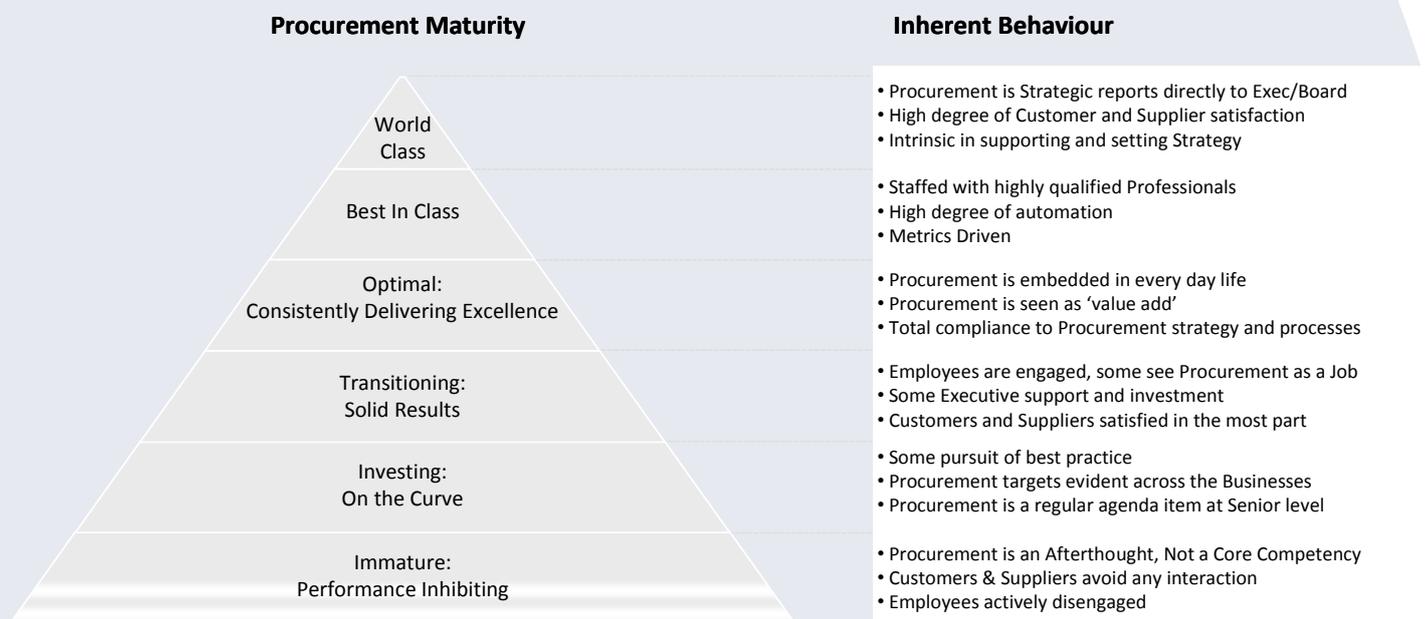




The current economic climate has reinforced the need to reduce operating costs. Historically, organisations have focussed mainly on their internal activities in order to deliver the efficiency savings and whilst some successes have been achieved, a major source of significant cost reduction has been missed – Strategic Procurement.

On average, more than 50% of value generated by organisations comes from outside the organisation, through the procurement of goods and services. In certain industries such as Construction and Oil & Gas this can be significantly more, with Governmental departments in particular having in excess of 80%. Traditionally these “outside” costs have been treated as an operational / transactional necessity. Many organisations still treat Procurement as a “Transactional” function not represented at Board level and not seen as an essential component of the organisation’s strategy.

Making the change from “Transactional” Procurement, to “Strategic Procurement”, requires full understanding and buy-in from the top of the organisation. It’s about making a Quantum leap in an organisation’s procurement capability. Only once this has been secured, can real change be planned and implemented.



Many existing Supply Chains have evolved over the years and have not been built in a structured manner. This leads to a wide variety of Suppliers, all with different levels of capability and performance. The first step in moving away from transactional type Procurement, to “Strategic Procurement”, is understanding the current state. This should include robust and transparent assessment of Spend, Suppliers, Processes, People and Technology. During this phase it is important to agree and document, with the wider business, exactly what it is the Supply Chain is expected to deliver.

Once the current state is fully understood, spend should be broken down in to categories that are aligned with the Supply Market. The Supply Market for the categories needs to be fully understood and all potential Suppliers identified. Depending upon the requirements, these could be local, national or international.

