

There's More to Good Purchasing than Price Alone

How do you persuade your team and your board-level managers that there is usually far more to good purchasing than price alone?

By: Mark Stevenson, Supplier Services Manager, ProcServe

Enlightened procurement professionals agree that there is usually far more to good purchasing than price alone. But as the CPO at an organisation where price rules, how do you persuade your team and your board-level managers?

Procurement is about more than saving money; it's also about making money. A well developed procurement strategy aligned with a proactive approach to supplier relationship management can actually increase an organisation's competitiveness and ultimately its profit-line.

Yes, negotiating discounts plays a large part in the procurement role, but buyers must look beyond their four walls and immerse themselves in the supplier's world to identify hidden costs and improve how the overall trading relationship works.

For example, consider the costs that your suppliers can incur in trading with you. The price you pay for goods and services will often be calculated on a 'cost-plus' basis. That is, the supplier calculates the total cost of a transaction and adds their profit margin to calculate your buy-price. There is only so far you can squeeze this profit margin before it rapidly becomes un-economic for your suppliers to trade with you, or worse, they look to save costs by down-grading the quality of goods and services and reducing customer support.

A better approach is to look at reducing your suppliers' costs. This will increase the potential to negotiate improved terms over and above what traditional negotiation allows:

- Use eCommerce - adopt eProcurement tools to eliminate paperwork within the Purchase-to-Pay (P2P) process. This will reduce the numbers of expensive sales people required to process your transactions.
- Eliminate invoicing - Instigate ePayment or self-billing practices to pay immediately upon successful receipt of goods or services. This will greatly enhance a supplier's cash-flow position and eliminate invoice queries.
- Manage transactions - try to aggregate small-value orders into single Purchase Orders and try to ensure orders are placed at times to suit a supplier's logistics requirements.

By reducing the supplier's cost-floor you are increasing their profit margin. Aggressive buyers will want to negotiate this extra margin as additional discounts; smart buyers will negotiate a win-win whereby your buy-price is reduced but the supplier is allowed to retain some of the extra margin.

A win-win relationship of this type can create powerful differentiators for your company. If the same supplier earns 10% profit margin from you and 5% from your competitor, your business becomes more important to them and you will enjoy preferential treatment. This may involve trialling new versions of products, conducting joint marketing campaigns and having first-option when stock levels are low -- all of which allow your company to steal a march on your competitors. The trick is to achieve this whilst also enjoying a lower buy-price than your competitor.

By focusing on supplier management rather than tactical purchasing, procurement moves from being an administration overhead to a strategic part of the development of a business.