
The Buyer's Blog

Field Guide

2009



CIPS Australia



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For my two young children:
who often played alone on Sunday afternoons whilst Daddy typed



Introduction

The Buyer joined the CIPSA team in January 2009 – just as *Procurement Professional* magazine went online with its e-zine edition on www.pponline.com.au following the appointment of the new publisher, BTTB Marketing. *PP* is the official publication of CIPSA of course.

The Buyer's Blog is an occasional viewpoint on matters relevant to procurement professionals from an anonymous former senior procurement manager with a "naturally biased, but totally justified, opinion". 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.

But, in fact, The Buyer offers an extraordinary amount of pragmatic and workable advice masquerading as flippant comment on current affairs relevant to the profession. Some of the blogs (and the provided links) count as the 'most viewed' pages on PPOne. They are increasingly attracting comment and contributions from others as well – you can email him at thebuyer@pponline.com.au

This compendium of 100 blogs from throughout the last year also, quite by accident, offers a retrospective of the year in procurement. It chronicles the year in procurement terms – the news, issues, questions and recurrent themes close to the profession. The Buyer has his own style too, with a sardonic twist and several pet themes such as the limitations of process, day-to-day ethical dilemmas, practical ways to save money and reduce workload and the dangers of buying and selling for the wrong reasons. Views all clearly born from bitter experience.

Naturally, 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 links, but they have not been materially altered at all and retain their raw and topical edge as intended at the time of writing. Incidentally, some blogs have aged well and proved prescient – others have aged worse and seem clumsy, misplaced or irrelevant when read now. But that's the risk you take when committing yourself to comment – you become a hostage to fortune. It would always be easier not to bother.

More than anything, The Buyer's Blog demonstrates the growing relevance of the procurement profession to everyone.

Jonathan Dutton, FCIPS
Managing Director
CIPS Australia

Melbourne, December 2009

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#1 - The opportunity of falling freight costs

Less than one year ago the oil price was \$147 per barrel and Martin Christopher's 'Cranfield conundrum' asked how will businesses respond to the rising cost of freight and the continual fall in production costs as efficiency and technology inevitably continue to improve? A challenge for CEOs and buyers alike to consider.

But it seems we have a different question now, perhaps even a 'reverse Cranfield conundrum'?

With oil at less than \$40 per barrel and global demand collapsing, the cost of freight is also falling and much spare capacity is now available.

Maersk CEO Nils Andersen has warned of a bad year for shippers with container volumes and freight rates both in significant decline.

Drewry Consultants predict the worst ever year for container shipping, suggesting even the biggest shipping lines could collapse?

Is this an opportunity for buyers to source wider from home, regardless of the risk to security of supply if shipping lines collapse with stock on board?

[<http://www.telegraph.co.uk/finance/4229198/Shipping-rates-hit-zero-as-trade-sinks.html>]

The Buyer – posted 16th January 2009

#2 - Chinese receding growth a cloud with a silver lining for Australian buyers?

The announcement yesterday that Chinese economic growth slowed to a tardy 6.8% in the fourth quarter 2008 has been taken by all as bad news for Australia.

But Chinese growth of 6.8% in Q4 is only considered poor relative to previous spectacular growth rates; it is down from 13% in the same period last year.

Indeed , 6.8% is reported as their slowest growth rate in seven years! China needs economic growth to keep the masses employed and ensure economic [and political] stability – 8% is their minimum target. Of course, growth of 6.8% is a rate our federal government would steal for. Australian economic growth slowed to a crawl in the last quarter at 0.01%. At least it was positive, though. Just.

However, there may be a silver lining for buyers in the context of procuring Australia's finished goods. Cost pressures within China have been growing steadily during the boom time as the rise of the eager middle-classes has put upward pressure on wages. But inflation in China is already down to 1.2%. Maybe lower growth will now suppress wage demands and ease cost pressures on Chinese manufacturers? Added to surplus stock levels and collapsing freight costs, China could be the perfect place for post Christmas shopping for Australian corporates under new cost pressures themselves?

[<http://www.theage.com.au/national/sun-sets-on-resource-boom-as-china-economy-shrinks-20090122-7nwz.ht>]

The Buyer – posted 23rd January 2009

#3 - Buying and selling for the wrong reasons is a slippery slope

One factor not considered in the last blog, was exchange rates. The Aussie dollar has slumped of late – down around 30% against the US dollar over the last few months. Although the Aussie dollar has maintained relative parity with other poorly performing currencies – the British pound springs to mind with the current rate around \$2.11 to £1, rather than the usual \$2.45 of recent years and the glorious \$2.05 of some months ago.

The dollar against the Chinese yuan has also varied; the rate on Friday 23rd January was around 4.46 yuan to the dollar, compared to 6.67 last July – a fall of 33% over six months – making Chinese shopping relatively more expensive offsetting the reported surplus stock levels in China and collapsing freight prices tempting bargain hunters.

But buying decisions driven by exchange rates are not normally best practice. Rates can go down as well as up. Quickly too. Ask any foreign exchange dealer.

Buying for reasons other than commercial merit can indeed be a slippery slope. The Buyer once worked for a large firm that sourced from countries where it had experienced strong sales but little cost. Deploying the locked funds due to local exchange controls seemed sensible at the time. But this is rarely a sustainable scenario. Similarly The Buyer has worked in places where sales directors insisted suppliers purchased our product – and where clients insisted we bought their product as they bought ours. Reciprocal trading brings new complexities and sensitivities which can destroy (or at least distort) hard-earned and valuable buyer-seller relationships. Sourcing from markets where profits are good in order to minimise tax in that market is another wheeze beloved of corporate treasury departments. These tactics can backfire, and are rarely enduring.

Political edicts are harder to escape. Some local councils insist on some local sourcing, with the best of intentions. But manipulating market forces, even locally, can distort good commercial practice and present real dilemmas. Global markets demand global buyers. Having said that, recent events prove markets are fallible after all.

The Buyer – posted 27th January 2009

#4 - Hands up for carbon trading

The announcement by the federal opposition of their preferred carbon trading scheme this long weekend has re-introduced the debate over carbon trading at an interesting time. Everyone is distracted by the global economic crisis or, at least, the corporate and personal implications of it. For a minute there, carbon trading seemed a fantasy for rich times. But it is not going away. Carbon trading will arrive sooner not later and most organisations are just not ready for it.

So, which department has current responsibility for carbon trading in each organisation? The strategy team still? Finance? The CSR team? Shared Services?

Any department that takes long-term responsibility needs good process, commercial awareness, trading skills, a legal perspective and an ability to work to a brief.

Sound like anyone we know?

Sustainability as an issue is here to stay already. No longer optional, nor a compliance issue. Simply, clients (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.

If this is the case, sustainability as an issue could change the fabric of the procurement profession's decision making. No longer will value for money (VFM) hold the high ground of corporate decision making criteria. The sustainable option will need, at least, a reason NOT to be chosen.

If this becomes the case, or even a regular occurrence, then carbon trading and sustainability measurement becomes a natural fit in the home of professional procurement's growing responsibilities.

It is time for procurement to step forward and accept the challenge.

[<http://www.theage.com.au/environment/turnbull-to-go-hard-on-emissions-20090123-7org.html>]

The Buyer – posted 28th January 2009

#5 - The world's shoppers are still buying green

Green Pages [www.thegreenpages.com.au] make an interesting point in their latest newsletter. The world's shoppers are still buying green. Given a choice they often choose the eco option. This is proven of course. Often shoppers' pay a real premium for an organic/green/eco/environmental product. Much research exists – see www.google.com.

But will this still be the case under the harsh reality of a full-blown recession?

Many corporate firms have doubts; they might be wise not to. The temptation to bury the whole 'green issue' when under such obvious commercial pressures is real. To pay lip-service to it even.

But beware, newly elected President Obama hasn't buried the issue, quite the opposite in fact.

The consumers haven't either (yet).

And nor should professional buyers. Remember this is not just an optional choice. It is also a compliance and a risk issue. In future, later if not sooner, consumers will "punish organisations that fail to offer a sustainable choice" as Helen Clark said. She is right.

The Buyer - posted 29th January 2009

#6 - BREAKING NEWS: Large IT contracts blow-out...

Any line manager in any large organisation over the last 25 years will tell you that large IT projects often take twice as long and cost twice as much to deliver as originally intended. And then some.

So why is it a shock for the 'TheTimes' newspaper to report in the UK today that eight of the top UK central Government IT contracts have overspent by £18.6 billion already?

Anecdotal evidence suggests that nowadays most large, capital contracts for most organisations overspend and often fail to be delivered on time? But why? What are we doing so wrong? Why is failure the norm?

There are many reasons of course.

Two of the most common reasons are perhaps that we do not spec the job required well enough, and we do not manage the contract well enough.

The job starts when the contract is signed remember; it does not end then, as many buyers seem to think.

You cannot abrogate your responsibility for risk management over to the supplier.

Just as you cannot abrogate the writing of the spec to willing bidders.

Do we keep failing to learn this lesson so badly?

[http://business.timesonline.co.uk/tol/business/industry_sectors/technology/article5636437.ece]

The Buyer - posted 2nd February 2009

#7 - What is best practice?

The Buyer is often asked to define 'best practice'.

Best practice on a range of tasks and duties for the busy procurement professional.

But the truth is that there is actually no such thing as "best practice".

There is 'good' practice and certainly 'right' practice.

But , alas, no 'best' practice.

That is because an element of 'best' is fitness for purpose.

Best can only be defined within context.

The 'best' that we can do given the scenario we face.

It is still acceptable (and desirable) to draw on others' experiences, on standards, on examples of how others approach similar situations.

Just no universal best solution.

Best is always relative, never absolute.

There are always too many variables.

Best is what is right for you today, given your situation with incomplete knowledge.

And given what we know of how others have coped in the past – if you have taken the trouble to find out that is.

The Buyer – posted 3rd February 2009

#8 - The best RFP ever written...

Any line manager in any large organisation over the last 25 years will tell you there isn't one [see The Buyer's Blog #7].

But there are plenty of templates to start your thinking with.....

1. Start with Paul Rogers' article in the latest FEB 09 issue of *Procurement Professional* magazine [pages 50-51 in PP23] for a practical process of RFP development.
2. And then see the article by AT Kearney's [http://www.atkearney.com/shared_res/pdf/How-to-Write-an-RFP-S.pdf].
3. Then work with the CIPSA RFP template as a start point for your next RFP at [www.cipsa.com.au] under 'CIPSA Professional Resources'.

Then, remember, the best RFP is the one that best meets your needs at that time. The one that works well within your sourcing strategy.

The RFP is a thoroughly objective business methodology. It is a means to an end, not an end in itself.

And not just a process to fulfill....

The Buyer – posted 3rd February 2009

#9 - Procurement's role during difficult times?

Anecdotes reach The Buyer that markets suddenly seem more competitive. Suppliers are cutting bid prices (in one case by 20%) to win business.

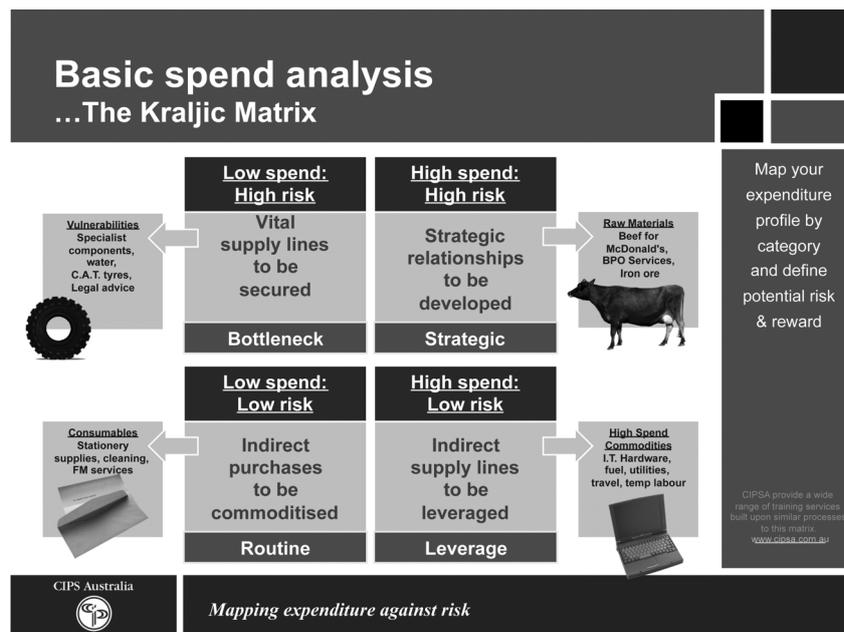
Business they hope to keep through dark times perhaps? Validation of dismal expectations at work maybe?

Other occasional anecdotes arrive of some buyers demanding instant price reductions from vulnerable suppliers.

These raise the question of procurement's best role during difficult times?

To what extent should buyers take advantage of a situation, and to what extent should they take a long-view or resist the temptation of opportunism?

Maybe the old two-by-two matrix, first coined by Kraljic, offers the answer?



See www.cipsa.com.au under 'CIPSA Professional Resources', 'Seven slides for the CEO'.

This 'Boston-matrix' type grid rates spend as HIGH v LOW, and then maps this against strategic risk/dependency.

Take liberties with a strategic supplier now, and a buyer may regret it later.

Beware also that this matrix works in reverse too [work developed first by PMMS].

Suppliers rate their customers as HIGH or LOW revenue and map them against development (profit) potential as clients in the future.

Or against “difficulty to supply” (the hassle factor of supplying them). If you are less than 10% of a supplier’s revenues and, say, over 50% of their hassle, expect them to walk if you try and take liberties.

There are always two perspectives to any supply line, as there are to any story.

The Buyer is interested in examples big and small of procurement’s evolving role during these difficult times.

Please send all your comments to **thebuyer@pponline.com.au**

The Buyer – posted 5th February 2009

#10 - Protectionism makes a buyer's life more difficult

The Buyer's Blog #3 covered buying and selling on the basis of criteria other than technical or commercial merit. Which can be a slippery slope.

But so can protectionism, which is just another way to distort markets.

There are fears that President Obama will facilitate protectionism of US business, at the expense of non-American suppliers (and maybe consumers too) as part of the US response to the economic crisis. The pressure in France by workers demanding preference has been long standing (don't get me started on the EU's Common Agricultural Policy) and has been heightened this last few weeks and months. Now workers are striking in the UK under banners saying "British jobs for British Workers" which further raises the spectre of naked protectionism.

Market forces unchecked have shown their weaknesses this last 18 months, for sure. But protectionism cannot be the answer. It prompts self-interest, tit for tat economics and is the antithesis of the benefits of free trade and the creation of wealth from the first principles of economics dating right back to Adam Smith himself. Co-operation within free markets is the key to wealth for all. 'The Economist' on 15th January 2009 talked of the USA's "vital role in resisting the siren call of protectionism" Its leader on 5th February 2009 went much further, "Economic nationalism—the urge to keep jobs and capital at home—is both turning the economic crisis into a political one and threatening the world with depression. If it is not buried again forthwith, the consequences will be dire."

