



Article: Why SMEs must improve their Purchasing practices

Purchasing Best Practice delivers Profit Growth

Purchasing is often treated as the poor relation compared to other functions within organisations - despite the fact that it has real and significant potential to improve business profit. Indeed every pound saved through effective purchasing delivers an equivalent value increase in profit, something that other functions cannot hope to compete with.

One measure of the relative weakness of purchasing within organisations is that in the UK ten times as much money is spent on Sales training than is spent on Purchasing training; Salary levels within the Purchasing function have historically been low in comparison with other key functions. And relatively few organisations have Procurement directly represented at Board level.

But on a positive note, more organizations are waking up to the realisation that improving their purchasing makes good financial sense. The benefits include greater total cost reduction, as well as improved customer service through bringing more value and innovation from the supply base. Thus better practice purchasing can deliver revenues as well as reducing costs. Experience shows that significant (i.e. double digit %) total cost reduction is achievable by bolstering the purchasing function.

Simple ways of improving your buying practices

There are some immediate actions that can be taken without increasing headcount that will improve a company's purchasing practices;

- **Purchasing Cost Analysis**
Have you got a handle on the amount of money being spent in each category of spend (e.g. capital equipment, stationery, cleaning services)? And do you know how many suppliers are being used in each category, and the relative split of total category spend? Not having this information makes building a strategy for supply rationalization much more difficult.
- **Supply Categorisation**
With the purchasing cost analysis completed, the next step is to decide which categories to concentrate most of your efforts on, which should normally be those that are the higher value and/or risk – in short the supplies that are most critical to the business. Commodity goods and services that are of relatively low spend and

less critical should also be reviewed but managed differently – i.e. minimising the amount of staff resource taken up. Here it might be advisable to consider outsourcing the purchasing management, possibly via a purchasing consortium (see below) or alternatively to make use of IT systems to drive costs down, e.g. reverse e-auctions. Another sensible approach might be to minimise the comparative disadvantage of lack of purchasing power by deliberately targeting SME suppliers. This will mean that your business is worth relatively more to the smaller supplier and therefore you are more likely to be able to negotiate better value for money deals.

- **Building purchasing policies for the whole organisation**

One of the failings often found within organisations is lack of direction for company staff in the area of purchasing. This can result in escalating supplier numbers, inconsistency of approach in areas such as supplier management and the dilution of purchasing power. Building a set of policies and procedures that are disseminated throughout the organisation and acted upon will certainly alleviate these, and other problems.

Joining a Purchasing Consortium to increase purchasing power

One of the relative weaknesses of SME purchasing is the lack of negotiating power in the supply market place due primarily to a lack of economies of scale. Shifting your purchasing business to smaller supply companies may be an option, though this may not always be possible, particularly in those categories of spend that are dominated by relatively few, large suppliers (e.g. Utilities).

However one way of redressing the balance is to join a Purchasing Consortium (one example being the BSA Consortium). These organisations are set up to pool demand from many different companies, thus increasing the purchasing power of all individual member companies. Members who join typically share purchasing data and drive up supply chain value through their collective power in the marketplaces that are managed by the Consortium. The lower value, or “non-core” categories of spend are most likely to be included as clearly the more tailored a good or service is the less easy is to consolidate it across a range of consortium members.

Savings vary from category to category and indeed from consortium to consortium but as a rule of thumb Members can enjoy between 10-35% cost savings compared to the value they were enjoying before entering the Consortium. Certainly the BSA Consortium delivers this amount of benefit to its Members.

So reviewing and improving your purchasing function is critical to the ongoing fitness of your organisation. Working with the Buying Support Agency, be it through the purchasing health check, training programmes or the BSA Consortium is an excellent step in the right direction to achieving this. For more information simply telephone 0845 555 3344 or email info@buyingsupport.co.uk