



## Reducing the costs of administering procurement

There is an increasing focus across both the public and private sectors on procurement. In the public sector the focus has been on money being wasted, and the need to make spend more visible, and so, more accountable. In the private sector it is primarily driven by the recession, and the need for businesses to save costs, streamline business processes, and improve their competitive position.

Most recently in the public sector the MOD has come under attack for delays and in particular wastage caused in their procurement processes. The recent study by Bernard Gray which investigated this area found that on average defence programmes are five years late into service and as a result cost an extra £300m.

Further, the Conservatives recently announced that if they were to gain power at the next election, they will publish all central government deals worth more than £10,000.

In the private sector the economic climate has brought a renewed focus on making improvements. It's hard to get credit, margins are shrinking, and customer expectations are rising. Companies need to control spend and reduce costs to ensure adequate cash flow to stay afloat. Procurement is one area of focus where businesses are looking for changes to support this current focus.

This whitepaper will look at the pressures businesses face in today's economic climate, the drive to reduce costs, and procurement's role in this.

### Responding to the economic climate and staying ahead of the competition

In difficult times the tempting thing to do is to continue with practices exactly as they are in the hope to ride out the storm of the crisis. However, realistically businesses know that they need to do more than this if they are not only going to survive, but to develop and stay ahead of their competition. An economic crisis isn't an easy time to make changes but it's a time when few businesses can afford not to. Organisations that respond, change, and develop retain the best chance of taking advantage of their competitive environment.

Companies are thus faced with a stark choice. Sell more or reduce costs. To sell more during a recession is not necessarily an easy or realistic goal, and therefore the focus more often than not falls to reducing costs.

Redundancies are often a focus of cost-cutting measures; however customer expectations during the recession have continued to rise. Cutting staff can directly impact the service customers receive, and poor service is a primary driver for customers placing their loyalty elsewhere. In addition, removing staff from your business may save costs in the short term, but when the economy picks back up again you may have a shortage of skilled staff in place to develop the business in more buoyant times.



So cost cutting measures need to start elsewhere.

## The role of procurement

Procurement managers have a vital role to play in managing and reducing costs. They are in a position both to monitor and reduce the costs of purchasing across the entire business, and as we shall see, also to improve margins and added-value across the business.

The ultimate aim is to make improvements to working capital optimisation which can fuel growth initiatives for an organisation. With restrictive lending practices in operation, adequate cash levels are required for the survival and development of a business. Better management of working capital will free up cash to enable this.

Reviews to your sourcing strategy should look at both direct and indirect spend for maximum results. Whether purchases are for components in manufacturing, or for purchasing professional services, procurement has a vital role to play to ensure that all spend is necessary and at the best cost to the business.

However, to have maximum impact within procurement you need to go further than merely reducing the prices of the goods you buy.

The following sections will look at a variety of measures that should be considered, and also practical ways to implement changes.

## Reduce costs of purchasing

There are two main elements to consider when reducing the cost of purchasing, first of all reducing the cost of goods, and secondly looking at unnecessary spend within the business.

When was the last time you reviewed the prices you are being charged for key purchases? Many suppliers are used because 'that's how it has always been'. But if you are looking to develop your competitive advantage, you need to review these historical practices. Renegotiate prices where you can, or change to alternative suppliers where necessary. You may well be paying over the odds for standard purchases which you could easily source elsewhere.

Review purchases made across the business. How many are necessary and how many happen because, well, they always happen, the age old 'that's how it has always been' again. By reviewing buying habits across the business you can identify and strip out unnecessary spend. Processes should be in place that ensure only necessary goods are purchased, and at the best price.

So, all well and good in theory. Taking the action above may ensure the lowest price is gained, but what of the whole price? Is the lowest price really the best price for the business?



## Reduce the whole price of purchasing

Through changing suppliers you may run in to supply issues, short deliveries, late deliveries. When purchasing to in turn supply goods to customers you could be increasing your incidences of out of stocks, and the inevitable knock on impact of customer service levels to your own customers. This is where proper research, proper negotiation, and stringent SLA's come in to importance.

Further, changing suppliers can mean extra administration of setting up suppliers' details on your systems and maintaining these ongoing. Adding to your already 'long tail' of suppliers. A way to avoid this issue is through a procurement system. Invapay for example acts as an intermediary between the buyer and the supplier. As the buyer you need only to set up one master supplier - Invapay. Invapay will then deal directly with the suppliers of your choice. You place your order for a supplier through Invapay, and Invapay does the rest, including paying the supplier within five days, according to the terms agreed with you.