Buyers trading overseas need to avoid their supply lines getting caught up in acts of protectionism. One more reason to think through the right sourcing strategy for your organisation. Balancing security of supply against value for money whilst making the best of the opportunities that financial downturns can bring buyers in ever more complex markets is the new challenge for professional procurement – whose job gets more difficult by the day.

The Buyer – posted 12th February 2009

#11 - BREAKING NEWS: Aussie buyers sourcing overseas more...

More evidence that Australian buyers are sourcing more from overseas....

Paul Little, Managing Director of TOLL Holdings, gave the keynote breakfast speech at the Australian Logistics Council (ALC) annual forum this morning [www.austlogistics.com.au]. His numeric presentation of the Toll strategy detailed significant expansion and continual investment overseas. When asked, "But why?" he responded, "Because we are following our customers." He added that Toll's top customers include Woolworths, Holden and Ford and that they along with others were sourcing more from overseas, particularly from low cost countries. One example he cited was that over 50% of the components of both Commodores and Falcons were now sourced in China. He also described current logistics issues out of Vietnam eloquently.

Low cost country sourcing is alive and well and still growing exponentially. Australia is no longer an island. It cannot afford to distort markets by preferring local markets through nationalism; even the Industry Capability Network (ICN) agree that much. There is a role, however, for minimising risk or basing purchase decisions on criteria other commercial or technical merit. 'Better, faster, cheaper' may not always be your organisation's top priority?

The important thing is that all factors within a sourcing matrix are considered. And that the best solution is chosen to meet your organisation's strategic needs at that point in time by balancing your policy goals with some trade off between commercial terms and security of supply – within ever more complex markets.

Unless of course your goal is nationalism itself, in which case it's fine to just buy local.

The Buyer – posted 13th February 2009

#12 - When to accept gifts and freebies

News from the UK is that senior public servants are in the frame for accepting lavish hospitality, freebies and gifts from leading suppliers [www.timesonline.co.uk, 13th February 2009]. It would never happen here of course – Australia is the probity capital of the world.

But, when exactly is it okay to accept such things from vendors, bidders or suppliers? And when not? Are professional buyers subject to more stringent rules than internal clients and users? Does it matter what stage in the process your purchase decision is at?

Many organisations have different rules. But the principles behind all of them rarely change. CIPS expect all members to sign the Institute's code of conduct [www.cips.org] which includes such principles. A primary requirement of a professional procurement approach is always thorough integrity, at all stages? And to lead by example, to show not only cost leadership but transparent integrity. To declare any conflict of interest openly.

But that does not mean accept nothing, ever. Such steadfastness can appear petty-minded. No one seriously suggests that a professional buyer can be swayed by the gift of a new branded ruler or a ham sandwich at lunchtime. But where is the line?

The Buyer worked for a company that set a limit of accepting things worth less than \$50.

Then that any hospitality had to be repaid one-for-one to the same level.

Then the definition changed to accepting "desk top trivia" only.

But when you climb the tree, it gets harder to apply petty rules.

And internal clients, especially senior ones, feel less bound. At the end of the day, it always comes down to judgement, and, crucially, collective judgement at that – not just your own judgement.

What do you feel comfortable (not justified) accepting and what not?

- A good descending test is whether or not you would;
1. Be happy for the boss to know?
 2. Feel comfortable defending it to both your boss and their boss too?
 3. Mind the rest of the team in the office knowing?
 4. Be happy for it to be on the front page of 'The Age' or 'The Australian' newspapers or a story item on 'A Current Affair'?

No, thought not.

The Buyer – posted 13th February 2009

#13 - Procurement team size to spend ratios

Is there a firm relationship between spend and productivity, The Buyer is often asked?

How can I justify more staff?

Is there an ideal expenditure number that one person should look after?

How much should each individual procurement professional in the team be allocated to spend?

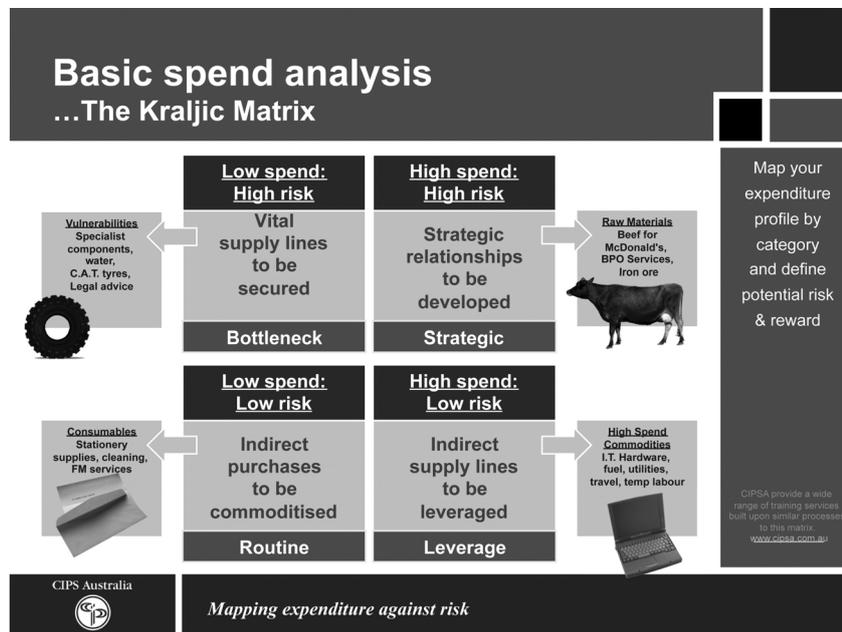
Is it \$1m or \$10m or \$100m or more?

Well, of course, it depends.

Buying 50 million pencils is much easier than buying \$50m worth of plant & capital machinery.

There is a loose relationship between spend and productivity, but a far greater one between both RISK [or dependency] and COMPLEXITY of the purchase.

The correlation can even be mapped. Start with the old two-by-two Kraljic matrix of spend v risk [or dependency].



Buying low spend/low risk commodities is easy, and is often best 'outsourced' by whatever means.

Buying high spend/high dependency supply lines can be life or death for a business.

Imagine McDonalds without beef for a day or two, or Ford without components, or a manufacturer without raw materials?

The potential downside dwarfs the potential savings that can be made in these areas from any slap-dash procurement approach.

Such dependency needs time to be managed carefully and professionally.

The Buyer visited one procurement team in Brisbane that had four professionals managing \$150m worth of raw materials purchasing. One other procurement professional managed all the indirect spend alone – over \$350m!

But without the raw materials they had no business at all.

But there is one other way of justifying staff numbers from first principles. Bottom up, as it were:

Employing a base procurement professional from scratch might cost \$75k say, plus on-costs around \$100,000 pa, or more. So what might a reasonable RoI be on such an investment?

Would it be fair to say that such a person should pay back more than they cost in year one?

So, more than \$100,000 in direct savings; a [high] 10% savings rate suggests a spend of over \$1m. A 1% savings rate, a spend of over \$10m.

But beware, saving 10 times more than you cost sounds great.

But to save \$1m, you need to achieve a very high 10% savings rate on a spend of over \$10m.

Or, more realistically, a 1% savings rate on a spend of \$100m.

Tweak the figures yourself to work your own algorithm, cost v RoI.

You really should be able to convince the boss that it is a compelling case for investment. Then all you have to do is measure the savings well enough to prove you have hit your target.

The Buyer – posted 17th February 2009

#14 - Water and the role of natural resources in the supply chain

Useful stuff water. There is plenty in Queensland, and now in NSW following yet more debilitating floods yesterday. The dams in Tasmania are often around 85% full, or even more. But not in Victoria, with dams now below 32% and being pumped out to avoid pollution from the bushfires and Melbourne perhaps on the edge of revising the stage 3a restrictions currently in place? Stage six water restrictions exist in some parts of Queensland, even though other parts are flooded.

Moving water from where it is, to where it is needed has occupied governments here for some years. And will for some more.

Australia is a desert island surrounded by the planet's largest ocean. Do the maths. Desalination is an imperative thinks The Buyer, despite the NIMBYs.

Nevertheless, water demand will grow and grow as the climate builds. When will we reach peak-water?

Moreover how long will it be before the private sector take matters into their own hands? Water is an essential resource, and thus has a real and quantifiable value. It is a strategic supply line for many businesses, for many supply chains. Will it become a tradeable commodity like oil? It already is in parts of the Middle East of course.

Today, the more compelling question facing the procurement profession is should buyers be planning ahead and incorporating private solutions into their security of supply plans? Is it time to stop taking water for granted? Should it impact buyers' sourcing decisions? Is it safer to buy products needing mass water in production from suppliers and sub-contractors in lands of plentiful water rather than parched locations?

And, how long before the water problem reaches other resources? Electricity blackouts grow more common in parts of Australia, not less. Gas supplies to most of Europe were turned down recently during the Russian-Ukrainian dispute. The oil tanker drivers' dispute in the UK some years ago left petrol pumps dry whilst diesel supplies flowed normally.

Professional buyers should be thinking the unthinkable more, and considering a macro-economic context for their personal supply chains scenarios.

Surely it is all part of a risk management approach to strategic procurement nowadays?

The Buyer – posted 18th February 2009

#15 - Two part bidding, a process too far

A government "twin-bid" tender in Africa caught The Buyer's attention recently:

Bidders had to submit their tender in two parts; one sealed bid covering the technical solution & spec compliance, and a second sealed envelope separately containing the price and commercial terms. This two-part bid process demanded that only the first envelope to be considered by the decision-making unit. Only when the technical solution was deemed acceptable, was the second envelope opened and considered and a decision made. If a bidder's technical solution was 'unacceptable', then the price envelope was returned to the vendor unopened.

A perfect bidding process to ensure fair process and minimum opportunity for 'corruption', or a process too far? Maybe in some markets this approach is needed as impartiality and technical competence outweigh risk. But it is hardly a process to facilitate good judgment and the best possible solution for all stakeholders in mature markets.

The best outcomes are achieved when there is a solid match between buyer-need and seller-provision. That match needs communication as the glue. Buyers and sellers working together, often against the common enemy of waste. The buyer's idea of need plus the seller's idea of solution make a third common idea that is better than both. For a better outcome.

Layering more and more process into purchase decisions slows things down, the buyer, divorcing them during the process, leads to poorer outcomes, not better outcomes. Including them, asking their advice and working together to match the need and the solution work for everyone. And in that situation it is the professional buyer's job to make sure the buyer always gets the right solution with the right deal.

The Buyer – posted 2nd March 2009

#16 - Procurement process must not block government economic stimulus package

The Government stimulus package of \$42bn to be injected into the economy aims to reflate demand quickly.

But complex procurement can take time to get things right; time the government doesn't seem to have. A senior procurement manager from a large public sector department said to The Buyer, "We simply have to spend ten times more than usual in half the time. We are under clear pressure to do so.

And never mind the process, spend the cash is the message. Before year end."

But maybe speed has its own benefit sometimes? Maybe process can just get in the way? Is process sometimes just a substitute for a lack of confidence; or even a substitute for buyer judgment? Sometimes 'speed' is the benefit the stakeholder needs from a purchase, even more than the product benefits themselves.

Entrepreneurs think if you get things wrong at least you can put them right quickly if you are moving at speed. Maybe there's a broader lesson for procurement here, especially in the public sector?

The Buyer – posted 3rd March 2009

#17 - Pacific Brands: A make or buy procurement case study

Sometimes all the components of a decision to 'make or buy' cannot be fitted neatly onto a spreadsheet.

Sometimes there are other factors to weigh, often factors outside the procurement team's influence.

The negative PR that Pacific Brands have received since deciding to close a local factory with the loss of 1,850 jobs could have been anticipated. But perhaps not the full scale of it, given the circumstances and timing at a crucial point in the evolution of the financial crisis impact in Australia; and, in the end, it didn't help being 'chosen' as an example by the Treasurer back in December during the "socks n jocks" radio interview. In that respect, perhaps Pacific Brands have been unlucky? Especially if consumers start to avoid buying PB brands such as Bonds, Dunlop, Playtex and King Gee [a previous sponsor of CIPSA activity] in the shops in protest.

In defence of PB, a CEO package of \$1.86m is relatively low given the size of the PB business. And many other Australian manufacturers now offshore their manufacturing. Indeed PB are already probably the largest Australian buyer of apparel from sources throughout the Asia/Pacific region. And they already have their 'own' factory sources in China.

But then not every manufacturer who is offshoring has had government grants, subsidies and support over recent years to purchase capital equipment in Australia, ostensibly to save Australian jobs. Perhaps PB should not have taken the government support, or at least not be thinking of exporting any such government funded machinery to other plants as they are allegedly considering. Although we do not know the exact terms of the government support for PB in the first place, do we? And, maybe, if PB fail to address this cost issue locally now, the ramifications for PB and its other remaining employees could be graver down the line?

The learning point for procurement though is, once again, that buying (and selling for that matter) for reasons other than commercial and technical merit can be a very slippery slope. But also, that non-cost issues that do not readily fit onto a spreadsheet can end up being far more expensive in the long run than the apparently compelling cost savings of a simple 'make or buy' purchase decision at the time. Plenty of others have also learnt this lesson in the past. Increasingly the sphere of factors to be considered by the procurement professional in any 'make or buy' decision grow ever wider and ever more complex.

And especially if the spectre of protectionism grows stronger...
[see The Buyer's Blog #10].

The Buyer - Posted 10th March 2009

#18 - Why the best professional buyer often doesn't get the CPO job

The recent announcement [SM magazine 19th Feb 2009] that Tim Richardson is set to replace Paul Alexander as CPO of British Airways in London is doubly rare.

Both are genuine procurement professionals of many years standing and experience in the profession.

The three previous CPOs at BA prior to Paul Alexander had little procurement experience before taking the top job in the team.

All too often the CPO role in major organisations seems not to go to the best qualified candidate, usually the top procurement professional within that department. Anecdotally it is often an 'outsider' with a deeper business background or a broader experience from within that particular organisation gets the CEO's vote for the job. The question is why?

Perhaps it is because they are more trusted to take an even viewpoint in the wider interests of the business?

Maybe it is because the CEO sees procurement professionals as too purist?
Or too process reliant?

And that some more experienced and wider judgement is needed to get the right outcome for the business, rather than make the right decision for Procurement?

And hopefully that is starting to change now.....

The Buyer – posted 11th March 2009

#19 - Why not publish a detailed list of all public sector contracts?

'The Economist' recently suggested that putting government spending online is a good idea ['Track my tax dollars', 7th Feb 2009, page33, <http://www.economist.com/>].

