Reinventing the Purchasing Function:  
The Transition from Traditional to Strategic

By Brian G. Long, Ph.D., C.P.M., President  
Marketing and Management Institute, Inc.  
(269) 323-1531 brian@mmii.org

89th Annual International Supply Management Conference, April 2004

How can a purchasing department be turned into a strategic contributor? Many firms have turned the corner, and are now regarded by their management as an integral part of their strategic plan. Altogether too many others still have not made the change. Many believe that this is THE biggest challenge that the profession will face over the next ten years, and may even determine if the profession survives for the next fifty.

Historical Prospective. Over 120 years ago, there was born a separate organizational function dedicated to successfully procuring the goods and services necessary for the successful operation of an enterprise. The concept was so successful that even smaller firms and units of government at all levels embraced the concept of channeling the dollars spent through a department staffed by professionals dedicated to cost savings and service to the organization. With the passage of time, these professional “purchasing agents” developed paperwork systems and forms to speed the work of the enterprise, as well as ensure that all transactions were legal, ethical, and properly recorded. In short, it was a world of paper. It was a world of “IN” baskets and “OUT” baskets. It was thought that some form of paper trail should support EVERY transaction in the organization.

In the past thirty years, the flood of new technology has reduced the need for transactional paperwork. In some purchasing operations, the quantity of paperwork has declined to be only 1% of what it was just a few years ago. At the same time, cost reduction pressures have demanded that purchasers form relationships that simultaneously improve delivery, quality, and payment terms all for lower and lower prices. For many firms, extreme competition from the entire world has caused management to focus on the dollars spent and the services provided by the purchasing department more than ever before—forcing ALL major purchasing decisions to become strategic. In fact, the function of purchasing has transformed itself to a new level which many are now calling “Supply Chain Management” in order to reflect the broader scope and increased responsibility for purchasers to help meet the strategic goals of the firm.

The Transactional Department. With the industrial boom that followed the Second World War, all of America shifted into high gear to supply the world with an unprecedented array of industrial and consumer goods. Purchasing departments grew so large that many purchasers now preferred to be called purchasing managers in order to reflect the expanded role of the function. In this sense, purchasing became a staff function which provided a variety of services to the organization’s requisitioners. These functions included:

1. Source location. From the very beginning of the purchasing function back in the 1880’s, purchasing personnel had a “nose” for where to go to find just about
anything. In order to ensure job survival, some purchasers tried to keep these sources secret.

2. Budget control. Purchasing made sure that nothing was purchased unless it was supported by a properly executed and properly authorized requisition.

3. Order placing service. Since the proper placing of an order often took time in order to ensure accuracy and legal accountability, purchasing departments were thought to be providing a value added service.

4. Sales relationship management. Like flies to honey, the large amount of money expended by firms attracted hundreds to salespeople. The realignment of the sales and purchasing relationship which had taken place since the 1930’s has necessitated that almost all prices be negotiated down to reality. The purchasing function became synonymous with the negotiations function for many firms.

5. Expediting. Since both buying and selling firms became buried under mounds of paper moving throughout the U.S. mail and innumerable in-baskets, a newfound function of the purchasing operation was to utilize the telephone and any other means of verbal communication to ensure that an order would be delivered on time.

All of these functions were thought to be very useful thirty years ago. In fact, they corresponded to the paradigm of how business was done. Indeed, the purchasing office was a flurry of activity as requisioners delivered their written requirements to the department, salespeople paraded in and out of offices, panicked repair people begged for assistance, telephones rang, and typewriters clattered out purchaser orders.

The Paradigm Shift of the 1980’s. Like most changes in the industrial world, the new role for purchasing evolved slowly. In the 1970’s, only a handful of large corporations had computerized their purchasing functions. Even then, the purchasing computers were seldom integrated with the rest of the firm, and therefore took on the limited role of electronic record keeping. As the 1980s unfolded, technological advances resulted in the price of the computer falling so quickly that it became efficient to computerize almost every paperwork function in every firm. In doing so, the paperwork trail was replaced by an electronic trail that could now be more easily tracked and audited. Because of higher labor costs, the cost of paper transactions skyrocketed while the cost of electronic transactions continued to fall. Furthermore, concepts like summary billings and systems contracts combined transactions from hundreds to a fraction.

