



# "Best Practices" Newsletter

## **About This Issue**

This November edition of our newsletter contains more techniques to help our clients & colleagues accomplish their strategic procurement objectives.

Strategic Procurement Solutions is a consulting firm specializing in Strategic Sourcing, Training, and Organizational issues related to procurement & supply-chain management. Robert Dunn, C.P.M. & Mark Trowbridge, C.P.M. are general partners in the firm, and lead teams of professionals in supporting our clients.

Visit our web site at [www.strategicprocurementsolutions.com](http://www.strategicprocurementsolutions.com) for more information or to contact us about our consulting & training services.

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## **Where's the Money Going?**

by Mark Trowbridge, C.P.M.

*Skilled procurement professionals* strategically use the technique of "expenditure analysis" to empower competitive actions and negotiations. Failure to understand total enterprise expenditures means failure to fully leverage the opportunity.



A firm understanding of expenditure patterns can help procurement leaders to manage the entire expense base, enhance procurement programs, and systematically leverage savings. Unfortunately, we often see procurement organizations that fail to incorporate total spending into their sourcing initiatives, or see "maverick" or "fragmented" buying erode their impact on bottom line profitability.

Many key metrics can be gained from expenditure analysis, including:

- Cost reduction opportunities
- Supplier consolidation opportunities
- Supplier expense by commodity or general ledger category
- Supplier expense across sub-companies or departments
- Commodity expense by sub-company, department, or supplier
- Supplier expense by contract #
- Supplier expense by purchase order #
- Average # payments per supplier (consolidation opportunity)
- Average expenditure per supplier (fragmentation of payment stream)

- # of Suppliers per commodity category (or general ledger category)
- Rogue expenditures (non-contract seepage)
- Expenditure trends by supplier, commodity, or general ledger category
- Key departments interacting with specific suppliers
- Supplier diversity opportunities

According to a 1995 study by the Center for Advanced Purchasing Studies (C.A.P.S.), the typical corporation only processed 41% percent of its expenditures through the procurement function. An even smaller percentage of those transactions must occur through a traceable mechanism (such as a purchase order, p-Card, or eProcurement). So how can today's procurement director understand their enterprises' total spend?

Depending upon company resources, proper expenditure analysis can be performed at different levels of granularity. Three helpful approaches are available:

1. **Targeted Analysis** – This limited approach takes narrow categories of supplier spends, general ledger categories, or commodity groupings, and performs a one-time analysis. We've all done this type of approach for specific sourcing projects. The problem is that Targeted Analysis requires comprehensive advance knowledge, and often overlooks expenditures that may be under a tangential supplier record (for example, "International Business Machines" vs. "I.B.M." vs. "IBM, Inc.", etc.), expenditures that were intentionally or unintentionally miscoded into the wrong general ledger account, or may be hidden under an incorrect Line of Business ("L.O.B." organization).
2. **Snapshot Expenditure Analysis** – Using internal finance resources, or an outside consultant, a one time "snapshot" can be performed across an enterprise's various L.O.B. organizations. Typically, an annual period is chosen for the report base. The advantage of this approach is that manual data scrubbing is low cost, can result in excellent results, and will provide the organization with strong insight into their expenditures. Once the opportunities are identified, ongoing follow-up can be performed periodically. A "snapshot" analysis costs in the mid to high five-figure range, and usually the resultant savings should cover that expense within a few months.
3. **Real Time Expenditure Tracking** - World-class procurement organizations are investing in "Data Warehouse" or "Data Cube" technology to understand their expenditure patterns and procurement influence. This technology pulls expenditure information from various company systems (for example, various G/L or Payables legacy systems, P-Card program, eProcurement, etc) and consolidates it centrally in a stand-alone database. Many times, these tools create a common consolidated supplier identification system, often derived from sources like Dun & Bradstreet. From that database, procurement reports can be extracted to systematically manage the opportunity. These systems typically cost in the low to mid six-figure range to implement, but provide the most thorough capture of procurement related expenditures.

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## **Selling the Value of Procurement...**

by Robert Dunn, C.P.M.

Have you ever wondered what it is like to be the sales executive on the other side of your desk? Now's your chance, because today's supply chain professionals must be effective "Sellers" in addition to "Buyers".

Having the most skilled procurement team in the world doesn't make any difference, if our internal customer departments won't work with us. Selling the value of procurement is foundational to our success. This is often very difficult.



Many of the traits that make procurement professionals good "buyers" tend to limit our ability to be effective "sellers"...especially if our organization is perceived as a non-responsive, reactive, low value-added bottleneck.

Procurement organizations need to become marketers if we are to add value by driving savings to the bottom line. Our customers need to understand how we can support and assist them in reducing cost while sourcing the best quality products and services. Many current and potential customers don't understand our role...because, in many cases, we haven't told them in an appealing way.

An important aspect of our role is to reach out to our current and prospective customer departments to explain the benefits of using the procurement organization. We need to be proactive in bringing this message to our customers. If we are to sell them, we need to develop and begin to use effective sales tools and skills to increase our customer capture rate.

**Why People Buy?** - When developing our marketing strategy we first must determine "Why people buy?" Buying decisions are motivated by a desire or need. We can only convince our customers that they have a need for our services, when we can demonstrate value they don't currently have. Consider the following premises of selling, understood well by many of sales executives who call upon you:

- Needs are perceptions that exist in the customer's mind.
- Perception of needs vary by individual and situation.
- Customers will act to satisfy a need when that need becomes strong enough.
- All of procurement's services have features, which can be adjusted or enhanced to appeal to the needs of our customers.
- The right combination of features can satisfy a customer need.
- If a feature can satisfy a need, the result is a benefit to the customer.
- Need + Feature = Benefits

Remember, if customers do not perceive a need then there is no benefit in utilizing our services.

**Needs We Can Satisfy** – Consider presenting the following “features” to satisfy a customer’s “needs”:

- Reduced total cost
- Participation in enterprise volume agreements
- Skilled negotiation support
- Lower risk
- Shorter “Req to Check” cycle times
- Higher Product/Service Quality
- Contract Management Expertise
- Performance Benchmarking

**Marketing Strategy** – Just as the sales executive has a strategy for reaching customers, so should the procurement professional. The procurement marketing strategy should include the following elements:

1. Determine your major customer groups (existing & potential);
2. Develop marketing tools to help customers work with procurement (Departmental Brochure, Procurement Manager Contact list, and a Roles & Responsibility Matrix are a great start);
3. Prepare for customer interaction, determining the procurement managers and personnel best equipped to fulfill each customer’s needs;
4. Schedule regular meetings with key customers to become familiar with their needs and to pro-actively become involved in their upcoming procurement actions (and just like the sales executive, try buying lunch for key customers every now and then);
5. After a successful project, immediately contact the customer to review & critique the project, enhance future interactions, and identify additional opportunities; and
6. Through the company newsletter or internal web site, continually advertise the “value add” of new procurement programs.

**Editor’s Note:** **Strategic Procurement Solutions’** objective is to provide top quality supply-chain consulting & training services to corporate clients in the private & public sector, and to enable those clients to exceed their internal users’ expectations regarding promptness, price, and quality. One means of doing this is through this periodic educational newsletter, which provides quarterly articles about “Best Practices” in procurement. Contact us through our web site at [www.strategicprocurement.com](http://www.strategicprocurement.com) for more information about our services, or if you do not wish to receive this newsletter in the future.