# The Buyer's Blog
# A Procurement Field Guide

CIPS Australia

PPonline

PROCUREMENT PROFESSIONAL

Procurement Professional is the official publication of CIPS Australia

Published December 2011 by
CIPS Australia Pty. Ltd.
Level 8, 520 Collins St
Melbourne, Victoria 3000, Australia



ISBN: 978-0-9872101-0-4

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The contents of this book first appeared in "The Buyer's Blog" on **www.pponline.com.au** the website of the official publication of CIPS Australia, *Procurement Professional* magazine, during 2011. The blog is published at least fortnightly and is free to anyone to access.

Web links provided were correct and live when first published online at **www.pponline.com.au** All sources have been referenced as far as is practicable at the time of publication online. Effort has been made to contact sources, though any who feel ill represented are free to contact the publishers.

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Typeset in Univers.
Designed by Think Graphic Design.
Printed and bound in Melbourne by Blue Star on Monza Recycled satin 100gsm and 250gsm cover. Stock supplied by PaperLink.

bluestar PaperlinX

For harried procurement professionals everywhere:
*keep calm and carry on – we're winning.*

# Introduction

Welcome to the third annual printed edition of 'The Buyer's Blog' field guide – the latest compilation of The Buyer's views and opinions on the world surrounding and affecting our profession.

The Buyer started blogging in 2009, to offer a procurement point of view and practical advice for harried buyers everywhere. By 2010 the blog seemed to become more vociferous as The Buyer identified the foibles and fallacies that plague the world of the procurement professional. But along the way something more happened; The Buyer inadvertently demonstrated the growing relevance of procurement to day-to-day business life – how we are all becoming more and more relevant. This edition continues that trend.

As you would know by now, The Buyer's Blog is the regularly aired viewpoint of our anonymous former senior procurement manager regarding matters relevant to procurement professionals that, by the author's own admission, are "naturally biased, but totally justified". Generally the blog aims to offer relevant and practical down-to-earth opinions that help busy procurement professionals to simply do a better job and see through the fog of complexity with which they are often presented.

As in previous years, The Buyer's wails of outrage and pithy insights into the current events of the day can seem to be flippant comment on the face of it. But, collectively, the work amounts to a compendium of pragmatic advice and workable guidance for busy buyers – which is why they have been collected in this handy field guide which, in retrospect, also neatly chronicles the year in procurement terms.

The Buyer's Blog page on **www.pponline.com.au** consistently rates one of the highest viewed pages and each blog also invites readers to comment and provides the format online to do so if you are logged on. Earlier this year, however, 'The Buyer' lamented that few commented because "no-one was reading". I pointed out that a great many people would have commented but instead they jumped on the phone or the email and commented to me. Not always favourably I might add. But that is the beauty of The Buyer's contribution; by its very nature it can stir emotions and start debates – thus demonstrating our relevance.

Of course, the views of The Buyer are entirely personal and are absolutely not those of Procurement Professional magazine, its editor, BTTB Marketing nor CIPS or CIPS Australia.

Some blogs have been slightly edited to remove typos or include content from tidied links, but they have not been materially altered at all and retain their raw and topical edge as intended at the time of writing. As in previous years, some blogs have aged well and proved prescient – others have aged rapidly and with the benefit of hindsight might have been best consigned to the waste basket at conception.

This year, even more than the two years before, The Buyer's Blog demonstrates the growing relevance and importance of the procurement profession for everyone. I hope you enjoy reading them in retrospect, as so many seemed to last year. But please note this will be the last 'Field Guide' printed by CIPSA. The blogs are designed for the web and on the web they will remain in future – regular and as engaging as always throughout 2012; but there will not be another compilation produced – the online archive more than caters for readers' needs.

**Jonathan Dutton, FCIPS**
Managing Director
**CIPS Australia**

Melbourne, December 2011

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## #216 - The danger of typos in important places

The disappointing wodge of typos in the 2nd compendium of *"The Buyer's Blog – A procurement field guide 2010",* distributed with the December 2010 issue of Procurement professional magazine, reminds The Buyer of the value of good typing. An old fashioned skill that is disrespected by so many today: Gen Y use thumbs for instance, Gen X two index fingers but [usually female] baby-boomers can often use ten fingers.

A simple word [such as not] or even a simple letter [such as a] can make a massive, opposite difference. Blindingly so in an important document like a 64 page contract or a 164 page spec. The Buyer has seen [and suffered] from both. Acutely.

The problem is often started when amateur typists in the office get to work using modern programmes like WORD. Starting with templates to create cumulative documents and team-drafts [or even wikis] almost always involves heavy cutting and pasting of paragraphs, sentences or just nouns. The 'REPLACE' function can cause chaos, and change the grammar and meaning of a whole document with a single click. In such circumstances, typos are the easiest mistake in the world to make. And writers often read what they think the copy should say – rather than exactly what it does say. Proofreaders are trained to read what is there, not what should be there; and are well worth $35 per hour.

But typos are clearly worse when multiple people get involved drafting or editing a template document (or the last version of what we used last time) like a contract. The tense can often change - even within a sentence!

A good example: Lawyers love using double-negatives, particularly when expressly defining contract exclusions in a legal or contractual context. When contractual text particularly is then altered into a positive spin, or express inclusions are added for clarity, the result is often ambiguity instead. Spinning text into the positive is exactly how one of the CIPSA white-papers in the past ended up with the word "not" in the middle of a sentence, as The Buyer was told when querying a point last year.

Technology doesn't help either. And it is not just WORD that is at fault. Moving text from any format to a different one causes problems. Moving simple text from Html to Word to Quark is a good example – as the CIPSA marketing department will attest.

All of which led The Buyer to muse whether [or how often] typos might have changed history in the past? More than we might think maybe, even if they didn't have to cope with Microsoft WORD?

The Buyer – posted 14th January 2011

## #217 - McKinsey move suggests Procurement has arrived …

Dr Nico Reinecke, the global lead on procurement & supply chain management for the revered global management consultants McKinsey & Co, must have been impressed with our humble profession during his second trip to the CIPSA annual conference last October.

Appearing in the The Economist recently [Dec 18th vol.397 issue 8713]was a glossy full page (FPFC in the jargon) recruitment advert for likely new consultants to join the prestigious consulting firm – in procurement and supply management as well as SCM as part of their 'expert' Operations team. It asks for "high flyers" and "strategic thinkers" no less. Also experts in Lean Services and Capital Productivity.

McKinsey's are known for only going where it matters. For chasing growth and large markets. For being out in front. For genuine thought leadership. If they are taking on procurement as a worthy topic, we have arrived. We are mainstream business. A bona-fide business profession. It is certainly testament to the fastest growing profession in business, and praise indeed.

Go to **http://www.operations.mckinsey.com/application** or e-mail **European_operations_Recruiting@Mckinsey.com** to apply. Oh, one slight snag, the jobs are based in Europe or South Africa not Australia.

The Buyer – posted 15th January 2011

## #218 - Procurement themes for 2011

Stung by a score of just 3/10 on the bold predictions for 2010 that The Buyer made last January [see blog #213] - predictions, it seems, are best avoided. So this year, instead, The Buyer had a few "wild thoughts" for 2011 on generic themes emerging in procurement during 2011 perhaps. Maybe. We'll see. Just wild guesses really:

a) Carbon trading will come back on to the corporate agenda as a Greens influenced senate forces the issue
b) Procurement professionals' role will grow more into the supply chain space, generally
c) More consolidation will develop amongst support services vendors to the profession
d) But more fragmentation in the recruitment market supporting the profession, due to low barriers to entry
e) More firms will move towards wholesale ERP implementations
f) Oil will top $100 a barrel at some point in the year, petrol $1.50 litre, gold $1500 oz & RBA cash rate 6%
g) Inflation in China will grow and cause supply concerns
h) The procurement skills shortage will worsen; wage rates will rise more & contractors more prevalent
i) Buy local policies will evaporate, and local councils will take procurement more seriously now
j) E procurement technologies will become more widespread, so will decision support software
k) Many more procurement teams will have to formally take on full P2P responsibilities
l) Linked IN will go ballistic – for online networking and as a 'Facebook-for-business'
m) More procurement stories will feature in the press
n) And stakeholder opinion will be less tolerant of sloppy ethics, probity, standards and process
o) Almost everyone will move towards category management as a primary organisation structure in procurement; but most cat managers will carry too many categories to manage properly, thereby defeating the objective
p) Singapore will become a more obvious venue as a regional head office for more procurement teams in large companies
q) Avoiding supply disruption will become a pre-occupation for most direct supply lines and risk plans in anticipation of possible earthquakes, floods, fires and volcanos.

But then, maybe not?

The Buyer – posted 16th January, 2011

# #219 - Buying [and selling] for the wrong reasons alive and well in the AFL

The move by John Borghetti from Qantas to become the new Virgin Blue CEO has had a number of consequences for the travel market that have already been well documented in the press **(http://www.adelaidenow.com.au/business/jets-get-ready-to-rumble-yet-again/story-e6frede3-1225978801337)**.

One factor is John's strategy to grow the DJ share of the lucrative business travel market domestically. The classic corporate key accounts approach to attracting major business travel accounts so beloved of Qantas appears to be up and running at Virgin Blue now? Doubtless offering attractive corporate discounts for big accounts willing & able to swing the daily business of their exhausted travelling execs to DJ instead of QF.

The AFL is reportedly one account to have made the switch recently, on behalf of a buying-consortium of the clubs clubbing together to get the best deal. Fair enough. Except Virgin Blue don't [yet] offer a conventional domestic business class product. So tall, long-legged and prissy Aussie footballers have to squash into economy for their flights to and from games; hoping for exit rows like the rest of us **(http://www.theage.com.au/afl/afl-news/airline-switch-has-players-at-risk-says-physician-20110111-19mnz.html).**

Rumour has it that the AFL failed to consult the clubs or players and did the deal unilaterally? Driven mostly by the AFL marketing department's desire for exclusive branding rights with their carrier, now Virgin Blue not Qantas - as QF already have marketing and rights deals with the Socceroos and all the rugger-buggers **(http://www.theage.com.au/travel/travel-news/virgin-blue-launches-afl-plane-amid-controversy-20110124-1a2ga.html).**

Clubs are apparently now increasingly hiring private charter flights with business class seat pitch for expensive players to get around the country without injury, cramp or DVT. A silly example of increasing total costs through a failure to consult and agree a spec at the outset then? Or just another example of an organisation buying (and selling) for the wrong reasons? [see also blog #3]

The Buyer – posted 17th January, 2011

## #220 - Blaming suppliers only goes so far

The high-profile failure of the Rolls Royce ‘Trent’ engines on the new Qantas A380 Airbus ‘planes is a salutary reminder to buyers that you can only blame suppliers so much.

Qantas are “working with Rolls Royce” according to news reports (or “negotiating with” or “suing” RR in some other news reports) to replace the 40 top-of-the-range Trent engines on the super-jumbo aircraft. Other airlines with the same engines are pursuing similar approaches it is said

**(http://www.theage.com.au/travel/travel-news/forty-a380-engines-to-be-replaced-joyce-20101118-17yka.html).**

The Qantas brand is strong enough to survive this latest tremor, especially after their deflecting strategy of blaming the supplier.

But, at the end of the day, if the consumer is left without security of supply they will ultimately blame the primary vendor - especially if they are stranded in a far flung airport somewhere.

Total failure is always a bad place for supplier partnerships to start. More detailed specs, better contract management [see blog #131], solid quality assurance work and sound SRM approaches are proven ways to obviate general supplier failures before they happen; and before fractured relationships have to be repaired. Inspecting what you expect bears fruit.

Although, in this particular case, the sheer technicalities of the failure may just have proved well beyond even such proactive processes.

The Buyer - posted 18th January, 2011

## #221 - Consolidation in the procurement service sector not surprising

The news that Ariba have taken over the resource-sector founded procurement consultancy Quadrem was a surprise on the day, but not necessarily surprising upon reflection **(http://www.pponline.com.au/html/ariba.cfm)**.

It has also been noticed in the IT commentary sector **(http://blogs.forrester.com/duncan_jones/10-11-18at_last_after_a_long_courtship_theyre_engaged_ariba_and_quadrem_that_is)**.

Procurement, as the fastest growing profession in business, is naturally attracting numerous new entrants into its service sector and support market generally. Barriers to entry are low for service based consultancies and the like. Entrants range from mighty IT companies to humble retrenched executives, generic & related consultancies entering the procurement space and, even, major consulting firms attracted to the subject which increasingly dominates one half of business – the supply side.

Many have noticed the proliferation, especially over the last half-decade since 2005. So, consolidation is an unsurprising and evolutionary next step really. Even for IT orientated firms in the sector. There is much IT still to be bought by overworked procurement teams in this region.

Ariba had a solitary employee in Australia only a few years ago, they have over 30 now plus the acquired Quadrem team. Everyone knows Portland Group have grown from around 20 staff to well over 100 in just the last five years. Even CIPSA themselves have grown from four part-time staff to a full complement of fourteen since 2005. The procurement service sector is buoyant, because the profession itself is.

A stable, experienced, competent service sector supporting the profession to world-class standards is essential for Australia and New Zealand. As small but aspirational markets, Australia & New Zealand have modest volume to sustain ongoing overheads necessary to maintain quality standards when needs for quality specialist work can be sporadic. A vibrant and poised support sector is vital to keep momentum. There is enough work to go around a qualified support sector, but not necessarily enough to justify in-house overheads on a permanent basis in the face of capricious corporate fickleness.

The Buyer – posted 19th January 2011

## #222 - In 2011 The Next Eleven are the new BRICs

As everyone knows, the BRICs are the group of the four largest & fastest growing developing economies in the world – Brazil, Russia, India and China. And many buyers are familiar with the pros & cons of sourcing in such places – especially China. Every buyer has a story about sourcing from China; good and bad.

But as the rising middle-class in China demand more, it is obvious that the primary global low-cost sourcing destination will not be quite so low-cost in the long run. Certainly if they are the fastest growing market for new cars in the world (they sold 17m in 2009) and they are building stealth fighter aircraft (first test flight was 11th January 2011) - and they aren't cheap, even in China. And there are other complications in dealing directly with the other BRIC countries, of course, which are all too obvious.

So where is the future of low-cost country sourcing? Who is to be the new China? Is it Vietnam or Laos? Is it Africa – as Gordon Brown suggested [see blog #176]? Nope. It is "The Next Eleven".

The Next Eleven are the 11 countries on the ladder of largest, fastest growing, most dependable emerging economies – not the next Australian cricket team following their merciless defeat in The Ashes over the summer **(http://en.wikipedia.org/wiki/Next_Eleven)**.

The term 'The Next Eleven' was coined by the merchant bank Goldman Sachs way back in 2005. But has only really become the 'latest thing' during 2010, as a number of high-profile CEOs have mentioned them in passing during the revelations of their strategic plans – mostly to impress investment analysts really.

The next eleven are, in batting-order:

1. South Korea
2. Mexico
3. Turkey
4. Philippines
5. Egypt
6. Indonesia
7. Iran
8. Pakistan
9. Nigeria
10. Vietnam
11. Bangladesh

And you thought sourcing in the BRICs is tricky? ….. Strewth, as we say in Australia. You cannot help feeling the list is a little tired. And some venues may just need the best risk plan since the last Apollo mission.

So, as we do with all teams, it is great fun to pick your own team. The Buyer has already selected the Australian cricket squad to tour Sri Lanka & South Africa in late 2011 and mailed it to Cricket Australia. So here, as a public service, is The Buyer's alternative really next eleven best low-cost sourcing destinations based on vast research, some lucky guesses, a Getaways brochure and 'The Times Atlas of the World':

1. South Africa
2. Indonesia
3. Argentina
4. Philippines
5. Botswana
6. Laos
7. Vietnam
8. Bangladesh
9. Libya
10. Latvia
11. Fiji

Much nicer places to visit.

The Buyer – posted 25th January 2011

## #223 - Buyers still face volatility in 2011

As the 6th annual CIPSA conference explained so lucidly in Melbourne last October, we face continuing economic uncertainty, risks and volatility – certainly not serenity **(www.cipsaconferences.com.au)**.

The fast-track economic recovery in Australia is driven by the resources sector mostly and is challenged by the recent floods, rising interest rates [and greedy banks of course], consumer caution, a super strong dollar, over-inflated house prices, widening skills shortages and the federal government's determination to reach an early budget surplus.

Meanwhile, the rest of the developed world really struggles. The PIIGS countries are in dire straits **(http://www.marketoracle.co.uk/Article24274.html)** which is damaging confidence in credit markets, the USA and UK economies are still slow, oil prices are rising, so are commodity prices and endless disasters around the world present potent risks and damage confidence – putting lengthy supply lines under almost continual threat. The CIPS mag in the UK, Supply Management, even describe this context for 2011 as a 'perfect storm' for buyers:
**http://www.supplymanagement.com/news/2011/buyers-face-perfect-storm/**

Clearly, buyers face a busy 2011. And one that will demand no few fine judgements from procurement professionals – regardless of where they work. When and where to buy from entails more risk now than it has for over sixty years - since WWII. When to capture a good deal, or when to play safe and buy security of supply will be a theme this year feels The Buyer.

The Buyer – posted 27th January 2011

# #224 - Money talks when supply is limited

It is an immutable law of supply and demand that we (should) learn in school. When supply is limited, price goes up. Regardless. Price is always a function of value, and scarcity increases value.

So buyers should not be surprised to read that suppliers in China are choosing one Aussie customer over another for their supply of textiles **(http://news.smh.com.au/breaking-news-national/chinese-renege-on-orders-for-australia-20101122-182rv.html)**.

Vendors rate buyers in much the same way professional buyers seek to rate vendors. Usually on a two-by-two matrix model. Buyers rate cost against risk in choosing their most valuable suppliers. Vendors plot customer value (profit potential) against difficulty of supply (hassle) and, generally, the biggest customer wins.

When supply is limited, it is the buyer's job to manage security of supply. The Buyer once had to sit at the end of a production line conveyor belt awarding cash bonuses to one supplier of a rare commodity to make sure The Buyer's organisation came first in the delivery stakes. There are other ways of course. Good SRM being one maybe?

The Buyer – posted 28th January 2011

# #225 - The dangers of SRM

There has been much press in the profession lately about the underrated value of supplier relationship management (SRM) as a strategy (see pponline for example), as well as the true business value of great contract management [see blog #131]. All well and good, and quite right too.

But most positives in life have a negative side, and procurement is no exception. SRM carries a downside or two as well. Because in all aspects of life relationships can go two ways – up, and down. Business is about people, and people are about relationships. And anything can happen. The corporate euphemism 'personality clash' often gets deployed in the office environment to explain away the most petty contretemps, lack of teamwork or naked competitiveness.

In the BUYER-SELLER relationship the absence of trust is, alas, too often apparent. And people (buyers) sometimes like people (sellers) and sometimes don't. Sellers know this. Many sellers with lively personalities often try to woo customers as a primary sales strategy [see blog#137] . Fortunately this approach is less common nowadays [see blog #179].

But, all too often, staff on the buying side can favour or disfavour suppliers depending on whether they like them – or not. They can do this consciously or, more usually, sub-consciously. And most people in life have a natural resistance to change and therefore favour the incumbent whom they know and have learnt to work with. Unless they really like the new guy. Favours can be huge [you'll get the deal don't worry] or smaller [if I were you, you may want to do the following in support of your bid].

The more we invest in relationships as a business strategy, the more vulnerable we might be to the vagaries of human relationships. Caveat emptor.

The Buyer – posted 31st January 2011

# #226 - Blind auctions enter the retail space

We are all familiar with the concept of auctions in general in a retail context such as for  property or at Sotheby's or online at e Bay. But asking retail customers in a queue what their price is not to be served is a whole new paradigm… effectively a blind auction.

The Economist reports (10th Jan 2011) that DELTA Airlines in the USA are asking passengers at check-in what their 'price is to be bumped today?' **(http://www.economist.com/blogs/gulliver/2011/01/oversold_flights&fsrc=nlw%7Cgul%7C01-11-2011%7Cgulliver)**. Allowing them to chose the least expensive customers to leave behind. Asking customers to value their own time & inconvenience creates a ready ladder of priority for the airline. Customers grading themselves – not to be served.

You might think this is a glimpse into the future?
That this thinking might creep into a B2B context?

Well, it already has of course; as professional buyers:

- We have been running blind auctions for some years now – with varying degrees of success.

But, in addition:

- We effectively ask suppliers at the outset what they would charge in interest for late payment by the buyer.
- We are usually clear on the implications of non-performance by the buyer in a contract (a common problem for The Buyer in the past: the suppliers were good, it was our engineers that were unreliable).
- We let suppliers value the cost of their IP and the consequences of the buyer 'stealing' it, and we always define indemnities and compensation caps at the outset
- We also get suppliers to value and agree the cost to us for their non-performance, and include them as liquidated damages up front in many deals.
- We often include arbitration clauses (a commercial pre-nup) in the event we disagree (hardly the best basis for good SRM eh?)

Once again, professional procurement is out in front of the trends…

The Buyer – posted 1st February 2011

# #227 - What a CPO has to learn in order to become a CEO...

"You can't cost cut your way to success. Cost management is really important, but at the end of the day you need to invest in what differentiates your business – in our case, our people and brands." Jamie Tomlinson, CFO, Lion Nathan [BOSS Magazine p.18 Volume 10, Nov 2009].

Simply, as the man says, you cannot cost-cut your way to greatness. [see blog#210]. This is a salutary lesson for all procurement people – not just CPOs aspiring to become CEOs; of which there are so few (Sam Walsh FCIPS, CEO at Rio Tinto being the best example).

The tendency to be 'just a buyer' runs deep; it is a mindset. But full business influence demands more. Not just the introspection of what we need right now, what our organisation must get to slither an advantage. But a perspective on what the consumer ultimately wants and an ability to service that need [see blog #204] at a profit.

Traditionally procurement people have over-relied upon simple wholesome benefits of their efforts to justify their existence [neatly listed in blog #95]. But to truly succeed in business you have to capture an opportunity, to make something better. Merely solving a problem is often not enough. [see blog #147]. It takes more than that. You have to be more commercial. To align your outputs with the needs of the business. Goal alignment, in other words. And that needs empathy; alas something buyers are not known for.

Anyone putting together their professional development plan for the procurement team this year could usefully include space and resources for soft skills training [see blog#35]. The CPOs could even lead the charge themselves maybe? They are never going to get the top job without convincing decision makers that they are not purists [see blog #18]. They must show that they have a strategic vision, a broad business perspective and can take decisions for the greater good using their judgment and not just processes. Professional development and training can help – even for CPOs.

The Buyer – posted 3rd February 2011

# #228 - Floods and Yasi will affect price

The recent devastations in Queensland will affect prices. Prices of most things will rise as rebuilding costs, disruption costs and, most of all, scarcity drives up cost – and price. Inflation will become a worry in Queensland, and subsequently nationally as the sunshine state becomes an engine of growth with the rebuilding effort after Yasi and the recent floods.

The best example of price inflation will be bananas, of course. Cyclone Yasi's predecessor – Larry – devastated the Australian banana crop, near Innisfail. Like Yasi has again. During 2006 banana prices peaked at $16.49 per kilo [for some pretty ordinary bananas], up from an occasional low of only $1.49 per kilo. A rise of 1,100% or so during the year.

The Buyer's wife purchased some nice bananas last weekend [30th January 2011] at $3.98 per kilo from Woolies. Yesterday, the morning before Cyclone Yasi made landfall, prices for premium bananas were already heading up to $6 per kilo at one retailer. Panic buying driving up price? Or early profiteering from fearful vendors? Buyers will need to be aware of both possibilities as the months progress, as well as the inevitable fairness of rising costs from the affected region.

But it is not Cyclone Yasi that causes the price hikes really. It is scarcity. Year 10 economics explains that lower supply drives up price to balance supply with demand at the point of market equilibrium. So – not demanding bananas will bring prices down. But as The Buyer's wife pointed out packing the school lunch-boxes back in 2006, a single banana costing nearly $2 is still cheaper and better for the offspring than a Mars bar.

The Buyer – posted 4th February 2011

## #229 - BREAKING NEWS: Swimmer goes for a swim

The news that the Thorpedo is back in the pool reminds The Buyer of the day he undertook to stop being a manager for a while, head back into the fray - and actually buy something. An urgent requisition had landed, the team weren't around and The Buyer valiantly volunteered to take on the pressing order.