Along with computerization came the concept of using the computers of the major financial institutions to help control small transactions. Hence, the concept of the Procurement Card was born, and many small transactions were converted to credit card purchases.

The buyer-seller relationship also began to change. The concept of playing traditional buyer-seller games began to be viewed as counter-productive by both buyers and sellers. The “Win-Win” concept further evolved into partnering and strategic alliances. Both buyers and sellers found the questionable buying and selling tactics of the 50’s and 60’s to be less acceptable.

However, the pressure for cost reduction grew tremendously as foreign competition began to squeeze American manufacturers like they had never been squeezed before. As we ended the 1990’s on the edge of an economic downturn, management began looking for ways to
reduce the costs of materials and services. Hence, the terms “Strategic Sourcing” and “Supply Chain Management” began to be regarded as commonplace.

**From Transactional to Strategic: Making the Shift.** It goes almost without saying that truly strategic purchasing operations must BEGIN by fully implementing the full array of modern purchasing systems that are available. To begin, a firm must first get rid of at least 99% of all the transactions under $75 and dig the department out from under piles of paper and endless “emergency” transactions—all of which are usually under $75 as well.

It is surprising that the financial managers of a few firms have thus far been able to obstruct the implementations of modern credit card procurement systems. Aside from spend and convenience, part of the reason for farming transactions back to the requisitioners to buy immediately with a credit card relates to the relative low dollar cost of processing the transactions compared with the use of a purchase order. Almost all purchasers agree that the reports provided by the credit card company, when properly initiated, provide far more information and result in far more control over the small dollars spent by organizations than ever before.

A second innovation to rid the department of paper and shift to strategic sourcing grew out of the dot com boom of the 1990s. Whereas “point and click” ordering has yet to come to pass for any significant amount of raw material or capital equipment, major portions of the MRO transactions can be converted to on-line point and click contracts. Even the smallest of firms can implement an office supply contract with any of several major office supply houses. For this type of contract, service becomes a major decision criterion. Several other MRO areas include:

1. **Office supplies.** One of the easiest contracts to set up for firms of all sizes is a point-and-click contract for office supplies. Most of the major office supply houses will be more than happy to help with the minor technical details for the establishment of such a contract. Given that there is usually little difference between any of the major potential contractors regarding price, the REAL selection issue may be based on service. Good MRO contracts should NOT involve daily hassles for either the requisitioners or the contract administrator.

2. **Lab supplies.** Several major lab supply houses are set up with user-friendly catalogs that make it easy for requisitioners to log in and order. Substantial discounts can be obtained based on volume. After establishing the contract, purchasing takes on the role of a contract administrator – a strategic rather than a transactional function.

3. **Major MRO contractors.** Again, several major general MRO contractors have taken the lead in establishing user-friendly catalogs for direct point-and-click ordering. As with other electronic contracts, purchasing’s strategic role is that of the contract administrator.

4. **IT supplies and equipment.** Although IT contracts require more administration to prevent abuse, contracts of this nature are easy to establish. The level of service and the quality of the reports provided by many “point and click” IT firms often exceeds expectations.
5. Specialized MRO contracts. There are now a large number of industry-specific firms selling everything from lab supplies to plumbing supplies to bearings that have established excellent on-line contracts for use by purchasing personnel.

It is again worth noting that point-and-click contracts, just like credit card purchases, now provide the firm or organization with FAR MORE control and analysis of the various spending centers than any paper system provided in the past.

Profile of a Strategic Department. It almost goes without say that a strategic purchasing office is far more tranquil than those of thirty years ago. From the foregoing, it is obvious that the flurry of requisition is gone. Other characteristics include:

1. Purchasing professionals that spent considerable time at the supplier’s site. Needless to say, the real savings are most often identified at the seller site, not sitting in the purchasing office.

