

vision on procurement

Flyer



Procurement is about
realizing profitable
customer satisfaction



Every organisation exists because of its customers. Are they buying your products or services? And will they keep doing that? This will depend on the perceived value received in relation to the price they have to pay for that value.

Value chain and strategic value.

As long as the perceived value and the requested price are in balance, your customers will keep on buying your products or services. This will create continuity. First of all, the customer will look at the perceived value. Only then will the customer challenge the requested price (unless you are the “price fighter” in the market and your price is the actual perceived value).

This means that your first question with every purchase should be: “how does this impact the value perception of my customer? How do I satisfy my customers and how do I keep them satisfied?”

However, your continuity also depends on your financial success; to what extent can you make money on satisfied customers? Or how can you satisfy your customers within the available budget?

Thus, professional procurement is all about realizing profitable customer satisfaction.

Next to that, we actually “build” less and less ourselves. In order for us to deliver our (value perception creating) performance to our customers we become more and more dependent on the performance of our suppliers. The extent to which we are capable to combine our own performance with those of our suppliers in order to deliver a positive result for our customers, will determine our competitive position. Which means that this is the true strategic impact of professional procurement. As such, we position procurement not at the “back end” of the organisation, where the suppliers are, but we position it right up front, where our customers are.

We don't regard procurement as a support function, but recognize it's strategic importance. .

Attention areas procurement

Every procurement project has four main attention areas which need to be viewed interdependently and well balanced choices have to be made in order to achieve the best procurement results.



Availability

Realizing availability of goods and services will always be the priority; because if availability is not an issue, not-buying is the best option. So primarily, procurement is not about money, it's about performance. In addition, for most stakeholders involved in procurement processes, this is the most self interest related goal of procurement: they need "something" in order to achieve their own goals.

However, it is actually the (expected) outcome of the availability of goods or services that matters;

"What do the stakeholders expect to happen after they have bought something?" This is what procurement should focus on; not "what shall we buy".



Money

Profitability can be achieved by generating more income or reducing expenditure or both. The traditional procurement focus on "cost saving" is just one of those ways. By neglecting the "income" impact on profitability, the wrong cost savings can actually damage the profitability

At the same time we have to realize that **nothing is for free**; everything costs money. The price we charge our customers for our performance (*value*) is the result of all relevant internal costs (own performance) plus the external prices (*supplier performance*) and our desire to make a profit (*margin*). The way we can manage this will determine the balance between perceived value and charged price. And the same holds true for our suppliers.

Another important issue with "money" is the difference between *price*, *cost* and *expenditure*.

It is critical that within procurement processes there is a clear distinction between these three money qualifications in order to avoid decisions that either generate "mickey mouse money" (*money which can never enter your bank account*) or deflect money (*you still pay, but to someone else*).

And finally, regarding this attention area, we have to realize that from a Procurement marketing perspective only very few of our colleagues are truly interested in (company) money. This interest only holds true if they are being held accountable for financial performance (management, budget owners, project managers). All other colleagues are primarily focussed on the other three attention areas of procurement, linked to their own performance objectives.

By continuously "selling" procurement based on it's financial impact, we are shutting off communication with about 95% of our colleagues; it simply does not match their interests (unless the company is about to go bankrupt; then money is on everybody's mind). Maybe even worse; they could perceive the focus on costs as a threat to them achieving their goals.

3 Risk

Within each procurement process, we are confronted by risks. The risk of going into business with a financially unstable supplier which may endanger the continuity of the relationship and the performance. The risk of getting involved in legal procedures due to improper tendering (or not tendering at all) or not clearly managing mutual expectations and understanding, ending up in discussions about contractual obligations. But also the attraction of negative publicity, causing damage to image, is for many companies a serious risk to manage.

On a lower level of abstraction, the colleagues feel the risk of not being able to achieve their own objectives should a supplier fail to perform. From a procurement perspective, this is an important “risk” to manage, since it is quite often the reason why colleagues go out and do their “own” deals and why they resist any sort of change.

4 Value

Primarily, value perception is the reason for a customer to do business with us; price is secondary. To what extent will doing business with a certain supplier increase the value perceived by the customer? The supplier “**brand**” (Intell inside)? Proven technology? Sustainability? Environmental focus? In order to make the right choices in this area, it is all important that procurement is aware of the value perception by the customers; again, focus on the front-end of the business, not the back-end. Close co-operation with sales and marketing is essential. At the same time, this once again creates the procurement marketing opportunity of positioning professional procurement on a **strategic level**.

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realizing your **procurement ambitions**

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