hire You?”**

If you are currently in a job search chances are you've been asked that question already. Undoubtedly, it is the most feared interview question, but one of the most common. It pays to be ready to answer it. And it helps to understand that the question is an invitation for you to sell yourself. This is a good thing. No one is going to hire you until they have been sold on you. This is your chance to state your value to the prospective employer. The best way to answer this question is to prepare for it like a sales person. There are three steps to selling yourself with confidence.

### **1. Know your product “YOU.”**

Every successful salesperson knows their product inside and out. They understand the benefits of each product feature. In like manner, you must be able to articulate your transferable skills. First, take inventory of your skills. Make sure the skills you focus on are in demand for the position you seek. Next, take stock of the times of crisis when you've used those skills to solve problems. Finally, ask yourself what your employer got out of your successes on the job. Did you save time or money, increase revenue, improve service or increase productivity? Your success stories carry more weight when you can quantify the results. These success stories make up your selling points.

### **2. Know the challenges of the position.**

Before you can tell them why they should hire you, you must understand their current challenges. After all, you couldn't sell a car unless you knew and understood how it was to be used. Until you know what challenges go with the position you won't know which of your selling points to talk about. To learn about their challenges you must ask them.

In the beginning of the interview ask your interviewer, “What challenges do you see as most significant for this position in the first six months?” Take careful note of his/her response. You will learn the “hot button” issues that you must key your capabilities to.

### 3. Match your skills to their challenges.

Here is where you get to sell yourself. Once you understand the critical skills they need for the job you simply share with them your success stories of when you have faced similar problems and how you solved them. Be sure to include the all-important benefit your company received. Start off your value statements with phrases like:

“I found a significant savings opportunity when...”

“My team gained efficiency when I discovered how to...”

“My boss achieved his quarterly objective when I...”

Remember, even if you don't get asked “why should we hire you” it is the underlying question and the point of the whole interview. Job interviews are your chance to sell your skills, talents and expertise. Before your next interview practice good salesmanship and prepare to sell yourself like a pro.

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Deborah Walker, Certified Career Management Coach has a 13-year successful track record of helping job seekers win their next job through better resume, interview and salary negotiation skills. Her career advice is used by professionals coast to coast in a wide range of industries and occupations. Read more career tips and see sample resumes at:

<http://www.AlphaAdvantage.com>

# PURCHASING

## Documenting Your Value to the Organization

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**Abstract.** Purchasing professionals of the 21<sup>st</sup> century are being encouraged by organizational leaders to move from tactical to strategic thinkers. Strategic thinking calls for

- Seeing the big picture.
- Knowing the mission, objectives, and goals of the organization.
- Focusing on the requirements of the internal and external customers.
- Understanding the ever-changing challenges of the organization in its effort to stay competitive in a global environment.
- Adapting quickly to meet those constantly changing challenges.
- Leveraging all resources to hit the financial targets of the organization.

The purchasing/supply department and all personnel must expand their skills to include critical business thinking and analysis. Strategic thinking demands that one thinks like a chief executive officer of the organization responsible for steering the company through both still and rough waters. This calls for making choices and solving problems that have the greatest impact on the financials, objectives, and goals of the organization.

In order for supply staff to think like business leaders, they must first understand financial terminology, financial documents, and the various ratios used to show liquidity, operational management, and profitability.

Organizational leaders keep their eyes on the scoreboard. That scoreboard may be any or all of the following:

- Bottom line
- Earnings per share
- Earnings before depreciation, interest, and taxes (EBDIT)
- Cost of goods/sales
- Cost per unit of product
- Carrying costs
- Inventory dollar value

Procurement personnel who consider themselves strategists report savings in the light of these new scoring factors.

**Objectives.** This article offers purchasing/supply professionals templates and explanations, which can easily be used to show the impact of procurement efforts on the financial report cards, objectives, and goals of the organization.

**Purchasing Multiplier.** This formula is a little known secret, which compares the impact of procurement savings to that of the efforts of the sales department. For every dollar saved by purchasing, the sales team would have to expend far more effort to reap the same impact.

1. \$1.00 saved by purchasing @  
5% profit margin (on sales)  
 $\frac{\$1.00}{5\%} = \$20.00$  in increased sales

\*Result of the \$1.00 savings has the same impact on the bottom line as a \$20 increase in sales!

2. Gross Sales = \$3,000,000 per year  
\$90,000 saved by purchasing through skilled procurement  
8% profit margin (on sales)  
 $\frac{\$90,000}{8\%} = \$1,125,000$  in increased sales

\$1,125,000 = 37.5% increase in sales  
\$3,000,000

\*Translation: A 3% reduction in cost of goods sold (reduced raw material costs) has the same impact on the bottom line as a 37.5% increase in sales!

\*Editor's notes

**The Report Cards.** The Income Statement and Balance Sheets of the organization offer information for exhibiting the importance and impact of the skills of purchasing professionals. If the organization is a publicly traded corporation, these reports are readily available. They may be found in the company's annual report or may be downloaded from the Internet. A few web locations that offer these financial documents are:

- [www.hoover.com](http://www.hoover.com)
- [www.marketwatch.com](http://www.marketwatch.com)
- [www.thestreet.com](http://www.thestreet.com)

If the organization is a privately held corporation, it is not required by law to make financial reports available to the public. Purchasing must enlist the assistance of the accounting department in providing these documents. If that is not possible, then numbers can be created to emphasize the impact with a note that the financial figures are examples only.