They report that as part of good US open government under the new administration, lists of all public sector contracts with key details should be openly published. They cite one freshman Senator Obama, who sponsored a bill calling for an online database of federal contracts and awards way back in 2006. Some 20 states in the US now publish just such a list apparently; the paper lists some good (and bad) examples.

Australia does patchily. Is it time to reveal more maybe?

[<http://www.tenders.sa.gov.au/tenders/related-sites.vm>]

The Buyer – posted 12th March 2009

#20 - Tender boxes for the chop

The Buyer recently visited a large, impressive organisation with a big reception lobby and high ceilings. You know the sort of place. To one side of the spectacularly long reception desk, a tradie stood back to admire his work. A two metre high shiny new cedar wood tender box. Bizarre.

In this day and age, the age of e procurement and reverse auctions, whatever are they for? To convince stakeholders of great probity?

Really, because we put ring-binders wrapped in brown paper in a big box?

Can we not just e-mail in bids? Or mail them in if they are in hard copy? Or hand them/courier them direct to buyers?

They are less secure in boxes in reception than they are on a buyer's desk – or in the locked gold filing cabinet we had in our old buying office – in 1986.

We don't need tender boxes in 2009.

They are symbols of sanctimony, small mindedness and antiquated process - not probity.

The Buyer – posted 13th March 2009

#21 - Corporate collection of frequent flyer points can be churlish

In the old days travel managers knew how to cut costs - through stronger travel policy (no business class under 4 hours & fixed not flexible tickets) rather than tortuous searching of the fares database. But in good times resolute senior executives have resisted.

So travel managers had to develop innovative ways of improving professional buying in the strange world of air travel. In some ways it is a perfect market, with over one million fares available at the click of a mouse through the CRS's. But there always seems a cheaper fare somewhere - if you keep looking; especially with the help of the internet. And state of the art travel management has improved markedly in the last five years or so, offering more elaborate ways to save.

So it is little surprise now then for the old chestnut of attacking the corporate travelers' collection of frequent flyer points to come around again. Travel managers used to fantasise about collecting them off their humble travelers as far back as the early nineties. But they found the idea completely impractical and in the face of resistance from travelers and airlines alike they dropped it.

Frequent flyer programmes exist because they reward the real customer. The person that exercises choice, not the mug that pays the bill. A bit like The Buyer's daughter choosing to buy things at 'Toys R Us', and stupid Daddy compliantly paying the bill. The key with marketing air travel is to understand what is truly driving the real customer to decide on a carrier (schedule, product, service, price, points?) and to incentivise it profitably. It is that airline investment in points that corporate buyers want back.

But nowadays most airlines available both ex-Australia and intra-Australia offer a decent enough product thanks to the 'me-too' world of airline marketing. Effectively turning the products into commodities. And prices are often close thanks to the IT enabled 'perfect' marketplace. So, points, after all, are making a difference today. So much so, that Qantas are often reported to be considering hiving-off their FF programme and taking it public in itself.

Now times are tough, maybe FF points are fair game for organisations then? The federal Government seem to agree. The Dept of Finance & Deregulation announced late last week ['Herald Sun' 14th March 2009] that they are collecting frequent flyer points earned by federal employees on government funded travel centrally.

"Frequent Flyer Points, where awarded for official air travel, are not to be used for private purposes" says Finance Circular No. 2008/02.

[http://www.finance.gov.au/publications/finance-circulars/2008/docs/Finance_Circular_2008.02.rtf]

But using typical economy fares, it takes around ten return trips from SYD-MEL to earn enough for a single free trip. That is a lot of collecting. It hardly seems worth the trouble. Yet 'buy ten, get one free' is actually a 10% discount. Well worth having on a federal travel spend likely to be well over \$100m. And one business class flight to Europe can give you a free interstate trip with the points awarded. Tempting savings.

But the few frequent flyer points collected for interstate trips are scant compensation for the humble corporate traveler who often has to rise at 4am for a long day trip; returning home by 9pm at the earliest. Typical flying execs do not get overtime. And the glamour of interstate air travel wears off very quickly; especially when over-night trips are rarer nowadays as people avoid expensive overnights in SYD [up to \$350 per night in the city] in favour of a cheap flight home [\$104 one way].

Surely tired execs doing two days work (17 hours) in a single day could be allowed to pocket a humble 2,000 points per trip as scant compensation for such commitment? (They can be worth as little as \$25 in reality).

Especially in organisations without a tempting critical mass of savings. And most jobs requiring interstate travel require it two or three times per month, not once in a blue-moon. Doing those hours it seems at best churlish and at worst small-minded to harvest FF points off for the good of the company at the rate of ten to one.

The Buyer – posted 16th March 2009

#22 - BREAKING NEWS: Collaboration gets better prices

The maxim 'the bigger the volume: the better the price' has been at the very heart of buying since before Roman times.

The laws of physics apply even to buying things in the relationship between fixed and variable cost elements within the production of almost all goods and services. Collecting requirements together to build volume to get a better price was even a gambit successful enough to build a new profession upon – procurement.

So, why, oh why, do we still have people left to convince that collaboration across departments (let alone organisations) is worthwhile?

The sum of the whole can be so easily greater than the sum of the parts.

In the public sector, agencies too rarely work together on collaborative purchasing projects even within the same state frameworks. Common use contracts are often optional.

Whole-of-government contracts are rarely that. In some state jurisdictions there are even laws limiting local and state government collaboration.

In the private sector, 'competing' departments in firms can ignore each other for petty turf-warfare reasons. Group subsidiaries, SBUs or brands within the same group commonly avoid each other to avoid perceived long-winded purchasing processes or to avoid risking unpopular decisions or even for fear of slowing down business developments.

The Buyer – posted 17th March 2009

#23 - The GFC is an opportunity for procurement... but maybe not with job security?

"Cost has been off the agenda for quite some time; it isn't now" said a gleeful procurement consultant in The Buyer's office the other day.

So, is it the perfect time to join the procurement profession? Obviously, organisations will be investing in procurement now? Won't they?

Well yes, and no.

Procurement has to step up and meet the challenge that the economic climate and their organisations have presented. No one gets a free pass at times like these, despite a job title suggesting their time has come. Everyone has to add value, especially procurement.

Like it or not, the GFC presents an opportunity for procurement. To show the full value of its proactive and strategic approach to the common business of buying things. To demonstrate that professionalism and preparation can make a real difference at a critical time for their organisation by turning opportunities into realities and, at the same time, managing the very real threats facing their business from the supply side.

Also, this is a chance to seize this opportunity in the right way; with an eye to preparing for the future with structural and strategic change, but by doing it without taking liberties with suppliers or looking callous or, even, mercenary. Professionally, but with respect. This isn't the time for table-thumping. Often, at times like these, compassion can have a business case – keeping a vulnerable strategic supplier afloat for instance.

But failure to grab this opportunity could highlight a double-edged sword. After all the griping over exclusions in the past, it is surely time for buyers to prove their worth. Failing to do this now could well lead to one's own exclusion!

The Buyer – posted 31st March 2009

#24 - The Top 3 issues that UK procurement professionals face today...

By common consent the GFC has hit hard in the UK.

The G20 in London today will attempt to solve all the world's economic problems in a day.

No worries.

But UK buyers face down-to-earth problems of their own from behind their buying desks.

The Top 3 seem to be;

1. SUPPLIER LIQUIDITY = keeping suppliers going, especially blue-collar based ones & SMEs with order-flows, flexibility & supply chain support
2. PRICE VOLATILITY = managing yo-yo pricing, especially for raw materials, eg; oil, copper, zinc, iron ore, gold, gas
3. CREDIT LINES = helping supplier cash-flows (as well as their own), especially paying promptly, providing guarantees, even offering credit where banks won't

A lack of empathy with suppliers now, could cost you more later down the line.

The Buyer – posted 1st April 2009

#25 - How many companies seek to slash cost during a downturn

....they let people go.

But letting people go is only a saving once.

Also, they inevitably end up re-hiring people when the cycle turns.

However real, lasting and structural cost reductions are available within the supply chain.

You just have to invest in finding them – through professional procurement activity.

The Buyer – posted 2nd April 2009

#26 - Why you should never, ever, fiddle your expenses; even a bit

In the old days, in some quarters, it was almost considered part of one's overall remuneration package to fiddle your expenses.

Thereafter, it was often viewed as good sport.

Latterly, it is considered theft really; certainly gross misconduct and grounds for dismissal. (Except for politicians of course).

So why o why risk tweaking your expenses to make an extra \$10, even a quick hundred bucks, and risk so much?

In the context of any annual package, you risk a lot to gain very little.

Say you earn a healthy package of \$100,000 pa...

On the upside, a \$100 unearned gain would only be an annual increment of 0.1%. Not much of a gain really.

The downside could be a 100% loss, of course. \$100,000 lost (there's no pay off when dismissed for gross misconduct).

Fiddling your expenses could therefore be the worst investment you ever made.

Do the maths. It is a shockingly bad RoI.

The Buyer – posted 3rd April 2009

#27 - 2009: The year of the CFO...

Long ago, way back in November 2008, 'The Economist' uncontroversially predicted that 2009 would be the year of the CFO. [www.economist.com 19th Nov 2008].

[http://www.economist.com/theworldin/displaystory.cfm?story_id=12494665]

They were right, of course.

CFOs have the power now. Cost has not been on the agenda for some time during the boom years. It is now, for sure.

Cash first, cost second, value third are the current priorities of most CFOs. And they will be for a while yet.

You have been warned.

The Buyer – posted 5th April 2009

#28 - Do you know exactly who is supplying you?

The revelation in 'The Age' today [6th April 2009, www.theage.com.au] that a contractor working for the Dept of Defence has neo-Nazi links raises a real question for procurement people..... do you know exactly who is supplying you?

Google-ing interview candidates has long been standard practice for some large HR departments, or smart recruitment firms. (Though not for VIC Police at the time, when allegedly they hired a 'gangland-girlfriend' in the police records office).

But who are your suppliers really?

How far does your supplier appraisal process take you; further than Google?
Or Facebook?

Does your organisation face real reputational or actual risks in the supply chain that need to be covered up front?

Ultimately, there is only one question to answer though

How much effort do you reasonably expend considering the possibilities and contingency planning, given the real weighted risk to your particular organisation?

The Buyer – posted 6th April 2009

#29 - National Broadband: A simple case of make or buy?

Buyers always have the right to not select a bidder when tendering. Although it is always good practice to remind bidders of this option in the RFT.

That said, most bidders find such a move disingenuous at least.

Of course, the federal Government had already dropped a hint of decisiveness by dropping Telstra as a bidder during the process for non-compliance last December. It's always a tough call to drop the market leader from a tender process for non-compliance. It is common sense to find a way to get as many bidders to play compliantly as possible; to maximise a buyer's options and keep the air of stiff competition. But maybe it suited their agenda at the time; or Telstra's perhaps?

Nonetheless, the remaining tenderers may have thought they were in with a real chance of winning the tender. Even one week ago there was no hint that the Government would choose an 'in-house' option = to make their own broadband network. But, since that is the reality in Tasmania currently, it is not quite so far fetched really.

But if the bill fails to pass the senate, do the Government have a Plan C? Since the in-house option already looks like a hasty Plan B.

If Plan C looks like a policy U turn back to the market, they may just find one of two things;

1. Spurned bidders circling like sharks, maybe even including a chastened but reinvigorated Telstra?
2. No vendors willing (or able) to play, as credit markets have further tightened and financial backers feel no obligation to continue support.

In either case the buyer would be in a difficult position. Playing the market is fine, but a professional buyer's first responsibility is always security of supply. And, at that level, the government may just fail to deliver if they cannot get the bill through the Senate.

The Buyer – posted 8th April 2009

#30 - How entrepreneurs cut costs...

"It is amazing how much cost you can save, just by signing off every Purchase Order yourself as the CEO."

Richard Branson – March 2009

The Buyer – posted 9th April 2009

#31 - How to work with your CFO during difficult times...

The CFO is always a key position of influence in any organisation, but doubly so during recessionary times [see The Buyer's Blog #27].

So now is the perfect time for procurement professionals to win ground-breaking support from their CFOs as COST makes its way back up the corporate agenda after being off-the-agenda during the boom times of recent years.

The Aberdeen Group report from way back in November 2007 highlighted the perception that the CFO and the CPO are often on the same page, but too often speak a different language. There are many useful insights into the CFO's perspective on procurement in this report [www.aberdeen.com].

Also, The Faculty have spoken more than once at CIPSA conferences on how to speak Finance-ese [www.thefaculty.com.au/cpa/htm/htm_home.asp].

They are worth a second read, just at the moment. In fact, professional procurement people could usefully read them every Monday morning!

Now is the time to make a friend of your CFO.

The Buyer – posted 15th April 2009

#32 - Procurement is a profession, not an industry

Time and again, people incorrectly refer to the practice of professional buying or purchasing or, even, strategic procurement as an industry.

It's not.... it is a profession.

A young one compared to the great professions, for sure, but a profession nonetheless.

And, perhaps, the fastest growing profession in business even – see the article in 'Procurement Professional' magazine issue [PP13, JUNE 2007, pages 12-14, www.pponline.com.au].

But it is not an industry – supply chain is an industry, procurement is a profession.

The Buyer – posted 16th April 2009

#33 - The real point of signing limits...

Most organisations delegate absolute authority to individuals through the imposition of monetary signing limits.

In the old days, buyers compared their signing-limit and total spend as ego-measures. How much do you spend big-boy??

Nowadays, things are a little more sophisticated. Decision-making units (DMUs) are at work as a symbol of teamwork and internal partnerships between stakeholder departments in most large and mature organisations. So what is the point of individual signing limits in such an environment?

Traditionally, they are a useful anti-fraud tool by preventing too much power in too few hands.

Old systems aimed for a three-way match, Eg; PURCHASE ORDER _ DELIVERY NOTE _ INVOICE matched in the bought-ledger department to authorise payment. ERP systems, P2P systems, e-procurement systems and even basic stock control systems can do this today.

But the chances of fraud are low, as are the costs in the grand scheme of things. So, again, what is the point of signing limits still in this day n age?

Well, simply, they provide a vehicle for an objective business assessment rather than just an administrative hurdle to overcome in the dash to get the order out of the door for speedier delivery. If they are used properly that is

Buyers rarely have absolute authority – perhaps only for low-limit spend. Usually the internal client signs a requisition [an RTP form in old language – a Request to Purchase form] to confirm a requirement and specify it. The buyer signs the purchase order, and the user signs to receipt delivery = a three way match. The aim was always that a buyer could not sign-off their own work, eg; regularly working on six figure purchases with only a five-figure signing limit. There was method in the madness in the old days – all your work ended up on the procurement manager's desk one way or another.