So for buyers you have the flexibility to use a range of suppliers according to your needs, without the additional administration that goes along with it.

The same system will also limit the role of policing that will come if you are attempting to change the purchasing habits we looked at above. To change purchasing habits across the business is no mean feat. It can require much time to check, authorise, and review purchases. Time spent on this task is adding to the cost to the business of the purchase overall. So you may have implemented new suppliers with lower costs, but you need to take in to consideration the cost to the business of procurement ensuring people buy from these suppliers and not elsewhere.

Invapay enables you to put in place automatic controls against each person that will be buying on behalf of the company. You can limit which suppliers can be dealt with, as well as spend amounts and purchase types. Restricted by the purchasing system, the level of policing required to ensure that buying habits change is minimal.

## Reduce inventory

Taking the often integrated elements of procurement alongside supply chain, there is a focus on decreasing inventory levels. Over the years we have heard much about 'just in time' inventory management and such like, and demands by business leaders to implement these types of practices are growing.

In theory it makes total sense. Any inventory you hold is tied up cash which can't be used elsewhere. Keep stock levels to a minimum and you will release much needed cash to the business.

In practice however it isn't quite so simple. Whilst it makes sense to hold only the required level of stock, the problem can be deciding what that is. If you go out of stock, customers will vote with their feet and take their business elsewhere.



To only purchase and buy what is necessary, but to ensure sufficient stock levels, requires accurate data with which to forecast. Many companies operate numerous systems across the business, relying on multiple spreadsheets to report to the business, and in this scenario, accurate forecasting is really not achievable.

### **Data must be accurate and accessible**

To have accurate data accessible to all relevant parties (procurement, finance, management etc) one ERP system should act as a central database. With one source of data across the business, all relevant parties can access the information they need and you can be sure that all parties are operating from the same numbers.

No longer will time be wasted, not only by procurement but equally by finance, compiling spreadsheets of figures taken from multiple sources to report to the business on key areas.

For procurement the ability to house data in one place reduces the data collation required, and thus the time spent to review purchasing habits across the business and to ensure spend is happening in the right way, and with the correct suppliers.

As we have seen, Invapay can help with automatic restrictions for purchases by individuals. Further than this, data to level 3 detail is provided for every transaction, in a format to integrate directly to the ERP system used by the business. Detailed information per transaction will allow procurement to properly analyse purchasing habits and identify areas for future improvements.

Accurate, accessible data will enable accurate forecasting if you are planning to operate minimal inventory levels. Only with accurate forecasts can you minimise the overarching risk to the business of out of stocks.

Better access to information benefits all aspects of the business, and empowers employees to do their jobs better and more efficiently, thereby reducing costs to the business from wasted hours and actually adding value to the business through the time spent on skilled tasks.

### **Working in collaboration**

Implementing changes in procurement will bring benefits to the business as a whole. The cost savings that bring cash back in to the business of course, but also ensuring accurate procurement data is collected centrally and integrated to all other business data, as we have discussed, will bring benefits across the company.

However, when you are changing the status quo, such as procurement instigating changes to buying habits, other business units can be less than helpful. Individuals within departments do not necessarily see the greater benefit to the business, and the focus is on 'how does this impact me'. Restricting what they can buy and who they can buy from is unlikely to be welcomed by many.



First of all it is imperative that management backs the changes and leads by example. Maverick spend can be rife within companies, and it requires the business leaders to prevent and help stamp out unauthorised spend.

Procurement can also team up with other business units for support of the measures. The finance department, for example, is aided immeasurably by restrictions in purchasing across the business. Less time involved for them authorising, matching, and chasing the elusive paper trail. A cross-functional approach can really aid the success of your changes.

Finally, if you can implement changes to individuals as easily as possible the resistance you will face in procurement will be limited. The Invapay system provides individuals with one system to make purchases through. It is simple and easy to use. So individuals may not like having their spending habits curtailed, but if the new system makes purchasing easier and can save their time, you have more chance of gaining their buy in and compliance.

### Summary

To summarise, we have seen that procurement has a wide role to play in reducing costs to the business. Procurement is in a unique position to be able to initiate changes that will bring real benefit across a company.

It is imperative however that proper consideration is given to each proposed measure to ensure it will have the desired effect on the business as a whole. Reducing prices of what you buy for example, as we have seen is not necessarily a case of the lowest price is the best price to the business.

However what we have also seen is just how much impact and how much influence the role of procurement can have. And during these tough economic times, now is the time that procurement is really being called on to add value and make improvements for the short-term survival and the long-term future of their company.