



Purchasing Leader or Laggard

A guide for CEO's, CFO's and purchasing leaders to assess how well their purchasing organization, strategies & processes have adapted to changes in the competitive environment?

Many readers will be in the fortunate position of working in businesses that are growing strongly; others will be part of businesses that are in a dynamic rapidly changing market place whilst others are fighting for their very survival. In all these situations those organizations will be focused on the objectives of delivering sustained growth, customer and shareholder value and achieving improved profitability.

At Purchasing Practice we believe our experience places us in a unique position to provide thoughtful strategies on how purchasing can make a powerful contributions to these objectives. Through our experience we see companies whose purchasing organization, processes and competencies have fallen significantly behind that necessary to survive in today's competitive environment. The resulting outcome in these organizations is that at best, purchasing is failing to maximize its contribution to key business objectives and at worst, it is actually inhibiting the organization's growth and ability to compete.

Such organizations are commonly referred to as "Laggards", when compared against their counterparts the "Leaders". In purchasing, these laggard situations arise when:

- management is focused and devoted to meeting other business priorities
- insufficient understanding and expertise exist within the business of modern purchasing techniques to recognize and articulate its importance to the business
- simple organizational inertia

Symptoms:

Whatever the cause, the symptoms are typically the same; in these laggard organizations, key purchasing activities are functionally aligned, the purchasing department is relegated to the status of a service function, purchasing staff report at a low level within the business, staff skill levels have large capability gaps and management expectation of them is either non-existent or very tactical in nature. The focus of planning typically involves time horizons of less than 3 months and will almost certainly be purely reactive to internal stakeholders and outside circumstances.

Those within the organization including purchasing will see procurement as:



Ten Key purchasing skills:

1. Leadership, vision & political savvy
2. Ability to align sourcing strategy with business strategy
3. Strong change management skills
4. Strong Stakeholder management skills
5. Project management skills to deliver multiyear sourcing strategies
6. Knowledge of modern purchasing techniques
7. Relationship-building with suppliers
8. Problem-solving and high levels of numeracy
9. Effective and appropriate negotiation skills
10. Focus on underlying costs and value, not just supplier price

Table 1

- support function only
- RFP administration
- processing requisitions and purchase orders
- expediting & processing receipts
- managing inventories
- processing invoices
- releasing blanket orders

Furthermore, if at least 50% of your Buyers time is not spent reviewing requirements and performance issues with their stakeholders, visiting suppliers, researching supply markets, and developing longer term sourcing strategies that are aligned to your organizations objectives then the diagnosis is certain, but by no means terminal.

Why should this situation have developed and what can organizations do about it?

As businesses grow and develop the organization starts to segment and specialist departments are formed. In far too many businesses, however, purchasing remains un-segmented and functionally aligned. Specifically, this means that the transactional task of placing orders and expediting deliveries is not effectively separated from those activities involved in planning for cost and value improvement from supply markets. Since the transactional purchasing is focused on the day to day urgent priorities driven by its internal stakeholders, it is logical to recognize that buyers trying to combine both functions will always focus on those current urgent and important maintenance task to ensure tomorrow's delivery is on time or a critical purchase order is placed. Consequently, this will eat away any time they have for concentrating on the equally important but not as urgent development task of devising and executing proactive strategies to extract value from supply markets.

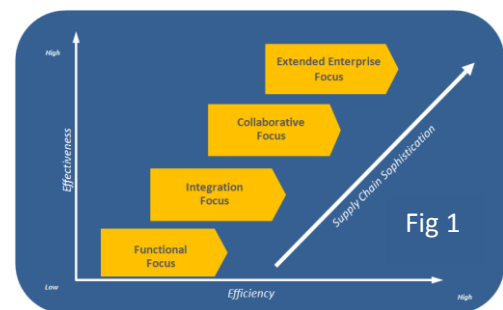


Fig 1

Also because senior management see most purchasing work involving transactional tasks, performance metrics become focused on:

- the number of orders placed or



- lead time to turn a requisition into an order

Whilst these are important to ensure operational efficiency they create no expectation of purchasing effectiveness regarding cost reduction or continuous improvement from suppliers.

In summary, a functional alignment and the failure to segment activity effectively is the key reason that organizations become trapped in the laggard state, and that this area must be addressed if purchasing is to evolve its performance to advanced levels (see Fig. 1).

Unfortunately, this is not as simple as splitting your purchasing team in two. Most of the additional complexity comes from the need to develop appropriate reporting structures, competencies, and match individuals to the new skills needed for effective implementation of a strategic approach to purchasing. These skills are shown in table 1.

Often in our experience many businesses will have people in their organization capable of undertaking a strategic purchasing role. These people may or may not be found in the purchasing function. By bringing these people together under a suitable reporting structure, equipping them with appropriate skills, and implementing robust processes and metrics that place the focus on cost and value performance, organizations can successfully implement strategic purchasing.

Visit the **Buying Magician Blog** to read **“Raising the esteem of procurement – strategies to break into the boardroom”** published in the March edition of Purchasingb2b
<http://purchasingpractice.com/raising-the-esteem-of-procurement/>

How then do purchasing leader organizations differ from their laggard counterpart?

- Procurement is recognized as a primary business process
- The purchasing mandate covers all areas of expenditure
- Purchasing is involved in new product & service development from the onset of projects.
- Purchasing is able to facilitate extended enterprise alliances.
- Purchases are segmented into logical spend categories
- Written 3-5 year category plans are available on major areas of spend.
- Multi cross functional teams are enabled to attack sourcing opportunities.
- Business analysis exists on all major categories of expenditure.
- Modern e-procurement tools are utilized to extract value
- Appropriate performance measures are in place.
- Benefits tracking is in place



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Does being a “Purchasing Leader” matter?

For organizations with less than 40 - 50 people the opportunities lost are relatively small. Once organizations grow beyond this point however, procurement and supply chain failure almost guarantees reduced performance.

Research has shown that leadership does not cost more, in fact it shows that purchasing leaders cost as a percentage of total spend is 25% lower than their median performing counterparts. Furthermore the return on this investment is 133% greater when measuring savings as a percentage of purchasing cost.

Hopefully the insight provided in this month’s Transform will prove thought provoking enough for you to consider what actions your organization needs to take to advance on the purchasing evolutionary scale. If not executives should consider that, if your purchasing profile represent 65% of total turnover, then the impact of a 5% improvement on the cost of goods sold (COGS) can yield a 36% improvement in net income and market value per share.

The risk of upgrading your procurement capability is low and the benefits can come in months not years. The question is “what kind of purchasing organisation will deliver the 5% reduction in COGS?” Certainly not one focused on transactional activities. More specifically, how does the purchasing practice’s being applied by your purchasing organization align to the real corporate goals and objectives towards which you are working?

For More Information

Purchasing Practice Inc can work with your organization to develop a strategic procurement approach that will positively affect your bottom line. To learn more, call 1-778-988-1052 to arrange a free consultation, or visit us at www.purchasingpractice.com

Purchasing Practice –*Corporate Procurement made simple*



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).



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We can help your organization “make change happen” in procurement. Our services include:

Transformation Management: We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

Opportunity Analysis: By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

Sourcing Management: Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

Category Management: We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

Supplier Relationship Management: We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Call us on 778 988 1052 or email us at info@purchasingpractice.com to schedule a consultation.