World Class Strategic Sourcing Initiatives for Small and Medium-sized Procurement Organizations

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Abstract. Size really does not matter when trying to achieve world class status for any procurement organization. Yes, there may be limited resources, such as staffing, technology and dollars, available to small and medium-sized purchasing departments, but the key to success is more related to the development and execution of strategic planning than to having ready access to those types of resources. Do not let the fact that your firm does not have a state of the art e-procurement system or a multitude of external consultants at your beck and call persuade you from working towards the lofty achievement of world class purchasing. There is much you and your staff can do to become a first class operation. Such a venture requires a belief in yourself, your staff, and the ability of your function to have a significant impact on your company’s bottom line.

Definition of Small and Medium-sized Purchasing Organizations. I know of no clear cut exact definition of what constitutes a small or medium-sized purchasing organization. For the focus of this presentation I have decided to use dollars of purchasing spend processed through the supply chain management function. For a small-sized purchasing organization the annual billing dollars would be less than $20 million, while a medium-sized procurement department would have an annual billing of from $20 million to $500 million.

Objectives of Your Procurement Organization. Your first action plan should be to describe what it is you want your organization to accomplish. These objectives and their related goals should become the sign posts to tell all of your stakeholders what your organization plans to do in the coming few years. After you have spelled out these objectives, step back and consider if they are realistic. Do not be afraid to aim high in developing your objectives. It is more rewarding to be in a dynamic, forward thinking organization, than one that always plays it safe. Striving for world class status will not be easy, but it certainly will give every one the opportunity to grow as purchasing professionals.

Initial Operational Steps. Regardless of the size of your procurement organization, there are at least two preliminary steps to take that will help you create a solid foundation in your world class efforts. The first action is to perform a spend analysis. You need to know where the corporate monies are spent, especially in areas where you are currently working on and those expenses for goods and services that you aspire to assist in processing. Do not hesitate to think out of the box here. The results of the spend analysis can assist you in the following ways:

- Justify the time you are presently spending supporting certain products and services.
- Allow you to possibly shift resources away from products and services that are more transactional, with low pay back, than strategic.
- Assist in the development of strategic work priorities once you are ready to implement a full scale world class plan.
The second suggested initial action plan involves you and your staff developing a SWOT analysis of your entire organization. Having a realistic view of what your organization’s strengths, weaknesses, opportunities and threats are can be an enlightening experience for all. Be open to all types of feedback here, particularly if it involves you. Are you part of the problem, and can you be a part of the solution? The truth, especially if it is bad, might hurt initially, but it can also be a driving force on the road to improving your operation.

**Perceived Barriers.** I used the word, “perceived”, here because all too often some Chief Procurement Officers (CPO) use these “barriers” as excuses for not having their organizations reach their fullest potential. Some of these obstacles have included:

- Staffing
- Technology
- Resources
- Time
- Suppliers
- Customer Indifference
- Lack of Senior Management Support
- Not Having a Strategic Plan

Yes, these hurdles do exist in several cases, and they are real problems for any CPO, regardless of the size of the procurement organization. Overcoming these barriers can be both fun and rewarding in your quest to be world class.

**Staffing** Developing a staff that has the skills necessary for the challenges of 2006 is important. More emphasis is placed now days on the need for business and customer service skills on the part of the procurement professional. The quality level of the entire purchasing staff often can help overcome or reduce the lack of a sizable staff. Make sure that your limited staff is right for your quest for world class.

**Technology.** E-procurement and reverse auction systems are tools that allow for the processing of work. Neither by themselves provides savings or economies to purchasing organizations. It is the procurement staffs using these technological systems that can and often do result in savings. The technology involved here allows for the reduction in transactional time being spent by the purchasing staffs.

If you feel that you can not justify any new technology talk to other departments in your firm. Often Finance and HR will want a common software system to process their transactions. So when they meet with IT, join in on these discussions. If a suite of software support products is to be bought, than perhaps a purchasing system can be included at a much reduced price.

**Resources.** Recently a U.S. delegation made a presentation to a group of officials from China. There was one word, “stakeholders”, in the text of the presentation in which the Chinese representatives could not understand, as apparently there was no similar meaning word in their language. Stakeholders to a CPO should mean every one that has an impact on the procurement function. These stakeholders can and should include such parties as the
purchasing staffing, customers, suppliers, support personnel (such as representatives from Finance, Legal, HR and IT), and senior management.

There may not be much a CPO can do in smaller firms to increase staff, but there is always the ability to increase the role that some, or all, of the stakeholders have in the successful operation of the purchasing organization. Using folks in Finance on preparing periodic spend analyses can free up purchasing staff to perform other tasks. More and more purchasing departments are utilizing suppliers to provide in-house traditional and transactional buying processes in such areas as printing and office supplies. Perhaps the most critical stakeholder is the customer, whose collective input can allow purchasing organizations to work on projects that are more meaningful to the customers, and the corporate bottom line.