But times had changed. The mighty procurement manager used to doing deals and solving problems with top salesmen at mighty suppliers was reduced to haggling over a grubby purchase order – a few grand.

Worse, the ignorant supplier didn't catch the subtleties of The Buyer's approach; he didn't understand the magnificence and great status of The Buyer – and treated him like a common consumer. Pah.

The subtle approach of a gentle chat stressing he knew 'what he had to do' and was trusted to do it, didn't bring in the bacon. The subtlety was wasted on him.

Now, senior folks respect each other and skip the to-ing and fro-ing of an elongated negotiation. They cut to the chase. They both know where any debate will end up – at the nub of the issue. Professional courtesy and trust demands neither take liberties – it only hurts in the long run they have learnt. Mutual respect demands the big short cut as the long years learning the game earn the right to save time & energy and cut to the chase. Like two opposing footy managers sharing a bottle of wine alone after the game, and empathising with the other's lot.

But the returning buyers' were shocked at their manager's tardy effort; "You paid how much?"

How embarrassing. Hopefully Thorpie won't be embarrassed by young bucks out for a big kill.

The thing is, everyone has their level. Deploying the tactics and signals from one level doesn't necessarily work at a different level. Thumping the table and blasting a top Sales VP from a big supplier will not get you far or get you taken seriously. Trusting a sales rep to do "what's right" won't always work either. Generals talk to generals like generals. Corporals talk to corporals like corporals – usually with much more common sense though.

The Buyer – posted 7th February 2011

## #230 - The keys to success in both Leadership and Procurement

The two disciplines of leadership and procurement have much in common. Both share characteristics essential for excellence, if not simple success. After all, procurement professionals are effectively leaders of their suppliers. Without the core characteristics of good leadership, how can they hope to lead them down the supply chain towards success? So, what are the five key characteristics of good leadership; and, therefore, necessarily good procurement management? An answer on the web forum at focus.com lists five **(http://communications.focus.com/emails/3617.html)**:

ONE: VISION

TWO: TRUST

THREE: CREDIBILITY

FOUR: PERSUASION

FIVE: PRIORITISING

But there is one more of course. One essential one. That is setting and agreeing to the OBJECTIVES of the project. Being very clear on the goals, and what is to be achieved. The outcome of the said initiative – what you are trying as an organisation to achieve on this one...?

Surprisingly, this is the one component of sourcing projects most often over-looked. Because it is difficult. Difficult to predict what definitive success will look like. Hard to define exactly what you want. Confronting to imagine the naked possibilities. Tricky to make the call of defining absolute success. Tough to nail your colours to the mast and so I, the buyer, hereby define total success as the following... It makes you a hostage to fortune to at least some extent. Regardless of how high your standards might be, or how rigorous your planning is. Events can always take a hand. A bit like volcanos can – or floods or cyclones.

This is why projects are so often headlong into the process before final objectives, results or KPIs are settled and agreed. Before success is defined. In corporate life there are many more people concerned with HOW rather than WHAT. Process over results, in other words. Now where have we heard that before?

So, a good place to start this journey is by studying leadership *[... the art of creating a vision and getting people to buy-in]* and then management *[ ... getting the best out of the resources and the team to achieve the objective]. And always, always, always making sure that you have clear objectives [ ... that have passed the test of being written down]* before you commence any procurement project.

The Buyer - Posted 9th February 2011

# #231 - The six driving forces of new supply chain design

CIPS thinkers back in the UK have developed an interesting new piece of work – well Gerard Chick did actually. The Buyer stole it from his recent presentation to a delegation of Chinese central government delegates late last year:

The six driving forces of new supply chain design:

**More globalisation:** an old force but one which will continue to develop producing longer and longer lead times and demanding your constant attention; one also forcing more homogenous global demands despite fickle consumers

**Increasing logistics costs:** In the last 5 years transportation costs have increased by 50% on average due to rising energy prices & insurance costs. Inventory increased by more than 60% between 2002 and 2008 (Source: MIT Sloane Management Review winter 2010)

**Greater levels of risk:** The consequential "unforeseen problems" of embracing strategies such as lean manufacturing, outsourcing and offshoring

**Rising labour costs:** Low cost countries were only ever a one hit wonder. Globalisation has been happening for some 20 years… in China in the last 5 years labour costs have increased on average by 20% year on year (Source: MIT Sloane Management Review winter 2010)

**The focus on Sustainability:** Once considered the preserve of a few zealots. Now business mainstream thinking. The consequence of a Greens influenced Australian federal government will be significant. A carbon bill is coming back. It will all impact directly on supply chains

**The growing volatility of commodity prices:** potentially fatal for some organisations. Think airlines procuring fuel - do you go long or short term? How do you out guess the market, and events?

SOURCE: CIPS, author Gerard Chick, Head of Knowledge Management, CIPS UK 2010.

Food for thought then… and for designing new supply chains in 2011.

The Buyer – posted 11th February 2011

# #232 - Market knowledge is the real test of excellence in Procurement

The fastest growing profession in business is increasingly being recognised by organisations for its broadening contribution, as endless global surveys inform us. More top procurement people, higher up the big organisations are prevalent. And the idea that the procurement profession is buoyant, that the subject has traction and momentum with the business world, is a comforting one. At least for now.

Procurement has always been about security of supply and reducing cost, but is now also increasingly about reducing risk, building sustainability, improving process & service, stronger governance and developing better business outcomes [see blog #95]. Commercial management then.

But growth always plateau's at some point. At what point will procurement's heady rise level out? Or even recede? When all this work is done? When business processes are established, streamlined and offering more certain outcomes? When external supply lines are integral? When all employees are commercially aware? What then, will be the role for procurement?

Maybe there is a clue in the current trend towards category management. Managing the market, not the supply line. Managing the full length of the supply chain right along its entire length. Bringing 'Trade not Aid' to the very tip of the supply chain upstream? Ensuring full service consumer satisfaction for the customer downstream from delivery?

If all business is ultimately marketing, then, in future, perhaps firms will have only two core departments: Both requiring absolute market knowledge and awareness;

- Marketing (defining and meeting customer needs at a profit); and
- Supply Management (fulfilling those entire needs at prescribed rates)

Plus the usual plethora of professional support departments of course - like finance, HR, IT, property and so… corporate services really. Not including procurement though.

You heard it here first.

The Buyer – posted 12th February 2011

## #233 - The forlorn art of chasing the CEO's synergy rainbow

All senior procurement managers in major companies have had that moment. The moment when, upon opening the business section of the newspaper, the headline leaps out and grabs you by the throat. A prospective merger, acquisition or takeover looms. Not of your company though; for procurement people it's much worse than that. It is a takeover or merger with somebody else.

The target to be acquired offers 'real leverage for shareholders' and 'opportunities for strategic market development' and 'benefits for customers' and 'true growth potential' and, worst of all, 'real synergies and cost savings'. And the article always quotes a big number. Like "$130m savings in the first two years". Or $750m. Or even more. That last bit is the tricky one. Because never in business history has any CEO, CFO or merchant banking advisor or market analyst ever bothered to ring the procurement team of the acquirer and ask – what do you think you could save us if we took over x then?

So where does the number come from exactly? Well, The Buyer can reveal – they make it up. IT is the usual first target. The merchant bankers add the two IT budgets of the two firms *[acquirer and target]* then divide by two and add a bit, take the sum from the first number to, hey presto, quantify a saving. The process is then repeated for staff numbers, property holdings and other relevant expenses – and, thus, a big number is made.

The coup de grace is usually a quote from the acquiring CEO like 'my procurement team have personally assured me that these are real potential savings, in fact, they are already capturing savings on the strength of this deal and will leave no stone… *blah blah blah*'. Except they haven't. And they didn't. He made it up. To convince the analysts that the deal is a goer and the pot of gold at the end of the deal is real. That margins will improve after the deal as will profits and the stock price will rise with them – so the analysts will recommend the deal to shareholders now. Simple.

That is how procurement teams end up forlornly chasing the big synergy number then. The result is usually frightened suppliers getting bullied with the carrot of the newly combined big spend. Some craven spec cutting. Combining the limited procurement savings numbers with redundancy savings, other costs savings, interest savings on satisfied debt, scrapped projects and pure obfuscation.
A busy two years then.

Good luck then to the procurement teams at the acquirers this year, as a predicted wave of takeover activity strikes in 2011. And even better luck to the poor procurement teams at the acquired companies

The Buyer – posted 13th February 2011

# #234 - History shows us the true value of procurement

Soon after Pearl Harbour, in early 1942, as America geared-up for war with Japan and then Germany, Franklin D Roosevelt, the 23rd President of the United States, dispatched a triumvirate of US leaders to the UK to lead their war effort in the Atlantic theatre from London with their close allies.

He tasked them each with an individual responsibility for the top three areas of activity he saw critical for success:

Military – Admiral Stark, Chief of Naval Operations: Atlantic
Diplomatic – Ambassador Winant: Emissary to the Court of St James
Procurement – Averell Harriman, Chief Lend-Lease Administrator (procurement manager)...

...and later, inter alia, Governor of New York
**(http://en.wikipedia.org/wiki/William_Averell_Harriman)**.

Roosevelt instinctively understood the leverage of the US spending power and therefore the value of procurement as an instrument of policy and a real lever of influence on other countries. Especially before America was committed to war. He used procurement to great effect to almost lead policy and public opinion against the Axis. It was FDR that invented Lend-Lease as a purchasing scheme for the UK [basically *use now, pay when you can*] and, later, for the Russians. Churchill described it as, "The President waging war without going to war, by supplying us all with the tools to do the job."

President Roosevelt even issued Executive Orders with detailed procurement directives designed to achieve outcomes central to his (undeclared) policies to firstly, engage in the war, and secondly to successfully prosecute it **(http://www.presidency.ucsb)**..du/ws/index.php?pid=60975

Procurement was at the fulcrum of all US influence at the outbreak of WWII.

Of course, Roosevelt wasn't the first in history to recognise the power of the supply side. The Yankees in the American Civil War developed an excellent supply chain under Major General Megs. Indeed famous historian Simon Schema in his book 'The American Future : A history' said "…the confederacy was out supplied by the Yankees rather than out fought".

But others may still claim precedent on the Americans for recognizing the value of the supply side:

- The forts of medieval France sustaining themselves under siege
- English Crusaders in the middle east during the 12th century failing partly due to the inability to sustain their supply chain
- The Romans sustaining  an empire covering most of Europe with the first quality roads and Quartermasters appointed for each legion
- The development of the Silk Road from China to Greece some 3,000 years ago (see Prof Guy Callendar's 'A Short History of Procurement' CIPSA white-paper **http://www.cips.org/en-au/Resources/knowledgetopics/White-papers/**, member login required)
- Homo-erectus, primitive man, hunting and gathering then trading supplies for his family and tribe

Procurement has always been important. Just unsung heroes. And too low-profile.

The Buyer – posted 14th February 2011

# #235 - Oil price rises over $100

Told yer so [See blogs 101 and 213 and 218 and 79].

**http://www.oil-price.net/**

**http://news.theage.com.au/breaking-news-world/brent-oil-price-climbs-back-above-100-20110208-1akek.html**

How might it affect your supply chain?

The Buyer – posted 15th February 2011

# #236 - The silly business of sending good money chasing after bad

In large world-class companies, managers are well trained. But the training comes with a corporate risk-averse setting which builds a manager's mindset to always avoid risk wherever possible. So managers are trained to avoid gambles (and risky proposals) and therefore to make the best of what they are given (limited resources- and "don't spend anything") to achieve tall objectives (always unreasonable & usually unattainable). It's called the art of management [see blog #230].

Part of this trained corporate mindset then, is to make good from bad to produce silk purses from sow's ears even. To make the best of a bad job. As the new manager to retrieve situations that others have developed from years of poor decision making, bad management and sloppy strategies. To send good money chasing after bad.

All too often, humble procurement managers in major firms are latently deployed to chase after the money. To get latent value. To scramble some value from bills long paid. To resurrect a folly. To drive a corporate renaissance of some forlorn and misplaced corporate ideal. To get some good out of the sunk cost. To haggle a way forward with an exasperated supplier.

Except the project has already sunk. Gone. Under water. It's a dead parrot. The look on the supplier's face says everything "… you what?"

Of course, it is very rarely the supplier's fault. Rarely have they sold you a pup. Usually it is the corporate's poor thinking, crap specs, wishful thinking, multiple changes and too many cooks that turned this corporate racehorse into the three humped camel. Denial exacerbated the problem. It is our corporate fault.

Entrepreneurs, on the other hand, don't think like this at all. They are first to cut their losses. They never send good money ["my money"] after bad. They regret quickly; they quit fast – and start over. Properly. They learn their lessons. The blue-chip ego is not so pliable. It dwarfs magnanimous entrepreneurs' egos. And corporate memory is short.

A good example of sunk costs is Myki - *"one of the world's largest smart card ticketing systems, operating in a capital city as well as in suburban and regional centres"* **(http://www.myki.com.au/)**. It is not working well like London's Oyster card or Hong Kong's Octopus card or, even, New York's Metrocard. The entire litany of woe on the Myki project is summed up on Wikipedia **(http://en.wikipedia.org/wiki/Myki)** Suffice to say the whole development path for Myki has been, as we say in procurement circles, a dog's breakfast.

So, a good example of throwing good money after bad, perhaps, for the last few years? The new Victorian Liberal Government now has to decide what to do about it now, after years of slagging it from the Opposition benches **(http://www.theage.com.au/victoria/victorian-government-defers-myki-decision-20110215-1auus.html)**.

Anyway, a good role for procurement people is to champion lower life time cost, of course. By sometimes saying no, like an entrepreneur would. To be the corporate dissenter. By building a case to start over. To figure out when benefits cannot reasonably, or even unreasonably, be attained; when the business case is in disrepute. To work out when to cut your losses. To be the voice of common sense. A new role for procurement perhaps?

The Buyer – posted 17th February 2011

# #237 - CIPSA conference video solves all the world's problems

The inspiring three minute video played to open the 6th Annual CIPSA Conference back in October 2010 has popped up on YOU TUBE **(http://www.youtube.com/watch?v=98dGDz26LUs)** so buyers everywhere can download it and play it at their leisure (even without the original music) compliments of those nice people at CIPSA.

"Managing Volatility" was the theme of the conference and the video sets the context for procurement's contribution in a world of volatility (neatly listing all the world's problems in the last few years such as wars, volcanos, earthquakes, bird-flu, oil spills, banks collapsing, dodgy dictators and George Bush). It then fades into a list of all the corporate demands on busy procurement teams to deliver against this nasty backdrop – like lower total cost, reduced risk, stronger governance, more sustainability and better outcomes. It makes its point well – and puts procurement on the global stage: It makes procurement relevant. It shows that we matter and make a difference.

Apparently the video is rights-free and can be used by CIPSA members to show anywhere – it may help break down some barriers with internal clients even? Our own promotional video for procurement then. What next? A TV ad?

The Buyer – posted 17th February 2011

# #238 - Jetstar uses cost as an effective strategy

The news that low cost carrier Jetstar is returning almost the same annual profits as the main Qantas business, but on four times less revenues **(http://www.theage.com.au/business/jetstaring-of-qantas-accelerates-under-joyce-20110217-1axen.html)**, suggests once again that cost can be a strategy - and a very effective one too [see blog #210].

But, the new CPO at Qantas, and CIPSA Leadership Award winner for last year - Kevin McCafferty - is surely completing his initial plans for reducing the cost base of the main airline, now he has now completed his first 100 days at the flag carrier [see previous blog#190].

It'll be interesting to see the impact in Qantas' figures next year and beyond, compared to Jetstar's?

No pressure then

The Buyer – posted 18th February 2011

# #239 - UK Prime Minister backs procurement professionals' judgement

The news from the UK last week that their spritely Prime Minister, David Cameron, will support government buyers' judgment on supplier selection is a great boost in confidence for the profession - especially within the UK public sector **(http://www.supplymanagement.com/news/2011/david-cameron-tells-buyers-i-will-stand-by-you-if-you-take-risks/?locale=en)**.

It is part of his initiative to drive more UK government business (25% he says) towards smaller suppliers, SMEs, and simultaneously make public procurement more transparent and accountable.

Mr Cameron committed to this policy in the UK general election campaign last northern summer [see previous blog #158 then 145 and 140].

And the UK Government are also finding ways to make it easier to do business with government – such as easing pre-tender qualification PPQ rules **(http://blog.supplymanagement.com/2011/02/should-size-matter/)**. All part of the master plan to try and save considerable sums from better central procurement to help close the gigantic £163bn UK budget deficit [see blog #180].

They also introduced enhanced training packages for procurement professionals which included secondments to private sector procurement teams.

"This package of measures will only work if procurers are up to the job. To make them less risk averse we need to learn from the best of private sector practice," said the Prime Minister, who obviously understands the link between professional training and confidence leading to better outcomes - and ultimately more public trust in the procurement process, not less.

Sadly, public sector procurement professionals' confidence is rarely buoyant in Australia. Public second guessing of procurement decisions, multiple objectives and policies to serve, excessive red-tape, stringent tendering requirements and obsessive probity rules squash the professional buyer's judgment.

Added to the dearth of professional level procurement training provided in most Australian jurisdictions, it is a recipe for angst amongst public buyers here. Poor confidence leads to mediocrity. The previous federal Minister of Finance & Deregulation and supporter of the procurement profession, Lindsay Tanner, understood. He agreed that there was too much process and insufficient professional judgement at work in the procurement profession throughout the public sector at the CIPS Public Sector Procurement Forum last May 2010 [see previous blog #154]. He blamed the media, of course.

Interestingly, the scope and commitment of the New Zealand Government Procurement Reform Programme is leading the way in this region **(http://www.med.govt.nz/templactes/Page44092.aspx)** The reform programme is led by the Ministry of Economic Development (MED) and was introduced by the new Key Government early in their term. It was founded, at least partly, upon the need to create jobs to combat recession and to make government easier to do business with as a customer. Subsequently their procurement reform agenda has included a raft of excellent initiatives including local centres of purchasing excellence for particular categories, easing red tape but improving purchasing governance, professional training towards global standards, attracting professionally qualified buyers to NZ through skilled immigration visas and developing local procurement capability at all levels. The programme has been explained in detail at several CIPS conference events including the first NZ PSPF conference held on 3rd December 2010 in Wellington **(www.cipsaconferences.com.au)**. Maybe their efforts will even persuade kiwi buyers to vote for the incumbent Key Government at their forthcoming general election in November 2011?

Mr Cameron seems to understand what it takes to get the best out of the procurement profession and their supplier base, as does the New Zealand Government is appears.

Unfortunately, in Australia, we have not yet demonstrated this understanding. Until public sector procurement professionals' confidence grows through firm ministerial support, better professional level training and more flexibility, the Australian public will never get the best possible value for their tax dollar. If we did, then maybe we wouldn't need exceptional direct tax levies to finance a humble $1.8 billion for flood support. That is money needed for a rainy day that a first-world government with a GDP over $1 trillion should perhaps be expected to find from savings.

The Buyer – posted 22nd February 2011

# #240 - The 8 BUYER personas... according to a Sales Trainer

Like all procurement professionals, The Buyer is always interested to hear how salespeople view us [see previous blog #239].

A blog by an American purchasing trainer called Charles Dominick from 'Next Level Purchasing' in Pittsburgh, highlights this topic: **http://blog.purchasing-courses.com/2011/01/8-buyer-personas-and-how-to-fix-whats.html**.

He quotes the "RAIN" Selling Blog that purports to classify BUYERs and their eight principal personas (and how to best handle them from a sales perspective): **http://www.rainsalestraining.com/blog/the-8-buyer-personas-and-how-to-sell-to-them/**

Eight styles of BUYER persona:

1. Decisive
2. Collaborative
3. Friendly
4. Skeptical
5. Gradual
6. Change agent
7. Analytical
8. Innovator

SOURCE: RAIN Sales Training, USA

Charles seems to accept this simplified model and enthusiastically compels buyers to classify themselves quickly, and then take on patronising advice on how to improve. But he misses the point. A really good professional buyer has the capacity to become all eight personas – depending on the purchasing need at the time.

The Buyer – posted 25th February 2011

# #241 - TEN reasons why big capital projects blow-out

The news from WA that the PLUTO project is over budget is no surprise to anyone really **(http://www.theage.com.au/business/woodsides-pluto-lng-project-costs-rise-20101130-18efm.html)**.

Most big projects blow out. But why is that exactly? Why do they?

After years of experience on the wrong end of big projects The Buyer has an instant answer, of course, to explain fully why large organisations are so good at engineering big-project blow-outs.

TEN common reasons why big capital projects often blow-out:

1. We don't spec requirements in enough detail
2. Thin business cases pass with too little challenge in the first place; and demand unrealistic timescales
3. Up front Cost–Benefit analysis work is usually idealistic and best-case orientated
4. Our risk plans are inadequate, and sensitivity analysis often unrealistic
5. We often meet the unexpected during major projects
6. We get too focussed on milestone dates and delays, and not on getting it right
7. Our teamwork and communications with suppliers could always be better
8. We maintain an adversarial relationship with the prime contractor too long into the project
9. We are poor managers of resources ourselves, and often poor project managers too
10. We make assumptions too often, and act as if they are facts

Sobering eh?

The Buyer – posted 28th February 2011

# #242 - The two main ways that suppliers price products

The Buyer once got an 87% discount on some techno stuff he was buying for his organisation. “So what?” You might think. But it was The Buyer’s first real procurement project exercise that he alone had spotted and run with. And, at the time, The Buyer didn’t know that it was actually possible to get an 87% discount.

The most he’d ever got was -40% or so; or as it said in those days on the lime-green monochrome Stock Control System offeree -30% -10%. Two discounts.

The seller [a large well known business brand] was embarrassed.

They had been selling the (ageing) technology without realising that they were ‘over-charging’ a valued client. The Buyer’s general manager was new to Procurement. He though it was all bad form. A rip off. He lectured the tardy supplier on ‘ethics’ and the true value of our wider business relationship.

The seller apologised – and refunded monies, waived cancellation costs, and then discounted by 87%. They didn’t mean it, they said. They didn’t even know they were doing it. Really. It has always been that price.

There are two ways to price a product, the supplier understood:
1. Cost plus a margin to create a price *(Cost plus)*
2. Pricing at what the market will bear *(what der yer think we can flog for these mate?)*

Firms always aim to achieve option two, if possible. Where greater margins reside. And this lot did that when they originally started selling this techy stuff; when it was new, useful and groovy. The technology was relatively cheap to produce, but much prized by punters. So they priced up to what the market would bear. Which was lots, at the time. Because price is a function of demand [see previous blog #228], not production costs necessarily.

Does your supplier charge  cost-plus… Or at *what-the-market-will-bear?* Ask them.

The Buyer – posted 2nd March 2011

## #243 - Capturing benefits is more important than saving cost

A previous blog [#227] quoted the CFO of Lion Nathan ["you can't cost cut your way to success"] as a key point of understanding for buyers.

Simply, there is more to life than cost savings. Or any of the other long list of worthy benefits accruing from professional procurement interventions [see handy list in blog #95]. In fact, the primary benefit of any purchase is usually always the actual attainment and capture of the business benefits of the purchase in the first place. Realising the actual business case. Satisfying the dissatisfaction of the one who commissioned the purchase in the first place.

Long ago, The Buyer was a procurement manager in the ITC field. One project required extensive bespoke software programming – costing something like US$24m over three years. But, and here's the 'but', the business benefits on the capital expenditure business case professed annual direct savings of around £60m (say, US$100m pa) equating to total savings of US$300m over a three year illustrative payback period... an Roi of 1,250%.

It was some months into the project post-contract - we were in a tenth round of further price/cost/process/change negotiations with the software vendor for the umpteenth change order and still trying to shave a few more dollars off the total project cost – when we realised: we had not captured any of the benefits of the project at all yet. Indeed we had not even directed any resources at even trying to capture the benefits. Truly, we couldn't even remember what they were!

Latterly, focussing and capturing the business benefits of the project started to reap real returns for the organisation. And in dollar terms dwarfed the costs of the project. Even at the price of completely ignoring the ongoing iterative negotiations and the terms of change orders being discussed almost daily; 'whatever' became a bit of a new mantra for The Buyer, and kept our supplier onside in SRM terms.

