

How is procurement strategically important to an organization?



Picture this. Each year an organization reviews a number of functions in detail for the annual strategic plan and this year procurement is among them. The hard-nosed CEO addresses his executive committee at the prep session for the Annual General Meeting. "Purchasing is a key operating component of our fine organization. If not for our excellent buying group, our expenses would be much greater and our bottom line much less. That is their role and they do it well. But purchasing is hardly a strategic function. Like our "bean counters" in accounting, we need them to do their job well, but we don't expect our support groups to bring in revenue, just to spend as little as possible to get the best possible products and services. And that's just what they do. Since their work has been going electronic and Internet based, they're

Sit down, take a deep breath, sip a beverage, open your mind and stay awhile while we chat with:



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saving us even more by reducing the human resource budget further. Others perform the strategic functions, but that doesn't make our procurement function any less valuable and nobody does it better." The CEO sits down, anticipating the reserved but sincere applause of his executives. He's a little disappointed though. The VPs of Finance, Administration, Planning and Operations seem

less than enthusiastic about his cheerleader remarks. What gives with them?

This scenario may occur less frequently than it did even five years ago, but how far has procurement come along the line of strategic relevance and mission engagement? Eric Johnston, formerly counsel at the Regional Municipality of Ottawa-Carleton, now with Perley-Robertson, Hill and McDougall, speaking at the Canadian Institute conference on Public Procurement in Toronto, January 2005 told the audience that: "Procurement is more than buying goods at the best price... [it is] a fundamental part of the overall government plan and must be built in." He went on to say procurement is inextricably tied to the strategic objectives of the organization and procurement should have representation on management boards.

So, how far up the organizational flagpole has its banner climbed? Let's see. We're lucky enough this time around to chat with an important academic thinker and an experienced feet-on-the-street practitioner. Michiel Leenders, Professor at Richard Ivey School of Business, University of Western Ontario, is one of the most respected academics in the procurement world. And Lynda Allair, CPPO, and procurement manager for the Centre for Addiction and Mental Health in Toronto, gives us a viewpoint from the crucial MASH sector. So, where does the profession stand on the strategic value continuum ... let's chat and see!

More than meets the eye

Leenders: The strategic contribution of supply has a longer-term, broader perspective focused on organizational goals and strategies and the external customer's satisfaction. Because the supply function is simultaneously exposed to the needs of the organization on one hand and the market on the other, it is in a unique position to identify and exploit opportunities not apparent to others in the organization. The strategic perspective on supply goes beyond operational needs into risk management, technology, competitive intelligence, and continuous improvement. It requires that top management be significantly involved in the creation and execution of supply strategies and also be in direct contact with the top management of key suppliers.

Allair: Procurement is the common point of contact for departments in an organization, a central repository for corporate knowledge of acquisition of goods and services. Effective procurement departments operate on a corporate oversight perspective. They evaluate the 'total cost of ownership' of products, providing a durable product while minimizing operational support costs. They provide assistance in determining alternative acquisition and payment methods. Procurement functions compile and analyze historical data to identify opportunities for cost avoidance, standardization of goods and services and implement pricing agreements for goods and services based on volume or criticality, and corporate-wide services contracts. They also consider issues such as longevity of items and future redeployment of assets, and bring consistency to due diligence aspects and legal compliance for procurements and reporting requirements.

Can't get no respect (homage à Rodney Dangerfield)

Allair: Procurement personnel are knowledgeable in a wide variety of issues and can engage a network of colleagues and other resources in order to provide information and advice. Unfortunately, procurement skills are under-utilized and procurement staff, to a large extent, are still seen as transactional only – that is, clerical. That means employers are not benefiting from the skills available. For example, the front-page news scandals in our national newspapers recently often seem to point to purchasing processes breaking down, and the reputation of all purchasing staff is thereby tarnished. In fact, the purchasing processes did not break down, but were, instead, not followed. Procurement staff can't employ their skills if they aren't involved in the work, although they quite frequently assist with the resolution when things go wrong. As employers recognize and appreciate the competencies of procurement professionals, their ability to 'operationalize' the organization's mission and vision, to drive added value into the resulting goods and services and the impact on delivering quality products and services can only be enhanced.

Leenders: That organizational objectives and strategies cannot be set independently of the market on the supply side should not be such a novel idea. After all, most organizations recognize their dependence on the external customer market. Unfortunately, the prevalent management notion that whatever is needed can always be procured has obscured the need for careful supply market assessment along with customer market evaluation. The reality of this need dawns when significant shortages or change such as military conflict, OPEC restrictions, or agricultural disasters occur in supply market.

Get the act together

Allair: As my mother always told me "a penny saved, is a penny earned" and

any cost avoidance goes directly to an organization's bottom line. Value analysis can ensure expenditures for an organization are reduced or at least held in check, while the quality of the goods or services provided improves. Perhaps because we don't have a vested interest in the acquisition of particular goods or services, the procurement function can be more objective throughout the process and ensure the best buy for our employer while maintaining a fair, open and competitive market for suppliers. We are the common point of contact for both sides in any procurement opportunity and have an understanding of both sides' needs. Our negotiation and communication skills permit us to orchestrate a win-win outcome. After all, we use the products and services, too!

Leenders: The strategic contribution of supply requires the function to ensure that suppliers, and the way the organization relates to them, become and remain a source of competitive advantage. The strategic perspective on the supply function sees it as part of the engine that drives the organization to future success. It puts the purchasing function and suppliers directly on the team as players instead of on the sideline. It requires a longer-term, much more aggressive perspective of the purchasing function and of suppliers. It requires that organizational objectives and strategies incorporate supply considerations and opportunities. Supply objectives and strategies should be congruent with organizational objectives and strategies. Equally important, organizational objectives and strategies should appropriately reflect supply opportunities as well as supply constraints.

Two and two makes four plus

Leenders: For organizations that purchase significant amounts of commodities, price and availability fluctuations can represent significant risks. For a candy bar manufacturer, for example, fluctuations in the price of cocoa and sugar may

well represent one of the largest business risks to which the organization is exposed. New technology represents another area of opportunity and risk on the supply side because of its rapid introduction and potential for making previous supply solutions obsolete. Purchasers should be sensitive to news about new technology in the market, be able to assess its potential impact, and ensure its conveyance to suppliers and internal and external customers where appropriate.

Allair: Procurement is the key strategic element to measure supplier performance and to manage the organization's supplier relationships; employ best practices and monitor market trends; and to research and keep apprised of emerging technologies. Organizations are beginning to recognize the value-added benefits that trained procurement staff can bring to their organization, just like any other profession they employ. Is this the reason for the current focus on procurement staff training and certification, as well as reviews of procurement practices? Personally, I'm not sure that this activity is for the right reasons, but I'll take training for my staff and an improved profile by whatever means possible.

**Next
chatroom**

**How is
emergency
procurement
different**