Structured comparison of the existing Suppliers versus the potential market needs to be carried out, in order to identify opportunity. Once the potential capability has been assessed and understood, Supplier selection can begin.

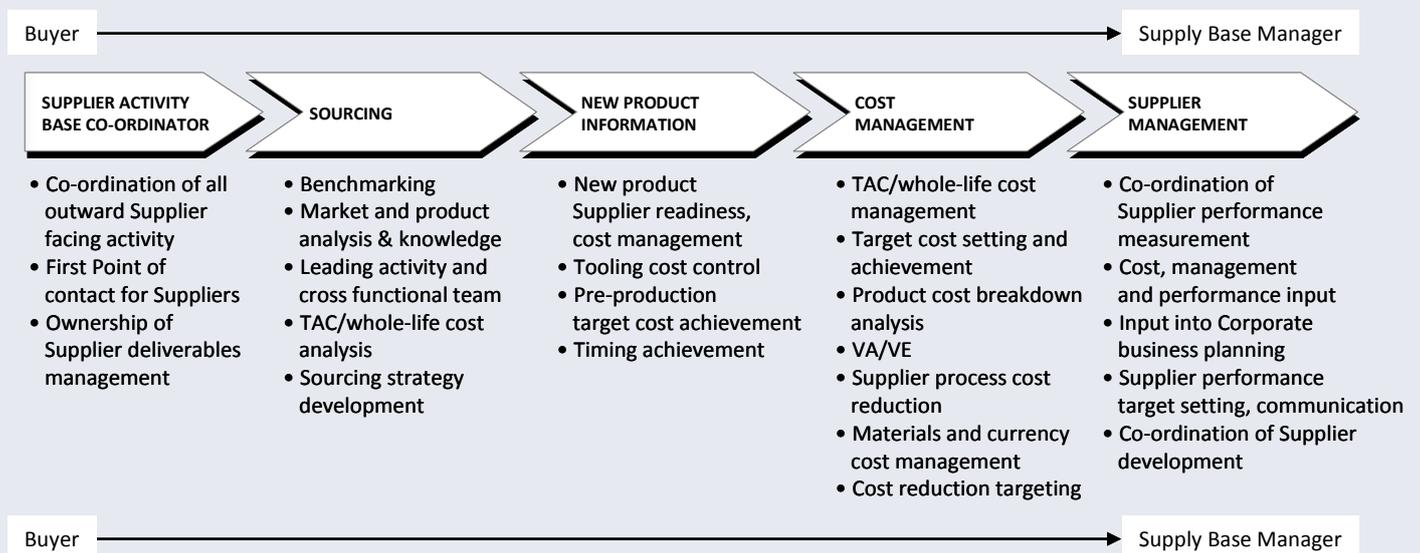


Suppliers need to be selected in a clear and transparent manner, with input and involvement from the wider business. Measures of performance, which are realistic and achievable, should be agreed with the Business and the Suppliers.

Transition from the old state to the new state, needs to be carefully project managed to minimise the impact on the business and the risk of failure. A poorly transitioned project can have very visible high profile failures, leading to lack of confidence from the wider business and undermining all the hard work done during the earlier stages.

Once the new arrangements are in place and the benefits are being realised, the successes should be publicised in order to raise the profile of the Procurement Department.

In order to deliver against the above, the right Procurement Professionals need to be employed – it's not going to happen on its own! The USA has seen the average salary for procurement professionals more than double in the last 10 years. Those previously earning US\$30k/\$35k are now earning in excess of \$80k per annum. A similar change is happening in Europe with high demand for skilled procurement professionals.



The Middle East, Africa and Asia Pacific are behind the line when it comes to Strategic Procurement due primarily to traditional buying practices, the focus on price as opposed to cost and a lack of senior management understanding of the significant benefits of Strategic Procurement. This is starting to change slowly however organisations need to get it right. Failure to implement an effective Strategic Procurement methodology will result in limited gains and little improvement in the bottom line.

Author:

Matt Harrison ACSP is an internationally recognised Strategic Procurement professional who has worked in both industry and financial services in the UK and Europe. Matt is the author of the BMTG UK Accredited Advanced Certificate in Strategic Procurement (ACSPtm) course which has been receiving very positive feedback in the Middle East, Africa and Asia.