But the more complex a purchase, and the more people to get involved in a purchase, the more they become confused as to WHY exactly they are required to sign-off on a purchase. Their hubris takes over. They easily & quickly forget their true role, and feel they are asked to approve or disapprove a purchase based upon only their own magnificence and great wisdom. Do I agree or not? they think. They forget their role in the DMU = in the team. This is most obviously the case with capital expenditure and the old Capital Expenditure Sanction process (the 'CAP-SANK' form in old language).

Everyone required to sign-off on a capital purchase has a specific role to play. Collectively they form a DMU for their organisation. Most have the power to say NO. Very few have the power to say YES. This concept is covered extensively in sales textbooks ... such as 'Strategic Selling' [Miller & Heiman 1973 – www.millerheiman.com] where sales people learn to circumvent this exact buying process at work in most organisations. Sales people are taught people-buy-from-people, but increasingly nowadays they buy from processes too!

To illustrate, here is a list of typical roles and the deliberate and objective business assessment each should bring to bear to form a DMU for a significant capital expenditure item; simply scale back the approval authorities & requirements for smaller purchases, but the principles are the same, for both capital & revenue expenditure;

JOB [job title]	ROLE [signs to confirm ...]
Sponsoring client manager	<i>I was asked to arrange this purchase and confirm the solution is what we need and we will get</i>
User representative/manager	<i>We buy-in to this investment and will strive to ensure the benefits as stated will be captured</i>
Head of client department/business	<i>There is a business case that supports this purchase for this organisation</i>
Finance Manager	<i>We have the budget and have allocated the expenditure and budgets necessary</i>
CFO	<i>We can afford to spend this money at this time and have the cash to pay on time</i>
Procurement professional	<i>I did this work and followed due process in sourcing, contracting and procuring this solution</i>
Procurement manager	<i>The level of work invested in this project was sufficient to ensure procurement policy & standards were met</i>
Risk manager	<i>A risk analysis has been completed and a plan in place including adequate contractual protection & insurance</i>
General counsel	<i>The required contractual protection is in place and adequate for this purchase</i>

Not every purchase needs this level of buy-in and professional support. It is unworkable for small sums, though essential for capital expenditure. But it represents best practice for the right purchases. Use the old 2x2 Kraljic matrix [see The Buyer's Blog #13] to decide which purchases need what level of professional consideration the high spend/high risk top right box is a good place to start of course.

The Buyer – posted 17th April 2009

#34 - What salesmen read...

The best sales text book ever written of course

...‘STRATEGIC SELLING’ by Miller & Heiman 1973

[www.millerheiman.com]

It should be compulsory reading every Monday morning for all procurement professionals. It teaches so much about the professional buying process in most large organisations.

They also read....

...‘HOWTO WIN FRIENDS AND INFLUENCE PEOPLE’ by Dale Carnegie 1934

[<http://www.coop-bookshop.com.au/bookshop/search/combined?q=dale+carnegie>]

You only need to read the first three chapters – should take around 30 minutes.

It will help procurement professionals improve their own influencing skills enormously.

The Buyer – posted 18th April 2009

#35 - What the CEO still wants from procurement...

Last year, one of the best conference speakers you'll see explained exactly what a modern CEO wants from procurement at the The 2nd CIPS NZ Strategic Procurement Forum in Auckland on 12th June 2008.

It is still massively relevant, if anything more relevant than before given the opportunities facing the profession during this GFC.

The Buyer managed to obtain a tape of the speech. Procurement professionals should re-read this verbatim quotation; every Monday morning if they are to get on the CEO's radar – and stay there!

"I will tell you what the CEO wants from their procurement team in future:

Firstly, I want to see you, to see more of you; you're too low profile, we need you to get more involved and get engaged, get out more and understand the strategic business challenges we face more.

Secondly, I wish you invested as much in your soft business skills as you do in your hard professional skills, and,

Thirdly, I want you to be leaders & influencers in your businesses... to make a difference. To help build our... future."

John Allen, CEO, NZ Post

The Buyer – posted 19th April 2009

#36 - Why buyers and sellers need to work together more...

First, a quotation;

“Eighty per cent of the value of a car is with the suppliers, and our suppliers throughout the United States also service GM and Chrysler. So it’s very important, since we’re so interdependent, that all of us move forward together.” Alan Mulally, CEO, Ford. Quoted in ‘Time’ magazine 4th May 2009 (a former Boeing executive, by the way).

Naive or practical? US protectionism or just cars v other modes of transport? Collaboration or collusion?

In any case, an illuminating quotation. And perhaps endorsing something The Buyer has felt for some time, that buyers and sellers will certainly have to work together more (and less as adversaries) in the future against a common enemy – the common enemy of waste.

The supply chain is a very long thing, and there is still much waste in every supply chain. Too much waste. And most of it is hidden in the links along each supply chain. In fact it is supply chains that compete against each other, rather than suppliers. And when a weak contributor to a supply chain is identified it can be replaced, and will have to find another supply chain to belong to. Prof Stephen Starling [formerly at University of San Diego] highlighted this concept in the very first CIPSA annual conference, way back in November 2005.... You can download his presentation slides and accompanying paper.

Traditionally the end consumer rarely cares who is in the supply chain that supplies them; this is changing now as sustainability, socially responsible concerns, risks, accountability, governance and ethical concerns grow. One way for a supply chain to manage this growing requirement is for organisations to work together more; as part of the same team, collaboratively even. And not just for the greater good, but for themselves too – lest they want to find a new supply chain to play with?

The Buyer – posted 4th May 2009

#37 - BREAKING NEWS: Less suppliers means better deals

The news that SONY are to reduce their supplier base by half and their purchase costs by 20% over the next two years as part of their restructuring package after reporting their first loss in 14 years is certainly timely [<http://news.bbc.co.uk/1/hi/business/8060761.stm>].

In fact, most large organisations have too many suppliers. And their numbers often seem to keep growing. SONY quote theirs at a surprisingly low 2,500, with a new target of just 1,200. A common figure quoted is that large organisations typically have around 15,000 suppliers – and could probably get by with a mere 1,500 or less. Suggesting real aggregation and price benefits of course. Though supplier rationalization can be a big job and it can divert professional procurement teams away from the more critical strategic supply lines to merely rationalize the stationery suppliers.

But supplier base management can work both ways remember. Sometimes it pays to have diversity in supply lines – for geographic convenience, non-commercial reasons or simply to ensure security of supply? But no one truly doubts most large firms have too many suppliers.

One thing is for sure. The SONY procurement team have their work cut out for the next two years. Large company restructuring plans, like acquisitions, often entail senior executives announcing large target numbers to achieve. Usually with the word 'savings' or 'synergies' after them. Which the procurement teams then spend two years chasing to please expectant shareholders. But the reality of falling prices in a tight market full of technical innovation ensures that these targets are a commercial reality.

The Buyer – posted 21st May 2009

#38 - National Broadband: How to save \$43bn quickly...

Given that Telstra have a new Chairman & CEO now, maybe the Rudd Government might try to re-start discussions with Telstra over the delivery of the new national broadband system?

Taking the 'in-house' option following the NBN tender exercise was a brave step by the federal Government. Very brave given the federal Government's lack of obvious credentials as a national broadband 'supplier'.

Of course, this was never the intended outcome at the start of the process. Taking the 'make' option in any 'make or buy' study can often designate the buyer as the supplier-of-last-resort. But, if circumstances have changed there is no dishonour in returning to the negotiating table; only pragmatism.

It may be especially wise to talk to the bidder originally considered the favourite, given the changing economic context for such an expensive project in the context of a growing federal budget deficit. \$43bn is not to be sniffed at. It is much more than Australia spends on defence each year. Whilst the government would still have to 'buy' or 'co-fund' a solution, using a proven supplier may eventually prove much less costly than the expected 'home made' solution budgeted at \$43bn over the next eight years (without over-runs and blowouts).

This is a chance for the federal government to demonstrate that they are not hostages to procurement process. When an unsatisfactory outcome is the result of a defined process, it is permissible to change the process. It is also okay to recognise things have changed (growing budget deficit & a new leadership team at Telstra) and re-run a truncated process with the benefit of improved knowledge gleaned from the original process.

The private sector often do it – if the process delivers the wrong result, change the process.

The Buyer – posted 9th June 2009

#39 - The price of a bribe

The news today that a professional buyer at NSW Railcorp apparently admitted soliciting a bribe from a supplier still comes as a shock [<http://www.smh.com.au/national/you-caught-me-admits-railcorp-manager-20090615-casx.html>]. Such instances are rare in the procurement profession despite the obvious temptations and possibilities. Even during the challenging economic times.

But, if convicted, it may prove to be the worst deal this buyer ever made. The buyer in question faces the prospect of a significant sentence and criminal record, loss of his job at Railcorp, maybe his house and family and possibly the loss of even more. Not worth \$50,000 is it? Or even \$200,000.

The Buyer – posted 16th June 2009

#40 - Politics and procurement

As President Jed Bartlett was told by Leo in 'The West Wing' TV show, "All politics are local, Mr President"

So it is naive to think that governments' procurement policies will not be used as instruments of policy. In fact, it is often that case that they are. And 'buy local' policies are a familiar example of this – the latest example being the NSW Government's "Buy Australian" preference included in the NSW budget. Quoted in the SMH today... [<http://www.smh.com.au/national/us-and-eu-raise-concerns-on-buy-australian-policy-20090616-cgk9.html>].

This may set the NSW Government and the federal Government on a policy collision course. The federal Government, along with many others, is committed to fighting protectionism [see The Buyer's Blog #10]. The move by NSW is at best an embarrassment and at worst counter-productive to Australia's best interests.

But as previous blogs have identified [see The Buyer's Blog #3] buying and selling for the wrong reasons can be a very slippery slope. Markets still determine relative values and prices well. Distorting markets can have unintended and sub-optimal outcomes, just as unregulated markets can. A lesson the world has learnt painfully this last 18 months during the GFC.

The Buyer – posted 17th June 2009

#41 - Single v multiple sourcing?

Rarely does 'one size fit all'. Similarly, it is unlikely that one course of action suits all organisations. More often different organisations with different goals facing different circumstances in different markets need different solutions.

This is why we have procurement professionals. To get the right product of the right quality to the right place at the right time at the right cost. This perfect outcome is the universal goal of the profession – despite differing circumstances. It demands different strategies at different times.

Single sourcing, dual sourcing or multiple sourcing is a key consideration for all buyers seeking to balance security of supply with aggregating demand to save total cost. One size does not fit all. Each organisation should take the option that is right for them, at that point in time.

Reports that some lawyers (yes, lawyers) are advising clients to multiple-source during the GFC as a matter of course are a real worry.

The Buyer – posted 18th June 2009

#42 - The top five reasons that projects fail...

ISM recently published this handy list in the USA ... it is all true of course.

1. Failure to manage
2. Lack of commitment
3. Past failures
4. Inadequate planning
5. Poor project management

But The Buyer will add one more reason from his own experience (and it sort of explains reason number two):

6. No objectives

So often in corporate life, enthusiastic 'process-wallahs' dive headlong into project process before any objectives are actually agreed by stakeholders. Try writing them down for your project. It is a real test. A project manager (whether in procurement or not) should be able to write down the objectives of their project from memory ... whether there are 3 or 10. Test yourself now and try it for your own principal project, it will be worth it in the long run.

The Buyer – posted 19th June 2009

#43 - Is procurement a trusted profession?

The recent 2009 listing of the most trusted professions produced by Reader's Digest for the sixth year has a familiar look to it.

[<http://www.readersdigest.com.au/life/australias-most-trusted-professions-2009/article142043.html>]

It lists the most well known 'professions' in order of trust by the public, based upon their surveys.

Professional procurement does not yet figure, though our interface with the general public is limited and therefore our participation unlikely in future perhaps.

But it does beg an interesting question. Where would we come on the list?

Below the emergency services doubtless, but above second-hand car salesmen, pollys and estate agents I hope. But above accountants?

Don't be fooled, not everyone is enthralled by our professional contribution.... historic table-thumping, poor SRM and saying "no" a lot do make friends not. And SMEs often feel they are victims of 'dutch-auctions' and pre-ordained tender results favouring incumbents.

Maybe we still have some work to do to build our own trust profile?

Australia's Most Trusted Professions 2009 [Reader's Digest]

- | | |
|-------------------------------|------------------------------|
| 1. Ambulance officers | 21. Chefs |
| 2. Firefighters | 22. Hairdressers |
| 3. Nurses | 23. Plumbers |
| 4. Pilots | 24. Accountants |
| 5. Pharmacists | 25. Domestic cleaners |
| 6. Doctors | 26. Religious ministers |
| 7. Veterinarians | 27. Bartenders |
| 8. Farmers | 28. Financial planners |
| 9. Armed forces | 29. Mechanics |
| 10. Teachers | 30. Lawyers |
| 11. Dentists | 31. Taxi drivers |
| 12. Scientists | 32. Journalists |
| 13. Police officers | 33. Professional footballers |
| 14. Locksmiths | 34. CEO's |
| 15. Childcare providers | 35. Sex workers |
| 16. Bus/train drivers | 36. Real estate agents |
| 17. Electricians | 37. Psychics/astrologers |
| 18. Psychologists/counsellors | 38. Politicians |
| 19. Social workers | 39. Car salesmen |
| 20. Judges | 40. Telemarketers |

The Buyer - posted 23rd June 2009

#44 - Green shoots?

Chinese growth has risen to 7.2% this quarter up from 6.8% [see The Buyer's Blog #2].... a positive sign from Australia's new largest trading partner.

PMI stats elsewhere are showing signs of growth too. This quote from the UK based on recently published PMI figures by CIPS:

The overall message in the UK PMIs this month is "the end of the recession is in sight". The biggest news within this is that the largest sector (60% of the economy), i.e. Services, is in growth at last and whilst the PMI figure of 51.7 is not spectacular growth, it's not measly either. Manufacturing is easing back to growth at 45.4, showing a trend which would mean growth in 3 to 4 months. Construction has had the most dramatic improvement where it had been in the 30's recently and has overtaken manufacturing by being at 45.9, therefore growth likely in a few months too. This is much better and faster than most economists predicted [www.cips.org/news].

CIPSA's own PMI figures for Australia are none too bad either, taken in context;

Australian PMI® May 09: Fall in activity eases slightly

- *The seasonally adjusted Australian Industry Group-PricewaterhouseCoopers Australian PMI® rose by 7.4 points to 37.5. This is still well below the 50-point mark separating expansion from contraction, but is its highest point in the past seven months.*

[www.pponline.com.au/html/purchasingindices.cfm] (you need to be a CIPSA Member and logged in to the site to view the indices. Your username is your email address and your password is your CIPSA membership number)

[www.cipsa.com.au/professionalresources] (member access section)

Maybe, just maybe, those unemployment figures last month (that showed a fall in unemployment) were correct after all?

The Buyer – posted 24th June 2009

#45 - Is this truly the best way to buy trains & trams?

The VIC Government recently announced two preferred bidders for the supply of trams and trains in future... MTR from Hong Kong and the French Keolis.

