

Many organisations view Procurement as a necessary evil in delivering their organisation's vision without truly understanding the tangible and sustainable value that can be delivered from a well structured Strategic Procurement strategy. Put simply, a well structured and effectively implemented Strategic Procurement strategy is a Force Multiplier: A simple 10% reduction in cost can easily translate into a 150% improvement in Net Profit as the Sourcing cost benefits from Procurement drop straight to the bottom-line.

Sadly however, the reality is that for many Organisations their approach to Procurement is devolved with Procurement functions consisting of people who are unqualified and ill equipped to manage such a critical element of an Organisation's Profit & Loss. Procurement is a Profession just like Accountancy or Marketing so why do many Organisations staff their Procurement Departments with people who are not qualified to undertake the work. The answer is simple: Procurement isn't seen as adding any financial value to the performance of the Organisation and this is wrong. Procurement has a significant role to play in the financial performance of any Organisation on the basis that a 10% reduction in costs is equivalent to increasing the Revenue line in an Organisation by approximately 38%. In the ever more difficult economic climate which is easier, targeting 10% cost reduction or increasing the Trading line by 38%. This is one of the many reasons that Procurement has a major contribution to make to the P&L and must be recognised as a critical element to any Organisation's success.

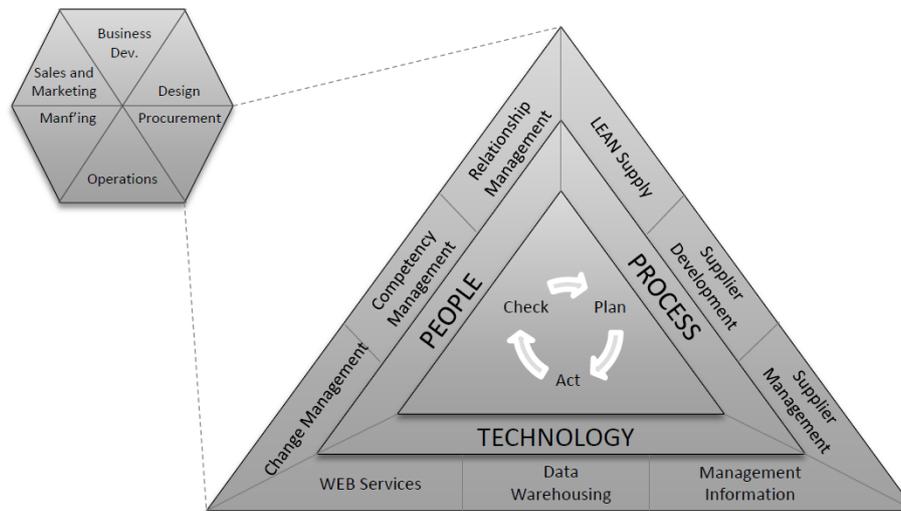
Of course some Organisations court the principle of Procurement but without really courting the ethos of Total Cost Management. Their Supply Chains become stale and they have evolved over the years in an unstructured manner. A great many Organisations unfortunately fall into the same trap by talking and focusing on Price when the real focus should be on end-to-end cost and, it's very seldom that an Organisation will target their Procurement Department on year-on-year cost-down opportunities. It may be an old cliché but unfortunately very true: If you always do what you have always done, you will always get what you have always had. This is true in most cases as Organisations continue to use the same old Suppliers using the same old methods in the same old manner and this is wrong. Third Party Suppliers should be seen as an extension of any Organisations Value Chain because inappropriate management of them costs money.

Procurement is seen as the Sourcing and Negotiation of a Product or a Service when in actual fact it is about so much more, but primarily it's about Total Cost Management. It's about robust and accurate specification, thorough Market Analysis, Best Practice Sourcing and Solid Performance Management. Anyone can negotiate and, we all do every day of our lives but it takes a Professional Procurement capability to manage cost on a consistent, transparent and sustainable manner.

There are many Procurement tools on the market that help Organisations buy whatever it is they need but it is people that make the difference. Put a novice driver in a Formula One car and the results would be a disaster, so why is it that Organisations expect amateur Buyers to deliver fantastic results. Would an Organisation appoint a Finance Director if they weren't qualified, it's unlikely, therefore, the foundation of any good Procurement Strategy starts with employing the appropriately qualified Procurement professionals.

Strategic Procurement isn't a Black Art, to get the very best results it's about keeping it simple. All too often Organisations implement a Procurement Department without properly understanding what it is they want or need from that Procurement investment. Very few Organisations take a holistic approach to Procurement which of course sadly ends in less than satisfactory results but the answer is simple: Qualified and properly trained Professionals, Solid end-to-end Processes, right-fit Technology and the appropriate Values that underpin a Best in Class Procurement function.

Building a Robust Procurement Function



Not every Organisation needs to be a World beater when it comes to Procurement however, to optimise the output from an effective Procurement Strategy there are three key elements that MUST be considered:

People: Procurement is a 'real job' just like Accounting and should be embraced as such. With the vast majority of organisation gaining more than 50% of their value from outside the Organisation, Procurement MUST be seen and treated as a key Function and staffed accordingly. The modern day Procurement Professional is responsible for: Coordinating all Supply Base Activity, Sourcing, New Product/Service Introductions, Total Cost Control, Cost Reduction, Supplier Performance Management, Year-on-year Cost Improvement and Supplier Development, to name but a few.

Process: The principle behind developing effective processes should be to maintain control/best practice, whilst at the same time not introducing bureaucratic inefficiencies. There is no 'one process fits all', principles need to be understood and applied in building the right processes for the Organisation. The Procurement of different goods and services will require different approaches. For example, Runners (products or services used continually by the organisation), Repeaters (products or services used regularly – they 'repeat' – by the organisation) and Strangers (products or services rarely used by the organisation) will all benefit from applying different and appropriate processes.

Technology: Technology has moved on, and continues to move on, at an incredible pace. The human race has collected more information in the last seven years than has been collected since the start of mankind. Incredible! Organisations need to select the right technology, and equally importantly, configure it correctly, to allow them to effectively and efficiently manage their operations. One of the biggest changes in recent years is the number of organisations employing web based technology, which is increasing their flexibility; home working; system access from any web portal, etc. System integration with Suppliers is now easier and more effective than it has ever been. Many organisations can now view products and services at any stage within the Supply Chain. The rapid development of hand held technology will only improve communications, transparency and visibility even more.

Author: Matt Harrison 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 Advanced Certificate in Strategic Procurement (ACSP) course which has been receiving very positive feedback in the Middle East, Africa and Asia.