



Case Study: Two Financial Institutions spend fortunes on 1950s best practice while one stellar example shines.

Do what you do best, let us do the rest.

NaviSource Banking Solution

Many federal credit unions find themselves with a fraction of a person responsible for procurement. That is, limited resources sometimes mean that one employee is given responsibility for all of the buying, with only a few hours a week to devote to it. With procurement as a secondary responsibility, it's unlikely that the credit union employee tasked with it will have time to devote to learning or staying up-to-date on the kind of best practices that can reap numerous benefits for the institution — such as significantly reduced costs, higher quality products and services, faster delivery and more responsive customer service

from suppliers. On the flip side, some credit unions have developed highly evolved systems for ensuring that they get the best services at the lowest price. And many of their tools and ideas are also applicable to procurement activities in small and medium-sized credit unions. True, the resources and scale of buying may be different, but many of the practices translate perfectly.

Train specialists

With \$40 billion in assets, 3.4 million members, 180 branch offices, one million square feet at its headquarters, and over 7,100 employees worldwide, Navy Federal Credit Union remains the world's largest credit union. And with

\$300 million in contracted purchases and 25 employees in its procurement department, Navy FCU's procurement needs dwarf all other credit unions as well.

But, according to George Eichert, senior vice president, administrative services, who oversees the procurement function at Navy FCU, good procurement practices and principles, whether in a large or small credit union, are almost all the same. He sees only a couple of differences.

"One is that, in a large organization, you may have more staff who can become specialists, instead of being generalists," he states. For example, Navy FCU has specialists who are

How to Buy Better

25 specialists employment cost @ \$55k/yr = \$1.375 million/yr

training \$100k/yr - consultants \$100k/yr

good grief!! \$1.575 million/yr on procurement staff alone *NOT* including distribution staff / couriers / warehouses / trucks...

Navy's **TRUE** ordered-paid-delivered gem clip cost must be **ASTRONOMICAL....**

responsible for buying office supplies, office equipment, IT services, hardware and software, financial services, security services, training, printed materials, employee benefit services, real estate, construction services, maintenance, and so on."

The other, of course, is that, the larger you are, the more leverage you can exert with companies.

How does Navy FCU succeed with its procurement responsibilities? "First and foremost, when we need to buy something, we always look for best value," emphasizes Eichert. "We don't just look at price. We look at how responsive the company is going to be to our needs, we look at quality, and we

look at managing risk. That is, we need to know if there is a chance that the company could let us down at some point." Of course, for simple purchases, price will likely be the dominant issue.

Training is important, too. Navy FCU sends its procurement people to outside contracting classes offered by ESI International. "We arrange for each person to attend at least two classes a year, so we can keep their skills current," he states. "We also do some internal training, such as bringing our counsel in to provide some legal perspective."

The procurement department also provides training to the people in the business units it services. To this end,

the department has created a series of five classes on different aspects of contracts and offers each class at least once every quarter.

Balanced supplier relationships

In terms of dealing with suppliers, the department focuses on long-term partnerships when those make sense. "We want to create win-win relationships," emphasizes Eichert. "We view ourselves as having very strong ethics. We aren't interested in 'bossing' or 'posturing.' We want to create deals that result in mutual benefit."

While there are benefits to long-term relationships, there is also a risk of complacency. According to Eichert, it



Lessons to learn from other credit unions' procurement practices.

By William Atkinson

would be very easy for a supplier to allow pricing, quality or service to deteriorate if it felt that its customers weren't paying attention. "As a result, whenever practical, we seek competition among companies," he explains. "While we have long-standing relationships with companies, we look for competition where we can. This helps to drive down costs."

Long-term or short-term contracts? *vendor mgmt problem*

Navy FCU also conducts due diligence. It takes the time to research companies it hasn't done business with to determine whether they should be considered in the future. The organization also has long-term contracts for products and services that it purchases on a regular basis, as well as single-event contracts for specific projects. While there are advantages to long-term contracts (guaranteed pricing, etc.), there can also be some drawbacks (such as finding better deals in the interim).

Navy FCU has found the best of both worlds. For example, if it wants to establish a 10-year relationship with a supplier, rather than create a 10-year contract with that supplier, it might create a three-year contract with seven, one-year options. "This allows us to not have to re-compete if we choose not to, and the options are at our discretion," he states. "It also keeps the vendor on its toes. They know they have to perform if they want you to continue to pick up the option each year."

Working your internal relationships

At Navy Federal, the procurement department spends as much time creating and managing relationships and partnerships with its internal customers (the business units) as it does with its suppliers.

