

Monthly reflections on the journey towards excellence in Procurement and Supply Management

Do you have untapped sources of value?

Procurement and Supply Management is one of the most important commercial disciplines of an organisation. In the drive towards functional excellence, the breadth of commercial thinking should extend well beyond unit price savings to more complex and less obvious sources of value. This article identifies some examples in four key areas: (1) Internal Capability; (2) Effective Sourcing; (3) Supplier Relationships; and (4) Risk Mitigation.

(1) Internal Capability

Is your organisation's third party spend transparent (e.g. through a data warehouse)? Is there any spend that is non-productive and can be eliminated? Are the right financial controls in place to challenge expenditure? Are your processes efficient and systems enabled? Are the root causes of errors identified and addressed (e.g. through Six Sigma)? How do you monitor compliance by users to preferred suppliers? Do you carry out spot audits to check invoice accuracy? Have you established robust contract templates that can be leveraged? Have you optimised the "boundary of the firm" (e.g. considering relative capability, market competitiveness and whether the service is core)? How do you optimise working capital (e.g. inventory levels and trading terms)?

(2) Effective Sourcing

Like any project ... and sourcing is a project ... most value is created up-front, i.e. before the market is approached. How accurate is your organisation's demand forecasting? Do you aggregate spend of common products and services across your organisation? How do you evaluate the choice between "take or pay" commitments vs "frame agreement" flexibility? Are specifications standardised and/ or optimised (e.g. through value engineering)? Do you apply "work activity norms" to services spend? How do you evaluate "lease vs buy" (where applicable)? Are you identifying emerging potential suppliers (both global and local)? How do you assess the long term sustainability of potential suppliers? How do you decide whether to use distributors or other intermediaries? Are you evaluating supply options according to "Total Cost of Ownership"? Are you aware of trends in input costs? Can you derive "should cost" models to support your negotiations? In which currency should you source from a particular supplier? Does hedging of currency or prices make sense? Are you actively driving competition within the supply markets? How frequently do you go out to market?

(3) Supplier Relationships

Post contract award, value can either be leaked or enhanced depending on how well supplier relationships are managed. Have all contracts been assigned a contract owner? How effectively is compliance with contract terms (e.g. price, quality, service levels) monitored? Are suppliers segmented according to Business Impact vs Supply Risk (ref Kraljic Matrix)? Do key suppliers receive extra attention (e.g. senior relationship owner, formal quarterly performance reviews)? Are improvement ideas and innovation from suppliers actively sought?

(4) Risk Mitigation

Risk is the potential that an activity or action (or indeed inaction) will lead to a financial loss or other undesirable outcome (e.g. impacting safety, environment, reputation). Mitigating risk therefore reduces both financial and non-financial losses. How robust are your risk identification, assessment, prioritisation, mitigation, and monitoring procedures? This will be discussed in more detail in a future issue of AHA

Finally, it is worth stressing that the unlocking of the above sources of value is dependent upon the function extending and developing its professional competencies, e.g. in strategic thinking, stakeholder engagement, market intelligence, economic evaluation, and risk management - again, the subject of a future issue of AHA.

If this article triggers an "aha moment" that you wish to discuss further, please contact the author:

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