Neither favoured bidder is one of the incumbents – Connex and Yarra - perhaps not surprisingly given the ongoing bad press prompted by hapless Melbourne commuters and their tales of woe.

[<http://news.smh.com.au/breaking-news-national/vic-govt-dumps-transport-operators-20090625-cy1x.html>]

The responsible government department will apparently now go into “negotiations” with the two preferred bidders individually – one for trams, one for trains – to finalise the deal by the end of August.

But why o why would you publically limit your options so; and weaken your negotiating position so dramatically? Maybe there is little left to negotiate and the ‘lemon has been squeezed’ already? Or just a political PR need?

But any professional buyer would quickly tell you it pays to always keep your options open. Keeping the tender process alive as long as possible and, at least, creating perceived competition will only increase leverage to negotiate the best possible outcome on all facets of the new arrangement – not just price. Targets and KPIs even. There must be still much to cover with two all-new suppliers and a multitude of issues to resolve, if the deal is still eight weeks away from signature? But exactly what motivation have these two preferred suppliers to offer their absolute best, when they look like a shoo-in?

If the process, or the law is wrong, and necessarily leading to the wrong outcome – then change them. Those hapless Melburnian commuters deserve the best that can be achieved, not a sub-optimal result.

The Buyer – posted 1st July 2009

#46 - New 'Fair Work Act' a worry for suppliers

The new Fair Work Act was launched today at the start of the new financial year by a triumphant Deputy PM, Julia Gillard.

[<http://www.abc.net.au/news/video/2009/07/01/2614173.htm>]

But business lobby groups insist that this new workplace legislation will serve to increase labour costs. Even the unions seem to agree now. Emboldened with the new legislation, several unions quoted in the media today declared fresh targets for new wage increases ranging from 4 – 6%. Though one union did actually say that they would not “negotiate new wage increases so hard that they push anyone out of business.” So, that’s okay then. Julia’s colleague, Treasurer Wayne Swan, understood the message and urged wage restraint.....

[<http://www.theaustralian.news.com.au/story/0,25197,25718542-601,00.html>]

In case nobody noticed, the economic climate isn’t really conducive to any wage rises at all really, just at the moment. Inflation is around 2% and stagflation still a real threat. More and more firms seem to be cutting overtime and contractors, freezing pay, insisting on leave-taking or offering voluntary redundancies and work short-weeks. Around 7,000 British Airways staff in London are even working this month for free – as everyone knows. Many firms have had to take the pain of losing staff – excessive wage claims will only serve to push costs for all upwards, and unemployment with them.

So, after today, any buyers with supply chains heavy with labour input beware. They may be getting a visit from their suppliers soon – cap in hand.

The Buyer – posted 2nd July 2009

#47 - More green shoots; from the PSI this time?

At the risk of sounding optimistic, today's PSI report seems quite cheery... especially for a service based economy like Australia.

CIPSA publish this AIG report each month to their members, and it is on the CIPSA website [www.cipsa.com.au] and on this site as well [<http://www.pponline.com.au/html/purchasingindices.cfm>].

It is normally only available to CIPSA members, but this month we thought we would share the good news!

The Buyer – posted 3rd July 2009

#48 - National Broadband: A case for a CPO on the board?

Reports in the press today [www.theage.com.au and www.theaustralian.com.au] suggest that the headhunters briefed to identify candidates to join the board of the new entity being set up by the federal Government to build the new national broadband network (NBN) have been asked to think again after presenting a long list to the communications minister. Apparently a less conservative board is to be sought with less obvious candidates with wider credentials.

A case for an established procurement professional to join the board maybe? After all, the NBN is set to expend around \$43billion of taxpayers' money over the next few years. And the project was even borne out of a 'make or buy' decision in the first place following the fated tender process to appoint a vendor.

The Buyer – posted 9th July 2009

#49 - Hospitality not hostility a key to good SRM

Trying times are a tempting time to thump tables and demand better deals from suppliers. But a little magnanimity with suppliers goes a long way.

Traditionally sellers have patronised buyers (behind their backs mostly). They see them as small-minded process jockeys (to be unkind). They do not see them as business equals.

The time has come to proactively change that perception. The buying and selling dynamics revolve around the same process and have done for thousands of years – AIDA (attraction; interest; desire; action) is a universal truth of the selling and buying process. There should be more equality in the way these protagonists view each other – the roles are not so dissimilar; and the walk around the table is not so far.

Sellers segment buyers in a similar way to buyers segmenting vendors. A two by two matrix evaluates most things. Buyers weigh risk and cost on the Kraljek matrix. Sellers weigh revenue and potential [as PMMS suggested in their book 'Profitable Purchasing Strategies']. Reversing the process may give some buyers a shock. Especially the cruder measure by many sellers = actual revenue/margin v hassle involved.

But there can be more teamwork between buyers and sellers – against the common enemy of waste.

A humble start may be for buyers to make a rule to reciprocate hospitality. The seller shouldn't always pay. Or travel. One for one even, alternate restaurant bills and venues for meetings; you may find equality creeping into the relationship. Proactive buyers can take a table at events (like the CIPSA NSW annual Christmas ball) and host their suppliers. Such an investment will pay back.

The Buyer – posted 11th July 2009

#50 - The GFC is a threat for some buyers more than others

The recent publication of the theme and programme for the 5th CIPSA annual conference in October highlights the profession's crucial role during the current global financial crisis.

"The GFC is an opportunity and a threat" trumpets the blurb at www.cipsaconferences.com.au ... as the copy goes on to explain why...

Too right. In fact, the event might also be subtitled 'Careful what you wish for'. More and more organisations are demanding that their procurement teams step up - Now.

The cost of failing their organisations now might be terminal. As one CPO said within earshot of the Buyer recently, "what my lot? In front of the CEO? That is a worry." Time for some very rapid professional development activities methinks in some quarters. Before it is too late.

The Buyer – posted 14th July 2009

#51 - BREAKING NEWS: Doing business in China is different

Peter Costello's article in the Fairfax 'papers this morning...

[<http://www.theage.com.au/opinion/doing-business-in-china-is-not-as-we-westerners-know-it-20090714-dk0y.html>]

...is yet another reminder that doing business in China is different... "Business in China is not conducted as it is in a Western democracy" he says.

The rules are different, the conventions are different and the measures of success different too. Yes can mean no, and no can mean maybe.

The bottom line is don't go and do business in China for the first time without help; professional help and advice from people that know how best to work in China and with experience of doing it themselves.

The Buyer – posted 15th July 2009

#52 - How to help suppliers through difficult times 101

Pay on time.

The Buyer – posted 23rd July 2009

#53 - BREAKING NEWS: Demand management the key to real savings

All buyers are familiar with the idea that well intentioned savings dissipate. Collecting them centrally by ripping cost savings from user budgets always seems draconian. But CFOs harvesting them is often the only way to realise real savings as it seems as though users so often simply divert funds saved onto their next pet project in line.

But there is another way. Abstinence. Buying less. Doing away with the requirement altogether. Try asking WHY five times; the hardest of arguments can dissipate under such pressure – as my nine-year-old boy proves to The Buyer regularly.

Also, the advent of carbon trading in July 2011 suggests a likely new imperative for getting by with less; as carbon credits will layer cost to most large organisations. Doing without will suddenly become fashionable methinks. Buyers could usefully get some practice in now with the crutch of a GFC to lean on.

The Buyer – posted 25th July 2009

#54 - How to save money in marketing

Everyone knows that the marketing department is the last bastion of non-addressable spend for many procurement teams. Marketing directors generally defend their turf (and budgets) better than CPOs 'attack' them.

So, a tip from someone who knows – attack the process instead. The best way to save money in the advertising process is to hammer the process itself. It is riddled with extra costs that could be savings (or more budget as marketing directors would prefer).

The marketing process is deadline driven. Making changes after artwork has started (or worse, finished) costs a fortune, as work is unravelled to incorporate changes. The same principle works throughout the marketing world regardless of media; print adverts, print material, TV & radio, editing, even web work. Get the copy agreed first, and save real money.

Also watch out for repetition errors, production costs pasted in from last time regardless of the brief, spreadsheet errors by office juniors, charges for intentions never actioned, mark-ups on third party costs and so on..... all real examples from the Buyer's own time. The war stories are universal though. Just follow the process line rigidly and keep asking questions – you'll save a fortune.

The Buyer – posted 27th July 2009

#55 - Procurement managers should show cost leadership

There are two main ways to properly cut costs in any organisation:

1. Look for where the true cost is, and cut there not areas that don't really make a difference
2. Get the message across to people by adopting small measures [turning lights out, PCs off, counting paper-clips, cancelling newspapers] so they find ways to cut costs that do matter in their own areas = by showing cost leadership in other words.

People develop perceptions lightly. And perception quickly becomes reality in our envy-based society. The fact that a corporate person can defend their personal actions and choices is irrelevant – because they rarely get the chance until it is too late. That is why you have to SHOW cost leadership. No need to be silly, just don't go too far with anything during sensitive times. The most sensitive times are during redundancies, lay-offs, wholesale cutbacks and team mates working for less or even for free (like at BA).

These are the times to strive for real self-restraint, managing perceptions and taking modest choices. Not because it saves any real money, but it shows you 'get it', that you care and that you recognise the pain others are taking. In a phrase, you are showing cost leadership – cutting costs wherever possible (even marginally) to lead by example. This will avoid the wrong perceptions and help motivate others to search for ways to save; it will develop your corporate culture in a positive direction.

But this does not mean draconian cuts, self-depreciation, self-flagellation or wearing hair-shirts. And certainly no OSPs = outwards showings of penury. That is going too far; you don't want to be perceived to be taking the mickey either. Just modesty, restraint, some abstinence and, above all, common sense.

The test is, how does what I am doing look to someone who is being made redundant today? How would they feel, knowing I ordered the quality option rather than the economy option – just at the minute?

Useful corporate examples of appropriate restraint;

- fly economy not business class on flights under six hours ... or don't take trips you don't have to
- take a train, tram or bus – not a taxi
- order house-wine not the Cloudy Bay... or do not go at all
- hold off on ordering your new laptop as long as you can.... and make do with the old model mobile phone
- delay that decision on your new company car... or accept the invisible car allowance instead

- cancel those working lunches, and go for BYO
- stay in 4 star accommodation, not 5 star
- go easy on the stationery cupboard and at Officeworks
- have the team awayday in the conference room, not off site
- do not expense things like could be perceived as for personal benefit

...you get the idea;

of course, these are actually good practices at most times. Especially for procurement professionals.

The Buyer – posted 29th July 2009

#56 - 'Buy local' unsustainable

The Buyer had a ring-side seat for the exchange of views between the Labour controlled NSW state Government and the Commonwealth Labour Government during the 4th Public Sector Procurement Conference run by CIPSA on Tuesday & Wednesday this week at the ATP in Sydney.

NSW Deputy Premier, Carmel Tebbutt outlined the case for local protectionism and job creation, subsequently rejected by federal Minister for Finance & Deregulation, Lindsay Tanner. Minister Tanner argued the benefits minor, the potential "retaliation" significant. He promised all would be "resolved" at the ALP conference this weekend – though Michelle Grattan in 'The Age' is skeptical today ... "what the conference decides matters hardly a whit. A lot of work has gone into heading off a few potential embarrassments, such as over government procurement policy, but at the end of the day if anything unacceptable to the Government is passed it will simply be ignored."

But, as The Buyer has argued several times before [see previous The Buyer's Blogs; especially #10], buying and selling for the wrong reasons quickly becomes a slippery slope. And distorting markets deliberately can have grave consequences – ask the late Richard Pratt, formally at VISY. So, regardless of the local merits and good intentions, BUY LOCAL has to be unsustainable in the long term – and may even be unsustainable in the short term if the ALP, federal Government or China decide to 'retaliate'. We'll see.

The Buyer – posted 31st July 2009

#57 - Procurement skills should be taught in schools

Teaching relevant and practical skills that are useful in the modern world is not always the top priority in the education of our children. But there is a growing case for practical maths to be taught in the form of financial services awareness – so why not procurement? Ultimately it is something we all spend a lifetime doing. A simple introduction to sourcing beyond Google, the benefits of three quotes, the essentials of negotiation and not revealing your budget are sensible everyday skills.

The transport and logistics sector have recently launched their bid for space on the school curriculum with a resource kit for teachers which may even be a help for recruiting Gen Y-ers into the profession: 'The Right Move – Geography of Logistics and Supply Chain'. CIPS should get cracking on their version for procurement.

The Buyer – posted 6th August 2009

PRESS RELEASE

Subject: NEW KIT TO PROMOTE EDUCATION AND AWARENESS OF THE TRANSPORT, LOGISTICS & SUPPLY CHAIN INDUSTRY

The transport, logistics and supply chain industry is a massive industry worth nearly 15% of Victoria's gross state product and employs around 334,000 people. It underpins the success of many other industries such as manufacturing, mining, retail, food and tourism and includes disciplines from business, law, accountancy and ICT yet goes almost unseen within our daily lives.

In order to improve the understanding of the industry to secondary school students, a Resource Kit for teachers was released today.

This new kit called "The Right Move – Geography of Logistics and Supply Chain" provides class content for secondary school students, enabling transport, logistics and supply chain to be taught within the Year 7-8 geography and social science syllabus. The kit will give teachers the information and tools they need to deliver syllabus content and at the same time boost awareness of the true size and value of transport, logistics and supply chains to students and their parents.

The Kit is designed to meet Victorian Essential Learning Standards and includes teaching notes, project material, suggestions for site tours and other contacts. The Kit also provides teaching resources to support face to face group sessions, self-directed learning and webquest or eLearning projects.

Along with the educational value, it will also help students discover the reality and variety of one of our largest and most fast moving industry sectors that connects Victoria with the world; and which provides a wide range of interesting and well paid careers, often overlooked by young people.

The Resource Kit was developed by TDT Victoria, the Victorian Government's Industry Training Advisory Board for the T&L industry, and was supported by a steering committee that included members of the Geography Teachers Association of Victoria, the Department of Education and Early Childhood Development and industry.

TDT Victoria is a member of the Transport & Logistics Industry Round Table which has also endorsed the Resource Kit. For more information on the Kit, please contact TDT Victoria on (03) 9326 7211 or info@tdtvictoria.org.au

#58 - Why 'blanket orders' are still relevant to replace multiple ordering

The Buyer recently got into conversation with a public sector Purchasing Officer lamenting his repetitive workload; often trapped raising numerous purchase orders with the same supplier. Why not use an old-fashioned 'blanket-order' asked The Buyer? "A blanket what?" asked the PO.

A TEN STEP guide to raising BLANKET ORDERS:

For monthly use to oversee regular supply of numerous items from a single supplier to the same end users.