"We combine the business acumen of these units with the procurement strategy knowledge that our contracting specialists possess in order to get the best results," he explains. In fact, when asked to offer tips to procurement people in smaller credit unions, the most important one Eichert emphasizes is making sure that procurement people

become team members with their internal customers. "You don't want to be that 'little department off to the side with the green eyeshades,' where things get thrown over to you, and you have to figure out the best deal," he cautions.

Working closely with internal customers also means identifying the best strategy when creating supplier arrangements. "We work to bring the right acquisition strategy to the task at hand in order to generate best value," he states. These can include encouraging competition with a sealed bid that focuses on price, setting up a standard contract, setting up an incentive contract, or creating a selective bidders list and using a source selection process.

Make it fast!

Tower FCU in Laurel, Md., is the largest federal credit union headquartered in Maryland, with over \$2 billion in assets, over 115,000 members and 423 employees. It has a staff of 3.5 people in procurement. *and 10 couriers 5 trucks*

"Our goal is to get what we need at the right price at the right time," explains Kathi Weldon, purchasing supervisor. "We want the best price the supplier can offer, but we also understand that the supplier needs to make money, too."

Tower FCU has many long-term relationships with suppliers. "We like relationships where we are able to trust each other," she explains. "Of course, we still continue to go out and check to make sure we are getting the best prices and service."

With some products and services, the department utilizes contracts. "We may start out with just a one-year contract

with a new supplier to make sure things are going to work out," she adds. *when???*

A big emphasis in procurement at Tower FCU is on streamlining business processes. Weldon is always trying to think up ways to make things easier and faster. She also encourages her employees to do the same. "I have an open door policy, and I encourage people to suggest ideas," she states. Ideas can include faster ways to get checks delivered, reducing the number of people who need to "touch" something before it goes out and direct delivery options to branches.

The credit union also relies on technology to cut time and cost from the procurement process. "Technology enhances the capabilities of what we can do," she states. "We order a lot more on the Internet than we did 10 years ago. We can get much better prices this way for items we don't necessarily get every day." Tower FCU's purchasing system is also electronic, including purchase orders. It is currently working on an electronic requisition system.

Like Eichert at Navy FCU, Weldon emphasizes the importance of working with internal business units. "For example, a lot of the changes that we want to make can affect other departments, so we bring them in to make sure they don't have problems with it, or that there aren't internal audit issues," she notes.

- NAVISOURCE -

Would a procurement vendor work better?

Nevada Federal Credit Union in Las Vegas has 23 branches, 85,000 members and over \$800 million in assets. "Our overall philosophy is to do more with less," reports Paul Parrish, executive vice president and CFO. "We want to find the best possible deals in the marketplace in the most efficient manner."

So how many people does it take in procurement to accomplish this at a credit union the size of Nevada FCU? Actually, only a few people in the organization have responsibility for procurement, and their combined hours total less than one full-time person. In fact, the main person works on procurement only about one hour a day.

Online Resources

ESI International

www.esi-intl.com

NaviSource

www.navisource.com

How is that possible? Here's a little background: Parrish is the chairperson of Member Gateways, a national credit union service organization formed in the late 1990s. Twenty-four large credit unions participate in order to become a new product incubator for the credit union industry.

About a year ago, a company called NaviSource asked to get on the organization's agenda. NaviSource is a third-party procurement and supply chain provider that provides procurement, payment, distribution and warranty services. It utilizes a self-contained platform that manages a client's expense life cycle. It creates a direct line between clients and suppliers within a digital environment, which enables massive aggregation of products and services across the client base.

"When we first talked with NaviSource, it had already aligned itself with a large number of manufacturers, particularly in the area of consumables, as well as some equipment," recalls Parrish. "At the time, its primary market space was large hospitals that had a large and diverse procurement requirement." NaviSource was able to provide volume discounts to these hospitals because of the direct relationships it had with suppliers and the amount of business it sent to these suppliers. When NaviSource decided to expand into banks and credit unions, it asked to make a presentation to Member Gateways.

Nevada FCU became the first member of Members Gateway to participate, and it has not regretted the decision. "NaviSource took its Web-based procurement program and custom-fit it to us," notes Parrish. "It took a complete inventory of our consumables and stock items, and immediately guaranteed us a 10 percent cost savings on all of our consumables, just by utilizing the system. This represented about \$50,000 a year savings for us from the start."

Wave goodbye to the warehouse ... and the salespeople

Nevada FCU has integrated the NaviSource solution across its entire operation, so everyone is operating on its Web-based procurement system.

Nevada FCU receives one monthly invoice, which has been properly vetted and approved, and is then settled through ACH. "This eliminates all of our paperwork," Parrish notes.