**Time.** Not having enough time is usually the motto of an average or below average procurement department. Time is a relative term. It is what you do with your time that matters. Moving towards having a world class purchasing organization will certainly push the time envelope. The key here is using your time smartly. It is very important to have an effective operation first, and then be efficient. You need to be effective, as that is doing the right things, whereas efficient is doing things the right way. Talking to your customers and senior management are excellent ways of learning what to focus your limited resources on.

**Suppliers.** The traditional problem purchasing organizations have had with suppliers has been trying to manage the vast number of such suppliers. I say traditional because many supply chain management departments have made great progress over the past few years to greatly reduce the number of suppliers, particularly those considered strategic in nature.

Today’s challenge with suppliers is to make them greater stakeholders in your organization. Suppliers tend to want you to consider other elements, besides price, in making the selection of supplier decisions. Ask your key suppliers to demonstrate ways in which they can be of greater benefit to your purchasing operation. There are two good ways to move suppliers in such a direction: scorecards and supplier councils.

Supplier scorecards can be used annually or more frequent, if necessary. Scorecards can give the senior management of your suppliers a much better insight on how the supplier-customer relationship is going. One of the scorecard factors should address process improvements and cost reduction ideas provided by the supplier. Supplier Councils can also generate a good cross-section of ideas that can help you with world class processes.

**Customer Indifference.** Peter Drucker once said that internal service providers, like purchasing organizations, only exist because their customers want them to. We also know that many of our customers think they are buyers and can do buying better than their purchasing staffs can. Are they right here?

Winning over the confidence of your customers is perhaps the biggest challenge in seeking world class status. This can be a hard road to travel, but one that must be followed, if success is to occur. The first step in gaining the professional respect of your customers is to meet with them. It is advantageous for both parties to make such sessions as open as possible. Some of the feedback you will receive can be down right painful. You will often run into the “perception vs. reality” gap with customers. This is not the time to challenge their statements,
be a sponge, absorb what they have to say. Take it all in and then incorporate their input into your strategic plan.

An excellent way to win over customers is to ask them to join a customer council. Such a council can be used to explain the way purchasing operates, as well as bring customers into some of the decision making processes, especially when they involve suppliers. Another approach to becoming closer to your customers is to ask them if you can join in their planning processes.

**Lack of Senior Management Support.** I have been in purchasing organizations that have had the full support of senior management and organizations that have lacked such support. Most procurement departments tend to have a rather middle of the road type of acknowledgement from their senior executives. The question in such situations must focus on “why” there is a type of indifference. In some cases, especially involving supply chain organizations in services-related industries, the CEO and other high level officers have never appreciated the full impact that a dynamic purchasing department can have on the company’s bottom line.

So that is your challenge! Make senior management aware that your department exist and then do something to catch their attention in terms of achieving cost reductions. A good way to start the education process is to gain a high level sponsor such as an executive vice-president or the CFO. Meet with such senior personnel over lunch or make a short presentation to them on the merits of your purchasing organization to the company’s profit results. That should catch their attention. Have some specific projects in mind when you have these sessions. Ask for their help in implementing new procurement-related ideas. Most senior executives are open to such actions. If you succeed on these early efforts you will have a true champion high up in the corporation.

**Not Having a Strategic Plan.** You would not think of driving three thousand miles without some sort of map or go to Hawaii without gathering information on places you may want to visit. Then why not have a strategic plan in place for your purchasing organization. You do not need external consultants to go in and develop such a plan for your operations. You are in the best position to develop a strategic plan that will take into account such factors as a spend analysis, systems support, available resources, help from suppliers, customer feedback, and the views of senior management. Now put your hard efforts from gathering information to work.

As I stated earlier make your strategic plan realistic and challenging. It will get you and your organization where you want to go much faster than just plodding along.

**Integrating Stakeholder Feedback with Your SWOT Analysis.** It is important early in the process to perform a SWOT Analysis to truly understand the dynamics of your purchasing organization. It is also critical to match up the results of this analysis with the various feedbacks you have received from your many stakeholders. Such a comparison will point out any strategic gaps in service. These service gaps should be addressed first. Resolving them should be a good way to build a solid foundation for your strategic plan.
Developing a Prioritized Strategic Plan. One rather elementary difference between a large purchasing organization and organizations that are much smaller tends to be the number of projects that can be undertaken at one time. In larger procurement departments several strategic initiatives may be ongoing simultaneously. That may not be possible in the smaller and middle-sized procurement departments, so it very important that the CPO determine the strategic priorities for all new activities. Taking on too much may result in no accomplishments. It is far better to select one or two strategic projects to start with. Achieving some results early will not only build up the confidence level of your organization, but that of other stakeholders as well. Good results, whether they involve increased savings or improved customer service levels, should generate additional results. The size of your purchasing organization is only a barrier to achieving world class status, if you let it be one.