

BUILDING BLOCKS & FUNDAMENTALS

Improving and sustaining the savings
from Procurement



Introduction

In many people's mind procurement is about cost savings...and at its core, that's what it is. But, besides savings it's also able to deliver a lot more, such as competitive advantage, innovation, headcount reduction, right-sourcing, CSR, governance, compliance etc.

To get the best out of procurement activity, even just to hang-on to any cost savings you've delivered, requires the right building blocks.

We call these the Fundamentals and for the purposes of our work classify them into:

Policy & Strategy

People & Structure

Process & Systems

Supplier Management & Measurement

Benefits tracking

The Benefits of Building Blocks

Think of it this way, if you get the Fundamentals right you'll be able to answer positively to the following questions; if they're not in place then the answer's a negative:

- What am I buying and how much it is costing?
- Am I buying at the best possible price, all the time and am I sustaining best pricing?
- Is my procurement aligned with and supporting my business strategy/plans?
- Is my procurement helping me get ahead and stay ahead of the competition?
- Do I know how who in my organisation is doing the buying, do I measure their performance and am I confident in their ability?
- Is my source-to-pay process efficient and effective?
- Are my procurement systems fit-for-purpose, integrated with my enterprise systems and do they make use best use of technology?
- Are my supply-chain risks identified, managed and mitigated?
- Do I know my key suppliers? Do I manage, meet with and listen to them?
- Do I know that I'm getting the benefits my suppliers have promised?

Overall it can boil down to one question, are all opportunities in my supply chain being exploited?





Strategy & Policy

Procurement is a support service, it's not complex but there has to be some strategic thought to ensure there's a vision for the people practicing it and that the vision ties-in with the businesses overall strategy.

Out of that strategy come policies which translate the policy into practical steps. Adherence to policies supports governance and compliance with laws/regulations.

From:

- Disjointed procurements practices
- Maverick buying
- Uncertainty over performance
- Issues around governance, CSR, ethics



To:

- Procurement fully supporting the business's goals
- Improved & consistent performance
- Compliance with regulations



Structure & People

A business needs a procurement structure that suits its goals, its industry and its culture.

On a simple level, think centralised versus decentralised and anything in-between. The structure needs the right people, properly trained and experienced

From:

- Unstructured & unclear responsibilities for procurement in the business
- Knowledge constrained within silos
- Unstructured & unclear responsibilities within procurement
- Minimal training / communication



To:

- Procurement integrated within the business
- The right people in the right roles
- Procurement's advice sought after by the business



Process & Systems

The source-to-pay process should be efficient, effective and controlled.

The systems should support that process.

From:

- No proper new-supplier approval
- No purchase order placement/recording
- Inefficient and/or manual processes inconsistent across the organisation
- Unwieldy systems not integrated with other enterprise systems e.g. finance



To:

- Easy-to-use, controlled & efficient process for procurement
- Strong governance and controls framework
- Proactive information management
- High data quality on spend analysis from ongoing monitoring

Supplier Management & Measurement



It's important to differentiate in your approach to suppliers through objective analysis and measurement. That obnoxious IT supplier may be unpleasant to deal with, but if their software is vital to your business and there's no ready alternative, then treat them like a partner.

Suppliers often know their part of your business better than you do. Listen to their ideas. Sure they want more business from you but if they're good what's wrong with that, after all it's what you do with your customers. Conversely limit your time with suppliers whose product is a commodity and can be easily sourced elsewhere.

From:

- Suppliers treated all-the-same irrespective of importance to business, spend etc.
- Service level agreements not defined
- Suppliers performance not measured
- Supplier ideas ignored



To:

- Suppliers treated according to risk to business, spend etc.
- Regular meetings with key suppliers
- Supply markets monitored & understood
- New/potential suppliers identified and met
- Supplier ideas sought and innovation welcomed



Benefits Tracking

Track to see whether individual suppliers are delivering the benefits they promised when you awarded them the work

From:

- Suppliers' promises and/or contractual obligations not monitored



To:

- Suppliers' performance measured and rewarded/penalised

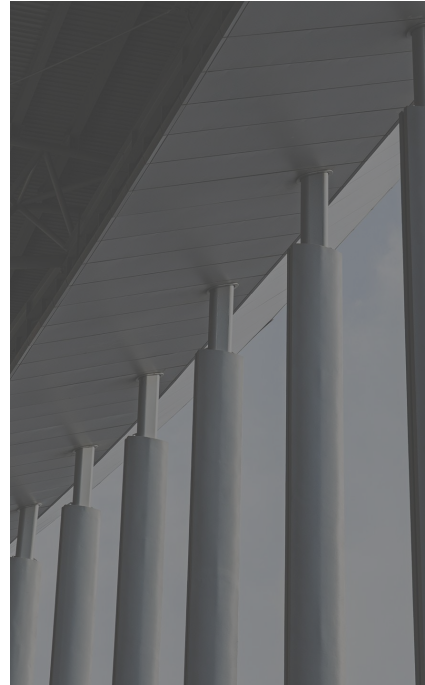


In Practice

We've recently completed a full review of the procurement fundamentals within a professional services firm, as a stand-alone project. The management of the firm were enlightened enough to recognise that, amongst other things, they had far too many people undertaking procurement activity, far too many suppliers and insufficient control over their supply base. Compliance with modern slavery, conflict mineral and other regulations was of particular concern to them.

We went through each of the Fundamentals areas in detail. Analysing their spend, interviewing their people, meeting suppliers, mapping their processes etc. We then described/mapped what their Fundamentals look like now ("As Is"), what they should look like ("To Be"), identified the risks of the "As Is" and the benefits of crossing between the two "The Gap". We produced and costed an implementation plan.

Despite the relatively low starting-point the cost of implementation was less than expected. In addition we were able to deliver the funding via direct savings we identified as we worked.





An Enlightened Approach

Getting the procurement Fundamentals right across the business will actually deliver more savings than simply concentrating on direct savings delivery in individual categories. What's more, if you don't tackle the fundamentals those savings will disappear as suppliers grab them back.

However, it's a rare client that will tackle them without linking them directly to savings initiatives. That's understandable, Fundamentals require more thought, more investment and the benefits, although significant, may well be intangible or difficult to measure. So, we often link them to direct savings initiatives by recommending the client uses the savings generated to invest in the Fundamentals.

Where we are appointed to purely deliver savings our approach includes monitoring and managing a supplier contract once it's in place. Effectively we provide the people, process, supplier management, measurement & benefits tracking.



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