1. Source best supply line for oft required goods
2. Agree choice with the USERS – start with incumbent if you like; it will please users at the outset
3. Agree a pre-set price list and discounts thresholds with the supplier
4.along with delivery terms and conditions of purchase
5. Ask end-users to order freely by phone/email directly with the one chosen supplier – or from a pre-approved catalogue online
6. The supplier delivers directly to the users; with a detailed delivery note
7. Users sign delivery note (if satisfied) and send over to the Purchasing Officer
8. PO collects all delivery notes on their desk – and at month end raises one order at correct discounted prices for the lot
9. Supplier invoices against single order – with a single invoice
10. Benefits include far less work for the PO, quicker service for the users, a secure customer for the supplier, better deal too! And an instant three-way match.

The Buyer – posted 7th August 2009

#59 - Ethics a principal requirement for any profession - especially procurement

The inclusion of a copy of the freshly minted CIPS Code of Ethics in this week's edition of PP magazine is a timely reminder that a published and adhered to code of ethics is a key requirement for any profession. This version has been developed and updated by a sub-committee of the CIPS Council and was published in March 2009 [www.cips.org].

But ETHICS are not just for show. They are designed to be read, digested and applied – in spirit as well as fact. The recent ICAC hearing in Sydney reminds us all how relevant ethical standards are [see The Buyer's Blog #39]. More relevant now given they have been updated to ensure relevance to a modern world. Members of a peak body are expected to sign their profession's code of ethics when joining to pledge allegiance.

Of course, procurement is the probity capital of the business world, and therefore higher standards are expected of our profession.

So, maybe, we can lead the way for other business professions striving to apply a code of ethics to their efforts? Harvard Business School recently suggested that management should become a profession and a suggested DRAFT code of ethics for managers was published in Harvard Business Review [<http://hbr.harvard-business.org/2008/10/its-time-to-make-management-a-true-profession/ar/1>] back in October 2008.

By the way, the other requirements of a profession include published standards, a body of knowledge and the practice of specialist skills.

The Buyer – posted 10th August 2009

#60 - The most important term in any contract

The one contract term that could be most devastating to any business, the one that could close you down as an entity, is often the one that is casually overlooked. Whether you are providing a service or supplying goods, the one exposure that could end your business is the concept of CONSEQUENTIAL LOSS.

Briefly, this means any direct or indirect losses or costs incurred by the injured party as a direct or indirect consequence of any act or omission by the other party. The online business dictionary defines it too... [<http://www.businessdictionary.com/definition/consequential-loss.html>].

'CONSEQUENTIAL LOSS – Indirect loss which accompanies an insured loss, such as loss of earnings resulting from a burnt down business that was insured against fire. Consequential losses are not covered by ordinary insurance policies, unless specifically included on payment of additional premium. See also direct loss, and indirect loss.'

This can apply equally to buyers or sellers – it can be easily relevant to both. But any small business trading with any large business must watch out – liability could be a sum much greater than their turnover! And any large business could wipe out any small business with such a claim; and accordingly has some responsibility to act responsibly.

Therefore, prudence demands all terms & conditions should include three little words 'NO CONSEQUENTIAL LOSS'. The CIPS template contract clauses help [www.cipsa.com.au] or google it for template clauses. The best remedy is the three little words above. Insurance policies usually preclude consequential loss. But they can provide cover (sometimes) up to an agreed cap.

The Buyer – posted 19th August 2009

#61 - The case for flying Premium Economy

Premium Economy is increasingly offered by airlines as an extra travel class sandwiched between ECONOMY CLASS and BUSINESS CLASS. Traditionally, around 60% of business flyers travel down the back; 40% in business class or at the very pointy end of the aircraft. Even more people are travelling down-the-back during present times of course. Some are not travelling at all, and video conferencing/webcams are also 'taking off' so to speak.

But the business case for PREMIUM ECONOMY [PE] is now compelling;

1. You often get most of the business class ground-based benefits when travelling in PE – business class check-in, fast track immigration, lounge access, extra baggage allowance, separate boarding.
2. The in-flight PE product today is very similar indeed to the base business class product of only 20 years ago = circa 1990 - you often get a power point (for your laptop), more space, greater comfort/recline and improved service with higher cabin staff ratios and no screaming kids (or bogans) in the cabin.
3. The PE price is typically less than double ECONOMY, but often over 60% less than Business Class – but with a product substantially better than ECONOMY, and not so far less than Business Class – certainly not 60% worse anyway. (This is why airlines are wary of PE class as an offer. It dilutes Business Class, but does not often enough convince ECONOMY travellers to upgrade.)

So, Premium Economy is a bit more cost, but a lot more product;

.....and you even get more frequent flyer points too.

SAMPLE FARES published on QANTAS website on day of analysis for one passenger RETURN fare inc taxes SYD-LAX, fares rounded and most typical business choice fare chosen for trip the week following day of enquiry;

ECONOMY - \$3000

PREM ECONOMY - \$5400 [+80% over Economy]

BUSINESS CLASS - \$14200 [+162% over Prem Economy]

FIRST CLASS - \$21000 [+48% over Business Class]

Cheaper fares are often available – contact your travel agent, 'bucket-shop' or corporate travel management company.

The Buyer – posted 21st August 2009

#62 - The business case for training before capital investment

Increasingly, procurement professionals are heavily engaged in the purchase of capital equipment and infrastructure. But often their role is at best underestimated, and at worst trivialised.

They are usually recruited into major projects long after they are begun. In fact, fractionally before actual purchasing of components and project elements begin. Too late in other words. Sure they can make a difference, but not half the difference that could have been made given the lead time to influence the project commercially at the outset. The further into such projects that procurement people are involved, the less benefit they can bring.

Which explains why so much heavy procurement seems to be done in a rush. And why there also seems to be no time for training and capability development BEFORE the project truly gets going. All too often, training is postponed until after the heavy procurement is complete; when it is too late. Ironically due to time pressures. When most capital projects take years to complete.

The business case for heavy training PRIOR to capital purchasing is compelling. If a team is recruited for any major project, training them first with specific and relevant syllabus offers a genuine RoI. Assuming any major capital purchase demands hundreds of millions of dollars, simple training costs pales in comparison. They do not even compare to the payroll cost of the buying team. But any such investment in training will leverage massive ongoing cost savings in at least the tens of millions. Never mind the extra probability of achieving the actual business benefits for the project.

The crucial bit is the timing = before the investment, not after it, stupid!

The Buyer – posted 24th August 2009

#63 - 'Lost' minister a great find for procurement

VIC Minister of Finance, Water & Tourism, Tim Holding, rescued from a lonely mountain top in the Victorian alps yesterday is a great find for procurement. Both Tim Holding and his predecessor, John Lenders - now VIC Treasurer, have been good friends of the procurement profession. John Lenders formally launched the CIPSA VIC region in 2005, the relaunched PACCER procurement training scheme and the improved procurement processes at VIC DTF. He showed knowledge and support for the profession that was well received.

Subsequently, Tim Holding spoke eloquently at the CIPSA Public Sector Procurement Forum in 2008, despite being new in the role of VIC finance minister. Rarely can a new minister have mastered a brief so well. Thereafter he chaired the APCC leadership committee meeting in Melbourne with some aplomb by all accounts. He continues to support the profession.

Having two ministers genuinely supportive of the procurement profession is rare; so by the law of averages alone, the chances of getting a third would have been much less. So The Buyer was also mightily relieved at his fortunate escape from doom yesterday. Welcome home Tim....

The Buyer – posted 2nd September 2009

#64 - Onshore now an option for offshoring

A recent report in the AIM journal 'Management Today' [www.aim.com.au/publications/managementtoday] highlighted the popular trend of low cost country sourcing.

Beyond China, Vietnam, India and the usual suspects it also highlighted new sourcing destinations such as Gdansk in Poland as a viable option for cheaper labour.

But, interestingly, it also suggested a new low cost outsourcing destination where the local government offers 100% rebates on payroll tax and land tax – Brisbane. It even cited examples of firms such as Sony and Nintendo who are outsourcing there.

Food for thought....

The Buyer – posted 3rd September 2009

#65 - Buy local ... or not, then?

The disagreement between the NSW and federal Governments over the level of protectionism [bad; see The Buyer's Blog #10] offered to local suppliers in NSW [see The Buyer's Blog #56] was set to be resolved at the subsequent Australian Labour Party [ALP] conference promised Minister Lindsay Tanner at the CIPS PSPF4 conference in Sydney on 28th July 2009. As Michelle Grattan in 'The Age' later suggested, it wasn't [see #56 again].

So we are we now? The federal Government and largest state Government publically disagreeing? The NSW policy does not seem to have changed? Do they agree-to-disagree? Or will the 'R' word Lindsay Tanner used be deployed – RETALIATION – and by whom? The federal Government, ALP or China?

The Buyer has long thought protectionism is bad [see The Buyer's Blog #10], as most economists do. But Tim Wilson in the 'Australian Financial Review' [AFR] on 30th July suggested that the affair was damaging the ALP's professed economic conservatism and was weakening its free-trade credibility. The new policy released by Minister Kim Carr [and referred to by Minister Tanner at PSPF4] to require bidders to federal Government to detail their use of Australian suppliers seems a move more designed as a sop to Australian business and convince them they will get a 'fair go'. Or a sop to the unions to promote jobs as Wilson suggested. He described it as "protectionism by stealth" and pointed out the apparent hypocritical stance of PM Kevin Rudd whom he quotes as arguing that "protectionism brought on the great depression". He concludes that free trade has done much to help the Australian economy of late, but that the federal government is 'turning back the clock behind closed doors'. But then Tim Wilson is the director of the free trade unit at the Institute of Public Affairs [IPA].

The Buyer feels for the confused procurement professionals in the NSW public service; instruments of a flawed policy perchance?

The Buyer – posted 4th September 2009

#66 - The true, full life cost from poorly handled procurement can be massive

The admission reported in 'The Australian' recently [27th August 2009] by Pacific Brands CEO Sue Morphet that revenues for its BONDS brand had suffered a "small dip" following the negative press of its poorly handled decision to cut local jobs and offshore some manufacturing to China, is hardly a surprise.

[<http://www.theaustralian.news.com.au/business/story/0,,25987428-36418,00.html>]

It is a salutary lesson that poorly handled procurement decisions, especially outsourcing decisions, can have much wider ramifications that just extra purchase costs at the time. Negative PR, especially, can have a real effect on brand equity and therefore on top-line revenues. What is the true 'total cost' to PB of the decision to outsource manufacturing of some items to China?

Indeed.....

What was the ultimate cost to Fonterra from the compromised baby powder from their Chinese supplier?

How much have Mattel toys paid in the end for the lead-paint problem on certain of their toys manufactured in China?

Indeed what was the full cost to British Airways ultimately from the collapse of their outsource supplier Gate Gourmet a few years back?

The price Nike has truly paid for the original accusations of employing child labour to make their apparel?

Time and again we see that the full cost of a poorly handled procurement strategy can be massive.

Work at Georgia Tech in the USA by Vinod Singhal, amongst others, has tried to define the exact costs to a company from revenue losses and subsequent share price falls due to 'major' supply chain disruption. They suggest from analysing over 800 firms that had suffered such supply chain 'shocks' that it was not unusual for revenues to drop substantially, costs to rise significantly and share prices to drop around -10% and take up to two years or more to recover.

[<http://www.gatech.edu/newsroom/release.html?id=351>]

Now, ask your CFO to calculate how much poor procurement and supply chain management could truly cost your company, the next time you want support for proactively managing supply chain risk.

The Buyer – posted 7th September 2009

#67 - The best insurance against supply chain foul-ups?

An interesting viewpoint in 'The Economist' last week [29th August 2009 issue themed 'BIG IS BACK'], which is worth quoting verbatim:

"...further developments are shifting the balance of [corporate] advantage in favour of size. One is a heightened awareness of the risks of subcontracting. Toy companies and pet-food firms alike have found that their brands can be tainted if their suppliers (notably, from China) turn out shoddy goods. Big industrial companies have learned that their production cycles can be disrupted if contractors are not up to the mark. Boeing, once a champion of outsourcing, has been forced to take over faltering suppliers."

[http://www.economist.com/opinion/displaystory.cfm?story_id=14303582].

Mainstream recognition that supply chain disruption carries a heavy cost for supply chain dependant organisations is always welcome.

But it is still overdue; Vinod Singhal and friends at Georgia Tech in the USA have proved the causal link between major supply shocks and depressed share prices [see previous The Buyer's Blog #66]. If 'The Economist' simply means that sheer size limits the impact of disruption to the supply chain of a single product stream, then that is true enough.

But simplistic perhaps, because SIZE is not the BEST defense against supply chain disruption. It is strategic investment in professional procurement expertise 'upstream' in the procurement process. This will better mitigate supply chain risk with a more proportional investment in risk management strategies – which is likely to be much cheaper than growing an organisation to global conglomerate size just to combat the chance of supply chain foul-ups.

The Buyer – posted 8th September 2009

#68 - How to save real money on interstate trips

In the old days, air travel was expensive. So interstate travellers 'made the most of a trip' and extended its duration to get more in. To justify the expense. But often ended up doing marginal things to stretch a trip in a forlorn effort for value.

Nowadays, air travel is relatively cheap. One way fares for \$69 or \$96 or \$127 are common. But hotel costs are relatively expensive: \$240 to \$360 for a four star hotel in Sydney or Brisbane say. Though \$190 on a really good day, or for a www.wotif.com.au special. So stretching a business trip is folly. It would actually be cheaper to fly back n forth twice in two days, than stay overnight in Sydney.

Except there is a new, hidden cost of business travel. Taxis.

It can cost over \$120 for a taxi to Tullamarine Airport from the SE bayside suburbs in Melbourne. That's \$240 return. Compared to air fares sometimes lower than \$200 return. And the taxi is often grubby and the driver grumpy – perhaps because he is lost, as they rarely know the way it seems. Of course, for one of the most liveable cities in the world it is scandalous that there is no effective rail link to the airport at Tulla. Like most other cities have – even Sydney now.

And, there is the Sydney taxi too, at the other end. It costs \$35 (or more in traffic) from the airport to the city. \$70 return. But help is at hand; especially for hapless MEL-SYD commuters:

MEL – try the new Skybus for \$16 from Tulla to the City. They are co-sponsoring the annual CIPSA conference and giving free rides for conference delegates.

It goes to Southern Cross, and a train to the 'burbs can be just a few dollars – say \$6. Or try the long term car park – even at 67c per km, \$10.68 for tolls and \$69 per week - the LT car park it is cheaper than taxis. And cleaner.

SYD – try the train link. It runs every 15 minutes and costs \$14.75 or so to Central from the airport.

That is a saving of up to \$236 per trip. Even more than the airfare; so more than a 50% total cost saving on a single MEL-SYD day trip.

OTHER CITIES

BNE – the new link from BNE to the city is worth a try, but takes ages. And a taxi for two people (certainly three) sharing is still cheaper really.

ADE and PER – get the taxi, they are quick and relatively cheap.