**The Income Statement**

Date: \_\_\_\_\_

|                                             |                     |
|---------------------------------------------|---------------------|
| Gross Sales:                                | \$1,000,000         |
| Cost of goods:                              | -\$ 400,000         |
| Material                                    |                     |
| Direct Labor                                |                     |
| Overhead                                    |                     |
| General &                                   |                     |
| Administrative Expenses                     |                     |
| <u>Gross Profit</u>                         | <u>\$ 600,000</u>   |
| Sales and Marketing                         | - \$ 100,000        |
| <u>Administrative Expenses</u>              | <u>- \$ 100,000</u> |
| <u>Profits before</u>                       |                     |
| <u>Taxes/Operating Income</u>               | <u>\$ 400,000</u>   |
| <u>Tax expense</u>                          | <u>- \$ 100,000</u> |
| Net Profit/Loss (Net Income or Bottom Line) | \$ 300,000          |

## The Balance Sheet

### Assets

#### Current Assets

|                      |               |
|----------------------|---------------|
| Cash                 | \$ 40,000     |
| Accounts Receivable  | 125,000       |
| Inventory            | <u>20,000</u> |
| Total Current Assets | \$ 185,000    |

#### Fixed Assets

|                            |                |
|----------------------------|----------------|
| Land and Building          | \$ 350,000     |
| Machinery and<br>Equipment | <u>200,000</u> |
| Total Fixed Assets         | \$ 550,000     |

#### Other Assets

|         |           |
|---------|-----------|
| Patents | \$ 50,000 |
|---------|-----------|

Total Assets \$785,000

### Liabilities & Stockholders' Equity

#### Current Liabilities

|                                        |                |
|----------------------------------------|----------------|
| Current portion of Mortgage<br>Payable | \$ 25,000      |
| Taxes Payable                          | 11,000         |
| Wages Payable                          | 30,000         |
| Accounts Payable                       | <u>100,000</u> |
| Total Current Liabilities              | \$166,000      |

#### Long-Term Liabilities

|                             |                |
|-----------------------------|----------------|
| Notes Payable               | \$ 85,000      |
| Mortgage Payable            | <u>225,000</u> |
| Total Long-Term Liabilities | \$310,000      |

Total Liabilities \$476,000

#### Stockholders' Equity

|                            |                  |
|----------------------------|------------------|
| Capital Stock              | \$ 50,000        |
| Retained Earnings          | <u>\$259,000</u> |
| Total Stockholders' Equity | \$309,000        |

Total Liabilities and  
Stockholders' Equity \$785,000

The Income Statement shows activity over a period of time usually since the last Income Statement was issued. The Balance Sheet shows financial numbers as of a particular date in time.

**Formula for earnings per share.** The formula for earnings per share is

$$\frac{\text{Net Income/Bottom Line (From the Income Statement)}}{\text{Shares of Stock Outstanding (Located on the balance sheet under Stockholders' Equity)}}$$

\$300,000 Net Income taken from example of Income Statement  
 Outstanding shares of stock = 50,000 shares of stock outstanding

\$300,000  
 50,000 outstanding shares of stock = \$60.00

Increase in Net Income of \$50,000  
\$350,000  
 50,000 outstanding shares of stock = \$70.00 (\$10 increase in earnings per share)

**Purchasing Savings.** All purchasing savings immediately impact the net income or bottom line on the Income Statement.

| Income Statement | Before savings | After savings |
|------------------|----------------|---------------|
| Net Income       | \$300,000      | \$350,000     |

**Return on Investment.** Supply managers expend energy in saving their organizations' money. They also may incur some expenses in travel, materials, etc. in their efforts to reduce costs. In the example below, the supply professional spent \$5000 in expenses and time to reap a savings of \$3000. The formula for return on investment is

$$\frac{\text{Savings}}{\text{Investment}} = \frac{\$3000}{\$5000} = 60\% \text{ Return on investment}$$

**Cost of Goods.** The cost of goods/sales includes direct materials, direct labor, overhead, and general and administrative expenses.

\$25 original cost of goods

Through direct material cost reduction and the increase in quality of material reducing direct labor costs of goods, per unit cost of goods decreased by \$3.00

New Cost of Goods = \$22 or a decrease in COGS of 12%.

**Inventory dollar value.** Purchasing staff has negotiated a consignment arrangement with a key supplier. Prior to this agreement, the warehouse held \$100,000 worth of inventory at all times on items supplied by this supplier. By storing the inventory under a consignment arrangement, inventory has been reduced by \$100,000 on the balance sheet freeing up the cash to use for other purposes. Also, the total value of the inventory has dropped by \$100,000.