In addition, the credit union no longer needs a warehouse to store its inventory. NaviSource arranges for the vendors to deliver directly to the branches. "Their system also tells us when we are running low on something and when it needs to be replenished," he says.

While the cost savings are definitely a plus, the real benefit, according to Parrish, is the uniformity and control it brings to procurement across the credit union's business units. "In most credit unions, they may say procurement is centralized, it really isn't," he points out. "People in a lot of other departments, such as marketing, IT and mortgage origination are making purchases." Not only do these "rogue" purchases not have proper cost controls, but paperwork control becomes a nightmare — with invoices sent across the organization to get approved, then directed to accounting for separate checks to all these vendors. "You also have to create, manage and sometimes change relationships with vendors, so it is very difficult to control and not very efficient," he adds.

With a Web-based system, everyone is online with one system, and the procurement department controls the customized catalog that is on the system. "In other words, folks can only purchase what we say they can purchase," he explains. "If they need something outside the norm, such as an ATM, they will send in a request."

The system has eliminated direct relationships between Nevada FCU and suppliers, which saves a lot of time. "We don't have salespeople dropping in at 1:30 in the afternoon just to say 'hi,'" states Parrish.

The credit union's assessment of this new way of purchasing? "We are thrilled with the way this is working out," replies Parrish.

In fact, Member Gateways is considering expanding to other member credit unions. This will create even more benefits. "We may be able to create some

What the big guys know

Key items to consider in improving procurement

- Invest in regular training for your procurement staff
- Work to train your internal procurement partners — the people in every department who buy
- Try Web-based procurement to limit out-of-policy buying
- Reduce the processing time on paperwork
- Work toward win-win supplier relationships
- Balance the benefits of long- and short-term contracts
- Consider using an outside procurement vendor

purchasing clubs ... which will help us secure even larger volume discounts than we currently get from them," Parrish explains. In other words, when it is time to order items that all of the credit unions need, they can create one large order and thus reap the benefits of further volume discounts.

Navy FCU's Eichert and Tower FCU's Weldon emphasize the importance of working closely with internal customers (business units within the FCU). Parrish echoes that sentiment, saying that the real key to success in working with an outside organization is to make sure it has the support of the whole organization. "Without support from the top, it won't work." The reason? A lot of managers have established relationships with suppliers and don't want to lose them. "They like the round of golf in the summer and getting the honey-baked ham at Christmas," he explains. "However, our president is solidly behind this, and everyone understands the benefits." 🐾

William Atkinson is a freelance business writer with more than 30 years of experience.

Reasons to get NaviSource:

- 1 Navisource "provides procurement, payment, distribution, and warranty services."
- 2 The Navisource "platform enables massive aggregation of products and services across the client base"
- 3 NaviSource yielded "cost savings on all of our consumables..."
- 4 NaviSource "eliminates all of our paperwork..."
- 5 "We no longer need a warehouse..."
- 6 The Navisource "system tells us when we are running low on something and when it needs to be replenished."
- 7 Navisource eliminates "rogue purchases [that do] not have proper cost controls."
- 8 "We don't have sales people dropping in at 1:30 in the afternoon just to say 'hi.'"

Nevada FCU has 23 branches, ...over 800 million dollars in assets. Procurement requires only a few people on staff, and their total time spent on procurement equates to "less than one full time person. The main person works on procurement less than one hour a day." !!

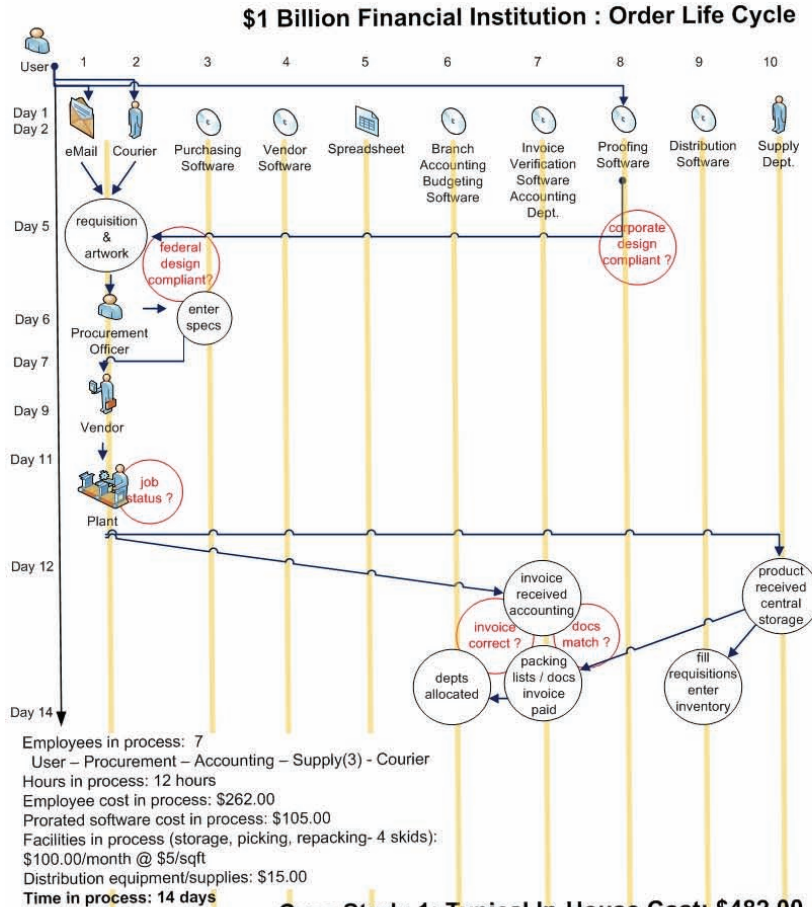
Reasons not to get NaviSource:

