

BEST PROCUREMENT PRACTICES

Transition from Transactional to Strategic Procurement

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It was half past six on Wednesday evening. Samuel Mathai – ‘Sam’ as known to friends, was staring out of the glass window of his office trying to recoup some of the energy that he had expended during the course of what was one of the busiest days in his career.

Sam had been working with his current employers for over 14 years. A man with lots of energy and enthusiasm, Sam could move anything from anywhere to anywhere. He was active all the time, speaking to suppliers, following up with transporters, issuing purchase orders, coordinating with his internal customers etc. He was the kind whom internal customers loved – they believed in his commitments and when they were caught in emergencies created by their own mis-planning they would be sure that Sam would find a way out and ensure productive time in the shop floor was not lost.

He was the life blood of the procurement organization where he has been working for nearly a decade and in recognition of his contribution he was promoted to his new role as Head of the function only about four weeks back.

Looking at the busy street, he was wondering whether he indeed was capable of handling the task independently. His new boss, Anupam, who had just joined the company as the Head of Supply Chain was very strategically oriented in his thinking and demanding too. Anupam’s previous working experience with other multinationals had taught him

that procurement professionals need to be more strategic in their approach and they ought to spend more qualitative time in developing new vendors, encourage supplier innovation, think of new ways to use e-procurement tools, evaluate, monitor and optimize vendor performance.

Sam was finding this difficult. He was a transactional person. He had learnt of these concepts in a couple of seminars he had attended, but could never get down to applying them. He thought his job was to get materials on time and focused on expediting matters, following up on all the routine transactional activities. He was feeling disturbed that after all these years of success in his old role, he was finding it difficult to prove his worth to his new boss.

Haven’t we heard similar stories such as this?

Different skill sets and approach

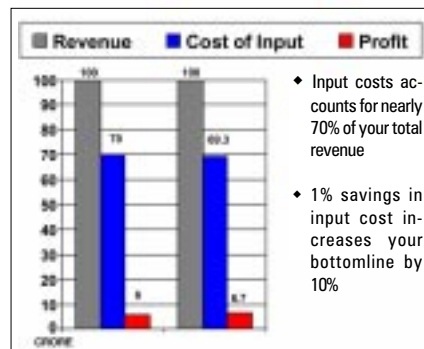
Strategic Procurement and Transactional Procurement require completely different type of skill sets and approach.

Perhaps the first best practice lesson will be to recognize this difference and build the same into the organization structure.

Managers engaged in strategic procurement process will have to use their time and intellect with an eye on the future, align the procurement strategy with the company strategy on an ongoing basis, while Transactional Managers could

focus on a day-to-day expediting role.

To put it differently, Transactional Managers have a ‘top-line’ approach, while Strategic Managers contribute more to the ‘bottom-line’. It must be remembered that one is not at the cost of the other, but both (strategic and transactional aspects of procurement) have their own place of importance in an organization’s working.



In order to elevate functional excellence in procurement to new highs, an organisation should devote itself to the following areas:

1. Risk vs. spend analysis
2. Segmentation of needs
3. Analysis of supplier’s market
4. Portfolio analysis of suppliers
5. Prospecting suppliers and selecting suppliers to portfolio
6. Define and float RFQs
7. Negotiation and establishment of contracts
8. Evaluate, monitor and optimize supplier performance
9. Make continuous improvements
10. Using e-procurement tools.

It all starts with people

The entry barrier into a procurement career must itself be quite challenging so that only the best professionals make it. Continuous focus on training and developing people and acquisition of new skills must be accorded top priority. An encouraging and challenging work environment must be created at the work place where people bring in new ideas (innovation), are adequately compensated and look forward to a great career ahead.

The procurement process

Procurement processes need to be simple & friendly to the 'internal customer'. One should find the procurement department easily approachable. The processes must have the shortest turn-around cycle from the time a requisition duly approved is received, to the time requisitioned goods / service arrive. There are many who would like to believe that procurement's role ends once the order is placed on the supplier. This is exactly what the internal customer would not like. He would like the procurement colleague to be with him till the time he is able to put the requisitioned goods / service to its designed use. It is no different from 'sales' and 'after sales service' functions. Therefore, while being process oriented, the procurement function should remain customer focused. Processes also need to be compliant with local and international laws, and also be in line with internal controls required of a standard organization. Concepts like application of 'four eye principle', segregation of duties, hierarchy based approval limits etc. deserve special mention here.

Role of auditors

Quite often, procurement managers see internal and statutory auditors as people who go after the procurement jobs. In fact, audit needs to be seen in a positive light and auditors should play the role of constructive critics who can help improve in-

ternal processes. Timely implementation of audit recommendations is yet another best practice that organizations must commit themselves to.

E-procurement

E-procurement has come to play an important role in the life of procurement managers. But it is disappointing that procurement managers have not got to use e-procurement tools beyond Reverse Auctions. We need to re-define the application of electronic, web-enabled technologies to streamline and enable procurement processes. This means that all routine procurement processes that one handles could be brought under the purview of e-procurement. From the time a potential vendor seeks to register with a company, till the time he gets to manage his transactions of delivery schedules, payments, posting catalogues etc. should be considered for e-enablement. E-procurement is not a strategy by itself, but supports a larger procurement strategy.

The ERP tool

Equally important part of best practices in procurement is played by the ERP tool. Having invested a lot of money in the ERP package, it is important to ensure that the organization deploys the application effectively. A study conducted a couple of years ago suggested that organizations do not use more than 15-20% of the functionality and features ERP packages offer to the procurement professionals. It is therefore essential that organizations evaluate all options before deciding on one or the other application.

Managing relationship with suppliers

Last, but not the least, the best practice that will stand by any procurement organization is the way it manages its relationship with suppliers. Suppliers must get to have a fair say in the materials they supply or the services they pro-

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vide, since they possess the required core competencies in their field and must be respected for it, apart from being guaranteed fair returns on their investment and timely payments. Every supplier should be encouraged to innovate in order to continuously create value for his customer.

Staying ahead

A report on the '2005 Chief Procurement Officer Survey' identified following five key areas, which procurement organizations are expected to address in a synchronized manner to stay ahead of the competition:

1. Becoming business partners, not just buyers
2. Exploring new value frontiers: It is not just about price
3. Pulling suppliers inside: The best value chain wins
4. Pursuing low cost sources: A world worth exploring
5. Conducting the ultimate talent search – do so in record time.

Adopting best practices will only stand procurement professionals in good stead as our function moves from the back room to the board room. It will also bring significant efficiencies to the supply chain and quick adopters will surely enjoy a competitive advantage.