CBR – there are barely any cabs..... hire a car, even for a day trip, it is quicker and cheaper and parking is usually plentiful at most Canberra office lots.

The Buyer – posted 11th September 2009

#69 - VIC Ombudsman report shows just why professional procurement is needed

The VIC Ombudsman's "Report of investigations into the City of Port Phillip" tabled in the VIC parliament earlier this month offers a salutatory lesson of what can happen when procurement is done wrong. Download report (PDF) at http://cms05.3rdgen.info/sites/194/resource/A_report_of_investigations_into_the_City_of_Port_Phillip.pdf

A litany of failings is listed in detail. And the press coverage highlights all the juicy bits of course..... 'The Age' and 'The Australian' covered it in depth.....

[<http://www.theaustralian.news.com.au/story/0,,25919005-2702,00.html>]

[<http://www.theage.com.au/national/ombudsman-blasts-rot-at-port-phillip-20090812-eiba.html>]

In short, the Ombudsman highlights numerous examples of poor practice and makes 21 recommendations for improvement.

Suffice to say, this is a good example of what can happen WITHOUT proper procurement governance and professional management of procurement.

Indeed, it is a picture procurement professionals can use to justify the adoption of good practices at their own organisations.

"We don't want another Port Phillip case" they can say....

The Buyer – posted 14th September 2009

#70 - The best job in procurement advertised this year

The buyer happened across a job advert in 'The Age' last Saturday [12 Sept 09] for a new 'GM – Procurement' for a high-profile \$1bn organisation.

[www.sixdegreesexecutive.com.au ref: DB149400. It is also on this site's jobs board www.pponline.com.au/]

What makes this job so compelling is the advertised components within this new role, which include many of the holy-grail elements for successful strategic procurement;

1. New position - in a green-field site
2. Directly reporting to Group MD
3. "Centre led" approach
4. Involvement in Indirect + Direct + Capital expenditure
5. Free use of people, process & systems = the three levels of capability
6. \$250,000 package

Form an orderly queue on St Kilda Road then.

The Buyer – posted 15th September 2009

#71 - The sound of procurement

For procurement tragics amongst us, you can now get to hear the sound of procurement.

The CIPS UK journal, Supply Management [www.supplymanagement.com] has run a gossip-story on UK indie band 'Anna Kashfi' whose new album is entitled 'Procurement' ... which prompted David Smith (yes, Commercial Director at UK DWP and forthcoming guest speaker at the CIPSA 5th annual conference, as well as former band member of IRON MAIDEN) to suggest a long list of other procurement related music..... culminating in 'Love me tender' of course.

[http://supplymanagement.typepad.com/supply_management_blog/2009/08/procurement-the-albumxt.html]

They mustn't have enough to do....

The Buyer – posted 21st September 2009

#72 - Spending the stimulus package was a reminder of the strategic role of procurement

The federal Government's Keynesian plans to reflate the economy included the massive \$52bn economic stimulus package of course.

Which led to a debate over which was more important – speed to market for the cash, or integrity of the pre-set government procurement processes?

And the federal finance minister, Lindsay Tanner, got a little tongue tied when asked directly at the CIPSA public sector conference PSPF4 way back on 28th July 2009, which was more important? He got to “procurement process” in the end, fearful of being quoted The Buyer suspects.

But, clearly, government buyers at all levels were under pressure to splash the cash quickly and truncate long-winded procurement processes. Pulling back on the spend now, as the need to reflate subsides, suggests that the sanctity of process will now return maybe? Harried buyers can return to well-known process without the added pressure of speed to market maybe?

Except, process is not everything. Process is a means to an end, not an end in itself. The Buyer has trod this path before [see The Buyer's Blog #38 and the NBN case study]. The process should serve the strategy to achieve the desired outcome – NOT be a strategy in itself. It was right for government (the stakeholder here) to press for speed to serve a higher need. It is the role of the 'strategic procurement' professional to be just that – strategic. That means serving the desired need, not being a 'process jockey' and driving process as if that is the goal.

If the process is not delivering the required result, change it.

The Buyer – posted 22nd September 2009

#73 - Low cost country sourcing - from the UK?

The Buyer, in starting this year's yuletide sourcing exercise for pommie rellies, has noticed that the AUD\$ - GBP£ exchange rate has risen to a long-term high. The strength of the Aussie dollar and simultaneous weakness of the Pommie Pound has contrived a rare level of exchange. There has rarely been a better time to buy pounds, visit England or import UK stuff.

Traditionally, UK-Oz businesses have been budgeting around \$2.45 = £1. By 2007 around \$2.35 say. Recently \$2.10 was common. Today the exchange rate is around \$1.90 to £1 – even 'best' rates of nearer \$1.87 are possible. That is a 'currency discount' of over 20% against traditional budget expectations of a currency rate.

Maybe the UK can become a new low-cost sourcing destination even? Especially for spot-buying and especially when carriage rates are so low as well.

But, that said, currency rates can go down as well as up of course and The Buyer strongly advises you to contact your financial advisor, accountant, personal currency trader, soothsayer and GP if you plan ahead on the basis of exchange rates during our new volatile times.....

The Buyer – posted 24th September 2009

#74 - MCIPS a new shortcut to NZ permanent residency?

The new recruitment campaign by the NZ public sector for procurement professionals [adverts on www.pponline.com.au] seems to be placing a premium on the MCIPS qualification.

Rumour has it, that candidates for procurement jobs in Wellington will soon [from end-OCT] be able to apply for fast-tracked permanent residency visas if they possess MCIPS? Suddenly there will be an additional and very tangible value on full membership of CIPS; especially for tired poms or frustrated South Africans considering the merits of migration. Or, even under-appreciated Aussies looking for more recognition perhaps?

Regardless, even the idea is compelling. Suddenly, MCIPS is gaining a tangible currency and hard value beyond its traditional demonstration of procurement credentials and guaranteed professional competency to make its holders instantly better interview candidates.

The Buyer – posted 28th September 2009

#75 - The best jobs in procurement...

Two jobs adverts in the last issue of 'Supply Management' magazine caught The Buyer's attention last week [SM 24th Sept 2009, www.supplymanagement.com].

Both in the UK, and both attractive jobs for different reasons - one prestigious, one sexy;

Purchasing Manager, CIPS – yes, the professional body is employing its own purchasing manager [www.cips-gpa.com]

Procurement Manger, MI5 – yes, buying James Bond's toys [www.matchtech.com]

Other recent interesting jobs in procurement that have been advertised internationally include;

- Director of Procurement for the Falkland Islands in Port Stanley (tranquility & low tax)
- Head of Tendering for the Afgan Government in Kabul (adventure & excitement)
- Strategic Sourcing role buying offshore oil platforms in Lagos, Nigeria (no tax & great fun)

Who says that there is no sex or glamour in procurement then?

Our profession is a world of opportunity

The Buyer – posted 29th September 2009

#76 - BREAKING NEWS: Aircraft arrives late at airport

The spate of stories recently over mega-late aircraft arriving at deserted airports has spared none of the local carriers. Jetstar (last week) copped the flak, but in the past Tiger, Qantas and even Virgin Blue on occasion have taken the heat.

[<http://www.theage.com.au/travel/travel-news/jetstar-passengers-angry-after-shocking-tarmac-wait-20090916-fqbm.html>]

In fact, a recent piece in 'The Age' went even further; alleging airlines are telling porkies when aircraft are late [<http://blogs.theage.com.au/travel/travellerscheck/>]. The truth is that the reason 'planes are late is almost irrelevant when you are the one stuck waiting for a flight. Though the most galling excuse is always "we apologise for the delay in your flight, it is due to the late arrival of the incoming flight", implying it is not their fault; when ultimately it is.

Apart from signaling a slow-news day, this new awareness of the problem also signals a change in customer attitude. But not so much about tardy customer service, as security of supply. People make plans expecting a secure supply line. Business travelers have long known this. Security of supply is increasingly important in a busy and complex world. And business travelers can calculate how much these let downs have cost them. Which is why people with important schedules might choose carriers with multiple services and, therefore, multiple options for when a 'plane inevitably no-shows.

This example is a microcosm of a wider issue. Security of supply is the new standard. And the more complex a supply line, the greater the cost when it does fail.

The Buyer – posted 1st October 2009

#77 - Samoan earthquake a timely reminder of supply chain values

The earthquake this week in the pacific near Samoa and its surrounds is a timely reminder of the true value of supply.

The proactive work of the relief agencies, emergency workers, international charities and Australian armed forces is to be lauded.

[<http://www.tandlnews.com.au/stats.php?a=c&e=CWEXZNEXFY&s=ZSKVISURFV&url=2009/10/01/article/Army-Navy-RAAF-rush-to-aid-Samoa/GCJIAMROSK>]

Supporting charities with large international supply chain needs is surely the best place for generous procurement professionals to send their spare cash.

Australian Red Cross [http://www.redcross.org.au/ourservices_aroundtheworld_emergencyrelief_pacific-tsunami-samoa-tonga.htm]

The Buyer – posted 2nd October 2009

#78 - The top 12 sales techniques of the most successful sales execs...

The Buyer recently tripped over some obvious but timely research into successful sales techniques completed Jerry Cahn of Extraordinary Sales Performance (ExSP) in the USA,

[[http://www.extrasalesperformance.com/articles/ExSPwhitepaper What%20it%20Takes_0509.pdf](http://www.extrasalesperformance.com/articles/ExSPwhitepaper%20What%20it%20Takes_0509.pdf)]

and introduced by local sales and communications guru Elliott Epstein,

[www.fastleader.net/media/60/Elliott_Epstein_Master_Level_Sales_Speaker/]

The authors asked an old question, "What makes the top sales performers great and why are some sales reps extraordinary performers and some just average?"

They calculate that the top 15% of sales reps score over 30% of the sales revenue (a fairly typical Pareto really). Jerry, of course, has all the answers which he neatly and obviously summarises into his top 12 attributes of the very best salespeople in his new white-paper co-authored with his mate Howard Mager: 'The Sales Leader's Guide to What It Takes to Achieve Extraordinary Sales Performance'. His 12 master selling tips are:

Commit to be extraordinary. This is a psychological and physical process that includes regular audits of strengths and weaknesses and a firm vision of goals.

Focus on the customer. You've heard this one before, but it bears repeating. Top performers keep their heads in the customer's world. They learn everything about both the professional and personal side of the buyer.

Set goals and be accountable. Extraordinary performers are diligent about setting SMART (specific, measurable, attainable, realistic, and time-defined) goals and holding themselves accountable for taking the steps to achieve them.

Sell to the right buyer. Top producers are adept at identifying the right decision maker so they don't waste time selling to someone who ultimately has little decision making power.

Ask powerful questions and listen. This one speaks for itself: superstar reps know how to ask the right questions and, most importantly, how to listen.

Present a compelling case. Buyers' concerns go way beyond your product or service. Top sellers know this, ensuring they make a strong business case, establish trust, get buy-in from many factions in a company, and factor in the personality/buying type of each decision maker.

Use sales demos and proposals to close. Extraordinary performers get the buyer to articulate the needs and willingness to buy, encourage a sense of anticipation to see the results they know they can deliver, then demonstrate how their product or service meets those exact needs.

Create more value. To boost value, top producers know they need to go beyond the issues on the table – their product's features and cost – to include ideas not originally considered. They are creative in finding ways to increase the value of what they have to offer to the customer.

Sell beyond the predictable transaction. Leading reps set "stretch" goals, expanding their horizon of possibilities and then achieving them by putting together winning strategies. Instead of hoping a customer renews and accepts the 3 percent rate increase, a top rep asks herself what success would look like for that customer if he invested 50 percent more in her service. Then she works backward to figure out how to get there.

Build long-term, committed relationships. Deep relationships generate repeat business and referrals. The process for building these relationships is an ongoing one to which top producers give daily attention.

Use a sales process. Extraordinary performers all use a defined sales process. There's no right or wrong process, says Cahn – the key is to figure out what process works and to follow it diligently.

Use a personal sales dashboard. Dashboards offer real-time analysis on performance. It shows where you are in relationship to your goals, keeping reps on track for superior performance.

Most of this is the usual stuff. Good sales technique hasn't changed in essence for thousands of years. Sticking to the basics will always payback for salespeople.

At the end of the day most buyers just want a good product of decent quality at a fair price delivered on time, to spec and with modest service.

Not much to ask is it?

The Buyer – posted 9th October 2009

#79 - What impact would a new oil price shock have on your supply chain?

A sobering article in UK newspaper 'The Independent' recently, quoting the Bank of England, suggested the price of sweet crude (flat around \$70 bbl today) could be the next big economic shock to the system?

[<http://www.independent.co.uk/news/business/news/crude-price-shock-is-next-threat-to-recovery-1791231.html>]

Oil hit a \$147 per barrel high in July 2008 of course, and fell to \$31 by late December 2008.

What impact might those two price extremes have on your supply chain then?

The Buyer – posted 12th October 2009

#80 -The world's shoppers are still buying green - part 2

A prevalent debate at the moment questions is CSR or corporate sustainability still relevant for corporates during times of economic turmoil and stress? Can we afford to address it at all? Can we afford not to in the long run?

Former NZ Prime Minister Helen Clark laid down her policy at the CIPSA regional event in Sydney way back in June 2007. "Consumers in future will punish organisations that do not offer a sustainable option" she said, adding that sustainability was not an option, nor a compliance issue, nor even a risk issue any more. But was an issue of business common sense to meet changing consumer demands – in this case towards sustainability.

She was right and the world's shoppers are still buying green. The Green Pages site offers new evidence all the time [<http://www.thegreenpages.com.au/> and see The Buyer's Blog #5].

This quotation though is originally attributed to Hilary Clinton, or President Obama's chief of staff, Rahm Emanuel – who also said "Never waste a good crisis".

Maybe that is what Cadburys thought in launching the 'fairtrade' choccy bars. All their Dairy Milk chocolate will be 'fairtrade' approved by Easter 2010 they say [<http://www.fairtrade.com.au/cadbury-announcement/cadbury-fairtrade-q>]. This guarantees that the coca pickers at the tip of their supply chain in the Ivory Coast will get a fair wage for their work and no longer a measly few cents per day for their back-breaking toil in the harsh sun. Cadburys are saying there will be no increase in price in their choccy bars as a consequence. In the past, though, and elsewhere in the world, suggestions of around a 25% price premiums have been mooted and researched for 'ethical choccy' bars (think of a 25% price increase as from \$2.20 to \$2.75 for example = just 55c).

Now Starbucks too are on the band wagon, as they recently doubled their sourcing of 'fairtrade' coffee beans to 18 million kg per annum. They say they want to ethically source all their coffee beans by 2015 [http://www.time.com/time/specials/packages/article/0,28804,1921165_1921239_1921193,00.html].

Consumers want more ethical products. And the suppliers are learning. And consumers don't mind paying more if that's what it takes. Think of organic produce in the supermarket – which still sells, even now. In the end, markets segment. Those consumers willing to pay more can and will.