Managers like to get "a round of golf in the summer" and "a honey baked ham at Christmas" from suppliers with whom they have established relationships.

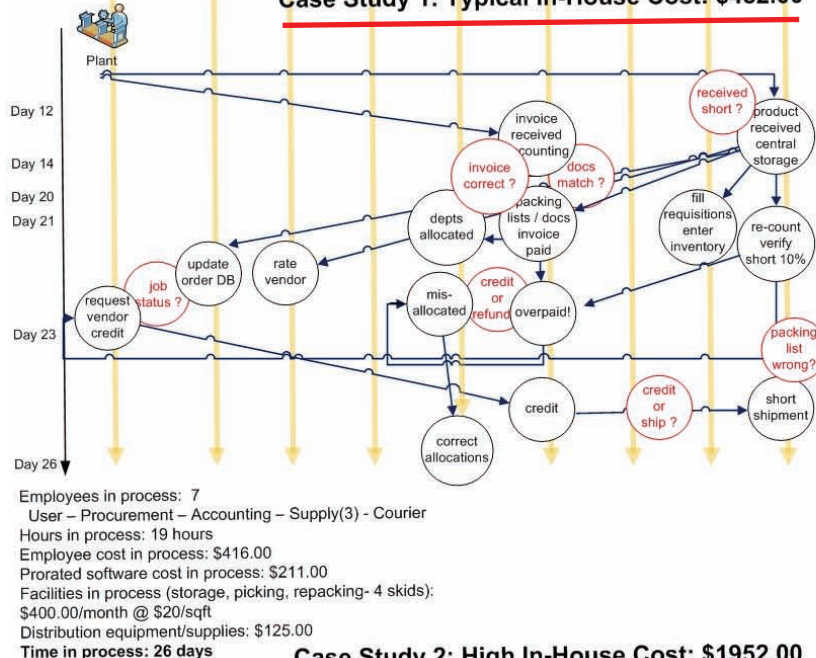
8 > 0 calling Navisource 800 233 5573 asap

= NAVISOURCE or a honey baked ham ;0

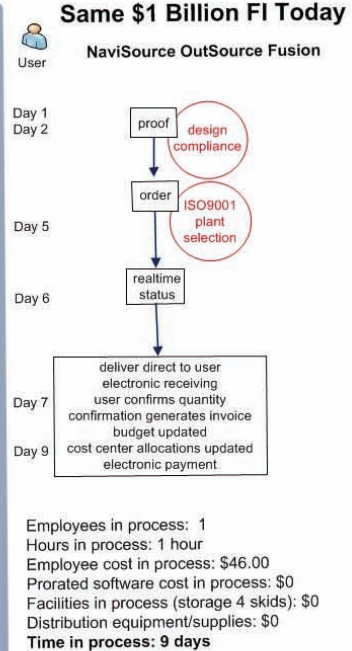
Straight Through Processing enables the entire resource management process for procure-to-pay-to-distribution transactions to be conducted electronically without the need for re-keying or manual intervention. Presently, the entire resource management lifecycle, from initiation to settlement to distribution, is a complex labyrinth of manual processes, a hodgepodge of software applications distributed across several departments. NaviSource cuts straight through to provide a quantum leap in accuracy and savings. Below are case studies from a \$1 Billion Financial Institution.



Case Study 1: Typical In-House Cost: \$482.00



Case Study 2: High In-House Cost: \$1952.00



Case Study 3: NaviSource OutSource Fusion

Cost: \$46.00
1048% to 4243% Savings
Reduction of 5 to 17 Days