**Inventory Carrying Costs.** Inventory carrying costs include the following

- Cost of money
- Overhead
- Damage
- Obsolescence
- Handling
- Computer storage
- Insurance
- Taxes

The company pays for inventory that is carried due to poor supplier performance. Through the implementation and management of a supplier performance program by the purchasing department, this additional inventory is no longer necessary. If carrying cost is calculated at 36% per year or 3% per month, this additional expense of holding safety stock can be eliminated along with 3% carrying cost expense per month. Inventory carried in the warehouse to cover possible supplier performance issues would add a carrying cost to the company of \$300 per month

**Total cost of ownership.** The total cost of ownership takes into consideration the impact on product cost due to nonconforming goods and late deliveries. It may include other factors that when improved due to supply management's expertise and efforts, reduce the total cost of ownership.

## ABC Company

| <b>FACTOR</b>                   | <b>Before</b>  | <b>After</b>   |
|---------------------------------|----------------|----------------|
| Unit Price                      | \$15.00        | \$15.00        |
| On-time delivery                | +\$2.25        | +\$0.75        |
| 1-%OT                           | (85%OT) – 15%  | (95%OT) – 5%   |
| Quality                         | +1.95          | +1.05          |
| % Reject                        | (13% Rejects)  | (7% Rejects)   |
| Lead time<br>1% x Cost per week | +1.35          | +1.05          |
| 1%/week                         | (9 weeks)      | (7 weeks)      |
| Discounts                       | 0              | -\$0.30        |
| Prompt pay                      | 0              | (2%/10Net 30)  |
| <b>TOTAL COST</b>               | <b>\$20.55</b> | <b>\$17.55</b> |

Purchasing has improved on-time delivery from 85% to 95%, decreased quality problems from 13% to 7%, decreased lead time from 9 weeks to 7 weeks, and negotiated 2%/10Net 30 payment terms with the supplier, ABC Company. The total cost of ownership has decreased \$3.00 per unit or 14.6%.

**Ratios.** There are many ratios that can be shown as the before and after due to savings by procurement. The numbers used in these formulas again are taken from the Income Statement and the Balance Sheet. These ratios are segmented to reflect liquidity of the organization or its asset value to the amount of debt it is carrying, funds management, profitability and long-term financial strength.

If purchasing decreases accounts payable numbers by reducing the cost to purchase goods and services, then the organization has increased its liquidity. Through strategic procurement, supply personnel reduce inventory, thus increasing the inventory turns ratio. This formula ( $\text{COGS} \$/\text{Average Inventory} \$$ ) measures how funds in inventory are managed within the organization. Purchasing staff's inventory reduction efforts also impact the average days inventory is carried in inventory formula positively.

**Summary.** Understanding and speaking the language of finance is one of the critical new skills that will move supply managers from tactical to strategic thinking. With a little study, practice, and adding the various templates to a computer program, anyone can plug in numbers to prove again what purchasing personnel already know. The purchasing/supply function has an awful lot to offer in keeping the organization ahead of the competition. However, it is important that the supply department identifies the particular financial report card or cards that the organization uses for documenting its value.

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SEMINAR/ WORKSHOP 2010  
On  
INTEGRATING THE SUPPLY CHAIN

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ISM MATERIALS MANAGEMENT GROUP  
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PMA-CLEVELAND. OH

*In conjunction with*  
Cuyahoga Community College, Cleveland, OH

## Negotiating the Supply Chain

***Working together to gain competitive edge in the global market place!***

The concept of Supply Chain Management inherently invites power struggles. Dr. Richard Pinkerton writes **“World class supply chain management requires mutual understanding, trust, collaboration and virtual communication among all major members of ‘the chain’.** It is a collection of many procedures, activities, programs, and agreements that the chain members understand, accept and trust one another to work together as a team. It may start with answers to the basic question, “Are we all talking the same language”? Do we really view each other as partners or adversaries? **Do we all have the same concept of SCM?”**

**This seminar will address these questions and more as we present ways to formulate working alliances among supply managers and the other major members of the Supply Chain both internally and externally.**

This program is designed for all who consider themselves a member of the supply chain: buyers, marketers, operations managers, and those who coordinate information and movement of material flow from supplier to customer.



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### **SESSIONS:**

1. **MARKETING and PURCHASING**; Partners in Supply Chain Management
  - a. Supply Management's Contributions to the Marketing Process
  - b. Supply Management's Contributions to ROI
2. **PURCHASING'S LINK TO OPERATIONS**; Purchasing's impact on costs and efficiencies
3. **PARTNERS IN LOGISTICS**
  - a. Working together to improve information flow.
  - b. Increased efficiencies in material movement.
  - c. Working to reduce transportation costs of moving material.
4. **NEGOTIATING THE SUPPLY LINK**; Improving buyer's ability to negotiate with suppliers.
  - a. Negotiating Price and More
  - b. Partnering to Win

This program is scheduled to be held in the Cleveland area on Thursday, May 20, 2010. Presenters to include practitioners from major companies in the Northeast Ohio area.

Save the date and Watch upcoming newsletters for more detailed information!



WISHING A HAPPY HOLIDAY SEASON  
TO OUR MEMBERSHIP—

FROM THE MMG/ELECTRONICS BOARD  
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