2. Conference facilities. With the collaborative decision-making, the need for small conferencing rooms is obvious.

3. Contemporary communication. Aside from E-mail and web access, the purchasing department should be located near the engineers, production controllers, traffic, and other individual departments that relate to the supply chain. Individual fax machines for each person are also helpful.

4. User friendly. In many modern purchasing operations, requisitioners are now referred to as “customers” to denote a positive tone. The reception to customers is also user friendly.

5. Strategic targets. Typical goals of a strategic operation may relate to the identification of new strategic sources, cost savings, strategic alliances, and other contemporary concepts. These goals are set in conjunction with upper management and relate to the firm’s overall strategic goals.

Converting The People. At the onset, it is worth noting that there is no magic system for dealing with people, nor is there a magic system for changing their behavior or upgrading their education. However, very few managers have the option of simply discharging a major portion of their present staff in favor of hiring new personnel. Furthermore, many people, when given the right motivation, resources, and support are more than willing to change.

The obvious first step is therefore to conduct a complete assessment of all professional people in the department. What is their basic level of intelligence? If they were originally hired just to be clerical people, is there any chance that they can be upgraded? What is their general attitude toward the job of purchasing? Is it just a job, or do they really want purchasing to be their life-long career? As one purchasing director put it, “Some of our people may not be on the same bus that I am driving.” Despite many years of dedicated service, some of these people will need to retire early or be shifted to other positions in the firm.
**The Toolbox.** Moving a purchasing department in a strategic direction is not possible if the people are lacking the necessary tools to analyze and implement decisions. Aside from having a well-founded background in basic purchasing, it is essential that all purchasers have a sound footing in contemporary negotiation skills. Put another way, the concept of hard-ball, old-school negotiation where the purchaser tries to out-trick the salesperson has little or no place in modern supply chain negotiation.

Other important skills relate to the analysis of cost. Altogether too often, purchasers have no idea how to dissect the price the seller has presented. Even fewer are able to work with the supplier to take the unnecessary costs out of the supply chain so that delivered prices can be reduced. In many instances, help is as close as the nearest junior college where it is easy to obtain coursework in basic accounting as well as more advanced courses in cost accounting, asset accounting, and general supply chain cost accounting.

Another skill set relates to the knowledge of the strategic commodities or services that must be managed and purchased. A contemporary purchaser MUST spend time studying the commodities they buy, and become an expert in the market for that commodity. Of course, they must also be capable of carrying on an intelligent conversation about the product with salespeople. However, discussing the technical aspects of the product or services that they need to purchase with the requisitioner/customer is equally important.

**Establishing a Program.** Upgrading the mission of the purchasing function begins with obtaining support from upper management. Few purchasing managers, if any, have ever been successful expanding the role of the purchasing department without some form of a dedicated buy-in from the people who must pay the bills and reap the rewards.

The next step involves upgrading the management system. All levels of purchasing management must be ready to coach, motivate, and evaluate all personnel at a strategic level rather than a transactional level.

A variety of resources are available for purchasing managers that want to upgrade their personnel, including local colleges and universities, seminars, and conferences. For multi-plant companies, temporarily shifting people from strategic locations to non-strategic operations for mentoring purposes can also be helpful. Seminars held by other departments can also contribute to cross-functional training.

**Establishing and Conducting a Strategic Seminar.** The experts who teach strategy in other professions tell us that the most effective means of imparting strategic skills is through the use of a series of case analysis exercises. Participants must come prepared to participate rather than just sit and listen to lectures. Other aspects

- Identification of a committed audience. Participants in a seminar of this kind must be prepared to participate in a group decision-making process.
- Short introduction to strategy. The seminar should begin with a basic foundation of a successful strategic plan.
- Case studies. The seminar participants should be broken into groups and asked to prepare a strategic solution to a problem posed by case scenarios.
Solution presentation. Each group should then present their solution to the problem, subject to the critique of the instructor as well as other participants.

Conclusions. Without a strategic mission, the purchasing function has a limited future. Although the functions performed in the past were essential in their day, the world of buying and selling has changed, and the competitive environment for most industries has changed as well. Forward thinking managements are looking at the supply chain as one of the most important elements of the firm’s success. Modern purchasers must rise to the occasion – or be lost.