Myopic cost management saves a few dollars – but the returns are usually dwarfed by the capture of the original benefits of the project that justified the purchase in the first place. Another argument then for seeing the long term evolution of procurement towards more upstream commercial management

The Buyer – posted 8th March 2011

# #244 - Rumsfeld defines an unknown known – and a brutal management truth

Everyone's favourite villain – former US Secretary of Defence and architect of the Iraq war, Donald Rumsfled – was plugging his new autobiography recently called "Known and Unknown"
**(http://www.theaustralian.com.au/news/world/guantanamo-bay-one-of-worlds-finest-prisons-rumsfeld/story-e6frg6so-1226002946072)**.

Along the way he was explaining an unknown unknown…That Guantanamo Bay Prison ('Gitmo' in the lingo) was simply the finest prison in the world.

And also, perhaps inadvertently, perfectly explained one of the great conundrums of management. You see, he inconveniently pointed out an inconvenient truth - that Gitmo still exists some two years or so since President Obama publically and loudly committed to the world at large that Gitmo would definitely and absolutely be closed down with one year, by January 2010. Or else. But it's still there. Isn't it? Donald helpfully explained that Gitmo is still there, "… not because anyone wants [it] there, but because [it] is the best solution."

And there is the brutal management truth at work on this example. It is, actually, the best solution so far. "Manager – Gitmo" has not yet come up with a better option. So we are stuck with it; until they do.

AND THE MORAL IS:
Management is rarely about sitting on a pedestal deciding between GOOD solutions and BAD ones (Gitmo is bad, no Gitmo is good). That is easy and anyone can do it. Even politicians. It doesn't take a trained and experienced business manager. No, management in large organisations is usually about inheriting a tough situation and a lofty goal, and making the best of it. Taking the next best step. Getting us on the road towards success. Positioning us to one day taking the next step after that – when we are ready. Winning today's battle, and preparing to come back to win the next step tomorrow. Management is, therefore, the art of deciding between BAD and WORSE. There is a bad option over here – and a worse one over there;  so we'll take the bad one and move forward for now, even just a tad …. Alas, sometimes there is no good option. Otherwise you'd take it, wouldn't you?

The same is true in procurement; sometimes we have to let go. To see a bigger picture, and serve a greater good. Even to protect a relationship, so we can come back next time and move forward again – a few more steps. Occasionally we have to be magnanimous enough to avoid the purism of the process, and take the profit from just a few steps at once – this time. Occasionally when no good option exists, to take a bad option, which is better than the 'worse' option. We can come back next time to fight again; when we all know more. You see, just because WE know that utopia exists, doesn't mean we can all leap there tomorrow. Our clients and stakeholders have to come on the journey too. We cannot sustain a position too far ahead of stakeholder opinion – otherwise no one will follow at all.

Procurement is no exception to the learned lessons of management – think of your own examples.

The Buyer – posted 9th March 2011

## #245 - The top five threats to the resilience of supply chains from China

Dr Brian Squire from Bath University in the UK offered a recent ‘Delphi study’ which included, amongst other things, a list of the top 300 supply chain risks ex-China.

The top five affecting the resilience of ex-China supply chains were compelling:

The five most significant threats to the resilience of supply chains emanating in China:

1. Shrinking overseas customer demand due to global economic crisis
2. Price wars in the marketplace
3. Fluctuations in raw materials pricing
4. Escalating costs of raw materials like copper & iron ore
5. Supplier delays in providing Chinese factories with materials

SOURCE: Dr Brian Squire, Bath University & CIPS

They may look a fairly obvious list-of-five in retrospect; but that adds to their validity, it does not detract from it. There were 300 risks on the whole list, these made it to the top five. Think of them as the ‘Masterchefs’ of Chinese supply chain risk if it helps.

The Buyer – posted 11th March 2011

## #246 - Government policy is loading too many straws on the procurement camel's back

The resounding thud of yet one more straw landing on the back of the procurement camel came last week, heralded by Prime Minister, Julia G and her new BFF, Hilary Clinton, who were striding towards the press in Washington DC last week [8th March] on International Womens' Day, with their all too obvious message of 'women-can-make-it-too-look-at-us **(http://www.theaustralian.com.au/news/gallery-e6frg6n6-1226018220254?page=3)**.

Meanwhile, on the same day, back at the ranch, Women's Minister, Kate Ellis was preaching equality at The National Press Club - wearing a dark manlike business suit and with her hair tied back as far as possible. She soon took the lead and picked up on the GG's much quoted recent support for official quotas to drive the appointment of women into board positions, much discussed in the press generally this week and central to the federal government's plans for ensuring equality in business through new positive discrimination **(http://www.abc.net.au/news/stories/2011/03/09/3159617.htm)**.

It was no coincidence that the federal government completed their trifecta on the day with the announcement of Helen Conway [no relation to NBN minister, Steve] as the new head of the inspirational body the 'Equal Opportunity for Women in the Workplace Agency' (EOWWA). She has given up her job at board level in Caltex (on $700,000 pa no less) to take up the equality director post (on somewhat less - let's hope Caltex don't backfill her with a bloke then or else she will start 0-1 down]. This appointment completed a spirited integrated communications campaign to push positive discrimination for women then. Fine. But Helen Conway, in one of her many debut interviews that night, repeated on ABC radio that the government intended to use procurement as a way of mandating government suppliers towards complying with the women-on-boards quota. Suppliers without sufficient totty on the board, would not get government contracts she suggested. Business lobby groups criticised the idea as 'red tape' gone mad and "tokenistic" **(http://www.smh.com.au/executive-style/quotas-wrong-difficult-and-tokenistic-20110308-1bmmn.html)**

The new Liberal state premier in Victoria, Ted Baillieu, also criticised the idea following the federal Liberal opposition position **(http://www.heraldsun.com.au/news/national/close-the-pay-job-gender-gap-call-on-international-womens-day/story-e6frf7l6-1226017559609)**.

Everyone accepts that procurement is an instrument of policy. The private sector also use procurement as such. But it is lazy policy implementation to bully suppliers into compliance. Indeed, if they need bullying at all then perhaps the policy is flawed in the first place, with insufficient merit to gain traction. Everyone wants to see more women in the echelons of business and greater diversity in business, full stop. But driving ill thought through policy via public sector procurement teams usually proves entirely counter productive regardless of the merits of the policy; whether it be gender positive, race orientated, age driven, local-buy motivated, sustainability focussed or, even, carbon reduction intentional.

No one will benefit in the long run from misplaced policy forced upon suppliers.

In Europe, it has already gone too far. Many examples exist of jurisdictions there flogging flawed policy through hapless government suppliers. Pre-qualification rules in some EU countries are unreasonably fastidious; effective only in persuading half the market from even trying to supply them. Government buyers insisting that vendors legally warrant compliance with all sorts of ideologically driven clap-trap whilst only tendering on recycled paper and always keeping the toilet seat down. They even charge suppliers tender submission fees in some places, just for bidders to get them accepted and read. Bizarre. Do that and winning government business becomes even more like playing poker...

Using procurement to drive policy just makes it more and more difficult [and expensive] for vendors to do business with government. The public sector should be finding ways to become a customer of choice and not the opposite - a customer of last resort. Vast swathes of the private sector are already deselecting themselves from government markets by boycotting government business. It is just too hard and too much hassle; often on slim margins and always bidding against a suspicion of 'dutch' auctions favouring of an incumbent's. The result of this conscious de-selection from the market is reduced choice for government buyers, which just drives down quality and drives up costs. The net result that neither master is served – the policy goal nor the commercial need.

Meanwhile, the procurement camel has one more straw on its back. One more demand upon it. One more way to change its role from achiever-of-value into corporate policeman. It is not the best use of procurement. And not how it has grown to become the fastest growing profession in business – by becoming more respected for its contribution by so many organisations around the world. The public sector policymakers are undermining that achievement – even rolling it backwards in extreme examples.

Remember, when people start buying and selling for the wrong reasons (ie; not on commercial and technical merit) things start getting very messy. Distorting markets is a tricky business and a double-edged sword [see previous blogs #219 and #3 or #181 and #160 for other examples].

The Buyer – posted 22nd March 2011

## #247 - Shopping websites play an old mail-order trick

Catch of the Day **(www.catchoftheday.com)** is one of several new websites offering online retail punters unbelievable one-day deals of top products at amazing discounts. Bargains. And they seem all the rage. Gullible housewives believing they've snagged a bargain are signing up for the deal-of-the-day smug with the 'savings' they are making for things they don't really need. The sites are growing... Cudo, Squidoo, Woot and, now, even real retailers like Dick Smith are catching on and offering time-limited bargains of singular products.

Actually, in truth, many of these internet sales sites are mostly a viral marketing approach to selling residual stock from anxious vendors who aim to liquidate surplus stock, or catch a fleeting consumer trend with a "similar" imitation product to a market leader – but at a knock-down price. An impulse-buying price. FMCG goods are usually the fairest game. You too can have the latest gizmo for a fraction of the price. Guaranteed. Full refund if not satisfied within 60 days.

But here is the real catch. Although prices are surprisingly low, carriage costs are often high. The wife's friend bought one item from one site that was "only $69" from this online wonder vendor. But Postage & Packing costs were $60 – from NSW to Melbourne! Returning the dodgy product incurred the cost of shipping it back to the internet vendor and forfeiting the original $60 P&P fee. A trial product cost her $17 to post back, plus the original $60, to try for a day. $77 is quite a total cost – for no product and no benefit, other than a purchasing lesson on an old mail-order trick. Caveat emptor then.

So what are you paying for carriage? Is it not worth sourcing closer to home sometimes?

The Buyer – posted 23rd March 2011

# #248 - Procurement and Sales disagree [again]

Unsurprisingly, buyers and sellers have disagreed again. This time collectively, in the recent survey by Greybeard Advisors who surveyed 161 hard working procurement professionals and a lowly 106 indolent sales professionals **(http://www.pponline.com.au/html/procurementandsales.cfm)**, reports PPONLINE sourcing Supply & Demand Chain Exec: **http://www.sdcexec.com/web/online/SourcingProcurement-Trends/When-Procurement-and-Sales-Collide/13$13245**.

Their buyers' and sellers' initial mutual respect of each other's market knowledge and meeting company needs soon evaporated, however, when the survey moved onto other aspects of their general relationship - notably in the TRUST space. They don't trust each other; and seek to minimise each other's role in the transactional process. The survey went on and elucidated on other fairly predictable aspects of the BUY-SELL relationship.

It is a shame. Because buyer's and seller's that work together against the common enemy of waste [see previous blogs #36 and #207, #197, #167, #148] can achieve much more for both parties to address the weakest part of any supply chain = the links. Because the weakest part of the chain is where the waste is. Teamwork would help eliminate the common enemy of waste

The Buyer – posted 24th March 2011

# #249 - Five reasons why new managers often fail

The recent Rumsfeld blog [#244] highlighted a brutal management truth – that managers are forced to decide not between GOOD and BAD options, but usually between BAD and WORSE.

But only experienced managers even get to this realisation. Many managers don't make it. They don't get to becoming "experienced" enough to see.

The Buyer became a procurement manager after passing the usual battery of interviews and psych tests in his very large company – many years ago. And got the happy news some weeks later.

On a Friday afternoon, naturally - went home a buyer, turned up on Monday as The Manager, no less. With zero training how, exactly, to be a manager.

In fact, the only management training received by The Buyer at the time had been by watching the previous manager do things badly, and remembering how not to manage from his clear example.

It is the same in many disciplines. We are quickly promoted from technical expertise into managerial incompetence.

No surprise then that many new managers fail. They make many mistakes, not least starting by bossing everyone around, patronising all the staff and not recognising that their job has changed entirely. The expected outcomes are different – getting the best out of the team, not technical excellence.

Nancy Roberts neatly lists FIVE clear reasons why new managers fail in her online e zine article **(http://ezinearticles.com/?Most-New-Managers-Fail---Heres-Five-Reasons-Why&id=2372584)**.

Her top five reasons are:

1. Most new managers are moved from a position where they were skilled and talented to a position where they may not have the right competencies or behaviours for the job. When someone stands out in a position, enough to be recognised and considered for promotion, it's usually because they were excelling at the job. They had the right motivation, behaviours, competencies and technical skills for superior performance. This does not mean those attributes will translate to the management role.
2. Many new managers don't realise the extreme difference between "doing" the job and "managing" the people who do the job. Just ask any sales person who has been promoted to sales manager about the difference. You go from having direct interaction with customers and prospects, to little interaction. You go from a lot of freedom out of the office and a flexible schedule to less freedom and a more fixed schedule. And lastly, you go from only focusing on your

individual results to be responsible for the results of a team. It's very different and not everyone makes the shift successfully.

3. Under stressful conditions most new managers default to what comes natural for them... doing the job they are supposed to manage. When under pressure, the majority of people resort back to their comfort zone. What's comfortable to a new manager is not managing! It's doing! So when things get intense, most new managers gravitate to where they feel competent and secure.
4. Many new managers then tend to micromanage the people that report to them. Because they were likely top performers in their previous role, they have a very good understanding of what it takes to be successful. They have their method, process, or system and believe that everyone should follow the same path to success. Unfortunately, dictating the HOW rarely ever works.
5. Many new managers don't receive the mentoring, coaching or training that would help them become better leaders. So again, while the new manager may be skilled and successful in doing the job, without the proper training to help them change their focus to managing, many are unable to do so.

The Buyer wonders if CPOs are doing enough to train their talent – the new managers in the department; those bright new things. AIM run good management courses **(www.aim.com.au)**.

And The Buyer did hear a loose rumour last year that the very polite Head of Training at CIPSA, the laconic Ed Rayner, was organising a residential course for new procurement managers... It should run over a weekend thinks The Buyer.

The Buyer – posted 28th March 2011

## #250 - More women in procurement (please)

The recent blog inspired by International Women's Day [see previous blog #246] prompted The Buyer into some meticulous research. Calling upon an 'order' of buyers in the bar after an exhausting procurement conference the other day, a hands-up survey concluded that the male/female split in procurement is anecdotally about 50/50.

More scientific research led to a call to our esteemed peak body – CIPSA. After not much false protesting they quickly revealed that fully 31% of members in Australasia are now women according to their 2010 members' survey – up from around a paltry 9% back in 2005, 18% in 2007, but only stable from the 2009 survey which also recorded 31%. CIPS figures in the UK are better with 37% members being female, and even better globally – with fully 45% of all CIPS members worldwide being female. Very good really – just not quite the 50% that the order of 'buyers-in-a-bar' estimated.

But recently CIPS did have three quarters of the top four positions in the Institute filled by women = a female President, Vice-President and Vice Chair of the CIPS Board of Management simultaneously last year – Ms Cooper, Maizey & Gildert (...sounds a bit like a law firm, or a dental practice). Anyway, a decent number of high-profile CPOs here in Australia are also women of course, including several CIPS Fellows even. So, maybe no glass ceiling in the procurement profession? The focus group questioned in the old edition of Procurement Professional magazine [PP19] thought not in June 2008, when discussing the question over lunch in Sydney at the time.

Over the years The Buyer has observed that women are inclined to make very good procurement professionals – maybe even better than men. Women are less ego driven and less competitive on the whole. Also, better prepared and better relationship managers. All good ingredients for quality professional buying. So, the more women in procurement the better? Why not exactly?

In passing, CIPSA also confirmed that 86 women attended the CIPS 'Women in Procurement' event held in Melbourne during June 2008. Though the laconic CIPSA Conference producer, Nigel Wardropper, confirmed, "why-aye man, had almost as many phone to complain like."

He patiently explained a number of senior procurement ladies called to claim professional women were capable enough to make their own way in procurement, and in business, and didn't need a "crutch" of dedicated networking events, positive discrimination or any special treatment at all.

You can't win.

The Buyer – posted 29th March 2011

# #251 - The hot three issues in Procurement this month?

A quick and dirty poll on Linked IN generated by Hudson recruitment last month, asked what people thought was the "hottest topic" in procurement right here, right now:

Somewhat unsurprisingly, the top three hotties (in terms of % of respondents that mentioned the subject in their responses) were:

TOP 3 RESULTS:
1. Category Management (45%)
2. Building capability in Procurement teams (18%)
3. Managing your data (18%)

SOURCE: Hudson question on Linked IN Q1 2011

By the way, the new CIPSA launched Linked IN chat site is well worth staying in touch with: **http://www.linkedin.com/groupRegistration?gid=3786316&csrfToken=ajax%3A9050674424990173767**

It is a new way to access all the CIPSA members in Australia & New Zealand… which The Buyer always thought was verboten?

The Buyer – posted 30th March 2011

# #252 - QANTAS woes illustrate cost has to be a strategy sometimes

The facile idea that cost is not a strategy [see previous blogs #243 and #227] got another hammering this week with flag carrier QANTAS announcing a raft of cost cutting measures following a string of unfortunate events **(http://www.theage.com.au/travel/travel-news/qantas-cuts-staff-services-to-reel-in-growing-costs-20110330-1cgbu.html)**.

Businesses as exposed to exogenous events as readily as airlines, have no choice but to maintain cost as a strategy in its own right.

The QANTAS cost base has to be flexible enough to cope with instant reduced demand (due to GFCs), route closures (volcanos), instant demand (ex-Libya), technical issues (dodgy engines grounding 8 aircraft), exploding raw material costs (oil prices), excess capacity (Japan), damaged facilities (Queensland floods), exchange rate impacts (highest ever Aussie dollar) and, even, normal competition (a price war with Singapore Airlines & new Virgin Blue efforts to attract corporate traffic).

A flexible income stream against a largely fixed cost base is rarely good business. No business so exposed can afford to treat COST as anything less than an economic and strategic imperative. In this case a tap that can be turned down as needed. Such capability is essential for companies like QANTAS if they are to stand any chance of maintaining acceptable margins in the face of such variable operating circumstances. And, therefore, able to attract investors over the long run in the face of inevitabilities.

The Buyer – posted 31st March 2011

## #253 - National Broadband: Suppliers take liberties

The news that NBN have suspended their latest tender for a sizeable bit of the new NBN (some cabling) was a surprise **(http://www.theage.com.au/technology/technology-news/nbn-co-ditches-gouging-bidders-20110331-1cngl.html)**.

Rarely do Buyers compromise security of supply on grounds of simple price.

But, frankly, they have a point.

If all 14 or so bidders are quoting far beyond the pre-set budget (if built on credible estimates, not guesswork), then refusing to buy from profiteering suppliers is a sound move probably.

The tactical mistake made by NBN was to declare their budget up front. If you tell the market that you have $43 billion to spend - the market will want [more than] its share.

And gouging becomes inevitable really.

The moral is very clear: Never tell suppliers what your budget is, stoopid.

The Buyer – posted 6th April 2011

# #254 - Procurement has made it to the C suite – says HBR

Now McKinsey have embraced procurement fully [see previous blog #217], the esteemed magazine Harvard Business Review [HBR] has quickly followed suit in their article about the C suite **(www.hbr.org)**.

The recent edition of HBR has pegged the CPO firmly in the C suite and on the corporate senior management board. The March 2011 issue carried a feature called "How to make it to the top – the new rules for getting to the C suite".

PPONLINE helpfully spruiked the HBR plug for the profession **(http://www.pponline.com.au/html/scmoinhbr.cfm)**.

Thing is, procurement is increasingly becoming business mainstream. When firms like McKinsey embrace the subject then advertise to hire top procurement talent and HBR is writing about procurement talent making it into the C suite, we've made it.

Because 'support services' of the global calibre of these two follow the money; and enter markets where there is potential and growth. And money follows business value. QED: procurement is creating business value.

So, maybe there is something very true in the CIPSA line about procurement being "the fastest growing profession in business" – McKinsey & HBR think so judging by their obvious recognition of the fact.

The Buyer – posted 7th April 2011

# #255 - National Broadband: NBN takes liberties

The news wires late last week started to reveal more about the suspended tender process at NBN, as bidders queued to (anonymously) explain all **(http://www.theaustralian.com.au/national-affairs/fears-national-broadband-network-bill-could-top-44bn/story-fn59niix-1226035660915)**.

According to several news reports, tenderers were quoted detailing why they thought costs would inevitably blow-out. Of course, they would say that wouldn't they?

But maybe they have too have a point - and are not the greedy vendors hinted in the last blog [#253] after all?

But three more points are certainly valid here:

1. |All costs on all major IT based projects blow-out really – see previous blog #241 for a list of the ten major reasons;
2. The $43 billion total cost budget figure for the NBN has been bandied about for a while now. It is based on initial costings from way back. Who is to say they were ever correct, or realistic? Or the assumptions were right? If the market simply won't supply at that cost (for whatever reason – even naked profiteering) then the costings which built the budget in the first place are clearly wrong. Suppliers often seek to price at what the market will bear – not what things actually cost, of course [see blog #242]. They think this market is clearly worth a few dollars more…
3. Vendors argue that the risk profile which NBN are insisting upon in their spec places such risks on the suppliers that costs are inevitably driven upwards to allow for them. More risk taken by NBN will mean lower costs they say.

So, who is taking liberties now exactly? Greedy vendors? Or a client that wants its cake, and to eat it as well?

Probably a bit of both thinks The Buyer – but such an adversarial approach is clearly not the best start to inevitable long term supplier partnerships with the chosen 'partners'. Hardly SRM in action

The Buyer – posted 11th April 2011

# #256 - Company Directors' Course a good next step for CPOs

CPOs need professional development too – and a small cadre of CPOs recently undertook the AICD Company Directors' Course as a learning exercise. Good on them.

The Australian Institute of Company Directors (AICD) confer a diploma in corporate governance for those that pass the assignment and exam from the course, and the post-nominals GAICD.

Although only five days facilitated tuition (workshops really), the programme feels a little mini-MBA-ish and delegates have to complete ten modules covering, inter alia:

- Business strategy
- Risk
- Financial literacy & performance
- The legal environment for business
- Corporate decision making

(… as well as more board orientated stuff, like the role of the board & its effectiveness & Directors' duties & responsibilities)

All fairly relevant to the core role of a CPO. But , importantly, this programme offers two things that all CPOs should find essential to their role:

1. A deep understanding of the strategic environment in which all organisations have to operate today; and
2 A thorough awareness of exactly how your board and your directors are thinking; (critical for good alignment surely?)

Call the AICD to book then **www.aicd.com.au**

The Buyer – posted 12th April 2011

# #257 - Five common afflictions affecting sales teams

A thirty year veteran sales rep writing in the Business Spectator, John Treace, has kindly revealed five common afflictions affecting sales teams which often serve to reduce morale and sales performance of the sales team.

But these afflictions are not generated by buyers – but by sales teams' own bosses. Poor sales management is more common than you might think. And it can impact their customers too – a poorly performing, poorly managed and poorly respected sales team can cost a procurement professional in may ways, both seen and unseen.

John lists his five most common problems driven by poor sales managers as:

1. Wasting sales representatives' time

One of the prime afflictions of sales teams is forcing them to spend time on non-sales tasks, for example making accounts receivable collections, managing product recalls, or filling out reports that do not directly relate to the sales process.

2. Poor sales meetings

Another affliction of sales teams is poor, or boring, sales meetings. The objective of any sales meeting should be to increase sales—period. Every high-performing salesperson who attends a meeting will be thinking, "Is this meeting making me money, or is my time being wasted?" Powerful salespeople are self-motivated, and they intuitively know if their time is being wasted. If it is, management is hurting sales and morale.

3. Poor sales strategy

Ineffective marketing or sales strategies will always negatively impact the sales team, and this is especially true for teams selling commodity products or services. A player with small market share who enters a commodity market without a well-defined and well-implemented strategy can be assured of certain death.

4. Capping or reducing income

Powerful companies have managers who do not get envious when large pay checks go to the sales force. Managers who are resentful of this often respond to rising sales income by reducing commissions, capping earnings, reducing territories, or removing products. These are all practices to be avoided, as they destroy morale, which hurts sales. When it is absolutely necessary to cap or reduce reps' earnings, it must be done carefully. If it's done carelessly, management will send the message that future earnings for the sales team have been limited.

5. Favouritism

We all have favourites in life and that's normal, but playing favourites with individuals on a sales team is very destructive. Salespeople want to work for companies that keep the playing field level for all. If select salespeople are given extra incentives, special attention, benefits, or favours not afforded others, management is sending a clear message that there is a privileged class within the team.

Source: Business Spectator **(http://www.businessspectator.com.au/bs.nsf/Article/Five-common-afflictions-of-sales-teams-pd20110329-FDUWL?OpenDocument&src=kgb)**

The Buyer, of course, has an observation too – an affliction not generated by the often venerated sales manager = that of poor PR. Negative PR on a company or product can destroy sales team morale almost overnight. Their worst fears become realised – and their customers can read all about it in the newspaper. Buyers can take a choice on such an occasion – join the frenzy, or offer magnanimity at a difficult time. Sometimes the latter course will stand you in better stead.

