

Twelve steps to procurement heaven

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How happy are you with your procurement process? Is it adding measurable value to your business and increasing competitiveness - or is it just a cost centre that swathes every purchasing decision in bureaucracy?

Strategic procurement can be a huge competitive differentiator, but many companies without a defined purchasing policy are facing challenges that, in some cases, can take on almost overwhelming proportions. Typical issues are the use of too many suppliers for the same types of goods, slow and inflexible requisitioning procedures, too many low-value single line invoices, and poor supplier and account management.

Despite these challenges, buying success is not an unattainable goal. Follow these twelve tips, and good procurement practice will become part of your business-as-usual operations.

Setting Policy

Many people make the mistake of assuming that effective procurement starts with the tendering process. In fact it starts with establishing a comprehensive policy that provides the framework within which the entire purchasing activity operates. An incomplete policy leads to lack of control, duplication of effort and higher business risk. Conversely, a well-designed policy will minimise risk and ensure that procurement delivers value to the business.

A policy will, among other things, define best practice, establish the business goals for purchasing, outline the quality controls to be followed, and describe how procurement will help and support the organisation's wider strategy and ethos. Most of all, it will ensure that your people know what they should – and shouldn't – be buying.

Business Governance

As national and international regulation gets more stringent, it is essential that procurement processes are aligned with overall corporate policy. Every organisation should have a policy on corporate governance. Poor procurement can introduce unnecessary business risk in terms of both value for money and day-to-day operations of the company itself. On the one hand it may simply be paying too much for a service or goods, on the other a failure of key IT projects due to poorly-defined and contracted procurement could leave a company high and dry.

Purchasing Power

Under scrutiny, many organisations discover that they have a supplier base that is large and unwieldy – and spreads their purchasing power too thinly to allow for any quantity discounts and significant savings. But by consolidating deals and taking the long term view you ensure that economies of scale can be negotiated. You also become a key customer, leading to improved service levels.

Regularly reviewing your supplier base, and introducing appropriate processes, will ensure your purchasing power is maximised through identification of key suppliers for common goods and services. The result? Reduced costs, shorter procurement lead times and increased leverage on supplier quality.

Management Information

Good management information is key to ensuring you achieve good value for your corporate spend. Unless you know where your money is being spent, how can you possibly manage expenditure effectively? Comprehensive management information on expenditure should enable you to plan ahead and direct resources where they are most needed, where they will offer the greatest impact, and hence deliver maximum value.

Supplier Management

Most companies can name their top ten strategic clients. Very few can name their most strategic suppliers. Yet developing strong relationships with providers of goods and services, and actively managing suppliers, can reap significant long-term benefits. Quality and service are improved while costs are reduced. Suppliers are more likely to go the extra mile for a strategic partner than they are for a customer that only contacts them in an emergency or when the tender is up for renewal. Actively managing suppliers will ensure that inertia doesn't creep into the relationship, that high standards are maintained and innovation has the opportunity to flourish.

One of the most important aspects of supplier management is to ensure that proactive account management procedures are in place, and are supported by training for key account managers to maximise their effectiveness in handling the supplier base.

Legal Protection

When time is short and other matters pressing, it is all too easy to take a cursory glance at contract terms and sign them off. However, it is not unusual for things to slip between verbal agreements and their transfer to paper. Accepting contracts without scrutiny should be avoided in every instance.

Equally, setting up the right contract in the first place is crucial for effective procurement. Open-ended contracts for long-term projects, or complex deals outlined on two sides of paper will almost certainly cause problems later on.

Tendering Process

Tendering is an activity that can all too easily get smothered in process and procedure and lose sight of the business reality. Using tendering inappropriately results in far too much or far too little control. Automated tendering, in particular, can be over-used and lead to the selection of goods or services based solely on lowest cost and not necessarily best value.

In certain circumstances, tendering benefits from a more human touch: face-to-face discussions and the art of negotiation. The tendering process also needs to be appropriate for the goods or service being acquired. Procuring paper-clips is a very different matter from contracting consultants, after all. The same process is unlikely to work well for both.

The message here is keep it simple but ensure you cover all the key points, especially what you are expecting the services or goods to deliver.

Cost of Purchasing

As a function of the business, procurement is a cost. However, the extent of that cost depends on the efficiency of the processes involved. The most cost-effective will reduce overheads and improve responsiveness to the business. Organisations should, therefore, conduct regular assessments of processes and identify how workflow can be improved and invoice processing volumes reduced. They should also ensure that the procurement function is responsive to the changing needs and goals of the overall business.

Resources

One of the ways to reduce the net cost of procurement is to ensure that the right people are doing it. A skilled procurement team will maximise efficiency and thus reduce costs and increase business responsiveness.

Investing in your people, and ensuring that you have access to the right combination of skill sets will pay dividends in the long run, as will identifying areas for improvement in technical skills, business awareness and stakeholder management. Workshops for important resources, like key supplier account managers, can focus on specific areas for improvement, and will ensure that procurement stays on top of its game.

Value for Money

One of the biggest challenges facing procurement teams is to substitute the lowest cost option for that which offers best long-term value. Vendors who make cheap initial offers know how to boost their profits by adding essential extras, such as service and support, throughout the life of the contract. For any long-term purchase, be it goods or services, you should always look at all the costs involved.

For example, with support and maintenance contracts, the costs associated with any changes or amendments to systems or services you may need as your business changes are often overlooked. A nasty shock is the invariable result when they do occur. You should always assess cost and value over the expected life of the system or service contract.

Benchmarking

It's important to measure performance against other clients or competitors to ensure you are not out of step with what is being achieved elsewhere.

Review

Good procurement practice requires management, visibility and control. But once a strategic approach has been implemented, good procurement can always further improve service delivery, quality and competitiveness of the business as a whole. Regular reviews of goods and services, suppliers and processes are essential to maintain maximum efficiency and lowest operating cost. All businesses change over time - both client and supplier. It is natural, therefore, that the review process should be regular and ongoing to keep procurement in step with the business aims and strategy.