

WHY SHOULDN'T YOUR BUSINESS BENEFIT FROM BEST PRACTICE BUYING?

By Matthew Roper, Founder and MD, Buying Support Agency

Purchasing best practice delivers profit growth

Would you take a pile of ten pound notes and set fire to them? I thought not. Yet that is exactly what an awful lot of businesses do in the way they approach their purchasing.

Apart from salaries, the biggest area of expense for most businesses is purchasing. In our experience, a sharpened focus on buying can reduce a business's costs by as much as 20%. What would be the impact on your business of even a 10% saving on your total purchase bill?

All too often purchasing is treated as the poor relation compared with other functions within a business. Yet, apart from sales, no other area of a business has so much potential to impact on the bottom line. Every pound saved by better buying is a pound of additional profit. And it goes further than that. More value and improved innovation from your suppliers equate to a superior proposition for your customers. So better buying can deliver *both* lower total cost *and* improved revenues. You ignore your organisation's purchasing function at your peril.

Take a few moments to see how your business measures up. Review our checklist and see whether you can say, with your hand on your heart, that you really have a handle on your buying activities.

Tell-tale signs that your purchasing function is not performing:

* **No reliable data.** Your systems cannot tell you clearly and simply how much money is being spent in which category of expenditure, how many suppliers are being used for each category, and how and why each supplier is used. This applies not just to snapshots in monthly reporting, but to trends over time.

* **No regular review of purchasing.** Purchasing just happens, month in, month out. There's no regular benchmarking of new or existing suppliers to determine whether you are getting fair value.

* **Too many suppliers in the wrong areas.** The wrong areas are low value-added purchases – like office stationery - which are essential for the business to function, but confer no strategic benefit. Dealing with too many low-value suppliers wastes your staff's time and diverts their attention from the important purchasing areas. And you're almost certainly paying too much, because your buying power is dissipated.

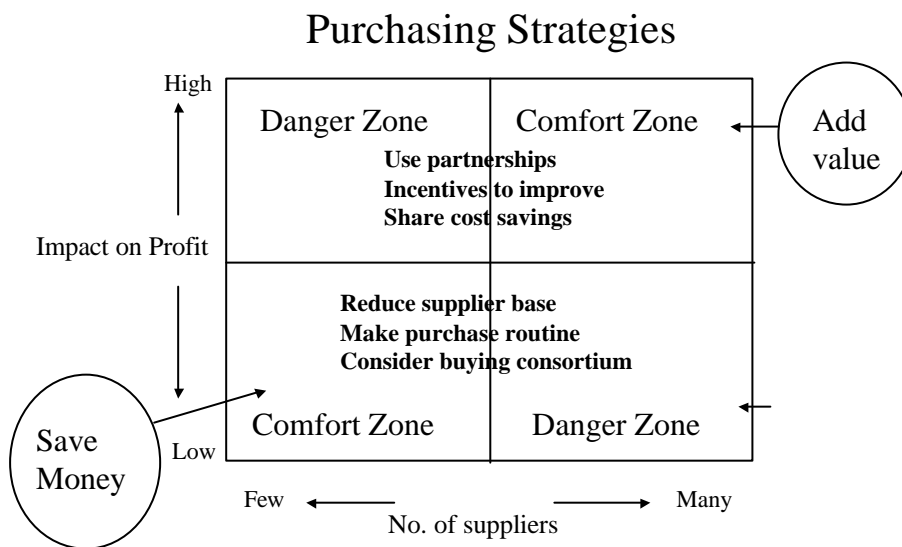
* **Too few suppliers in the right areas.** The right areas are high value-added purchases, directly linked to the core of your offer to the customer. If you are too

dependent on a small number of key suppliers without up-to-date contracts and back-up strategies, your business is at risk..

* **No clear guidelines or policies.** A sure sign is when purchasing decisions are routinely referred upwards, because no clear policies and guidelines are in place.

If you think you may have cause for concern, read on...

Let's look at purchasing strategies and their relationship to profit



The Purchasing Strategies matrix shows the relationship between your supplier base and their importance to your profitability. It shouldn't take long to map your existing set of suppliers onto this matrix (and if it does, that's almost certainly another tell-tale sign that your purchasing needs a good review!).

Strategic Buying

The matrix defines the set of purchasing strategies the business needs to adopt to maximise the benefit of good purchasing practice. In the **top two boxes** we have those suppliers who have a critical impact on your business: subcontractors, perhaps, or suppliers of raw or semi-finished materials. **This purchasing activity is strategic, and should be aimed at creating value for you and your customers.** Too often, however, too many smaller firms are overly dependent on a small number of key suppliers. Their strategic supply activity is basically in the top left box, the Danger Zone. And it's not just a case of too few suppliers. Frequently their strategic purchasing falls short in three other key respects:

1. Reliance on out of date or inadequate contracts
2. No incentives for suppliers to improve, or to share cost savings with you
3. No real fall-back position if a critical supplier lets you down.

Best practice purchasing will show you how to move, over time, out of the Danger Zone and into the Comfort Zone, where your business is less vulnerable in every respect.

Routine purchasing

The **bottom two boxes** relate to your low value-added purchasing: routine office supplies, for example, or utilities such as power and telecoms. This is non-strategic purchasing, of low importance to your future commercial success. **Your aim here will be to save money.** But this still needs to be done properly – and doing it properly means better profitability.

Joining a Purchasing Consortium to increase purchasing power

As a smaller business you lack the negotiating power of larger players. One way to secure a better deal can be to shift business to smaller suppliers, although this is not always possible in those categories – like utilities – dominated by a few big suppliers.

An effective alternative could be to join our purchasing consortium, known as the BSA Consortium. This works by pooling demand from many different companies, thus increasing the purchasing power of all individual member companies. Members who join also benefit from receiving improved purchasing data. They drive up supply chain value through their collective power in the marketplaces that are managed by the consortium. It's a particularly apt solution for low added-value, routine purchasing. Savings vary from category to category but as a rule of thumb, members enjoy savings of between 10%-35% compared with the prices they were paying before.

Until recently best practice in purchasing was largely confined to large companies. But there's no reason why smaller businesses shouldn't benefit as well – and in doing so build value for themselves and their customers and add to the bottom line!

Our Purchasing Consultancy, Training and Consortium Membership services are designed to deliver these benefits to you. Just call on: 0845 555 3344 or email us on: info@buyingsupport.co.uk