The Buyer – posted 13th April 2011

# #258 - The most underrated skill in professional procurement is...

...decision making.

A recent blog [# 249] highlighted Nancy Roberts' five ways managers often fail.

The most obvious manifestation of poor management is, of course, poor decision making. It was a clear sub-theme of her piece. She even cited decision making books as a source of her own article.

One seminal work on decision making is by 'Russo & Schoemaker' 1989 called "Decision Traps – The ten barriers to brilliant decision making & how to overcome them."

Although not written in a procurement context, the work is entirely relevant to decision making in professional procurement – and offers these ten decision traps (with added interpretations by The Buyer – for absolute clarity):

1. Tendency to plunge in – impulsive
2. Frame blindness – not identifying the options
3. Lack of frame control – solving the wrong problem
4. Overconfidence – using assumptions not facts
5. Short-sightedness – what could go wrong?
6. Shooting from the hip – that feels right, surely?
7. Group failure – everybody wants this
8. Fooling yourself about feedback – the customer is wrong
9. Not keeping track – I think we did
10. Failure to audit your decisions – that was a great success, wasn't it?

The thing is, sometimes it is just as important how you make a decision than what the final decision you eventually come to.

As public sector procurement processes try to teach us almost every day.

In fact, procurement people generally tend to be good at making decisions. Their ethics drive objectivity, their probity ensures oversight and they bring good decision process to bear which results in a number of options to consider with full knowledge.

Maybe decision making is one thing other business managers could best learn from procurement sometimes? Otherwise they could just google the words 'decision traps'...

The Buyer – posted 18th April 2011

# #259 - How to buy without a budget

Once upon a time, The Buyer's internal clients were frantic for a new computer mainframe box with flashing lights, bells, whistles and lots of buttons.

They were desperate for it. Only the internal capital expenditure sanction request "CAPSANC" had not been signed off by the spoilsport CFO and his cronies.

No matter, the ITC department pressed on in good faith, simply unable to conceive that it wouldn't get signed. Soon. One day. The benefits would be/should be/could be huge.

The sellers joined in, of course, enthusiastic for their large commission cheques at the end of the quarter - just as sooon as the box is delivered.

The Buyer, caught in the middle, made the best of it. The self-fulfilling prophecy rolled on…

Eventually, weeks later, the new box was ready, on the Friday afternoon – wrapped and ready to go. Only the CAPSANC was still missing in action. And the unsigned Purchase Order was sat in The Buyer's 'PENDING' tray on his desk. Oops. Now what? Users desperate for their new toy. Sellers desperate for their commission (which was counted when the product leaves the factory, and paid at quarter end). The Buyer feeling very exposed.

Desperately, and still overconfident, the USER promised to doorstep the CFO on the Monday morning in his office until he signs; meanwhile The Buyer issues a non-contractual Letter of Intent (LoI) to the eager supplier on the Friday afternoon, and the sales team bribe the delivery driver to load his truck with the new mainframe-box (worth millions), exit the factory and – yes – take it home for the weekend and park it outside his house.

On Monday morning, the driver sets out to get his weekly driver-hours up by driving around the orbital motorway all morning whilst everyone waited for the CFO's signature, and the sales team headed off to the new car dealership to choose their new jalopy. A win-win-win-lose – with just the stoopid buyer holding the baby then. What if the CFO didn't sign?

Never buy without the budget approval up front. Caveat emptor always applies, and especially with the users.

The Buyer – posted 20th April 2011

# #260 - Procurement is a good place to manage carbon trading from

The re-arrival of carbon on the federal government agenda, firstly as a tax and, secondly, in time, as an emissions trading scheme, has had all manner of organisations reaching for their files from two years ago and dusting them off. Despite the long legal road yet to travel through parliament and the senate, carbon tax now and emissions trading in future increasingly have an air of inevitability about them.

But business is not yet ready. They were going to be ready of course, but the failure to get it through the senate the first time, the shambles of Copenhagen in December 2009 and the pre-election promises to do nothing soon killed the momentum and destroyed any will to keep on working out the how [see previous blog#102, not #98]. But, coming again it surely is – sooner or later. In any case, it is not just a compliance issue, nor even a risk issue. Simply, consumers (and employees for that matter) are demanding sustainable solutions. Former NZ PM Helen Clark said at the CIPSA event in Sydney in June 2007 that consumers would punish organisations in future that did not offer a sustainable solution. She was right then, and will still be right in future. [see blog # 4 and 5]. Sustainability is set to become part of our marketing process due to customer needs to buy green. As Hilary Clinton said during the GFC – "the world's shoppers are still buying green." Organisations will have little option but to embrace carbon management and sustainability in general in the long run. Indeed they may even need to broaden their contribution to meet the even wider context of social responsibility.

Currently, responsibility for carbon tax and, ultimately, emissions trading often sits in many CFOs offices. Maybe in some 'Strategy Departments' or and within CSR or 'green' departments in some big organisations. But not yet in the business mainstream. Not yet on the line manager's desk. When it arrives, they will need help managing it into their P&L and understanding a more confusing purchase decision process. For instance, do we buy the cheapest with more carbon, or the pricey option with less carbon? Clearly it is set to become part of the fabric of our business decision making. Managers will need help from internal teams deploying good process, commercial awareness, trading skills, a legal perspective and an ability to work to a brief. Like the professional procurement teams, perhaps?

If you think of 'carbon credits' as a new currency, like Euros say, then it is all too easy to think of procurement teams taking on the responsibility for carbon or emissions trading.

Now think how readily you can transfer the professional procurement skill set to managing carbon trading. Then think, who else could do it better, or even as well as procurement people?

Twenty years or so ago, major organisations started to realise that the supply chain was a good place to manage risk from. Latterly, a good place to make sustainable total cost reductions. Nowadays they commonly seek to drive a wide range of commercial benefits from procurement efforts [see blog # 95]. Not least by using procurement as an instrument of policy – to align outcomes to corporate strategies or public policies [see blog # 246].

Business could now do far worse than turn to procurement to manage their carbon trading [See blog #94].

The Buyer – posted 27th April 2011

# #261 - The Buyer’s alphabet

Long ago when The Buyer was an economics student and then an MCIPS student (diligently scraping through exams) there was a clear need for a lazy student’s shortcut in the cumbersome business of taking notes.

Over the years, a lexicon of abbreviations, acronyms, symbols, shorthand & slang developed to meet almost any need. Whole essays could be written in 300 symbols not 1200 words.

The trouble was, only The Buyer could understand the vocabularly…

So, published for the first time, is this extremely useful, time-saving and relevant lexicon of shorthand for busy buyer’s to use in meetings for the essential work of accurate note taking:

THE BUYER'S ALPHABET

| | | | |
|---|---|---|---|
| Agt | Agreement | ↑↓ | Increase/decrease |
| X | Exports | ! | urgent |
| M | ImportS | ? | Question |
| Y | Income | ?? | Big question |
| π | Profit | β | test |
| ∑ | Sum of/total | Δ | change |
| CBA | Cost benefit analysis | Pax | People |
| K | Capital | eee | Employee |
| Cust. | customers | eer | employer |
| C | Cost | > < | More than / less than |
| Ctr | Contract | t | Time |
| $ | Cash | RFx | Request for xxxx |
| CRM | Customer Relationship Mgt | LT | Long term |
| e | Exchange rates | EOI | Expression of interest |
| DCF | Discounted cash flow | ROI | Return on investment |
| D | Demand | V | vendor |
| Ω | Change | NPV | Net present value |
| S | Supply | Co | Company |
| SRM | Supplier relationship mgt | = | Equals |
| SP | Supplier | MRO | Maintenance/Repair Order |
| CA | Competitive advantage | √ | Good |
| B | Buyer | Org | Organisation |
| ~ | Approximate | Ue | Unemployment |
| TCO | Total cost of ownership | OEM | Original equipment manuf |
| • | Important | I | Inflation |
| i/r | Interest rate | i | Interest |
| × | Unknown quantity | IPR | Intellectual Property Rights |
| BD | bidder | Pr | Prime contractor |
| OHS | Occupational Health & Safety | Sub | subcontractor |
| F | Firm | © | Copyright |

Expand it with your very own favourites ....

The Buyer – posted 2nd May 2011

# #262 - Why people [and suppliers] fail

Just before The Buyer set out for his first day at work – way back in the eighties – his ole Dad stopped him with one piece of sound advice. "Just remember son, at all times, that business is about three things – people, people and people," he said.

Suppliers are people too, of course. And, just once in a while, buyers can forget that. It has been known.

Buyers don't buy off suppliers – they buy off people. And people are people. So they are fallible. We all fail sometimes, even suppliers.

A recent new book by Simon Reynolds explains everything. Entitled "Why people fail" it neatly lists sixteen reasons for failure (**http://www.penguin.com.au/products/9780670074310/why-people-fail-16-obstacles-success-and-how-you-can-overcome-them**).

And it applies as well to suppliers as any other people.

Simon's list of sixteen reasons is:
1. Unclear purpose
2. Destructive thinking
3. Low productivity
4. Fixed mindset
5. Weak energy
6. Not asking the right questions
7. Poor presentation skills
8. Mistaking IQ for EQ
9. Poor self-image
10. Not enough thinking
11. No daily rituals
12. Stress
13. Few relationships
14. Lack of persistence
15. Money obsession
16. Not focussing on strengths

SOURCE: Simon Reynolds 'Why people fail' PENGUIN 2010

Now, just before procurement professionals everywhere call up their least fave supplier for a good counselling session, a thought –

Maybe buyers aren't perfect either? Which of these might apply to you?

The Buyer – posted 3rd May 2011

# #263 - How to define the value from Procurement

The hardest problem that has faced the profession is still not solved.

How do we best describe the value generated by our professional procurement efforts?

How, in other words, do we value our contribution? To prove it worthy?

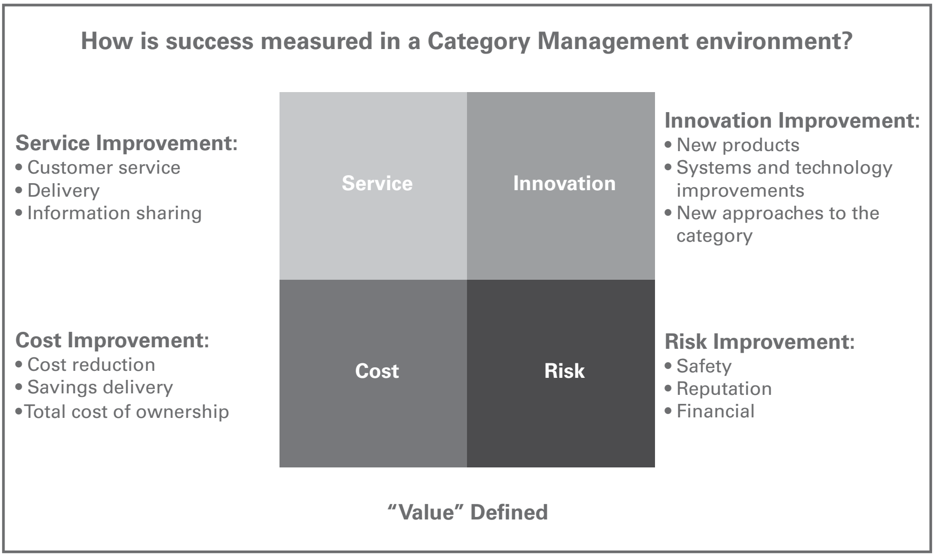
With tangible returns? *Savings? Cost avoidance? Timeliness? Quality levels? Innovation?*

Or do we value the negatives avoided? *Risks? Security of supply? Sustainability of solution?*

Or through value added? *Aligned goals? Innovations? Efficiency & process improvements? Good relationships? Tidy files?*

A useful new slide appeared at the 4th CIPSA Category Management event – and was instantly espied by The Buyer skulking in the back, as always.

It seeked to define the value derived from the investment in procurement; in the usual 2x2 box model of course… but at least that is easily understood.



The model worked in 3D too –

1. Four principle benefit areas: cost, risk, service & innovation
2. A TOP-LINE revenues and BOTTOM-LINE returns focus
3. Key drivers for each box

As a simple way to explain the multiple benefits from procurement, and the complexity within which we work, it succeeds as well as anything seen by The Buyer.

Certainly better than neat lists of bullet points citing the wholesome benefits of procurement [see previous blog #95 for a handy list].

The previous best list was really the CIPSA white-paper "Seven Slides for a CEO" click here to see it: **http://www.pponline.com.au/html/whitepapers.cfm**

Anyway, this box model comes courtesy of Robert Pease from THE FACULTY who explained it all on the second morning of the CIPSA Category Management Forum in Sydney recently…

And could prove extremely useful for those of us still fighting the good fight for stakeholder buy-in...

The Buyer – posted 4th May 2011

## #264 - More ways to fail your way to success

Yet more on FAILURE [see previous blogs #249 and #262]. In fact, failure is becoming quite the vogue thinks The Buyer. Failure is in. The new black.

The front cover of HBR last month tells you everything in their complete FAILURE ISSUE. Actually failure is good they say (**http://hbr.org/**).

They quote many of the great clichés of failure **(http://www.quotationspage.com/subjects/failure/)**... making the point that everyone has to fail before they can learn enough to succeed. They are great empiricists at HBR; and very trendy of course. But, then, clichés are clichés for a reason – over time, they have often proved to be correct.

As supply chains are things that do fail from time to time, the question is how do we in procurement learn from our failures?

The Buyer – posted 18th May 2011

# #265 - What are your suppliers actually supplying you?

The news that dogs fur are flooding posh high fashion stores in malls around the country this season is a worry to more than just rich wives and Chinese hounds.

Store buyers who have been purchasing furs from mink, foxes, rabbits or racoons might actually have been be getting dog fur instead - or something even worse maybe **(http://www.theage.com.au/national/dogfur-clothes-claim-empties-retail-racks-20110513-1eles.html)**?

Most ordinary folks, including humble readers of The Buyer's Blog, might not be ones to worry about the travails of rich housewives looking for a red-carpet attraction in winter. But they should think again…

The question really is how do you know what your suppliers are truly supplying you? The question goes straight to the heart of any supplier relationships - trust. Do you trust what you bought is what you're getting? How do you know?

After all, the supplier is an expert. The buyer rarely are a true expert - that's why they need the supplier in the first place. If you do not trust your supplier, then much is wrong with the supply relationship.

Practically, buyers cannot test every purchase. Sample checking misses most. QA work on site at the factory helps if supervised, but that demands field-expediting resource from the buyer - to oversee the supplier. Putting the burden of proof on the supplier can undermine the relationship at the start, and layer in extra cost.

Ultimately, trust is a great shortcut for buyers. But sometimes the only way around the problem is to take the long way around - at least at the outset of any new supplier relationship and test the stuff.

Just no fibs then.

The Buyer – posted 19th May 2011

# #266 - The ten worst examples of business jargon – in procurement?

The list of the worst and most banal business jargon terms from **www.focus.com** is richly entertaining for hackneyed office types **(http://www.focus.com/fyi/general-management/10-worst-business-speak-terms-2010/?tfso=6946)**.

It includes most of the terms you'd expect to see in there (game changer, value add, net/net)... and quite a few that are new to even an old buyer (boil the ocean, disambiguate, screw the pooch).

Like all professions, procurement has its very own lexicon of business jargon. Often it serves to confuse clients and, even, suppliers alike. And, of course, to protect the profession's mystique – especially to non-believers. Even procurement sometimes fails the test of being able to explain in simple plain language.

Indeed, to prove the point, rumour has it that CIPSA has started work on a new definitive glossary of modern procurement terms. Maybe we can help?

In the meantime, we can really help by defining the terms to avoid maybe. So what are our profession's worst examples of business jargon?

Let's start a list, eh…

The Buyer will offer 'come to the party', 'paradigm shift' and 'just-in-time' (often pronounced as 'just-a-stuff-up'). A colleague offered "we need to economically re-align our relationship".

Don't be shy – email your selection logon to this site and add in your suggestions – or why not start a "worst jargon" conversation on the new CIPSA LinkedIN site at **http://www.linkedin.com/groups?mostPopular=&gid=3786316**

The Buyer – posted 30th May 2011

# #267 - Wong's social policy goals too much for procurement and suppliers

The recent CIPSA public sector procurement forum [PSPF6] in Canberra was preceded by a foreword by new Minister of Finance & Deregulation, Senator Penny Wong.

It struck The Buyer that her contribution went further than anyone has really gone before in suggesting procurement activity as a pure instrument of policy. She suggested the primary application of the profession, its principal goal, was largely to generate better social outcomes.

Her foreword said: "Government procurement is expected to achieve value for money through competitive, open, transparent, efficient and publicly-accountable processes. It is also used to support a range of social and economic policies of the Government." And Senator Wong added, that this government would "use procurement judiciously to deliver elements of other government policies."

SOURCE: Penny Wong foreword to PSPF6:
**http://www.cipsaconferences.com.au/html/pspsf6foreword.cfm**

Reputedly, she wanted to attend the conference herself apparently, but it clashed with Senate Estimates Committee. So she is rumoured to have added these extra bits into the foreword herself, into the PR prepared draft.

As a policy it was certainly amplified by her substitute on the day – Special Minister of State, Gary Gray. He added his own verve, going further than the Minister's foreword and spoke of his support of this message prior to his official speech… (Oddly the speech is missing from his ministerial website – maybe because he adlibbed too much??
**http://www.smos.gov.au/speeches/2011/index.html)**

During his comments, he even enthused about the example of how well the big resources companies are doing in delivering social outcomes from their massive investments around the country – though specifically in his constituency state of WA. He clearly directed procurement policy towards social goals and only agreed under questioning that VFM still had a role to play in the public procurement decision matrix. You could sense the confusion in the audience.

Everyone accepts that procurement is ultimately an instrument of policy [see previous blog #246]. Even though value-for-money has been the longstanding goal for the profession. Once that is achieved, of course, the savings can be applied to any other policy vogue entirely – like flood relief or even better social outcomes from government interventions. But, nowadays, many are preparing for sustainability and social responsibility to begin to change the decision making fabric of the procurement profession – especially with the advent of carbon trading.

Recently we have seen some other high profile examples of procurement used as an instrument of policy:

- the fiscal stimulus package (spend the cash fast),

- creating jobs during recession (NSW buy-local policy),

- strategic defence procurement reasoning (not buying defence equipment from potential enemies)

But there has to be a line somewhere. Pragmatism demands it. Things can easily go too far. Where does it end? Will the only suppliers to government in future first have to clamber over an impossibly tall list of qualifying criteria to even bid for government business?

- demonstrable social outcomes;

- enough women on the board;

- support for indigenous suppliers;

- purchase of carbon offsets;

- public servants delisted from customer loyalty schemes; and

- printing on recycled paper

Too many suppliers already deselect themselves from government business as it is seen by many vendors as simply too hard – compliance ridden, taking too long to select suppliers and then favouring incumbents. This 'social outcomes' approach might just be enough to persuade the rest not to bother too.

The Buyer – posted 9th June 2011

# #268 - Lindsay tanner's book "Sideshow" says it all - again.

Erstwhile federal minister of finance and deregulation and ex-gang-of-four member, Lindsay Tanner has been busy since leaving parliament writing his new book “Sideshow” **(http://www.penguin.com.au/products/9781921844065/sideshow-dumbing-down-democracy)**.

It argues that politics risks becoming a circus to please a once “free and fearless media [which] is turning into a carnival sideshow”. He continues that spin and media driven policies are a result of the media's “entertainment frame [of mind]” and that the media now exercise too much influence on modern politics - and poorer policy, lesser outcomes and a reduced Australia is the end result **(www.lindsaytanner.com.au)**.

Now where have we heard that before? Ahh, yes, the Q&A after the CIPSA Public Sector Procurement Forum 5 on 27th May 2010: When LT was specifically asked by the host of the event during the post-speech Q&A:

“Is there too much process and not enough room for professional judgement in public procurement?” he was asked.

“You know, there probably is” responded the minister, surprisingly.

“Why” queried our fearless host.

“It's the media's fault” exclaimed the minister.

SOURCE: Previous blog #154 published 11 June 2010, after the CIPSA PSPF5 conference 27 May 2010.

You heard it there first folks.

The Buyer – posted 10th June 2011

# #269 - Are Demand managers the new buyers?

An advertisement in the paper recently caught The Buyer's attention. It was a job ad - for a “Demand & Supply Manager.” Not for one nor the other specifically - but for a beast born from both perspectives.

The advert was placed by SMITH & NEPHEW, the drug company. They see the role as operational in nature and directly linking local demand forecasting to international supply networks - including the procurement work.

DEMAND & SUPPLY MANAGER. It is not a job title you see so often in business - and certainly not in the panathea that is procurement profession job titles. CIPSA once reputedly counted over 600 job titles being used in and around the procurement profession, at the outset of their old ‘role harmonisation’ project.

But ‘Demand & Supply Manager’ as a pitch says much, and poses some very tricky questions:

a) That true savings are found in abstinence?
b) That 40% of cost orginates on the design drawing board - as Prof. Martin Christopher suggested?
c) That supply lines should be aligned to segments of demand - as John Gattorna argues so cogently?
d) That the next stage for successful TCO reducing supply managers is demand-management - with a new found credibility and obedience from stakeholders?

Maybe 'DEMAND & SUPPLY MANAGER' is what we'll all be in the future?

The Buyer – posted 13th June 20110

# #270 - An honest supplier's TOP TEN tips for professional buyers

The Buyer was in the audience at the recent CIPSA conference in New Zealand to see a turn by the highly entertaining and experienced CEO of Fleetcare, Nigel Malcolm.

He interrupted his sponsor's duties flogging car leases, to offer an incisive view of exactly what buyers do wrong so often. And it was brilliant.

The best bit was “Nigel Malcolm's TOP TEN mistakes Buyers make on tenders”

1. Leaving track changes on - It's surprising what you get to read!
2. Expecting Excel to be used for the entire response - you try fitting an answer in 1024 characters!
3. Asking for 250 quotes on a 50 vehicle fleet
4. Saying you're green and asking for 6 bound copies
5. Calling a tender. Shortly followed by the key contact going on holiday
6. Running a tender over Christmas
7. Formatting & numbering errors
8. Asking the same question three times in different ways in different parts of the spec.
9. Tender templates being used that bare little relevance to the services being tendered
10. Tenders that ask for concise responses - service tenders are generally complex

SOURCE: Nigel Malcolm, CEO, Fleetcare at CIPS NZ Confernece 9 June 2011

The Buyer, at least, confesses to being guilty as charged on several of these hard-won accusations.

Our tame supplier, Nigel Malcolm, went on to reveal the true value of being a customer-of-value for a buyer.

Tune in to his repeat performances at future CIPSA conferences to find out more **www.cipsaconferneces.com.au**.

The Buyer – posted 14th June 2011

# #271 - BREAKING NEWS: Failing suppliers lose business

The earthquake in Japan that nearly spurred a nuclear disaster has highlighted the obvious - suppliers that fail their own proposition pay in the long run too.

Germany is immediately phasing out its 17 nuclear reactors with immediate effect based entirely on the high profile example of supply chain vulnerability at the so-near nuclear disaster at Fukushima.

Why? Because German people are afraid of a nuclear disaster from the source of just 27% of their energy supply line - and prefer to invest in wind energy instead.

Germany, with only around a quarter of their needs fuelled by nuclear power, have the luxury of choice - and are taking it. And, crucially, they have the resources to afford alternatives - offering a safer supply chain **(http://www.economist.com/blogs/newsbook/2011/03/german_energy_policy)**

Usually, in the long run if not the short run, the cost of dramatic supply failure is often dramatic for the failing ‘supplier’ and its industry too. Consumers find alternatives. Quickly.

The Buyer – posted 15th June 2011

# #272 - The supply chain consequences from Japan earthquake & tsunami

Baby-boomers and Gen X types grew up getting used to the tag "Made in Japan" stuck on the back of many finished goods. Once inferring cheap and tacky, now inferring great quality and a decent price.

Gen Y and the new Gen Z are far more familiar with the tag "Made in China" of course; and all that that brings.

But Japan is still an economic powerhouse, and still supplies many quality components included in assemblies by others - especially in China and other low cost countries.

So the economic effects of the earthquake in Japan are still wider than we yet know.

What Japanese components are integral in the things you buy? Are your supply lines more vulnerable than you know?

