

Implementing Best Practices in Small- and Medium-sized Purchasing Organizations

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Abstract. All too often, the management of small and medium-sized purchasing organizations overlook the critical need to integrate best practices into their operations, as they feel they have limited resources for such actions. While there might be some limitations in regards to such resources as staffing, systems, and budgets, there should never be a shortfall when it comes to the strategic planning to make one's purchasing organization the best it could be.

This presentation will highlight some best practices that are both essential to the success of any sized procurement department and relatively easy and inexpensive to implement. What is necessary is finding the time to develop a strategic plan in regards to using best practices, and making a commitment to go forward with using these initiatives.

Traditional Pitfalls. I am not aware of too many purchasing organizations that do not want to improve their ability to perform their duties and responsibilities to their senior management and customers. So why is it, that many small and medium-sized purchasing organizations lack even some of the more basic best practices in their operations?

The reasoning, from my experience, rests mainly on a perceptual level, rather than on a practical one. Often, personnel from small and medium-sized procurement departments attend seminars and conferences on best practices and see that the majority of speakers come from large entities, with deep pockets. That can in itself be a turn off to seeing how such best practices can be applicable to smaller operations.

A New Dawn. I have been fortunate in having served as the Chief Procurement Officer at four firms. Three of these companies were large global corporations. Before I retired, I was hired to be the CPO for a new entrepreneurial firm that wanted to jump into the large corporation pool. However, at the time of my hire this company, who desired to consolidate there national procurement functions into one entity, consisted of two persons (one of which was me) at the corporate level.

While much of my time in the early stages was spent on transactional pursuits, like getting the POs out, I saw the urgent need to begin to develop a strategic focus on the operations. This required some long hours in planning for the future, in addition to handling the present demands of the work flow.

I felt that most of the best practices that I had employed in large procurement departments did offer some significant advantages for smaller operations. As a matter of fact, I found these best practices to be essential for our operation to use in moving forward at a quicker rate.

Objectives of Best Practices. Just what is meant by a best practice? I am sure that there are many good answers to that question. From my point of view, a best practice is a

procedure, a process, or a system that can have a noticeable long-term positive impact on the objectives of your purchasing organization.

There is a popular misconception that implementing a best practice is a costly endeavor, in terms of time and or expenses. That simply is not true, especially in regards to cost, for many strategic best practices just need a commitment of time.

Identifying Best Practices. For the sake of this presentation, I am going to focus on discussing six best practices:

- **Developing a strategic plan**
- **Identifying process improvements**
- **Establishing a dynamic savings program**
- **Implementing supplier scorecards**
- **Expanding stakeholders involvement**
- **Winning over senior management**

Developing a Strategic Plan. All successful projects or endeavors begin with some type of strategic plan. That is also the case when developing a way to identify and implement best practices for your procurement department. If you are like most small and medium-sized operations, you need to prioritize your time management. Creating mission and vision statements for your unit is a great first step. This lets such stakeholders, as your staff, your customers, your suppliers, and senior management, know who you are and what you plan to be in the near future.

An important element of a strategic plan is performing some type of SWOT analysis. By truly knowing what are the initial pluses and minuses of your operation, you can then begin to focus on optimizing your strengths and opportunities, while minimizing your weaknesses and threats.

Discussing your strategic plan with your stakeholders will give both you and them a better insight into your role within your corporate entity.

Identifying Process Improvements. We are all sometimes too busy to see ways of improving our ways of doing business. Some effective ways of identifying potential process enhancements are:

- Supplier Councils
- Customer Councils
- Networking with other Purchasing Organizations
- Brainstorming
- Staff Meetings

Creating supplier and customers councils are excellent ways of encouraging feedback on not only how your unit is doing today, but in soliciting ideas on how to improve current procedures, processes, and systems. Do not be afraid to ask some difficult questions here, as some of the answers may make you a stronger organization.

Establishing a Dynamic Savings Program. Let's face it; as purchasing professionals, savings is an important part of our job. All savings identification and reporting methods need

to be re-evaluated every so often. When doing so, bring in some partners, such as personnel from Finance or your key customers. After all, it is usually your customers' money you are saving.

