



Seven Procurement Mistakes Organisations Make

What return are you getting from procurement?

Procurement: it's just about buying stuff, isn't it?

Procurement is promoted as the business activity that keeps on giving, like the well that seemingly can't be exhausted. Procurement business cases frequently promise returns of more than 10 times the cost of building and maintaining best practice procurement.

However, among those who have made the decision to invest in building best practice procurement, there is a growing disquiet about the returns they are achieving.

If you are disappointed by the return you are getting from procurement; then you are not alone.

When asked why procurement doesn't meet expectations, managers often say that it:

- is obsessed with process
- has poor relationships
- lacks innovation

The 2015 Return on Supply Management Assets (ROSMA¹) Performance Check looked at the return generated by procurement in 200 organisations. The ROSMA survey found that many organisations in the middle 50% of performers were returning only between 3 and 5 times their cost and investment base.

Many in the bottom 25% of performers were not even generating sufficient return to cover their cost and investment base.

What's holding procurement back in your organisation?

A procurement team can achieve more than process excellence. It can become a trusted business advisor that regularly contributes to improving business performance, but only when all the roadblocks have been removed.

If you are finding it difficult to improve procurement outcomes in your organisation, then it's likely that least one of the following mistakes at play:

1. Gambling on best practice
2. Diluting operational responsibility
3. Relying on a mandate
4. Dividing the credit for savings
5. Assuming fit-for-purpose processes
6. Focussing on experience
7. Taking the high ground

The Seven Procurement Mistakes

1. Gambling on best practice

In theory, best practice is the one approach that has consistently delivered better results compared to all other approaches.

What is best for one organisation isn't always best for another organisation

However, not all organisations are the same: each one has a different set of goals, different strategies and different ways of operating, which means that best practice is not the right approach for every organisation.

Introducing inappropriate practices to your organisation doesn't just reduce procurement benefits. It can also lead to higher operating costs, and in some cases even have a negative impact on your revenue.

Questioning best practice to discover which elements are appropriate for your organisation and which are not reduces the risk of creating unintended, and potentially expensive, consequences.

2. Diluting operational responsibility

Even if the responsibility for important procurement decisions appear to remain with business units, procurement teams continue to exercise significant influence via established procurement policies and processes.

Every line in a policy, or step in a process, takes some of the responsibility for decision-making away from the people who are most accountable for operational outcomes.

Procurement teams can have too much say in business unit decisions

When procurement policy or process repeatedly limits the options available to business units, then the procurement team is responsible for more decision-making than their accountability justifies.

¹See more at: <https://www.atkearney.com/procurement/rosma>

What stands in the way of getting more?

3. Relying on a mandate

A mandate that requires business units to work with procurement teams takes away business units' choice to vote with their feet if they aren't receiving the service they want.

Although a procurement team may consider business units as their customers, a mandate means that they have limited motivation to treat them this way. To deliver customer value, a procurement team must first understand their customers' needs.

A mandate lowers the procurement team's incentive to invest in understanding business unit needs and developing services they value.

When business units find that a procurement team does not meet their needs, they must often choose between lobbying senior management for changes to procurement policies and processes, and finding creative ways to get around policies and procedures so that they can manage procurement activity themselves.

Mandates actively discourage good customer service

A mandate establishes a procurement team as a monopoly provider and discourages genuine customer service.

4. Dividing the credit for savings

Business units see procurement as an important tool for managing their budgets, and they don't want to share the credit for savings with a procurement team.

To avoid having to share the credit for savings, business units will often look for ways to interpret procurement activity as being anything other than procurement related.

Dividing the credit for savings reinforces them-and-us thinking

Instead of creating a relationship of trust that would encourage business units and procurement teams to work together more effectively, dividing the credit for savings motivates both sides to game the procurement process.

In the end, potential savings are put at risk as opportunities are squirrelled away by business units who hope one day to set them up as their own initiatives.

5. Assuming fit-for-purpose processes

Embedded within most procurement policies and processes are procurement methods that the creators assumed would be able to satisfy all business unit needs.

Policies and processes artificially limit the range of potential procurement solutions

The problem arises when these policies and processes are asked to address needs that are different to anything their creators had experienced or anticipated.

The obligation to comply with procurement policies and processes means that few people even question the suitability of a procurement method, never mind thinking about potential alternatives.

Policies and processes that reflect a limited range of procurement methods struggle to cater to more complex business unit needs and cap the value from suppliers.

6. Focussing on experience

A procurement team needs to include experienced procurement resources, but when procurement experience dominates the team's make-up, it's too easy for group-think to set in.

Policies and processes artificially limit the range of potential procurement solutions

When a team lacks diversity, few people are willing to stand up and criticise prevailing ideas around procurement for fear that the rest of the group will marginalise them.

Getting a different result requires doing things differently. Creating a greater diversity of experience and skills across all levels of a procurement team encourages critical thinking, stimulates innovation and lets the team respond more quickly to changing business needs.

Where can you go after best practice?

When procurement policy or process repeatedly limits options for business units, then it's likely that the procurement team is responsible for more decision-making than is healthy.

7. Taking the high ground

Not all suppliers are created equal.

With genuinely commoditised goods and services, the value you receive is almost exclusively related to the price you pay. Taking the high ground with these suppliers probably won't change the value you get.

But the situation is different when it comes to working with suppliers of more complex, high-value goods and services, particularly when these are business critical.

The ability to create more value can be at the discretion of the supplier

In these situations, it's the nature and quality of the relationship that will most likely determine how much value the buyer and supplier will get.

Procurement teams who take the high ground with these suppliers only encourage them to fight for a bigger share of the pie and discourage them from trying to increase the size of the pie both sides can share.

Taking the high ground with suppliers is a blunt instrument that often means giving up long-term value just to achieve much smaller, short-term wins.

Best Practice is Only a Starting Point

The emphasis on compliance to standard processes, which has worked well for many back office supplies, doesn't cut it for more complex, business critical goods and services.

Procurement best practice isn't designed for many of the challenges faced by today's procurement teams. On closer inspection, many organisations find that it is elements of best practice that are getting in the way of their procurement team being able to deliver more.

About The Second Chair

The role of a second chair is not "to manage" or "to do"; it is to advise and pass on learnings based on wide experience and deep skills. This enables the first chair (client) to keep ownership of decisions and outcomes while getting a fresh perspective on their thinking.

A second chair ensures that ownership of decisions and outcomes stays with the client

The Second Chair was set up by Steve Moore after more than 20 years' international and Australasian experience consulting to industry.

During his career, Steve has led major projects across a wide range of industry sectors and has advised on the procurement of \$10bn's of goods and services.

Through his work, Steve saw that individuals and teams have more chance of long-term success if they invest in developing their own skills instead of buying short-term consulting support.

Building internal procurement capability is the key to long-term success

Today Steve works as a coach and mentor helping individuals and teams to develop new skills as they tackle real procurement challenges in the workplace.

Increase savings, promote innovation and win internal customer trust

Call The second Chair now to find out how we can help you to get more from your investment in procurement.

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