Who'd have thought that an earthquake in Japan would stop a car plant production line in Geelong **(http://www.abc.net.au/pm/content/2011/s3191801.htm)**?

The Buyer – posted 16th June 2011

## #273 - A new definition of leadership for CEOs everywhere (and CPOs)

A recent copy of HBR magazine offered rigorous new work on the definition of leadership in a very corporate, CEO-like way. They interviewed umpteen big cheese CEOs to better understand modern leadership in a corporate context.

They didn't want the fluffy stuff from textbooks (leadership is about creating a vision and getting people to buy in - see previous blog #230) but, rather, down 'n' dirty hard insights from today's rough n tumble big bad world world **(http://blogs.hbr.org/cs/2011/05/three_traits_every_ceo_needs.html?cm_sp=most_widget-_-blog_posts-_-Three%20Traits%20Every%20CEO%20Needs)**.

The author Justin Menkes identified three traits "Every CEO needs to succeed today" and boldly proclaims them as forming a new definition of leadership:

1. REALISTIC OPTIMISM... Paint an audacious vision, but keep it realistic to keep your credibility
2. SUBSERVIANCE TO PURPOSE... Work hard and keep working hard passionately 'til the job's done
3. FINDING ORDER IN CHAOS... Simplify the complex, bring clarity to multidimensional problems by focussing on what is important

SOURCE: Justin Menkes blog - The Conversation - Harvard Business Review (with helpful annotations by The Buyer).

Of course, CPOs too could usefully work on demonstrating these three traits too - can't do any harm eh? After all - the CPO should be the CEO of the supply base.

The Buyer – posted 16th June 2011

# #274 - The total-cost of a blow-out, is much greater than the blow-out cost

The news that the PLUTO project in WA is running a further $900m over budget and six months late is no surprise to anybody really **(http://www.theaustralian.com.au/business/mining-energy/woodside-shares-tumble-as-pluto-first-shipment-is-delayed-five-months/story-e6frg9ef-1226077046234)**.

It is no surprise, because that's what big projects do - they blow-out. A previous blog [#241] offers ten handy reasons just why large projects typically blow-out - just the ten though, as there are many reasons why large projects blow-out. Alas, the Woodside excuse (the weather) is not amongst this "top ten" list.

But having coughed up the extra $900 million, Woodside might reasonably expect the pain to subside now? Well, not a bit of it. Because the real cost of this blow-out is less about the extra $900m on the budget of $14.9bn (around 7% overspend), and far more about the $1.5 billion wiped off its share capital as investors nervy about future prospects desert the stock. Woodside shares lost $1.61 (down 3.8%) to $40.80 at end of business on 20th June.

Even worse, Moody's (the credit rating agency **www.moodys.com**) are reconsidering Woodside's credit rating; a further blow to the company's future business prospects, piling on yet more reputational brand damage.

So, the cost of a major project blow-out to any organisation is much more than just the cost of the blow-out itself. The 'full-life cost' also includes the subsequent share value cut and the accompanying reputational damage. All the more reason then for major-project organisations to invest more at the outset in striving to stay on budget maybe - like investing in international quality professional procurement efforts for instance. And before they buy the project, not afterwards when they "have the time".

The Buyer – posted 21st June 2011

# #275 - The true definition of value

Misplaced in the recent CIPSA special interest forum, Managing Major Projects, The Buyer noticed one of the many PhD doctors presenting offering a new definition of ‘VALUE’.

The Buyer’s interest peaked, since the ebullient Robert Pease from The Faculty had done just such a job only recently [see previous blog #263] with his new 3D four box model defining the components of VALUE (subsequently syndicated in Procurement Professional 37 magazine, page 50, JUNE 2011).

As every buyer knows - value is essentially about getting more for less, isn’t it? Apparently not.

Dr Roy Barton, Corporate facilitator, coach and mentor at ACVM described VALUE as entirely “outcomes driven”. In other words, the benefits of what you are seeking in the first place. The early and successful application of what you're buying to its actual purpose. The benefits sought in the original business case. Of course they usually always dwarf the costs of the project. Otherwise, why would you commission the project in the first place if they don’t? In this context he meant the true value of the new bridge, the new link road or the new airport for example.

But the principle applies universally thinks The Buyer. A lesson learnt painfully by The Buyer many years ago; spending most of his time as a purchasing manager chasing rainbows to drag in the benefits of his project rather than shaving a few extra dollars off the purchase costs.

Capturing benefits is more important than saving cost [see previous blog #243]. But you might as well work in sales & marketing if you're spending your time just chasing benefits eh?

The Buyer – posted 30th June 2011

# #276 - Buyers are very poor profit takers

Every now and again, even in choppy times, the stock market dips for no apparent reason. The late news financial summary often cites 'profit taking' in the absence of any other obvious excuse for the dip.

Investors selling stock they previously bought cheap - to realise profit. And, maybe, even buy again with alternate stock?

But, like pokie players, buyers can be bad profit takers. Beguiled by the possibility of one more discount step, one shaving of extra volume, one extra freebie - to amount to an 'even better' deal. The best deal. The deal no one else ever got. But the law of diminishing returns usually always applies **(http://en.wikipedia.org/wiki/Diminishing_returns)**.

The extra marginal effort for the extra [very] marginal benefit is rarely worth it. The time delay is costly to the business - the opportunity benefits missed also costly. Momentum and commitment compromised or lost entirely.

The value of spend and its momentum, energy and commitment is often overlooked.

Hanging out for an extra 2% discount, by scrapping extra volume is rarely worth the pain - or the delays in starting to capture the much larger benefits on offer [see previous blog #243].

Buyers must not be afraid to take the profits on offer, at the traditionally penultimate point of negotiation, then move your attention onto more fertile territory.

Take the profits now - and tempt others to bring their volume down the track. Like Warren Buffet does.

The Buyer – posted 30th June 2011

# #277 - “You can't share a beer over an e-mail”

The time, expense and hassle of travel is best avoided - as any frequent flyer knows only too well.

Options exist of course, mostly thanks to technology:

- Tiresome teleconferences

- Clumsy and expensive video-conferencing

- A well crafted e-mail chain

- Stilted webcams and Skype calls

- Sending a proxy, a substitute or the kid in the office instead

- Inviting them to visit you perhaps?

- Not bothering at all

But, sometimes you just have to go. A relationship has to be established. Personal commitment illustrated. A deal done. Body language and attitude judged.

Times when only a meeting will do. To look them in the eye. To complement the other party, just by turning up. Occasionally just to check they exist and they are whom they say they are - to complete due diligence.

Around 7% of the total of what we communicate is down to the actual words we use. The rest down to tone, inflection, body language, poise, attitude, expression, meaning.

The Economist has handily offered their insight into ‘when only a meeting will do’ and refer to an earlier HBR article as a source:

**http://blogs.hbr.org/cs/2011/02/why_face_to_face_meetings_make.html**; and

**http://www.economist.com/blogs/gulliver/2011/02/face--face_meetings**

So, why is it so hard sometimes for bosses and travel managers to sign-off on the need for a business trip occasionally?

The Buyer – posted 5th July 2011

# #278 - When NOT to go to tender

The ubiquitous tender seems in danger of becoming the default strategic procurement strategy for just about everything – especially in public sector procurement [see previous blog #156].

The thing is, there is nothing strategic about tenders. They are an administrative tool in the buyer's toolbox – for use in the right circumstances. Hardly strategic, and barely tactical. More operational really.

The apparent 'campaign' in the Canberra Times running from Feb through May 2011 often uses AusTender stats to argue for more government tenders. The Australian newspaper took a similar tack in November 2010 just after the election [see blog #203]. The Canberra Times articles seem to use such stats (and assumptions of best procurement practices) in order to justify ridiculous assertions like, "the Sunday Canberra Times revealed up to $1 billion a year was being wasted through direct purchases."

The situation is exacerbated by a government anxious to reduce costs and the deficit, auditors paranoid about those dull twins "probity n process" and frightened procurement officers worried for their jobs. And, of course, a sensationalist media feeding everyone's paranoia [see Lindsay tanner's book SIDESHOW – blog #268] as well as stakeholders' greater need for transparency as a result of post GFC risks, recent natural disasters and high profile supply chain failures undermining confidence.

The Buyer declares a bias here of course. Having long declared a campaign [in blog #20] against anachronistic and homemade wooden tender boxes (often knocked up by a procurement manager's brother-in-law) as a symbol of sanctimony and backward thinking.

Anyway, here's the thing, there are entirely valid and good practical business reasons not to 'go to tender' sometimes.

For example. This handy list of ‘twelve times not to go to tender’ from procurement guru Paul Roger FCIPS:

- When only one source due to technical, patent or licensing reasons - e.g. monopoly
- When specification is not sufficiently defined and we need to engage in a dialogue with potential providers - e.g. when buying creativity or innovation
- When market distorted and we suspect bidders may collude, so we do not behave predictably or in a way which enables collusion – e.g. more possible in smaller markets with many duopolies
- When value is low and the cost of the market engagement would exceed any benefit from competitive tension – e.g. not worth the management effort
- When the solutions to the need are not directly comparable - e.g. outsource marketing service versus appoint an interim marketing manager versus create in-house post of marketing manager on structure
- When market standards are varied at the introductory stage of the product life cycle and tendering is not likely to allow an ‘apples-for-apples’' direct comparison – e.g. considering different technical solutions
- When the requirement is urgent and there is inadequate time - e.g. the production line has stopped and we need the parts now
- When the requirement is confidential or covered by a secrecy arrangement and we do not wish to broadcast the specifications - e.g. ‘game-changing’ technology like the iPad
- When we are the dominant buyer in a market (or monopsonist) and we want to sustain competition through allocating the work to providers based on longer term strategic goals rather than economic efficiency - e.g. supplier development
- When we are engaged in reciprocal trade or barter and choose to use our spend as part or all of the consideration in a negotiation with another commercial entity - e.g. countertrade
- When we choose to source from a single supplier, even though there may be alternative suppliers, for reasons of corporate social responsibility or manufacturing social or other outcomes instead - e.g. buy local or supporting social enterprise**

SOURCE: Paul Rogers, **www.paulrogers.pro**

The Buyer – posted 5th July 2011

## #279 - The only thing for certain, is uncertainty

As humble buyers, we cannot predict such mighty events as ASH CLOUDS, volcanos, earthquakes, fires, floods or tsunamis. Events that have plagued our news cycle these last few years it seems. All have an unpredictable effect on our supply chains. Few buyers have such instances in their particular risk plans.

But we can predict uncertainty. We can anticipate the singular thing that does cause our organisations such tactical, even strategic, pain – we can anticipate DISRUPTION. It doesn't matter the cause, really, it is the disruption that causes the angst. If your supply chain was disrupted, how would you cope? For it surely will be at some point – by matters far outside of the control of a humble buyer

The Buyer – posted 19th July 2011

# #280 - The top ten petty price rip-offs that customers HATE

Consumers can be a wise bunch. A recent survey in the UK published in The Daily Telegraph newspaper neatly listed the pet hates of consumers who often feel ripped off by greedy vendors out to make an a very petty and often totally unjustified quick buck. The list is pretty compelling and pretty familiar to all consumers:

TOP TEN most hated customer rip-offs in the UK:

1. Penalty costs for not signing up to direct debit, or to online statements
2. Premium rate phone numbers
3. The price of food & drink at cinemas
4. Hidden fees for travel – especially on low-cost carriers
5. Ticket booking fees by ticket agencies
6. Automatic tips added to restaurant bills – and service charges
7. Petrol stations that charge for compressed AIR
8. Foreign transaction fees for all overseas purchases on credit cards
9. Charging for using the toilets
10. Temporary bonus savings rates on bank savings accounts – and annual account fees

SOURCE: **http://www.telegraph.co.uk/finance/personalfinance/8577427/Consumers-most-hated-little-rip-offs.html**

The thing is, suppliers know this – but they often do it anyway.

It is irresistible to them sometimes to take liberties with a captive market. To rake that little bit extra. They are hypnotised by the volume – "we sell 6,000 per annum, if we just add $3 to each that's a quick $18 grand for me," they think.

It is the buyer's job to train greedy suppliers not to do this. Buyers should make a point wherever they can of refusing such extra charges. Boycott the gouging and the rorts.

So, next time you are faced with any of these – start your fine work. It is a public good – to benefit us all - to negotiate away:
- Admin fees
- Service charges
- Surcharges
- Levies
- Exit charge
- Change fee
- Penalty cost
- Extra charge
- Additional costs

The Buyer – posted 19th July 2011

# #281 - No glass ceiling in the Procurement Profession – for women or poms

When CIPSA ran their 'Women in Procurement' conference, way back in June 2008, they apparently received no few complaints. From women. Senior women at that. They felt women need no artificial crutch or positive discrimination to reach the top in procurement.

The focus-group luncheon organised by CIPSA and featured on the front of the Procurement Professional magazine in June that year, also concluded that there was no glass ceiling in procurement. None of the four ladies present said they felt discriminated against in any way. One, Visna Lampasi FCIPS, has subsequently gone on to one of the top jobs in the profession in Australia or New Zealand as CPO at Carter Holt Harvey – reporting directly to the CEO.

Indeed, procurement is a profession of equality. Anecdotally the male/female ratio is around 50/50. But actual CIPS membership figures leaked in previous blog #250, show that 45% of CIPS 65,000 members globally are female.

Anyway, a new secret list compiled by CIPSA of the top 400 CPOs in Australia & New Zealand confirms the point it seems. One CIPS insider revealed to The Buyer in the bar after a recent conference that 21% of the top 400 list were women. Which other profession can boast such penetration at the top by females?

You heard it here first – professional procurement is surely the most equitable profession for gender equality then…

Of course, what The Buyer's mole did not reveal is what percentage of the Top 400 CPO list are poms?

The Buyer – posted 19th July 2011

# #282 - How do you spend $10 billion in three weeks?

Dunno. Ask the New Zealand Ministry of Economic Development who wrote the new CIPS case study white-paper published at the recent Public Sector Procurement Forum in Canberra – and presented by one of their team, the articulate Michael Osborne. The VIC DTF team also presented their Bush Fires Reconstruction case study, after a sobering introduction on the challenge of post-disaster role for procurement and logistics teams in a humanitarian supply chain context from Dr Peter Tatham from Griffith University in Brisbane.

The white-paper describes how the procurement team were given the freedom to operate and conclude a lightning fast sourcing and negotiation exercise with Fletchers, the prime supplier appointed to rebuild Canterbury after the first earthquake in September 2010. They then worked together to swing on to other priorities after the second earthquake in February 2011, and again on to new problems now as winter arrives and so many local homes are without heating. The CIPSA White Paper, 'CASE STUDY: Canterbury Earthquake Procurement Support' can be viewed at **http://www.cips.org/en-au/Resources/Knowledge-Bank/White-papers/** (CIPSA log in required).

It is inspirational stuff and serves to illustrate many things; not least that when buyers and sellers work together against the common enemy of waste they achieve far more.

The Buyer – posted 20th July 2011

# #283 - The typical CPO job description

An ambitious young pup in procurement asked The Buyer for a typical job description for a CPO the other day. An easy challenge you'd think. No, actually. The Buyer looked high n low – to no avail. Until he rang those nice people at CIPSA – who had a template. It is only a template though, it is not perfect. The perfect job description must be specific to your circumstances, have at least an element of unique needs. So start from here and make your own eh?

**A typical POSITION DESCRIPTION for a Chief Procurement Officer [CPO]**

- Ensure the purchasing and supply management perspective directly relates to business needs
- Select and implement the appropriate strategies to support the organisation's goals
- Advise on, and help to implement, strategic changes such as mergers and acquisitions making sure synergies are exploited and the maximum commercial leverage obtained
- Arrange appropriate outsourcing of corporate services - with the objective of delivering significant quality improvements and reductions in costs
- Set continuous targets for improvement, providing training for colleagues and those with significant purchasing responsibilities
- Use a range of tools, methodologies and approaches that can add significant value to the organisation with year-on-year improvements
- Keep up with developments in purchasing and supplying management through networking
- Keep abreast of new techniques, approaches and options to manage your supply side
- Employ good, professional people in appropriate roles and support their continued development
- Implement efficient information systems so you know what you spend, with whom and on what, to maximise performance
- Ensure you have clear authority levels, policies and processors so procurement is transparent and well-managed
- Secure 'buy-in' from colleagues and senior decision makers

SOURCE: CIPSA white-paper 001... Why do we need professional procurement? 2005

The Buyer – posted 20th July 2011

## #284 - How a humble office move can be anything but…

The Buyer was worried when he first heard rumours of a likely CIPSA office move. A humble office move is often anything but. It often reveals how people and organisations see themselves – 7 star green thing or towering capitalist indulgence, for example? Would CIPSA revert to dozy Ringwood and three legged chairs, or alternatively, move to unsustainable corporate opulence?

Thankfully, The Buyer needn't have worried, as CIPSA seem to have got the balance right for three reasons:

1. The move from the 10th to the 8th floor in their current building [on a six year lease extension] illustrates permanence – they aren't going anywhere
2. The doubling of space builds capacity and capability for the future – illustrating confidence and a welcome long-term view
3. The business class fit-out illustrates professionalism but modesty – illustrating empathy & understanding of their membership's procurement culture

The Buyer is looking forward to an invite to the re-opening event and the 'drop-in days' during August – especially the freebie drinks. Surely this toady blog will help?

There is one symbol of corporate indulgence though – the large CIPS logo that has appeared above the front door of 520 Collins Street entrance [see PP37 magazine page 48].

The Buyer – posted 20th July 2011

# #285 - "Say it on the CENSUS campaign" is long overdue

The campaign by CIPSA to get everyone in the profession to use the P word (PROCUREMENT that is) to describe their profession in the 'occupation' field in the national census next week is inspired.

Surely they cannot fail to drive a massive increase in the numbers of recorded procurement professionals around the country?

In the last five years the profession has grown dramatically – but by how much is the question? How do we demonstrate how worthy and successful we have truly been? Growth stats help for sure.

If procurement officially registers as the fastest growing profession in Australia, surely great rewards and riches will flow for all…

The challenge is to legitimately describe every role in the discipline with a P word in it...

…Rather than the 660 job titles that CIPSA allegedly spotted in their role harmonisation study way back in 2005-6 (the last time the census was done by the way).

Full official recognition for our worthy efforts and growth-from-success is long overdue.

So, to help, The Buyer has a few suggestions:

Universal job titles for everyone in the profession to use. Just select your favourite and deploy in the census OCCUPATION field on 9th August:

- Chief Procurement Officer
- Procurement Director
- Procurement Manager
- Procurement Executive
- Procurement Officer
- Procurement Co-ordinator
- Procurement Assistant
- Procurement Analyst
- Procurement & Supply Manager
- Procurement Consultant
- Procurement Recruiter
- Procurement Support Manager
- Procurement Lead

That's enough – you get the idea, choose your favourite; and for gawd's sake don't misspell the P word !?!?

The Buyer – posted 3th August 2011

# #286 - Top CPO job in Australia vacant at DMO: APPLY WITHIN

After a valiant seven years at the helm, Dr Stephen Gumley's resignation or retirement (depending on which press report you read, **http://en.wikipedia.org/wiki/Stephen_Gumley**) from the role of CEO for Defence Material Organisation (DMO) has led to an abrupt vacancy – which was advertised today in the Australian Financial Review newspaper (5th August page 10, **www.afr.com.au**). Curiously no web address is offered, only the home number of the recruiter from search firm EWK International **(www.ewki.com)**.

As everyone knows, it is the highest paid civil servant's job in the land, directly responsible for expenditure of around $12billion and 7,000 employees and, indirectly, for the ability of the nation to defend itself or prosecute armed force anywhere in the world. The 'tagline' at DMO is "cost/quality/schedule". Remuneration is reputed to be a salary of around $1m per annum. Even more than the PM of course. But worth every single penny too, frankly, as the successful candidate will be required to fulfil a tall order of duties, which necessarily include the list below.

PRINCIPAL DUTIES & RESPONSIBILITIES of CEO for DMO:

- Taking the blame for everything wrong with defence strategy, planning and execution
- Undergoing a daily flogging in the press for procurement processes often foisted upon DMO by misguided policies, reactionary politicians and conflicting objectives
- Cutting costs
- Dealing with a military that can't make up its mind what it wants
- Dealing with politicians that can't make up their mind what they want the military to be able to do
- Dealing with auditors paranoid about process, more than results
- Cutting costs
- Creating jobs in marginal constituencies for honest hardworking Australians who might want too much money
- Not buying American supplies, despite often being comrades-in-arms
- Not buying uniforms from China, ever
- Not buying anything from outside Australia really
- Cutting costs
- Berating suppliers for non-performance on specs that change every day
- Answering complaints from spurned suppliers
- Berating suppliers for selling new stuff that doesn't work
- Cutting costs
- Leading a civilian workforce low on professional training, confidence and pay
- Trying a shared services approach (like the private sector), even though DMO is a procurement organisation

- Passing credit for everything done well to the Minister for Defence
- Accepting a remuneration package around 20% of what an equivalent role might fetch in the private sector
- Paying for your own lunch if attending industry functions
- Being green, cutting carbon emissions and only printing on recycled paper
- And, cutting costs… and a few other things as the goalposts move

Candidates should ring Mark the head-hunter on his home number (if he's out, his wife will take a message). Or just form an orderly queue at the offices in Sir Thomas Blamey Square, Canberra. Be quick applications close 29th August.

Alas, The Buyer won't see you there. Nor will Dr Gumley; poor bugger.

The Buyer – posted 5th August 2011

# #287 - Four questions for CPOs to ask about their underperforming new managers

Failure studies seem all the rage at the moment observes The Buyer. Is it because we are getting better at failing perhaps? Or life, business and procurement is just getting harder in the modern world? Maybe both?

Businessweek magazine has offered “Four Questions to Ask About an Underperforming Manager” in a recent issue:

The questions are designed to be asked by the person doing the hiring in the first place, when pondering why things are not working out quite as envisaged?

1. **What has happened since the manager assumed control?** Consider how the department is performing. Is it reaching its objectives in ways that complement the mission as well as the values of the organization? For example, if the new boss is “making the numbers” but driving people crazy in the process, there is a problem. Likewise, if the department is deficient but employees seem happy, trouble is brewing.
2. **What assistance have you provided the manager?** Managers ultimately must sink or swim, but you cannot expect them to stay afloat without assistance. This holds especially true for more senior managers; they need the company to help them transition into new positions. Executive coaching can help but so, too, can a coordinated transition program that provides the newly promoted with access to the colleagues and mentors who can teach the person the ropes. You as the boss must help the manager adjust, too.
3. **What will happen if you get rid of the manager?** So often when a company removes a poor manager, employees will ask the boss “What took you so long?” Ask yourself whether workers will say the same to you about their current manager. Talk to direct reports as well as to your peers. Get their views to assist you in making the final decision.
4. **What will you do about the situation?** If the answers to the above questions point toward getting rid of the bad manager, you must set aside your own ego. Be honest with yourself. You made the wrong choice and now you must act. Failure to act represents a failure of your leadership.

SOURCE: **Businessweek**
**http://www.businessweek.com/managing/content/jan2011/ca20110110_769287.htm**

This works for subordinate managers, as well as other subordinates in other roles perhaps.

The important thing is the Root Cause Analysis of WHY things aren’t working out? Often it is not the employees' fault at all.

Analysing truly how people's strengths and weaknesses fit the business is often the hardest job facing a leader.

The Buyer – posted 9th August 2011

# #288 - Why are there so few good news stories out of Procurement

Awaiting an appointment with a major Australian government sometime ago, a CPO ranked civil servant returned to his office late from a meeting with the minister.

“Well, that's that then. Nothing to do for the next four months” he exclaimed.

Perplexed, The Buyer offered a query, “Really, why is that?”

“Because they have just called the election. And the minister thinks the only news out of procurement is bad news. So he'd rather we did nothing at all, than risk pre-election bad news.”

Leaving aside the cynicism of the minister, why o why are there so few good news stories from the world of procurement?

By rights there should be many such stories. All the wonderful things we buy, for great purpose and offering real benefits to so many. The sheer money we spend. Surely all good news?

But, alas, the minister had a point. The evil press [see previous blog #282] ensure that so often the staple news stories related to procurement centre on the FIVE usual suspects that sell newspapers; often based upon negativity, conflict or incompetence - all much more fun of course, a bit like soap operas are:

1. SOUR GRAPES - spurned suppliers questioning the process and the decision
2. OVERPRICING - you paid how much? It is cheaper on the High Street, or from my brother-in-law.
3. NON-PERFORMANCE - why did the stoopid buyer purchase something that doesn't work?
4. PROTECTIONISM - buying from overseas costs fair dinkum Aussie jobs. As a profession, what can we do about that do you think?
5. SUPPLY CHAIN LIABILITY - do you know who is supplying you?

