

Procurement – Lowest Price Isn't the Only Answer to Getting Better Value!

What is Procurement?

Procurement, buying, sourcing; ask any number of colleagues what they think or know of procurement and you will always get a variety of answers. For many it is seen as a function which supplies paper and pencils to others it is seen as a hoop through which they must jump to satisfy those in authority that the goods or services they want to buy are good value. As a procurement professional, I have found it both an interesting and frustrating view. However, it is a view which I can understand.

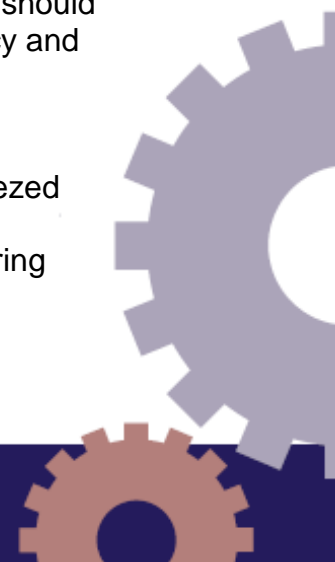
Lowest Price or Best Value?

In many companies, it is a sad fact that procurement is still seen simply as a reactive function whose only goal is to get the lowest price from its suppliers. How often do you hear, 'the folks in the Buying Dept will beat them down on price'? Laudable as this may seem, when you look a little deeper the most important element, value for money, is often overlooked entirely. In many cases the cheapest does not necessarily imply good value; indeed on large contracts many suppliers are adept at offering very low bids knowing that they will make up the profit later in the contract with unspecified extras. It is a sad but very familiar case that the short-term view is often taken at the cost of good longer-term economy.

Look at the Whole Process

A further element which is often overlooked is what a well run proactive procurement function can really provide. The question "are we getting the best price?" is more often asked than "are we buying the right goods and service for our company?" Moreover, the bigger question should be "are we looking at how we can get best possible value while reducing the costs of doing business between our key suppliers and ourselves?" A procurement function worth its salt will not simply be looking for the cheapest deal but will focus on looking to add value across the whole purchase-to-pay cycle. From the initial selection of goods, tendering, supplier selection and contracts, right through to safe delivery and correct payment, the procurement function should be ensuring that each stage is being carried out with maximum efficiency and minimum cost.

It is my firm belief that in many companies there is still much waste and unrealised cost reduction. With supplier margins continuing to be squeezed through competition (although valuable cost reductions can still be had through good negotiations) there are a bigger prizes to be won by ensuring procurement is undertaken professionally and with proper management control and visibility.



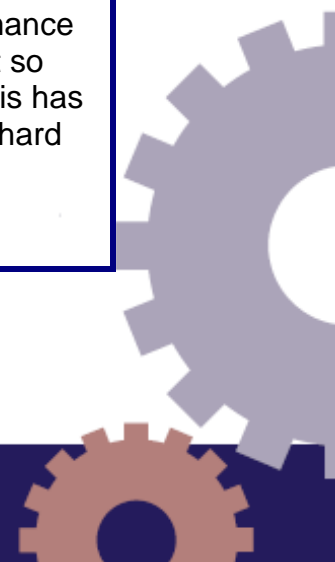
Another element not be overlooked is risk control. Although more difficult to tie exact cost reductions to this area, signing up to poor contracts can prove very costly and easily wipe out other value benefits. Common examples to look out for are lack of enforceable SLA's, inappropriate single-sourcing for mission critical goods/services, limited or no warranties and of course automatically renewing 'anniversary contracts' whereby if you miss the termination window you are locked into another year (or even longer!)

Case Study

A recent case study with a major financial player in the City of London offers a good example of what can be achieved. Although the company had a structured procurement function it had until recently operated solely on a tactical level, getting the best price on a purchase by purchase basis, but doing little to exploit wider saving and efficiencies. However, as part of a regular business review cycle, it decided to take an in-depth look at the procurement function and found some surprising and unexpected benefits. With the help of specialist consultants the company was able to overhaul their procurement processes all the way from setting a simple and workable procurement policy through to introducing automated online procurement and payment systems.

Although challenging in winning hearts and minds of the all company's staff, take up of the new online system freed up valuable procurement resource to concentrate on strategic initiatives. The whole process took under a year and although initial costs where in excess of £100,000, the first year annual (yes annual!) savings achieved were in excess of £2 million; so it had been a very successful exercise which exceeded all expectation.

One of the more surprising elements of the process was extent of the 'buy in' across the business. As soon as positive results and savings started to accrue, every area of the business showed an interest to such an extent that best procurement practice and ongoing supplier management is now seen very much as business as usual for all, from business unit managers to project managers. Suppliers are now engaged, not only at the right level but also at the right time. Former "comfortable" relationships with longer term suppliers now have an appropriate level of business tension ensuring that good value continues to be offered. All key suppliers have their performance regularly reviewed and the results are posted on the company's intranet so that all the employees can see how the suppliers are measuring up. This has also had a positive effect on the procurement staff as results of all their hard work is now much more visible across the whole company. A win- win situation by any definition.



A Final Thought

With the ever increasing complexity of IT and the supplies and service necessary to business, I have no doubt that good procurement practice will be a key differentiator in those businesses that will flourish and those which will flounder. The importance of getting good value and not just cheapest price can no longer be ignored. This holds true for large corporations as well as small businesses who want to grow. The better value you get from the spend on running your business, the better profits you can make. **And it all begins with best procurement practice.**

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