

Innovative purchasing defies recession

As a result of the ongoing global economic crisis, organisations are seeking to minimise operational costs wherever possible. According to Mark Masterson of efficient purchasing supplier **IBX**, businesses should seek the solution from their procurement function.

While most organisations will turn their attention towards options such as downsizing and suspending contracts, wise finance leaders will start to look at areas that are typically taken for granted under normal circumstances.

While it may make sense to start in the most obvious places, such as the areas where costs are highest, or where problems are most frequent, CFOs can break the mould by starting to look at areas that are so intricately woven into the running of the organisation that their potential for driving efficiencies may not be obvious. These areas are likely to be running smoothly and invisibly, and will often have the widest reach throughout the business.

Impact and benefits

CFOs can start by looking closely at the office of the chief purchasing officer (CPO). According to our own research, purchasing can have a direct impact on up to 60% of a company's revenue in some industries, and thanks to its reach it can help to significantly reduce spend across the organisation.

By putting in place central purchasing systems, CFOs can maintain control of spend, and start to eradicate unnecessary processes. On average, the combined effects of electronic sourcing and procurement deliver savings of 4–8% of our customers' total spend.

This also streamlines the overall purchasing process, from requisition to purchase order, improving consistency and compliance with preferred vendors, while automation reduces mundane tasks and allows staff time to be redirected towards revenue-generating activity. Take for example a flagship European toy manufacturer selling to customers in 130 countries, which used electronic

purchasing to increase on-contract spend compliance by 40%.

Electronic tools also help purchasing functions honour vendor contracts and maintain discount offers and low purchase prices, boosting efficiency, reducing administration costs and increasing transparency during sourcing. I've seen a major confectionary group reduce lead times for tender rounds by 50% through electronic sourcing, while reducing its supplier count by 38% to ensure low costs. These tools also provide the company with high transparency on many levels, and centrally stored information can be accessed and reused easily, improving cross learning opportunities for all users.

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Effective electronic purchasing

When choosing a system, it is important that they remember the wide range of offerings on the market, and find a solution that is suitable for their sector, size and location. Systems can be tailored to meet the needs of an individual company; in addition, on-demand offerings remove the need for large upfront investment costs and ensure quality and immediate efficiency, while reducing maintenance and training burdens.



Strategy and change management are also vital. Until recent years, the role of the CPO had been predominantly tactical. CFOs must promote this redefinition and allow purchasing heads to use their clout to show how they can cut costs and drive change. Only then can the CPO gain the mandate, money and resources needed for a transformation programme as companies start to look at revising action plans to ensure that money and staff time are best spent. It is also important to recognise strengths and weaknesses in the organisation's skill set, as external expert resources encourage knowledge transfer and enrich staff experience.

While the economic climate shows no immediate signs of brightening, now is the time to start smoothing the way for change and to prepare for new ways of working, as existing strategies and habits may no longer be appropriate. Consider implementing a specially designed downturn programme, taking into account regional and sector-specific issues, and be prepared for a potential overhaul of organisational practices and policies to ensure that everyone understands how the downturn affects not just their own role, but the entire organisation. ■

Further information

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