The Buyer – posted 16th August 2011

# #289 - Zara supplier's links to slave labour reveal an established truth

The Fairfax newspapers this weekend reveal that red hot fashion chain ZARA has been linked to slave labour practices in Brazil **(http://www.smh.com.au/world/zara-fashion-chain-linked-to-slave-labour-in-brazil-20110819-1j2c7.html)**. The report was syndicated from that beacon of investigative reporting in the UK, The Guardian, which brought us the true depth of the phone hacking scandal of course – so it must be true.

Apparently ZARA's supplier AHA had 'outsourced' locally, unbeknown to Zara (or their parent company Inditex). The main supplier, AHA, is guilty of breaching Inditex's 'code of conduct' – so the slaves will be compensated nicely of course. Hopefully the action plan at Zara is going a little further.

It is, though, also a salient reminder to us all, once again, that you end up being vicariously responsible for your supply chain in the end. The consumer wants a clean conscience and they want their suppliers to deliver one as surely as they deliver the season's latest fashions. More so, in fact.

The negative PR alone will cost ZARA. It is doubtful they had any knowledge at all of such practices by one of their suppliers – but they should have. Shouldn't they? It is particularly relevant in this case as ZARA is often held as the pin-up girl of supply chain management – having shown the entire world how to reduce the fashion supply chain from three seasons lead time, down to three weeks. They have built a global business on the back of such customer responsiveness.

But this topic is not new. Nike still suffers from reputational damage from the exposure of child labour in Vietnam making footy stuff – and that was years ago now. Will they ever live it down?

The ZARA excuses hinted at in the news reports (the supplier's fault; 7 million garments a year produced, supplier code of conduct, distorted exchange rates, many suppliers deep down its supply chain), cut little ice now in the face of such damning PR – and inevitable slide in sales, even stock price.

The Buyer has also mentioned this topic once or twice of course: Eight times in fact [see previous blogs # 28, 104, 115,128, 169, 170 and 195, even 265]. Investing up front through proper due diligence is the best risk management strategy for your supply chain. When will we learn to conduct proper and thorough supplier appraisals and regular audits? They are not jollies you know – even to Brazil.

The Buyer – posted 21st August 2011

## #290 - Cost leadership has to be done (and seen to be done) during retrenchments

The news today that 1,000 people at BlueScope Steel are to lose their jobs, victims of the high Aussie dollar, is sobering **(http://www.theage.com.au/business/strong-dollar-takes-its-toll-on-jobs-20110822-1j5lz.html)**.

It is a reminder that in business we are not just ‘playing offices’ but often playing with people’s livelihoods. BlueScope people are not the only victims recently – OneSteel, Heinz, Qantas and others have all recently announced redundancies.

Such times demand great sensitivity at firms who are suffering. Especially by procurement teams often unscathed by job cuts designed to cut costs quickly and offer savings against budget during the financial year. People realise that procurement exists mostly to save money, and are likely to be spared retrenchment, and so do not in any way resent their ‘hall-pass’. But only if the perception exists that they are doing their bit too.

This demands that procurement is entirely respectful at such times, and lead by example with heads-down and saving money wherever possible. Working to avoid further job losses perhaps.

Of course, everything we do in procurement ultimately lends support to reducing lifetime costs. But that is not enough at such times. Indeed, saving money is not enough – being seen to save money is what is required.

Regrettably this can lead to short term decision making, for example; cancelling supplier visits, scrapping team-building work & internal projects and, even, postponing training courses. Or stopping non-essential expenditure, cutting travel, cancelling the milk and counting paperclips. But it has to be done. It is the price of the exemption from draconian retrenchments. Sharing the pain is the price of being in the team with the rest of the business – not just lucky outsiders to whom cuts do not apply.

Cost saving, like justice, has to be done, and seen to be done during difficult times. Sorry.

The Buyer – posted 22nd August 2011

## #291 - Who said cost can't be a strategy?

The QANTAS fanfare for their new strategy last week [see all newspaper reports/adverts/wraparounds, every TV news bulletin & Qantas CEO memo to frequent flyers] announced their new "international strategy" to all and sundry.

It's called "Building a stronger Qantas **(http://www.qantas.com.au/regions /dyn/au/publicaffairs/details?ArticleID=2011/aug11/5157)**.

Of course, the entire strategy (two new airlines off shore; cost cutting at home; cutting dodgy routes; delaying A380 orders; buying $9bn in cheaper aircraft) has but one obvious, unassailable and definitive common driver = reducing cost – who's cost base, in Australia, is allegedly over 20% higher than other carriers bear.

QED, then, cost can be a strategy – as The Buyer mentioned before; you read it here first folks [see previous blog #252].

The Buyer – posted 23th August 2011

## #292 - A new good for procurement teams in the BIG FOUR banks

The underwhelming financial results reported by WESTPAC last week, showing lower revenue growth, was blamed on all sorts of things including the subdued economy and lower demand for loans (and tighter lending rules of course). In response, Westpac plan to improve productivity, outsource technology and, wait for it, reduce costs. CEO Gail Kelly was apparently boasting of her cost-cutting prowess. The AFR reported it all in detail on 17th August 2011 **(www.afr.com.au)**.

So, a new high profile role for the Westpac procurement team you'd expect maybe? Well, no, really, because there is a much greater challenge for the Westpac procurement team – good ole goal alignment. You see Westpac's real strategy is to differentiate through local brands. The renaissance of the Bank of Melbourne in VIC being the latest to join the stable, which already includes St George (NSW & QLD) and Bank SA (SA). So, how can their procurement strategy directly support this business strategy? That is the real challenge facing the Westpac supply side.

But the other banks also face the same core challenge of goal alignment – now the big four are breaking up a de facto cartel in the post GFC world.

Each has a different strategy now:

> WESTPAC – local branding
> ANZ – becoming a regional bank for Asia
> CBA – becoming the core retail bank with whizzo technology
> NAB – cheapest mortgages, and cheaper banking

It was NAB, then, which obviously took the advice of The Buyer way back in November 2010 [see previous blog#205] who suggested exactly that of course. Using reduction in the cost base as a way of improving bank competitiveness – enabling a great strategy for a bank looking for ways not to increase interest rates more than RBA rises and to become the most competitive on the high street.

A real way then for procurement in the banks to become truly relevant, as their spend is focussed largely on non-vital indirect supply lines – the only strategic supply lines in banks being [dodgy] computer systems. You read it here first folks...

The Buyer – posted 24th August 2011

## #293 - Why don’t the press submit suggestions on Defence procurement procedures to FADT Senate committee?

The Foreign Affairs, Defence and Trade (FADT) Committee in the Senate are having an inquiry.

Particularly into the recently amended terms of reference for defence white-paper procurement procedures.

They invite submissions with free contributions on the subject through **www.aph.gov.au**

The press have had a bit of a grilling lately with the UK News of the World phone hacking scandal and being blamed by Lindsay Tanner in his book “Sideshow” for dumbing down news, public debate and federal politics [see previous blog #268].

But they still seem to think that they have all the answers to everything; of course. Sanctimonious bunch, the press.

So why don’t they make a submission to the FADT Senate committee on procurement procedures then eh?

Why don’t they try and make things better with proactive thinking, constructive comment, created solutions and not just better articulation of the problem? It can be their turn eh?

The submission box is online at **fadt.sen@aph.gov.au**. Maybe The Australian [blog #203] and The Canberra Times [blog #278] could start the ball rolling?

The Buyer – posted 25th August 2011

# #294 - BRICS, MIST or The Next 11?

Soon after South Africa joined BRIC to become the BRICS, a new acronym to define the best countries in which to next invest quickly became available – MIST. It stands for Mexico, Indonesia, South Korea and Turkey.

Of course, The Buyer was way ahead of the curve – with his personal definition of the NEXT 11 which included some favourite holiday destinations as well as fast developing countries, way back in blog #222 in January 2011.

David Thomas at THINK GLOBAL, with help from his mates at Goldman Sachs, offers a detailed description of MIST compared to the BRICS and China and the USA in his e-newsletter. At some length.

You can subscribe at **newsletter@thinkglobal.com.au** and his piece on this issue can be downloaded as a PDF online and provide

In the end, the David Thomas blog wonders if all the acronyms help that much? So does The Buyer. Everybody knows China and India are the next big two.

The Buyer – posted 26th August 2011

# #295 - The stakeholders' SIX Ds of defence against the advance of Procurement

There comes a tipping point in all procurement evolutions, when internal clients (or your users or stakeholders) finally realise that the game is up. That they cannot abstain from procurement's influence in the long run. That the new Procurement Department has a point. That they do actually have a role to play and can at least cut some costs, thrash together a half decent contract or maybe add some value.

Embarrassed by their mistakes of the past they have to acquiesce. Their boss has yielded and conceded the point to the CPO in the organisation and they are to co-operate, please. "Of course the USER department will involve Procurement," after all.

This is a key point for fledgling procurement efforts. Even mature ones in new areas of addressable spend. The strategic point won, the tussle begins at the operational level. Hereabouts the stakeholder mind is willing, but the spirit defiant. Stakeholders obscure the issues, confess only half truths and limit co-operation as they begrudge your advancing influence; however respectful and delicate it is positioned.

Often things can become frustrating, especially at the more junior and operational level. Insecure users fear more revelations. Fear being shown to be vulnerable. Fear being found out through implementation of the new way. To have dealt in sloppy ways, taken short-cuts, been indolent or compliant or just too cosy with vendors. To be trapped in the past. This is when stakeholders' deploy 'The SIX D Domino tactics'.

**The six Ds of the defiant stakeholder**
When pressed for any measurable action, the 'culture' and practice of teams out of their comfort zone can be to deploy the following Six Ds... that is, a Domino-effect tactical retreat of a reluctant team trying to avoid engagement. Watch out for them; they are usually prevalent and often easy to spot…

DOMINO tactics

1. Denial – with a furphy; I have no recollection of that
2. Delay – by stalling; we're just doing it right now, be with you any minute
3. Deflection – with excuses; we are doing it just very very busy and, anyway, you have not sent the right information actually; we need more
4. Dissension – by patronising; we have the whole world to look after and our problem is xxxx and you couldn't possibly understand
5. Defiance – playing the man and not the ball; "frankly it is your guy's fault, he's not very good you know"
6. Defence – with the grovelling apology; a mea culpa which craves your indulgence to start over - often with full tears

All six steps are usually delivered in numerical order and followed by complete indifference and no discernable action whatsoever. In fact, the cycle escalates from one step to the next, and then resets at the start when ultimately challenged for a seventh time.

Of course, the more mature the organisation, or the better this is handled by the Procurement team, the less this is likely to be the case.

But the Six D domino tactics are universal. In fact, The Buyer learnt them from his young daughter whilst avoiding her homework.

The Buyer – posted 29th August 2011

# #296 - Using benchmarking as a contract management tool

A columnist in SM magazine, Sam Da Silva, recently had a good idea – even if he is a lawyer. He advocates using an agreed benchmarking process defined in the contract to compare a supplier's price and terms in real time **(http://www.supplymanagement.com/law/analysis/2011/setting-standards/)**.

He sees it a bit like using a third party auditor, but half way along a contract not at the end of it. Remedies await naughty vendors.

Naturally, such 'insurance with teeth' is a good way to protect yourself against suppliers taking advantage downstream, or developing uncompetitive tendencies in the complacency of tenure. The tricky bit is getting the supplier to agree up front of course. And hardly a recipe for a great start to your SRM strategy with a shiny new supplier – a bit like a 'pre-nup' really, always a tough negotiation!

The Buyer – posted 30th August 2011

# #297 - The real value of a tidy desk

The immaculate new offices at CIPSA, officially unveiled by Lindsay Tanner on 24th August, reflect well on the profession [see previous blog #284]. Though it might be worth popping back in a few months, when the smell of fresh paint has faded, to see if the standards prevail in the face of thirsty course delegates, earnest visitors and busy staff.

But there is a value in being neat and tidy. It personifies professionalism. No need to be minimalistically clean, but no excuse for being horridly messy either.

The Buyer's ole dad used to say "the state of your desk reflects the state of your mind". A messy desk says disorganised and non-achieving. An empty desk says, well, emptiness and non-achieving.

Clearly then, an 'organised but busy desk' says it all. Though bear in mind that there are no real points from shareholders and citizens alike for a tidy desk - only results do that.

Now, not all company cultures follow the strictness of the puritanical BHP Billiton - and their recently revealed office fastidiousness on etiquette:
THE AGE "No smelly lunches, or jackets on chairs: BHP's strict staff rules" (**http://www.theage.com.au/executive-style/management/no-smelly-lunches-bhps-strict-staff-rules-20110823-1j7dg.html)**.

So, it is usually down to the individual to tidy their desk and create the right impression to others – certainly in normal organisations.

But it is worth the effort, surely, for a fledgling profession to do its best to look professional at every opportunity. Starting at the desktop eh?

Maybe even with a little CIPS merchandise atop the desk too?

The Buyer – posted 12th September 2011

## #298 - If you want suppliers with more women on the board, source overseas it seems

In response to the notion that there are too few women in Australia's boardrooms, the federal government's tokenistic idea said that firms with insufficient women on the board should not receive government contracts [see previous blogs #246 and 267] was given a boost this week. The Economist reports that women are "storming the boards of companies in emerging markets" apparently **(http://www.economist.com/node/21526872?fsrc=nlw|mgt|08-31-11|management_thinking)**.

So, the perfect spots for sourcing supplies from firms with sufficient females on the board, they report, are:

1. China
2. India
3. Turkey
4. Brazil

Source: Economist report 27th August 2011

The same low cost countries we are all sourcing from, largely. So now you know just where to find compliant suppliers.

No change there then.

The Buyer – posted 13th September 2011

# #299 - FOUR reasons why professional procurement is sometimes harder in Australia

**A small country far away, with few suppliers**
Australia is a small country in total market size. Although the 13th largest economy in the world, it is still small as a global player in volume or consumption terms. Its locale exacerbates the problem, resting at the tip of the global supply chain - it's a long way to send stuff; so why bother? It is dependent on a few able suppliers and has few multi-vendor markets and therefore less choices. There are more monopolies,duopolies and oligopolies to manage making buying harder.

**A large country difficult to supply, from a risky world**
Australia is a huge country in geographic terms and, worse, is also a disparate market. Its internal supply chain is long, with too few internal transportation options. This is exacerbated by its location - at the very end of the global supply chain.  So its supply lines are always quite vulnerable, not least to real supply risks like wars, tsunamis, earthquakes, floods, political change, pandemics, hurricanes and economic crises. Ensuring supply to a far away, small market through such volatility is often a tough gig.

**A service based economy, deploying strategic procurement ideas on INDIRECT spend**
Australia is a large, service based economy with few manufacturers and many importers. So Australia spends little on DIRECT spend relative to INDIRECT spend. Increasingly purchasing professionals have been bringing the more strategic procurement methodologies from direct to indirect expenditure lines, who are not used to such attention or such fuss challenging their commodity mindset. A tricky job.

**A relationship dependant client, to ensure supply**
Australia must ensure supply to sustain standards. Its supply needs are rarely sustainable locally, and it’s generally more reliant upon its long and risky supply chains. It is particularly vulnerable to disruptions in supply. To ensure supply in such a limited market space, as a client at the end of global supply chains, you might expect relationships to be very important. SRM to be king. Blunt tenders & e procurement less useful. Building relationships with international companies is time consuming and resource heavy and demands professional judgement more than process. A delicate assignment.

The Buyer – posted 23rd September 2011

# #300 - UK Bribery Act 2011 applies to Australian organisations & individuals

On 1st July 2011, the new UK Bribery Act came into force. It makes bribery illegal. Though most buyers sort of know that anyway. No change there then you'd think? Think again.

The significance of this new UK law is not so much making the obvious illegal, but where it seeks to apply the new laws; ie; outside of the UK. Both Australian businesses with operations in the UK as well as Australian subsidiaries of UK parent companies will be directly covered by the new act – as well as being subject, of course, to existing Australian anti-bribery laws. So it applies to bribes OUTSIDE the UK, as well as those enacted in the UK. It also applies directly to individuals. It also makes ‘failing to prevent a bribe’ taking place to be an offence. And the definition of "bribery" is also widening.

Penalties are severe, with significant fines and up to ten years in jail the principal penalties. And the Act is largely intended to be enforceable overseas – as far as anything is, anyway. Certainly across jurisdictions with close ties like Britain and Australia have [except when playing each other at cricket or rugby union]. Extradition between ‘close’ countries is getting easier nowadays, as some have found to their cost of late- including the alleged Sydney 'collar' bomber.

Mr Google helpfully offered 3,380,000 hits on “UK Bribery Act” to offer a humble buyer with UK connections some real and focussed advice.

Some choice cuts from the front page were:

KPMG notice - UK Bribery Act ups the ante for Australian organisations in the UK **http://www.kpmg.com/au/en/issuesandinsights/articlespublications/press-releases/pages/press-release-uk-bribery-act-30-jun-2011.aspx**

Freehills advice - Beware the UK Bribery Act **http://www.freehills.com/7230.aspx**

Deloitte report - UK Bribery Act 2010 **http://www.deloitte.com/assets/Dcom-Australia/Local%20Assets/Documents/Industries/Financial%20services/Regulatory%20Review%20August%202011/Deloitte_Regulatory_Review_August_2011_UK_Bribery_Act.pdf**

CIPS summary of advice is on their website at **http://www.cips.org/en-au/Resources/Tools-Templates/Politics-Zone-AUS/newlegislation/** or you can download key elements in PDF by clicking here **http://www.cipsaconferences.com.au/resource/The%20Bribery%20Act.pdf**

Caveat emptor.

The Buyer – posted 26th September 2011

# #301 - TARGET bullying of suppliers is the antithesis of SRM

The news reported in The Australian yesterday, that retail homeware group TARGET are universally awarding themselves a 5% reduction in all their suppliers' prices - through helping themselves to a rebate of monies spent - is a genuine shock.

*"DISCOUNT store Target will cut 5 per cent from the prices it pays all suppliers for the next three months as it battles depressed retail conditions, but may not pass the savings on to customers."*

**http://www.theaustralian.com.au/business/companies/target-takes-aim-at-suppliers-with-5-per-cent-price-cut/story-fn91v9q3-1226147391482**

Surely, in this day and age, organisations do not behave like that? Well, think again, TARGET do. What must the suppliers' think? One of their primary customers just slashing 5% off agreed prices, then helping themselves to the cash by short paying the next order .... Without so much as a 'by your leave'. In fact, they just get a letter from the Target boss in their mailbox. And then read about it in the press – like the rest of us. Not even a 'phone call…??

At best, such a step is likely to be a contractual breach, certainly with larger suppliers where prices are agreed in a Volume Purchase Agreement [VPA] in advance, usually annually.

At worst, it is an abuse of a dominant position, and perhaps something the ACCC might be even interested in? As large retailers in small markets can take advantage of their position of course, as can very large retailers in large markets – like Wal-Mart are accused of quite often it seems **http://www.businessweek.com/debateroom/archives/2007/04/stop_the_bullyi.html**
**http://www.fastcompany.com/magazine/77/walmart.html**

But it is certainly a flagrant abuse of the relationship with the supplier. Every professional in procurement knows that building a relationship with the supplier [especially regular ones] offers real returns. And, more importantly, failing to build a relationship with the supplier has consequences [see previous blog #270, and then blog #248]. Supplier Relationship Management (SRM) is a whole sub-topic within the procurement subject today, with growing standards, thinking and case study evidence of success. The value of the relationship over the contract is even standard thinking nowadays. All trade is ultimately built upon 'give and take' – a sharing of risk and return. But not at TARGET.

So TARGET must see their suppliers base as commodities? Providers of universal boxes, widely available from elsewhere. Just stuff they buy and flog to hapless consumers like you and me. No added value at all. And no give and take there either. There is no word that TARGET are even considering passing on their ill gotten gains to consumers. Just trousering the cash to bolster their margins. Like spoilt children refusing to share the lollies. 'Things are tough, so we'll just help ourselves, stuff everyone else.' The 'Lord of the Flies' is alive and well on the Australian high street it seems. Even consumers deserve to be repelled [see previous blog #280].

But pity the buyers – both the procurement team and the marketing merchandisers that choose stock – they are the ones that will have to front the angry suppliers. They are the ones that are out on a plank, after their doubtless fine words of the past. They are the ones trying to build a relationship with their suppliers to improve terms, quality, performance, innovation, support and delivery of stock. They have just had all their work destroyed in a trice.

Some hope of building any relationship now. But clearly TARGET seem not to value such an investment, or perhaps any investment in professional procurement either? Maybe if they had of done, they wouldn't need to unilaterally rob all suppliers of 5% over the next three months?

They, Target, are now the ones that will have to convince the suppliers to keep on supplying the beast. In a small market some vendors may have no choice. But they will try and find a choice now. Maybe TARGET will become the target of suppliers treated with disdain? Securing supply is the first responsibility for a professional buyer, and it just got a whole lot harder for the TARGET buying team.

Bullying suppliers can be tempting for large brands facing tough times, but in procurement it is WORST PRACTICE not BEST PRACTICE. It can offer only the shortest of short term gains. Even in the medium term it will payback badly. Everyone is facing tough times [except the resources sector], and SRM and teamwork is a better way than bullying. As any schoolkid will tell you. But maybe not this lot below …. who are all at it too… Maybe TARGET is just the tip of a nasty iceberg; with a range of brand bullies lurking under the surface for unwary suppliers including some surprising names even beyond Wal-Mart; eg; Toyota, Coles, Woolies, Hyundai and numerous firms in the IT sector...

**http://www.reuters.com/article/2010/03/09/us-toyota-suppliers-idUSTRE62819920100309**

**http://www.theaustralian.com.au/business-old/industry-sectors/milk-price-war-hots-up-as-coles-slaps-processors/story-e6frg9h6-1226020757656**

**http://www.smh.com.au/opinion/politics/price-war-could-spell-the-end-of-fresh-milk-on-supermarket-shelves-20110405-1d1tr.html**

**http://knowaboutthat.com/go/bernama-hyundai-kia-under-probe-for-forcing-suppliers-to-cut-prices/**

**http://www.computerweekly.com/blogs/inside-outsourcing/2011/07/businesses-are-forcing-indian-it-suppliers-to-cut-their-charges-by-up-to-20.html**

The Buyer – posted 28th September 2011

## #302 - Buyers 'awarding themselves tender' reveals procurement hubris ...

Long ago, when The Buyer was a lad, he was briefed to buy a long security fence surrounding the factory - to keep the bad guys out. It was to be 4m high and covered with CCTV cameras with a 12m high portcullis enabled with access control systems and fronted by fearsome security guards. The $7m quotes were out of sync with the measly budget though - just $1.5m. Scope then for The Buyer's colleague and the office rascal, Denzil Ratbane, with his two immature colleagues, to submit their own bid for 5km of chicken wire, a large 'KEEP OUT' sign and two guard dogs - all for just $850k. A bargain, and under budget too. They didn't win the tender for the want of cheek. Though it was just a misplaced office joke, it caused quite a fuss at the time.

Imagine The Buyer's surprise then, when the news broke recently that two likely lads at the VIC Government had allegedly faced a similar situation - and won their bid. "Workers award selves tender" THE AGE **http://m.theage.com.au/victoria/workers-award-selves-tender-20110905-1juce.html**

If it is all true, it is a step too far for sure. Likely we'll be getting new guidelines on stopping such japes in future; and even more from those dull twins – "probity n process" – as a result. But, to be clear, these guys have done the profession no favours at all.

It must often be tempting for humble buyers to bid, though. Faced with pompous suppliers overbidding for contracts and parking their expensive sports cars in the visitors' spots, it can be too much to bear. Especially whilst watching their daily mistakes and supply stuff-ups. Who are these jokers? Why can't they get it right 100% of the time? They're being paid enough, strewth! I mean, how hard can it be? I could do it myself! In fact, I will..... and for less than they do it for. It's easy really… they must be making a fortune.

But the hubris of the professional buyer must be resisted. Things are harder than they look. Just because we can buy it, doesn't mean we can do it too. Suppliers live their product or service 24/7. Buyers are temporary experts. Sometimes very temporary. The Buyer as an IT procurement manager was once fleetingly the biggest buyer of modems in the country; but spent only 15 minutes a week managing the modems VPA.