Use a spend analysis to help in forecasting not only potential current savings, but additional savings in new areas as well. Achieving savings is an excellent way of demonstrating to senior management the capability of your procurement department. If you have been successful, savings-wise, in your traditional areas of involvement, the spend analysis can highlight new products, services, customers, etc. that can benefit from your staff teaming with others to gain additional savings.

A strong savings program solidifies your unit's importance to the objectives of your corporation, as well as provides a springboard to new strategic opportunities.

Implementing Supplier Scorecards. This best practice can be manifested in several ways, such as use with RFPs and RFQs, as well as in the periodic evaluation of key suppliers.

Developing scorecards in conjunction with RFPs and RFQs need not be an involved process. In determining the factors and weights to be used in selecting a supplier, input should be received from strategic customers. These customers should also be part of the decision making process. It minimizes the concept of suppliers being "purchasing's suppliers", and reinforces that suppliers are in deed "corporate suppliers".

Over the years, I have found that using scorecards to evaluate the periodic (annual) performance of strategic suppliers to be a very effective tool to improving the productivity of procurement organizations and helping the corporate bottom line. It not only gives these suppliers a quantitative measurement of how they are faring in support your operations, but opens a dialog for possibly creating long-term partnerships. This is also a best practice that is applicable to any size purchasing department.

Expanding Stakeholders' Involvement. Before you can begin to increase the role your stakeholders play in your operations, you need to first identify who your stakeholders may be. Here are some suggestions:

- Your staff
- Your customers
- Suppliers
- Support departments and personnel, such as Legal, Finance, I/T, etc.
- Senior management

Purchasing organizations often fail when they operate in a vacuum. A team-approach to sourcing is a strong and effective best practice. Not only does it not cost much, but it can generate a good deal of additional savings, as well as avoid wasted steps and money.

The more you involve your stakeholders, the more effective and strategic your unit will be, not just from your vantage point, but from the view of these stakeholders as well. You will gain a good deal of credibility from your stakeholders by working with them in a more strategic way.

Here are some ways of broadening your interaction with your stakeholders:

- Supplier councils
- Customer councils
- Purchasing planning sessions
- Customer and support departments' planning sessions
- Business sessions and luncheons with financial management personnel

From experience, I have found stakeholders to be very receptive to better understanding how their money is being spent and how you are trying to help their budgets to be more productive.

Winning over Senior Management. What perception does your boss' boss have of you and your unit? How does your firm's executive council view the role your unit plays in the achievement of corporate objectives?

I once had my boss tell me she had asked the EVP of one of our major business lines what he thought of the purchasing function at our company. He replied that he guessed it was fine, but we had fouled up his telephone order a few years before. That was a bit disheartening, especially as we never handled telephones.

Why is winning over senior management a best practice? It is an excellent way of letting the key decision makers at your firm know that there is a dynamic entity within that has achieved some great corporate results.

You need to start this best practice by ensuring that your boss and, perhaps, his/her boss knows what it is exactly your unit does. Never, make the assumption that they are up to speed in what you and your unit is doing, even when you might be sending in monthly reports. Show and tell demonstrations work well for kids in elementary school and for purchasing professionals! Invite senior management to your purchasing planning sessions! You can also include them at customer and supplier councils. Lastly, who can pass up a pizza party?

Lessons Learned. Having been on both sides of the size situation, I have found that the size of a procurement department should not hinder one from implementing and benefiting from a number of best practices. You need to select the best practices that fit your organization and corporate culture. It is more productive to strive to work on several best practices simultaneously, as they will not be implemented at one time. The team approach is a productive way to develop and use the best practices, as they will benefit more than just your staff.

Start off with easy to develop and implement best practices such as:

- Supplier scorecards
- Customer councils
- Supplier councils

Once you pick up momentum (and results) from these best practices, you can then move into other strategic initiatives.

Final Thoughts. Working on best practices can improve your procurement department's productivity quickly and significantly. It can lead to a fun work environment. The cost in time can be repaid many times over by the strategic benefits you and your firm can gain.