Of course, anything done well looks easy, does it not? Even sloppy suppliers have know-how, corporate experience, experts, R&D, solid processes, QA, competitive advantage, market awareness, alternatives & substitutes, other options, back-ups and reserves, helpers/stakeholders and they know a man who can. They have a rich investment from the past which enables them. They should not be underestimated.

There is one similar exception though of course, the NBN. The federal government invented a similar 'extra option' of accepting their own bid when disliking the tenders on the table from the industry back in April 2009.

[See previous blog #29; and then blog #255 and a dozen or more previous blogs too]. It was okay for them to go in-house, but not two blokes in VIC government of course..... :)

The Buyer – posted 29th September 2011

## #303 - The FOUR key challenges facing Procurement since the GFC

Sat in the back row for most of the 7th annual CIPSA conference last week at Crown in Melbourne, The Buyer couldn't help musing on the theme for the event – RISKY BUSINESS.

All business has an element of risk of course, as the genial host of the event pointed out in the opening presentation on the first morning, "[since the GFC] organisations are also accepting more readily that business is absolutely about the trade-off between COST and RISK, to ultimately deliver a return on investment. They are looking to procurement people to help re-balance this business equation" he said.

But, to follow this point, one of the most refreshing things to read at the event was actually in the CIPSA blurb – the handbook for the event. It identified FOUR key challenges facing procurement in the immediate future in the face of volatile times;

Professional procurement today faces four key challenges [since the GFC];

- Firstly, to secure supply lines in a volatile world – the first responsibility of any professional buyer.
- Secondly, to identify and manage risks in the supply chain, and put in place options & alternatives for the organisation.
- Thirdly, to ensure a certain cost base not a fickle one – to bring certainty back to the business model, and to capture the full opportunity of cost. And, at the same time, to rebalance 'total cost' against risk.
- And, fourthly, to build confidence in stakeholders by improving both process and probity standards. Stakeholders wanted more oversight on how exactly things were bought to sustain their business. On what was happening on the supply side.

These four things frame a new normal, a new normal in which procurement is expected to deliver. To add real corporate value. To bring certitude in a capricious world bringing inevitable supply disruptions.

Source: CIPSA handbook for RISKY BUSINESS event 7th Annual Conference 12-13 October 2011
**www.cipsaconferences.com.au**

The new objectives for procurement in the "new normal" business context perhaps?.

The Buyer – posted 16th October 2011

## #304 - How not to manage your suppliers #2

Watching the Rugby Union World Cup semi-final last night, after reading about the TARGET bullying of suppliers debacle recently [see previous blog #301], ....

it occurred to The Buyer that maybe organisations that want to truly bully vendors properly could do the Haka before every negotiation? That should work well ....

The scariest Hakas ever: YOU TUBE

**http://www.youtube.com/watch?v=ha47xuGF2b0**

The Buyer – posted 17th October 2011

# #305 - Sometimes, splitting the business makes perfect business sense

The news a fortnight ago that Rio Tinto Procurement [RTP] had decided to sign deals with both principal Australian airlines was a salutary reminder of the value of sometimes splitting the business - and letting two vendors both win the contract:

RTP awarded contracts to QANTAS [for international & domestic air travel] and to VIRGIN AUSTRALIA [for domestic travel]. CPO Scott Singer explained on Sky News that such an arrangement would be convenient for Rio's busy employees and offer them extra choices - especially in the west. Both suppliers appear thrilled.

**http://www.etravelblackboard.com/article/123909/qf-secures-rio-tinto-contract**

**http://www.virginaustralia.com/AboutUs/Media/NewsandPressReleases/P_018658.html**

Of course, with margins so tight in the airline business, it is highly possible that RTP simply had enough volume to squeeze the best possible price out of both carriers. Any extra volume could not be rewarded as the margin doesn't exist for the airline to offer more. In which case splitting the business makes perfect sense as it offers flexibility of choice to Rio's travellers and gets the best deal from the carriers. It also drives better acceptance of staff travel policies and less maverick spend. Everyone is happy.

But then, RTP's decision also seems prescient, given the possibility of ongoing strikes at QANTAS in the run up to Christmas:

**http://www.skynews.com.au/national/article.aspx?id=670718&vId=2759855&cId=National**

There are several scenarios when it is good business strategy to split the business; when it can be the right decision to make;

for example;

- when there is enough volume to ensure the best deal from both bidders
- when it makes sense strategically to dual source, to ensure security of supply for instance
- when you want to encourage a lesser supplier to develop, or threaten an incumbent to buckle up
- when you want to sustain the threat of real competition
- when you want or need both variants of product
- when suppliers are equal, and you want to encourage future differentiation
- when political factors demand a twin solution

Splitting the business can be more handy than you realise - especially in the public sector; not every tender has to have one clear winner.

The Buyer – posted 18th October 2011

# #306 - Do Bunnings Master their supply base?

Accusations by the American CEO of new DIY store Masters, Don Stalings, that suppliers to hardware monolith BUNNINGS are refusing to supply them, the new kid on the block, is hardly surprising in many ways.

**http://www.theage.com.au/business/masters-cries-foul-20110830-1jk3y.html**
Especially given the recently developing trend for brand bullies to knock about their suppliers [see previous blog #301].

Bunnings have been top-dog in the DIY retail trade for donkey's years. Suppliers value their high volume business. Why risk such lucrative trade, just for the prospect of low volume supply to the fledgling Masters DIY chain?

Of course, nothing is proven. No one has threatened suppliers that sell to the new competitor will not be able to sell to Bunnings. But the fear is there, in the background maybe; the implication entirely possible. And the suppliers seem to know where there 'bread is buttered.'

If it is true, and suppliers to Bunnings have been less than entirely co-operative with new retailer Masters, then these suppliers seem to have got the message one way or another, and may not be readily supplying the new rival Masters chain? But is that not normal business? 'Most favoured nation' clauses are relatively common in contracts negotiated by big buyers. Suppliers usually prepared to sell their soul for guaranteed volume from the biggest buyer in town. Guaranteeing best prices is a term that is earned not demanded. And volume has to be proven before best deals are triggered.

On the other hand, Bunnings may be emboldened by that other paragon of SRM within the Wesfarmers Group – TARGET; who have being showing one way to treat suppliers [back to blog #301].

So, what to do? The $40 billion growing home DIY retail market is well worth fighting over – maybe more so now people are choosing not to move but to stay n renovate more. Maybe the ACCC have a viewpoint? Yet again, a small Australian market with monopolistic characteristics is alleged to be taking liberties. Maybe that is what Don the CEO was aiming for when he mentioned the whole thing last month.

The Buyer – posted 19th October 2011

# #307 - The fastest growing profession in Australia is....

The Procurement Professional Awards night on 12th October at Crown Palladium, amidst the 7th annual CIPSA conference, had more than the usual big ten surprises in revealing the 2011 PP award winners – which included the bashful Chris Browne of New Zealand Government Ministry of Economic Development [MED] who took away the prestigious CIPSA Leadership Award **http://www.pponline.com.au/html/cipsaawardsdinner.cfm**

It was privately leaked to the audience, on a strictly confidential basis, that PROCUREMENT seems on course to achieve the long coveted status of becoming an official profession in Australia. In fact, The Buyer only reluctantly and quietly passes on the good news, since all 500 dinner guests were sworn to secrecy. Anyway, back at the last census in 2005, less than the required 300 souls 'fessed up to working in "procurement" in the occupation field on the census form; meaning, despite ticking all the other boxes for professional status [standards, ethics, a professional body, degree courses at Uni - see previous blog #95], procurement couldn't be considered one of the chosen as too few people enacted the art & science of professional procurement. Never mind the CIPS Royal Charter, of course.

Although all the 2011 census forms are not yet counted [72% are stuck on hard copy in a Canberra warehouse], apparently fully 28% of the Australian population filled their census form in online – and ABS have full access to the data already. So, not counting category managers, vendor managers, contract managers, analysts, expeditors, general managers and other non-procurement titled professionals, some 4,900 people got the P word into the occupation field on the night of 9th August 2011 = Census Day. Suggesting up to 17,500 people use the word "procurement" in their job title alone.

Since less than 300 people used the P word in 2005 – it is highly likely PROCUREMENT has just become the fastest growing profession in Australia. Or, put it like this, there can't be many professions in Australia that grew by more than 5,800% in the six years between 2005 and 2011.

.... Funny that CIPSA started operations in Australia 2005.

The Buyer – posted 28th October 2011

# #308 - The next great challenge for the CPO – to become the CSO?

Current CIPS President, Peter Rushton FCIPS, travelled from England as the guest-of-honour for the 7th annual CIPSA conference RISKY BUSINESS in October. In addition to his obvious ceremonial role, he also got the chance to pitch one of his recent observations from trends in Europe ….The rise of the genuine supply side manager.

He argued fairly convincingly that the classical role of the CPO is already changing in Europe. That CEOs want one person responsible for supply side management of their business and are uncomplicated by exactly whom and from what discipline they are from. Just want a supply manager ensuring supply really. Increasingly, Peter explained, they are being called CSOs – chief supply officers. But he cited other labels he had seen for the same beast such as chief supply side officer, chief network officer, chief supply chain officer and so on. Didn't matter really – the point was made.

In the same way the top sales and marketing roles are often merged in to one principal role, with top-line revenue accountability [often called chief marketing officer or group sales & marketing director], the supply side is slowly being merged into one common role as CEOs and business leaders see supply chain vulnerability as the new primary risk in business.

Organisations that buy much stuff would look for a CSO with procurement background. Firms that move and stock many goods would want a more logistics orientated CSO perhaps. But still one person atop the supply chain. One person responsible for fulfilling and delivering against the marketing-led definition of the customer proposition calculated to meet customer needs at a profit. With two such departments at work – one defining client needs and profitability, the other delivering its value chain – suddenly every other discipline is relegated to a support role = a shared service.

Beware the rise of the CSO then – and expect the procurement subject to creep inexorably over towards the supply chain side in future …..

The Buyer – posted 29th October 2011

# #309 - Is good procurement process indivisible from good software?

The presentation by the CPO of Rio Tinto Procurement (RTP), Scott Singer, on the first afternoon of the recent CIPSA annual conference RISKY BUSINESS seemed at first glance to be heading towards a glorified advert for his favourite suppliers. Software vendors too. But then, through the haze, things became clearer and the context was slowly revealed as the fog lifted and his core points revealed.
The Title of his slot hinted at the content - Building a better procurement function - The role of innovation in securing supply in a volatile world. He went on to talk about their vision of elevating their P2P process into the cloud computing stratosphere.
**http://www.cipsaconferences.com.au/html/7thannualday1prog.cfm**

Procurement capability improvement needed three levers argued Scott – people, process and technology. CIPSA had already written up RTP for their world-class people development programme, and the process-software angle was becoming increasingly obvious. Straight after Scott's speech, the genial but pointed CIPSA host posed the question – "is then, good procurement process increasingly indivisible from good software?" A loaded question if ever there was one.

At the end of that first day, however, things became clearer still as THE SUPPLY SIDE initiative was revealed. That fine website and home of The Buyer, PPONLINE **www.pponline.com.au**, would be launching a new feature called THE SUPPLY SIDE it was briefly explained – a webinar portal for software suppliers to demonstrate their wares to harassed buyers looking for neat solutions to growing workloads, without the tiresome business of actually listening to supplier pitches. Suddenly the afternoon session looked very neat – almost set up perhaps with it as the future for procurement.

Nonetheless, a software window-shopping facility for overburdened buyers still sounds very welcome – even if it is just for frustrated buyers examining what their current software doesn't do?

The Buyer – posted 1st November 2011

# #310 - Lindsay Tanner FCIPS deserves his CIPSA gong

The next PP magazine (PP40 Dec 2011 issue - **www.pponline.com.au**) will apparently feature a piece on the eve-of-conference VIP dinner at the 7th CIPSA Annual Conference, when former federal minister of finance and deregulation Lindsay Tanner was awarded a CIPS honorary fellowship. It was presented by visiting CIPS President, Peter Rushton, and was the first CIPS honorary fellowship awarded to someone outside of the UK – quite a coup for our Lindsay.

Other previous recipients include three Lords and nine Knights of the realm – including Sir Peter Gershon who ran the federal IT review here for the commonwealth government back in 2009-10. The list was leaked at the CIPSA new office opening back in late August. LT officially opened the swish new CIPSA facilities at 520 Collins Street on 24th August – see previous blogs #297 and 284.

Of course, The Buyer effectively predicted this a long time ago; on 1st July 2010 actually - see previous blog #163, which outlined how Lindsay Tanner had used his brief to demonstrate fiscal responsibility for the new Rudd Government to change the culture in federal government in favour the ‘razor-gangs’ war on waste – creating a climate for procurement to succeed. For the attempt alone he deserves an Honorary Fellowship thinks The Buyer.

The Buyer – posted 2nd November 2011

## #311 - How to read between the lines of your supplier's marketing bluster

Sometime MC for the annual *Procurement Professional* awards each year at CROWN hosted by CIPSA, the sparky Brett Rutledge has been taking on all comers in his blog again. **http://www.brettrutledge.com/editorial-august-2011**

On this occasion, QANTAS CEO and new public whipping-boy Alan Joyce got a tagging – particularly his email to frequent flyers [only around 4 million of us] which launched their new high-profile 'Stronger QANTAS' campaign – justifying two new airline start-ups, cost cutting at home, some redundancies and buying cheaper aircraft – just before the big grounding at the end of October [see previous blog #291].

Brett's favourite subject is COMMUNICATION (of lack thereof) … and he often has a point somewhere in his rhetoric. His dissection of Alan's memo to loyal flyers is a lovely case study of *'how to see through the bluster of modern marketing department's copy'*. And QANTAS' copy is some of the best in the business – by one of the strongest brands in Australia.

To read between the lines of what your suppliers' really mean in their sales and marketing bumpff, is a very useful skill for all buyers. Anyway, seems the unions and QANTAS staff were also doing just that, reading between the lines of the new low-cost strategy, given the subsequent IR bust-up that led to the grounding of the fleet a few short weeks later.

The Buyer – posted 10th November 2011

# #312 - Three daunting questions face buyers on the new carbon tax

This week the federal government [with help from their mate Bob, and three other blokes] finally reneged on their election promise and the Senate passed the new carbon tax into law. See **www.theaustralian.com.au** and **www.afr.com.au**, along with every major news outlet in Australia.
**http://www.theaustralian.com.au/national-affairs/carbon-plan** and
**http://www.afr.com/p/national/what_next_how_the_carbon_package_IjTQTAK5GascVHWR8wW1EK**

All this presents three daunting questions for professional buyers in Australia:

1. How will this new carbon tax affect your supply chain, exactly?
2. If carbon prices in Australia remain around double that of carbon prices in Europe, how might that change sourcing decisions here?
3. How do buyers hedge their bets, given the federal opposition is consistently leading the polls and threaten to repeal the carbon tax law if elected at the next election in 2013 [or sooner]?

Answers on a postcard to The Buyer please - because he doesn't know either.

The Buyer – posted 10th November 2011

## #313 - When NOT to go tender #2 – for PR reasons

The news reported in The Age newspaper on Saturday 5th November 2011, revealed that the VIC Government is to “put out to public tender … contracts for more than 50 Melbourne bus routes worth $150m annually … to shake up the city’s public transport network” **http://www.theage.com.au/victoria/tenders-to-bring-city-bus-shakeup-20111104-1n04n.html** and offered another salutatory lesson for the public sector on when NOT to go to tender.

Of course, The Buyer has blogged before on the folly that is the growing tendency for the humble administrative process known as the ‘tender’ to become the default procurement process for all public expenditure. There are many reasons why it is actually right NOT to go to tender – The Buyer conveniently listed Paul Roger’s handy list of ten scenarios for ‘tender mercies’ in a previous blog #278.

However, it seems the new Liberal Government in VICTORIA has just invented another reason. Hidden away in the final line of the article, perhaps illustrative of a throwaway line from a junior press officer at the end of a tenacious press conference, is the exact reason the government decided on their procurement process: “A spokeswoman for [state Treasurer] Mr Wells said a public tender process had been chosen because it was the best value”. What? They did it for PR reasons?

Tenders do not offer value in themselves – the outcomes achieved are supposed to. And there is more than one way to ‘skin a cat’ as the saying goes. Certainly we should not be training the public that the only way to get value is to run a ruddy tender. In a market with few players, and heavy public requirements threatening stringent penalties for missing KPIs, there are few realistic potential bidders. A fact noted in the article which explained that in the past the Bus Association had helped the state government in negotiations with vendors. Maybe there is a better way than a large open and clumsy tender process?

For instance, in a small market with few bidders, building relationships with vendors, adopting early contractor involvement [ECI] methodologies to formulate achievable goals & realistic specifications, and using the help of experts is a sensible SRM strategy. In addition some face-to-face negotiations with qualified vendors is a quite conceivable strategy to reach a better outcome than a public tender process - especially if constrained by limitations on freedom of action or interaction by the procurement team. Especially when the press officer also announced the value of the deal to the government to be the not-insignificant-sum of $150m.

The Buyer – posted 11th November 2011

# #314 - When NOT to go to tender #3 – for political reasons

The news that the $223m federal government tender for the international TV service ‘Australian Network’ has been scrapped by cabinet and communications minister Senator Stephen Conroy, and that the contract is to remain with incumbent ABC TV, (as reported in The AFR newspaper on page 1 and in ‘Comment’ on page 7 on 8th November 2011 **www.afr.com.au** – the story was also reported widely elsewhere including **www.theaustralian.com.au**), illustrates yet another poor reason for going to tender – for political reasons.

Allegations abound on this project; that the tender committee twice recommended that Sky TV should be awarded the deal; among them, that the tender process was contrived to suit Kevin Rudd’s political ambitions; that Kevin Rudd sought to influence the specification and the process; that the process was designed to alleviate ABC of the contract?

There are doubtless many other allegations flying around now it has been cancelled and recriminations fly? Apparently the Australian Federal Police have been called in to investigate alleged leaks. **http://www.afr.com/p/national/rudd_not_told_of_australia_network_fFE6eTqRn4aq83Z3lKjFFM**

The official reason quoted by the minister, that the confidentiality of the tender process had been breached ensuring that a fair outcome was unlikely, seems spurious at best. Tenders are a blunt tool, but are a means to justify an end – not an end in themselves, as so many in the public sector increasingly seem to believe – politicians [see previous blog #312] and auditors [blog #134] amongst them. If confidentiality has been breached it is not always the end of the world. In fact, in small ways, confidentiality is often breached on large tender processes [see previous blog #189] as well-meaning engineers and users too often, and wrongly, coach favoured vendors towards better outcomes either directly or indirectly.

But the most important thing from any procurement process, tender or not, is to get the right outcome for the stakeholders. [That is not to say that the ends always justify the means – they don’t]. The problem with this procurement example is that there seems to be wholesale disagreement between politicians on exactly WHAT the right outcome from the procurement decision looks like? Value for money and a good commercial outcome looks to be way down the list of objectives for the economic decision makers on this project...

The Buyer – posted 15th November 2011

# #315 - QANTAS demonstrates the ultimate power of the supplier

The decision by QANTAS to ground their planes on 29th October [*reported everywhere by everyone in all media*] , was a salutary reminder of the power of the incumbent supplier – as almost everyone uses QANTAS at some point; including the hapless 100,000 passengers at airports everywhere who were quoted as being directly affected by the stoppage.

Putting valued clients "ON STOP" is a tactic of last resort for concerned suppliers. Usually there are only two principal reasons why a supplier would take such a draconian step:

1. Continued non-payment for previous work, or,
2. As a negotiation ploy [as in the QANTAS example]

The Buyer, of course, once pushed a duopolistic supplier too far, and they put The Buyer's organisation "on stop" to teach us a lesson. It was a painful lesson too – as they undermined the Buyer's first professional responsibility, to secure supply. In an operational supply chain [such as with an airline] the 'production line' stops pretty quickly when key widgets do not appear. The ultimate total cost for stoppage far outweighs marginal gains from any negotiation.

Of course, there is risk for the supplier in such dramatic action too. They may lose the business to competitors – if they exist, that is. In niche manufacturing sectors they often do not. And in far flung places [like Australia] at the end of long global supply chains [like in Australia] where there are often monopolistic or duopolistic markets [like in air travel], the power resides more with the supplier than the client: as the unlucky 100,000 punters found out to their cost. Unavoidably, many will find they have to fly QANTAS again in future: victims of the domestic market share held by the flag carrier. Not that they will mind so much if they are on compensatory free tickets of course **www.qantas.com.au**

The Buyer – posted 15th November 2011

# #316 - The relevance of FORCE MAJEURE in procurement contracts

The recent QANTAS grounding due to "industrial action" [see previous blog #314] left many stranded passengers belatedly reaching for the small print on the back of their tickets. What were their rights? What compensation is there? How can the airline be penalised? Surely they must fly me on another carrier at their cost right now? A private Lear jet even, it is only reasonable?

But no, the small print dictates. Usually the first thing any standard supply contract excludes is consequential loss from the supplier's potential act or inaction. The second thing in any standard contract, from most suppliers most of the time, excludes liability from acts outside of their control - covered by the FORCE MAJEURE clause – see **http://en.wikipedia.org/wiki/Force_majeure** which helpfully even includes suggested copy for a standard clause.

Despite their being much common law and legal precedent in this long standing concept of 'it wasn't my fault mate', there is still much wiggle room in the way the clause is drafted. Originally it was a clause to protect suppliers from devastating acts of god like earthquakes, floods, tsunamis, hurricanes and fires - which were quite common in the old days apparently. Anyway, over time the clause widened and included wars, civil commotion and riots - there were quite a few in the 20th century The Buyer learnt in Grade 9. But the clause widened again - to cover strikes, industrial action and lock-outs - which used to happen in the 1970s The Buyer's dad reveals.

So, what the clause expressly covers does matter. But don't take The Buyer's word for it. Check with your own legal firm if you can afford the bill, or your own in-house legal counsel if they will return your calls, or try and catch the friendly lawyers that frequent CIPSA Conferences with free advice [try the bar], or, if all else fails, read the Wikipedia entry.

Caveat emptor.

The Buyer – posted 21st November 2011

# #317 - Sam Walsh offers SIX hard won lessons for procurement

The high profile Rio Tinto Australia CEO, Sam Walsh, addressed the new CIPSA event – the grandly titled 'CPO AGENDA Top 100' back at the end of August. The story featured on the new-look cover of the Procurement Professional magazine ….. [Issue PP39 Oct 2011] **www.pponline.com.au**

His talk was entitled "You can't cost cut your way to greatness", and during his business breakfast address, he offered SIX core essential factors for procurement success from his own direct experiences – in case you missed them, they are;

**1. Business integration**
Ensure that the procurement function, philosophy and discipline are integrated with the business and are conscious in every decision made and every project implemented.

**2. Relationships**
Create and nurture constructive relationships between our business and our suppliers and contractors. The support of our supply base is essential to achieving our growth plans.

**3. The human resources of procurement**
Given the importance of relationships, having the right people in the right roles is critical. But who are the right people and have they got the broad-based skills?

**4. Technology and innovation**
Technology is the key to an efficient and productive procure-to-pay workflow – managing 50,000 suppliers in Rio's case

**5. Think long-term**
Strategic procurement is as much about managing the day-to-day seamlessness of transactions as it is about planning for the future, staying informed about market intelligence and identifying and managing risks

**6. Engage community, respect culture**
Work with your community, and understand and respect the cultures of various stakeholders such as local Traditional Owners and aboriginal businesses - socially responsible procurement is essential to our growth.

Source: Sam Walsh Rio Tinto at CIPSA CPO GENDA 100 business breakfast, Gold Coast, 30th August 2011; Reported in PP39 magazine Oct 2011

It was all good and valid stuff; but all the more valid since Sam Walsh FCIPS just happens to be a long-standing procurement professional – having started his career in the Holden GM purchasing department. In fact, he is one of the very few examples of genuine procurement professionals making it to the very top of business. So CPOs need not lose heart – it is possible.

The Buyer – posted 22nd November 2011

# #318 - The next great challenge for Procurement – can it truly create EBIT?

An interesting and important new debate truly emerged at the 7th CIPSA Annual conference 'RISKY BUSINESS'. It started with an established global BPO provider of managed services to procurement alleging loudly and obnoxiously in the PP Awards Dinner after-party that "procurement cannot create EBIT, only generate cash". His theory was that savings and cost avoidance generated by busy buyers in supplier negotiations get lost in the maelstrom of corporate life and don't actually make it to the bottom-line: like 'sperm fighting towards the egg' was his colourful simile. [Wikipedia defines BPO quite well, by the way - **http://en.wikipedia.org/wiki/Business_process_outsourcing**: [Wikipedia also covers reproduction quite well too, The Buyer's young son helpfully adds].

In itself this thinking is not 100% new. Craig Lardner's famous 'Leaky Bucket' explained how pouring savings into a bucket with nine holes in it often ended with disappointed CFOs wondering just where all the savings actually went [see previous blog #130]. The truth is the money saved in negotiated discounts gets spent on extras, greater volume, other things, traded for something else and so on; anywhere except dropping to the bottom-line.

Our friendly BPO salesman did concede that procurement savings could save cash out of the door but that it was likely to end up falling out the door at some point in future … as cash-happy budget holders worked out other things they "needed" to spend on. Of course, he concluded, the best way to make the savings real was to outsource to a friendly BPO provider, who could own your supplier relationships for certain categories [and haggle better discounts], manage your volume [through stricter demand management] and therefore save money on your actual budgets [by stopping spending on other things] concluding with a real saving on the bottom-line for all volume billed through your managed service provider. Outsourcing your business discipline was his core proposition. Other ways to successfully outsource procurement have been listed by The Buyer before [see previous blog#143] BPO was only the sixth of eight main options.

However, there are other ways to get cash savings to reach the bottom-line. One enterprising old procurement pro known to The Buyer traded his -30% ongoing discount with a commodity supplier for a -20% rebate cheque at the end of each quarter. He delivered a rebate cheque drawn on the supplier for real cash to the CFO every quarter. Turning honest discount into real cash four times per annum; which dropped straight on to the bottom-line in real terms and delivered hard EBITDA.

Finally, one prominent speaker at the annual CIPSA conference fuelled the debate still further. He added his spiky viewpoint that procurement does indeed struggle to put the P into the P&L account and seemed to authenticate the idea that genuine EBIT contribution was too long a journey down the P&L for humble cost avoidance to travel. Maybe his pyrrhic argument was too convincing for his organisation, as he left them very shortly after the conference?

But if both our friendly IBM salesman and conference speaker are correct – the next big challenge for all procurement people has just started to gain some traction, and CFOs are rarely slow to pick a trend.

The Buyer – posted 25th November 2011

# #319 - The E7 is the new G7

Yet another definition of the forthcoming economies popped up in a presentation at RISKY BUSINESS the 7th annual CIPSA conference recently – the E7.
**http://www.e7countries.com/**

Of course, The Buyer has trod this ground before hunting for the secret formula to new global sourcing locations – is it the BRICS, The Next 11 or MIST [see previous blogs #294 and #222].

The answer was always so obvious - the E7 is the new G7 apparently; informed speculation suggests that aggregate GDP of the E7 will overtake the GDP of the old G7 by around 2020! Indeed, fully 50% of the GDP of the E7 will come from just China and India alone by 2025 it is forecast ….
**http://www.iesf.com/user_files/48/aag7becomese7.pdf**

The Emerging Seven (E7) are defined as the principal, economically emerging countries, and are;

**The new E7**
China, India, Brazil, Indonesia, Turkey, Russia, Mexico

**The old G7**
US, Japan, Germany, UK, France, Italy, Canada

| COUNTRY | POPULATION | AVE AGE | GDP | GDP GROWTH |
|---|---|---|---|---|
| China | 1.3bn | 32 | 228bn | 10.6% |
| India | 1.03bn | 22 | 785bn | 5.6% |
| Indonesia | 220m | 27 | 287bn | 5.6 % |
| Brazil | 184m | 28 | 794bn | 2.3 % |
| Russia | 143m | 38 | 764bn | 6.4% |
| Mexico | 103m | 25 | 768bn | 3.0% |
| Turkey | 73 | 28 | 363bn | 7.4% |

Source: IESF search-consult ISSUE 30 2007

Don’t forget to get visas before visiting E7 countries, and check your passport has a clear six months validity before the travel date …..

Caveat emptor.

The Buyer – posted 27th November 2011

# #320 - What happens to your stuff after you have bought it?

The UK Ministry of Defence has been savaged in the press again – this time for losing stuff. As the headline in the UK newspaper ‘The Telegraph’ put it so succinctly “MoD under fire for ‘losing’ £7 billion of equipment.”
**http://www.telegraph.co.uk/news/uknews/defence/6052162/MoD-under-fire-for-losing-7-billion-of-equipment.html**
Apparently, it has happened before - rather a lot.

It reminded The Buyer of the old days, when buying basic capital equipment for use in the operation at the organisation at which he worked as a lad in Purchasing. We 'lost' a great deal of stuff; simply vanished.

But, actually, upon audit, much of it was found. Usually it was just in the wrong place, often being used for the wrong purpose, or just broken and stuck in a corner somewhere - whilst someone ordered a shiny new one from The Buyer: for almost the price of a new Rolls Royce in some cases.

In fact, that was the biggest problem - people not caring about the equipment and feeling no sense of ownership … the rough presentation of handmade-to-spec equipment belying its cost … the operators treating it badly and considering expensive materiel as disposable, effectively.

But it would never happen at the Department of Defence here, of course - or at your organisation. But it did at The Buyer's … and at the UK MoD too maybe? Although someone might just have nicked it from there?

But The Buyer's inventive engineering manager came up with his own solution to operators treating pricy kit as junk - he hand-painted the purchase price on the side of all operations equipment – “This equipment cost $183,450 + GST” he painted for example. And then, when people saw the real price of a fork-lift, or a large trailer unit, or a hydraulic lift flatbed truck, they suddenly treated them with a great deal more respect; more like a Rolls Royce even.

The Buyer – posted 28th November 2011

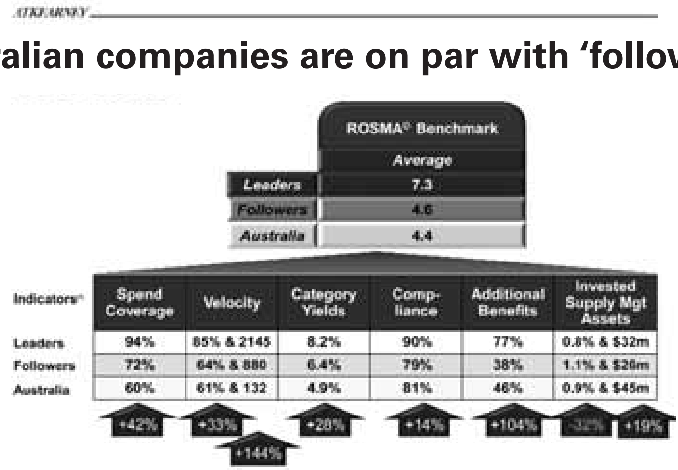
# #321 - The answer to the most asked question in procurement is 22; not 42 or even 32

The most asked question in procurement, according to CIPSA, is this;
*Exactly how much should each procurement professional be managing in terms of spend, ideally?*

And the answer is hidden in the new CIPSA white-paper written by AT Kearney's following the boost in Australian data included in their quadrennial Assessment of Excellence in Procurement AEP survey.
**http://www.cips.org/en-au/Resources/Publications/**
And the answer is not the famous number 42 from "The hitchhikers guide to the galaxy" – though it is not far off…

ATKs revealed the number at the recent CPO AGENDA 100 event on the Gold Coast run by CIPSA. The Buyer got a copy of the slides from his tame CPO, as well as a copy of the new white-paper from the 7th CIPSA Annual Conference 'RISKY BUSINESS' on 12/13 October 2011 at Crown; supported by a brief presentation by ATK's San Francisco based VP for Procurement & Analytics: Carrie Ericson. The white-paper was circulated at the conference and with the OCTOBER 2011 issue of *Procurement Professional* magazine PP39 – which goes to all CIPSA members and subscribers.

Anyway, the number: ATKs said that in Australia, as "fast followers" it was typical for average procurement professionals to be managing around $45m expenditure personally. Ideally, it should be nearer the global average for high performance procurement terms – the equivalent of $32m, as they have achieved a new efficiency level; with global laggards [diplomatically called 'followers' by ATKs] managing around $26m per professional procurement head.




Source: Slide #20 Carrie Ericson's ATKs plenary presentation at 7th annual CIPSA conference 12th Oct 2011

So, might an average Australian procurement team that is fast-following with average spend on relatively normal categories of around $500m reasonably justify a headcount of around 11 FTE people currently, and be looking to increase that to around 15 people? Well, if they can win the argument for resources and, doubtless, have the opportunity analysis to validate the business case. Easy. Except the ATK data also revealed that average savings in Australia by busy procurement teams averaged around 5.8% whilst the best global teams were scoring 8.5% savings – a tough gig on maturing addressable spend.

How is your team going in comparison then?

The Buyer – posted 29th November 2011

# #322 - P2P the new black - if procurement isn't careful

The idea that PROCUREMENT not FINANCE or OPERATIONS teams should be looking after the P2P process is taking hold it seems. Harassed finance departments looking to let go are targeting sanctimonious procurement teams for P2P responsibility - it's all about invoices isn't it? Right down your street, surely?

Organisations that are living in cloud-computing land seem especially keen to dump P2P responsibility on procurement - much better than delegating payments to a puff of dust in the sky; give it to the guys who benefit from the improvements eh?

But the Procure-to-Pay [P2P] process is just that - process **http://en.wikipedia.org/wiki/Procure-to-pay** the business of process, system and compliance issues - then accounting, IT and software solutions. Hardly the highest and best use of procurement time. Certainly not when there is a clear and present shortage of good procurement people. And not when there is still real opportunity to build lasting savings and better commercial outcomes from 'the supply side'.

Any relatively competent and professional business administrator with some commercial awareness can manage a large administrative process - even improve it: perfect work for a SIX SIGMA green belt and better than any old accountant for sure. And better than diverting valuable procurement people on to a task others can do.

To help these newbie managers get to grips with the idea, The Buyer borrowed some copy listing the pros & cons of implementing current state-of-the-art P2P systems:

**Pros of a P2P system**

1. Procure-to-Pay systems are designed to provide organisations with control and visibility over the entire life-cycle of a transaction – from the way an item is ordered to the way that the final invoice is processed – providing full insight into cash-flow and financial commitments.
2. Improved P2P process efficiencies e.g. reduced paperwork, electronic invoicing and matching.
3. P2P enables Procurement to produce better spend analysis and supplier performance data to facilitate future strategic sourcing decisions.

**Cons of P2P systems**

1. Implementing a P2P system requires significant knowledge of the as-is business processes as well as the to-be. Change management is a key component in implementing a P2P solution.
2. P2P can cause problems across the supplier base. Suppliers, particularly smaller ones often need to change their own internal business processes before they can totally eliminate paper based transactions.
3. Cost – P2P system implementations can be costly and take several months to implement; if not longer.

Source: PMMS Consulting Group 2011

Experienced procurement managers are rare in Australia and best used managing the supply side risks most organisations in Australia face daily: clearly, a higher and better use of time for rare skills. Procurement managers should be the user of the P2P process, not the manager of it.

The Buyer – posted 5th December 2011

## #323 - How to know your suppliers are at least trying to source ethically

The recent ZARA case study, where slave labour was apparently being utilised by one of their suppliers in Brazil [see previous blog #289], raised a key question yet again – how far does a buyer go to establish that their supply chain is 'clean' and socially responsible? In practical terms then, it boils down to a one simple question; how much valuable resource does an organisation deploy to ensure the supply chain is sound, and that there will be no surprises downstream for their brand?

The somewhat unhelpful answer is - you have to go as far as the risk realistically dictates, and as far as resources allow. Ultimately all business is a trade-off between total-cost and risk; the two have to be weighed. The GFC taught us that business stakeholders are now more cognisant of this equation and, maybe, more ready to balance the two nowadays; or, at least, to define where they want the balance to rest in the new normal of a volatile business environment. Increasingly this judgement is a real responsibility for the procurement professional - and yet another reason why professional procurement judgement should take precedence over process, the corporate sausage-machine or even the computer saying 'no'.

But there is another tactic of course. An old buyer's trick – get the supplier to do it.

Suppliers that sign up to the Ethical Trading Initiative (ETI) at least have declared an intent. It would be reasonable to expect them to complete a realistic investment down the supply chain to ensure everything is 'socially responsible', sustainable and properly done - in line with the law, your risk plans and consumer expectations. Many good suppliers today are signing up to the ETI. Ensuring most, if not all, of their suppliers down the chain are too. It may not completely prevent transgressions of good CSR behaviour, and it may not prevent unsustainable practices, slave labour, under-age employment, below-minimum wage employment, poor OH&S practices, counterfeiting, patent infringement, non-compliance and risk. But it is a start, and a declaration of intent against which they can be held to account.

**The ETI base code, demands NINE key commitments;**

1. Employment is freely chosen
2. Freedom of association and the right to collective bargaining are respected
3. Working conditions are safe and hygienic
4. Child labour shall not be used
5. Living wages are paid
6. Working hours are not excessive
7. No discrimination is practised
8. Regular employment is provided
9. No harsh or inhumane treatment is allowed

SOURCE: ETI **http://www.ethicaltrade.org/** or click here for the PDF download

Proactive buying organisations are now increasingly insisting suppliers sign up to the ETI as a condition of business. It may be a bit of a short-cut, but it also starts to define where to look for risks and what success looks like in a sound supply chain.

The Buyer – posted 7th December 2011

# #324 - How to buy from India

Like any country, India has its mysteries and they are slowly being revealed as it moves towards becoming a genuine economic powerhouse. It is lazy to think of India as just 'the next China', as there is much more to it than that. [India has more English speaking graduates than the USA has children].

More than anything, even China, India screams opportunity. The PR issues last year between Australia and India were particularly ill-timed. But like other fast developing nations, doing business in India is not quite so straightforward. Many reference sources exist, of course, three good ones are;

"Sourcing in India" book by *Guido Nassimbeni & Marco Sartor* 2008 **www.palgrave.com** ISBN: -13 978-0-230-20536-9 [CIPSA have a copy in their library]

The WORLD BANK has a useful page on their website on how to buy from there; **http://www.worldbank.org.in/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/INDIAEXTN/0,,contentMDK:20225351~menuPK:475789~pagePK:1497618~piPK:217854~theSitePK:295584,00.html**

So do the Australia-India Business Council **http://www.aibc.org.au/**

The Economist also ran a 14-page special report on business in India "INDIA INC" in their edition dated October 22-28th 2011
**http://www.economist.com/node/21533396**

But, of course, The Buyer asked CIPSA to find a friendly procurer with hands-on experience - someone who has worked there extensively in the last few years – for real tips and real-world advice:

**TOP TEN TIPS on how to buy from INDIA**

1. Visit the supplier in India prior to placing the order.
2. Know where and how they are transporting your goods (you need to see this process working)
3. Prepare an Australian quarantine AQIS presentation and personally go through and explain the reasons behind the requirements
4. If manufacturing is involved, organise and gain written agreement on the Inspection Testing Plan before issuing the Purchase Order and ensure your budget covers the testing process
5. If using air freight, procure on Ex-works basis and appoint an international freight forwarder who you use in Australia
6. Make sure that you have written warranty clauses in place and a shared understanding of what it means
7. Allow at least two months for contract negotiations especially in regard to manufacturing (things such as bank guarantees are not the norm in India)

8. Work with your finance department to determine if you should procure in INR, AUD or USD.
9. If the manufacturer is in a SEZ (Special Economic Zone) these were established in the last decade and the facilities are generally of a high standard.
10. If it seems too cheap, it probably is so trust your instinct....

SOURCE : Antoinette Brandi FCIPS 2011

Rumour has it that CIPSA Conferences might even be running a gig on "buying from India" during 2012 – watch their space **www.cipsaconferences.com.au** for details: (one of the girls in the red CIPSA Conferences crew-shirts told The Buyer it might be on Tuesday 7th August in SYDNEY).

The Buyer – posted 8 December 2011

# #325 - The Seven Summits of Procurement

Mountaineering legend has it that there are seven summits - the seven hardest peaks to climb in the world, if not the highest. There are no gold medals in mountaineering - completing all seven makes a champion mountaineer, **http://7summits.com** and **http://en.wikipedia.org/wiki/Seven_Summits** The seven being Kilimanjaro, Vinson Massif, Kosciuszko, Carstensz Pyramid, Everest, Elbrus, Mount McKinley, Aconcagua. And we think it's tough in Procurement?

So, what are the comparable seven summits of procurement? In trepidation, The Buyer called CIPS to ask, and was put on to the resident CIPS brain – the pensive Gerard Chick in the UK, who offered seven things a mature procurement department might achieve before considering itself world class:

**What does a world class procurement department look like?**

1. A CPO on the senior management team of the organisation; reporting directly to the CEO, CFO or certainly only one level down
2. Over 90% addressable spend under procurement coverage – maybe even more
3. Systemised ERP and P2P processes in place
4. CIPS Certification of procurement policies procedures and processes achieved – preferably to GOLD standard
5. Proactive risk plans in place for top 20 strategic suppliers that imagine disruption
6. A talented professional procurement team in place with modest staff turnover and sustainable professional development
7. A stable and well managed supplier base, with sustainable sourcing practices and targeted improvements identified and agreed

SOURCE: CIPS

But, Gerard's base procurement maturity models say it all really, and somewhat better than a clumsy checklist of the somewhat introspective procurement triumphs above:

**The journey from "doer" to "enabler"**

1. Supply Assurance
2. Purchase Cost Reduction
3. Total Cost of Ownership Reduction
4. Demand Management
5. Value Management

➢ If you are fire-fighting then you are LAGGING
➢ If you are effectively reducing cost then you are ACHIEVING
➢ If you are supporting business strategy you are EXCEEDING
➢ If you are influencing business strategy you are LEADING

Source: Gerard Chick at CIPS UK

At the end of the day though, the core value proposition of professional procurement, and the key role of supply side management, has to be fulfilled in the eyes of the stakeholders – and that is ultimately just increasing economic value and developing supply-side capabilities.

So, how are your team doing? Truly?

The Buyer – posted 10th December 20110

# #326 - The TEN most surprising things about business travel

The recent listing in THE AGE of the ten most surprising things about thrifty travelling, **http://www.theage.com.au/travel/blogs/the-backpacker/top-10-most-surprising-things-about-travelling-20110821-1j519.html** spurred The Buyer into action, at the end of another long year as a business traveller.

If these are the ten things most surprising to innocent backpackers, what are the ten most surprising things for rookie business travellers to discover; The Buyer simply had to make a list.

**The TEN most surprising things about business travel**

1. All business hotels are brown, and they are all mostly the same – so book the cheapest 4-star place
2. Business travellers always over pack; but always forget something - so leave your travel bag permanently packed
3. Airline food is inedible - eat before you fly, even airport food is better
4. Always join (one) frequent flyer scheme - once you get GOLD status it is worth keeping to miss the check-in queues alone
5. Airport food really isn’t better – eat before you leave home
6. Car parking is hideous money at the airport - but taxis can be the highest cost of any business trip, so use the long-term car park
7. Not everyone takes AMEX cards – take your own Mastercard or Visa card along too
8. Hotel TVs never work properly – use your laptop to get the news; but take a dongle to avoid obscene $29 a night internet charges
9. Everyone is grumpy on the flight home – be patient & good humoured
10. There is not enough room to use a laptop in Economy seats – take your own reading material

This is just the first ten things that The Buyer remembered;
… there are many more lessons for rookie passengers to learn from weary business travellers – add your own below:

The Buyer – posted 13th December 2011

# #327 - Category Week the pick for 2012

The new CIPSA Conferences programme for 2012 is inserted in the current issue of PP magazine **www.pponline.com.au** listing the slightly less ambitious programme of 14 major events set for next year 2012 – not the 23 major events delivered by them during 2011. Even The Buyer couldn't manage to attend that many… **www.cipsaconferences.com.au**

A stand out in the programme seems to be the new concept of 'Category Week' set for w/c 28th May 2012 – all the category events squeezed into a single week of bustling activities at the Australian Technology Park [ATP] south of Sydney - on the way to the airport. Seminars on all the top categories, surrounding plenary day on the WEDNESDAY. Optional training courses, exhibition stands and evening events are on all week to choose from. Dropping in and out of the week's programme by subject seems to be the go – judging by the modular pricing scheme.

The Buyer will certainly be attending the widgets seminars for sure. But, surprisingly, that's not the most compelling reason to go. A CIPSA Conferences staffer told The Buyer that "Australia's Next Top Model" will be filming at ATP in the rooms next door to the CIPSA event all that week from 28th May onwards **http://www.fox8.tv/shows/australias-next-top-model/models**
The Wednesday is the 'best day' apparently.

See you there then.

The Buyer – posted 13th December 2010

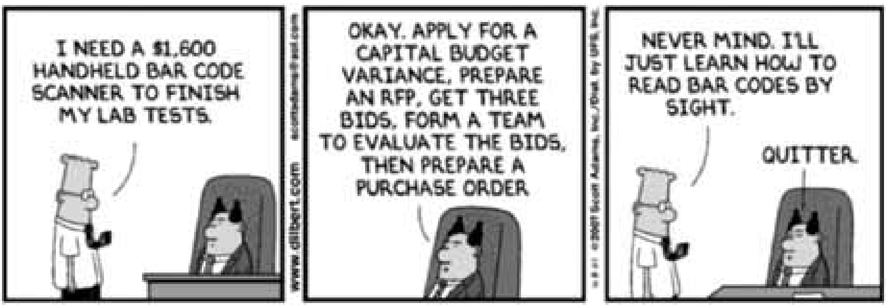
# #328 - Dilbert defines Procurement as the 'order-prevention department'

Everyone in business is familiar with the old business cliché of a "sales prevention department." It is used as a label for unco-operative and ill-focussed teams. Teams that hinder the client, while their focus remains entirely on their internal process & goals - and never on actually meeting the customer need: the antithesis of customer-focussed.

But it seems, having witnessed the malady first-hand and so often, Procurement has learned the trick well and, unwittingly maybe, learned the art of true 'demand management' – making a purchase so difficult, people give up. The "order-prevention department" - abstinence as a virtue even.

DILBERT, as ever, is ahead of the game. And a cartoon strip on his website **www.dilbert.com** illustrates beautifully the old "110 metre Hurdles trick" – as The Buyer's old manager used to call it.

The Buyer – posted 14th December 2011



# #329 - The best joke at the annual CIPSA conference 2011

For a festive farewell, at the end of the year, it seems 'yuletidingly' appropriate to repeat the best joke from this year's annual CIPSA conference:

At the very end of the 7th CIPSA Annual Conference last October, at the close of the final plenary session on Day Two, as has become customary it seems, the biggest prize from the sponsors' giveaways and competitions is drawn from a hat.

This year gold sponsor Fleetcare had donated a Vesper motorised scooter and the 'Top Ten' players [of the arcade driving game on their exhibitor-stand] over the two days were in the hat to win **www.fleetcare.com.au**

Fleetcare sales manager Colin White from Perth did the honours; a man who had joked the day before of being often scarred by impatient corporate senior managers awaiting delivery of their brand new company motor.

"And the winner is ..." barked Colin, "procurement manager ... from Adelaide ... Mr such&such ... " he yelled triumphantly:
The expectant winning delegate leapt from his seat at the rear of the auditorium, as Colin quickly added; ".... Sorry mate, that's eleven weeks ex-works for an Adelaide delivery".

As a public service to conference delegates, the one-legged CIPSA Conferences producer, Mr Nigel Wardropper, posts lists of all official prize winners on **www.cipsaconferences.com.au** after all CIPSA events ...

The Buyer – posted 15th December 2011

PS: The Buyer will be taking a well earned break for the Christmas summer holidays again, and will return around Australia Day to resume the region's finest blog on procurement matters

# EPILOGUE

**Having established The Buyer's Blog as simply the finest blog on procurement matters within the region, in future this blog will now only be available online at www.pponline.com.au and this, the third annual compendium, will no longer be printed in hard-copy format. Back copies may be available in the new CIPSA reference library at their offices in Melbourne, or directly from The Buyer's garden shed.**

**Join The Buyer online only in future to continue to hear exactly why professional procurement matters, and exactly how the fastest growing profession in business is increasingly relevant to daily business life.**

**PS: the final instalment of The Buyer's Blog for 2011, blog #330, will reveal the outcomes of The Buyer's bold predictions for 2011, exclusively online on Friday 16th December 2011.**

A$12.95 inc GST

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