Ethical sourcing and provision is the central theme behind the B4MD message [www.b4md.com.au] and the work World Vision have been doing to promote ethical sourcing at the end of corporate supply chains as a solution to alleviate third world poverty [www.worldvision.com.au].

Clearly leading consumer brands have latched on to the habits of shoppers who are still buying green, despite the harder economic times. The issue of sustainability is clearly still relevant. Moreover, buyers will likely pay a premium in future for a more sustainable choice. We have been asking the right question all along. Just not getting the right answer. Corporate companies can afford to address sustainability, because ultimately many customers are prepared to pay for it.

How long will it take for the message to filter all the way through corporate supply chains I wonder?

The Buyer – posted 16th October 2009

#81 - Top 20 websites demonstrably useful

The best freebie at the recent CIPSA 5th annual conference was not the bottled procurement water, the yummy lollies or the free booze at the two-hour pre-dinner drinks fest, but the new white-paper booklet 'The Top 20 websites in the world of procurement' [<http://www.cips.org/australasia/professionalresources/usefullinks/default.aspx?page=1>].

How useful is that?

Of course, The Buyer was mortified that this blog wasn't mentioned, and that www.pponline.com.au was relegated to a tardy appendix. Shame.

The Buyer – posted 17th October 2009

#82 - Hands up for P cards anyone?

The Buyer witnessed a show-of-hands straw poll at the CIPSA PSPF4 event in Sydney earlier this year, which suggested only 30% of public sector agencies are using purchasing cards for their users. Purchasing cards are really corporate charge cards used for purchasing more than just travel n trivia on pre-approved categories from pre-approved sources; increasingly through pre-approved online catalogues.

This lack of penetration is surprising really, as purchasing cards offer real benefits they control spend limits, can control supplier choice (in some cases can only be accepted at certain outlets), they offer real-time spend tracking, detailed & pre coded management information and relieve busy buyers of order placing duties and much paperwork.

Of course, there is an downside too. CFOs often complain that P cards can actually encourage spending, as it is easier to use a corporate card than reclaim expenses or go through a discouraging requisition n purchase process.

In addition to the usual suspects (Amex and Diners Club), both VISA and Mastercard are now actively in the space in Australia. And others for specific categories, like fuel. Four bidders a decent tender makes.

Purchasing cards are a real opportunity for most procurement departments. Especially the busy ones.

The Buyer – posted 19th October 2009

#83 - Why is the procurement profession good at process and bad at people development?

The CIPSA annual PP Awards on Wednesday night (14th Oct) at CROWN were quite a show – and a good time was had by all.

It was quite an occasion in fact. The charming CIPS President, Dr Bola Afolabi, stole the show with his eloquence and his good grace, the ‘King Gee’ dancers were fun and when PNG won The Leadership Award there was barely a dry eye in the house.

But there were a few things that astute observers noticed during the evening;

Firstly, it was a shame that there was no one there to collect the award won by Qantas for the best supplier partnership. Apparently, The Buyer is told, the person chosen to receive the glory was off sick.

Secondly, it was a good thing that two awards were not presented at all – it raises the integrity of the PP Awards themselves, the level of the recognition and the judging process itself.

Thirdly, as the MC on day two of the conference noticed, there were five PP Awards for process improvements awarded – but none for people development. Hardly resounding evidence of investment in the three levers to improve procurement capability..... people, processes and technology.

Finally, there was no PP Award category at all for technology?

The Buyer – posted 21st October 2009

#84 - The scarlet pimpernel of procurement?

Overheard at the recent CIPSA annual conference and reported to The Buyer verbatim: "Who does this Buyer think he is? The scarlet pimpernel of procurement?"

Well, yep.

Rescuing oppressed procurement professionals from the guillotine of client dogma. Basically.

The Buyer – posted 23rd October 2009

#85 - How do you buy creativity?

The news today that ANZ bank have apparently spent \$15m on their shiny new logo [http://www.news.com.au/story/0,23599,26248717-2,00.html?from=igoogle+gadget+compact+news_rss] raises the old question of how do suppliers (advertising agencies really) price creativity?.

In the old days, they just made it up – their ‘fee’. Then they worked to hourly rates like lawyers. Then to monthly retainers (pay us \$x’000 pcm and we’ll call it right eh?). Then they tried just taking a commission off your advertising media spend (we’ll throw in the creative for free if you’re spending x million on media, we’ll just take 12% eh?). But that devalued the creative input, and advertising expenditure was plummeting at the time too!

Latterly, they tried taking a % of the spoils, (eg; “your ad campaign made \$Xm for you, we’ll take 12% eh?). But that demanded quality measurement. Much effort has gone into measuring the performance of marketing campaigns over the years. Procurement could even learn a thing or two from this work. The Australian Marketing Institute [<http://www.ami.org.au/index.asp>] led the way on this thinking with their ‘marketing metrics’ work which was excellent, and respected internationally. But, using measurement as the criteria for buying creativity meant that creatives didn’t get paid when campaigns bombed (often).

The Buyer doesn’t think that ad agencies will ever embrace the ‘Radiohead’ way – pay us what you think it is worth, though apparently some desperate creatives have tried that. Crowd-sourcing is the real new way to buy creativity of course, and always worth a try. Underemployed designers and creatives bookmark specific websites on design. Punters post their briefs publically and any designer is free to pitch a solution free of charge. When the buyer selects a chosen design it is free. The supplier hopes for further work of the back of their first freebie. It works. Try threatening it - you might embarrass your marketing department into a concession or two.

[<http://www.wired.com/wired/archive/14.06/crowds.html>]

Google it – there are many options.

The local ad agencies trade association [<http://www.afa.org.au>] may not agree it is a good approach though.

Nowadays, there are as many schemes for paying ad agencies for creative work as there are ad agencies – take your pick. They also include project fees, rate cards and combinations of all of the above too. There are even two or three consultancies like the AAR register [<http://www.aargroup.co.uk>] and there is one in Australia too] that exist simply to advise buyers and run ‘blind’ beauty-parades (RFPs) or pitches (tender processes) to select ad agencies (suppliers) to stop marketing directors (buyers) getting persuaded (conned) by the full might of a large ad agencies flattery (awards) and charm offensives (freebies).

A smart chap from the marketing nether world called Darren Woolley from trinity3 (a vendor) often presents at the CIPSA Category Management Forum each March on the current finer points of buying expensive marketing stuff [www.cipsaconferences.com.au]. He also explains the jargon, offers some "How to..." advice and critiques some of the decision support software in the market too from some of the leading providers. It incorporates the CIPS UK work with the IPA too – called "Magic n Logic".. they even produced a fancy booklet on it which is very good [www.magicandlogic.co.uk].

Of course, the Marketing department's spend is the last bastion of addressable spend for Procurement in many companies [see The Buyer's Blog #54] and, even, in the public sector as the ruling party's preferred ad agency apparently sometimes get rewarded for their election campaign work, allegedly. Perish the thought.

The Buyer – posted 24th October 2009

#86 - Lying for infamy: White House chief buyer jailed

The news that the White House head of procurement policy is set to be banged up for one year is a salutary lesson for us all.

Reported in SM this week by Jake Kanter

[\[http://www.supplymanagement.com/EDIT/BLOG/default.asp\]](http://www.supplymanagement.com/EDIT/BLOG/default.asp) is the story of perhaps the most famous buyer in the world, suggests Jake. David Safavian was, since 2004, the administrator for the Office of Federal Procurement Policy at the Office of Management and Budget in the White House - he was responsible for setting purchasing policy for the entire US Government.

Writes Jake, "But his time at the top was short-lived as his relationship with disgraced Washington lobbyist Jack Abramoff began to unravel. The golf trip to Scotland he took with Abramoff became indefensible and he was hoisted before a judge in 2006. Over three years and one appeal later, Safavian has been handed what should be his final punishment for lying to the FBI and obstructing justice. Sadly for the profession the case has become somewhat of a media circus and punching his name into Google produces hundreds of news hits."

The AP news report from last week is at... <http://www.google.com/hosted-news/ap/article/ALeqM5inIAw-Oluy5YBrLnCl6FAi7ww7ggD9BC90800>

But the lesson is this.... he wasn't done in the end for accepting freebies – but for lying about it afterwards.

The Buyer – posted 27th October 2009

#87 - BREAKING NEWS: Soldier dies during war

The recent news of another Australian death in Afghanistan is hardly a surprise really – there is a war on after all. The Buyer's grandmother used to say "if they will play silly games...." But it still feels like a shock, and we feel sadness for their friends and family. It often humbles our role 'back in the office' too. They risk so much for us, whilst we play offices five days-a-week.

But we should not forget that procurement matters to people on the front line. Not just the real front line in Afghanistan, but elsewhere in harm's way. Many people rely on good procurement and supply chain management to enable them to deliver their service. Not just in Defence, but in the emergency services, the police, energy companies, airlines & train companies, factories, supermarkets and elsewhere.

In fact many people in many situations rely on their supply chain to deliver. Procurement professionals should not forget that people are relying on them and that most often security-of-supply is actually more important than price. So is quality. Give people genuine quality and, often, price loses its significance.

The Buyer – posted 28th October 2009

#88 - Organisations should benchmark against standards - not each other

The Buyer fell into conversation with a project manager from a well known organisation the other day who was very enthusiastic about benchmarking their procurement processes against other similar organisations.

They were spruiking the fantastic job they were doing without realising that both organisations doing the benchmarking seemed at best mediocre and, at worst, poor procurement outfits.

Surely the point of benchmarking is to compare to standards, not each other? "In the land of the blind, the one eyed man is king" said Tom Waits and, maybe, Erasmus. When everyone compares themselves to the standards then the standards become stronger. And then organisations can easily buddy-up with others to help each other strengthen the comparative weak spots.

The Buyer – posted 30th October 2009

#89 - The great hidden cost in all supply chains

Several people have asked The Buyer since the CIPSA annual conference in mid-October, if he'd fathomed what the former Global Talent Director at Nike was saying as the final keynote speaker on the first day?

Well, maybe.

Between the stonking Nike videos, Dan Hanyzewski seemed to be saying that all supply chains contain one large category of spend that often remains untouched – people costs. Not just for the staff in your own organisation, but of all the people input costs in the supply chain including the staff within your suppliers, and their suppliers. He added that often this cost was exaggerated, and costed into prices at inflated rates.

Even worse, not only was the cost substantial, it was an area of real risk. He cited examples where suppliers' contractors were actually legally deemed to be 'employees' of the buying firm. And therefore (in the USA) the purchasing firm became liable for the additional employment costs such as tax, superannuation and healthcare insurance of contractors that were working for them on supply contracts. Substantial sums. He added that they also became responsible for their OH&S liabilities.

Dan described his project at Nike to minimize these exposures and costs to Nike. His message was *caveat emptor*.

At least, that's what The Buyer gleaned from Dan's glitzy presentation. But if The Buyer is wrong and has inadvertently invented a whole new idea, then he hereby claims all rights, copyright, royalties and rewards for this startling new theory. Send cheques payable to The Buyer c/- PP magazine please.

The Buyer – posted 2nd November 2009

#90 - When does benchmarking become collusion?

The Buyer was invited to a business breakfast at a major legal firm the other day. After the cold egg-on-muffin, the generous firm preached legal science for half an hour at their hapless clients.

But, latterly, an interesting question was raised: when does innocent benchmarking become less than innocent collusion and, ultimately, rather guilty anti-competitive behaviour?

Of course, it seems the rules are not 100% clear. They never are when lawyers want business.

But two useful tests got suggested:

1. It is okay for organisations to compare best practices, benchmark processes, even prices. Buying clubs are also quite acceptable. But it seems to be not okay to compare prices (and the line appears to be) when the people swapping information are competitors.
2. It is never okay if those same price-swapping competitors threaten to collectively act together or withdraw their custom (boycott a supplier) unless a common favourable price is offered. That could well be anti-competitive behaviour or even a cartel.

Naturally this blog is not legal advice, and The Buyer strongly suggests that procurement professionals with any concerns contact their own lawyer, office know-all, barman and the ACCC [www.accc.gov.au] before acting on these clumsy half-informed opinions.....

The Buyer – posted 5th November 2009

#91 - When to accept late tenders?

Is 'late tenders' the most controversial subject in public procurement wonders The Buyer?

The ongoing debate of fastidious rule-making v common sense shows no sign of abating. 'Late tenders' hi-jacked the Q&A debate at the CIPSA public sector event way back in 2007 – when 60% of delegates in a straw poll indicated they felt late tenders should never be accepted under any circumstances. A hard line, which is backed up by the Commonwealth government Procurement Guidelines (CPGs), which state; "8.63 Late submissions must not be accepted unless the submission is late as a consequence of agency mishandling...."

But a hard line is a very hard line.

What if the tender is late for reasons outside the control of the tenderer? Force majeure even? A communications mix-up? The courier got lost? Australia Post's fault? A key person at the supplier is sick that day? The delivery man was late? A polar bear mugged the delivery man in the car park and two nuns ran off with the car keys and the tender was in the trunk? A foul-up in your reception area? They sent the e-mail, you didn't get it? The firewall ate the tender? The attachments had a virus? The bid was in Word 07 and the buyer uses Word 05?.....the list of excuses or reasons is infinite.

Fine, you might say. Their fault, ultimately. But what if that late tenderer is only two minutes late, or 30 seconds? Or what if the late one is the incumbent supplier or, even, your favoured bidder? And when is it the buyer's fault, and when the vendor's exactly? Things can get confusing quickly. The Buyer was once found by his Director of Purchasing stuffing ring-binders for an incumbent supplier in the main reception of our building in a desperate attempt to get a complex and eclectic tender into the big wooden box (see The Buyer's Blog #20) by 12 noon that day. Sales reps were driving from all over to get their bit of paper in to the ring-binder on time. How stupid. What a waste of resources.

We were in that situation because;

1. We gave the vendors too little time to answer the tender.
2. The requirements were too complex.

And there lie the two villains of the peace. The two ever-present reasons why tenders are late in the first place. A clue is how quickly, or how often vendors call-in to try and get an extension (for themselves or even for all bidders).

Also suppliers are busy. They are never sat around waiting for the mighty YOU to send out your RFP. You are only one customer – they have lots. Remember the old PMMS work [see The Buyer's Blog #9] – suppliers rate your business by revenue to them and hassle of supplying you v future potential profit from your account. You may not be as far up that scale as you think you are. IF you want the best possible outcome, you may have to be flexible yourself to get everyone to play.

But if you do accept late tenders – how late is too late? Minutes late? Hours late? Days late? A week late? E-procurement will make the whole thing a bit easier of course – until they hit the SEND button too late.

The truth is that buyers should use their judgment – their common sense. You can still be consistent and flexible. Reasonable but firm. Fair but stoic. There is room for judgment here.

When to accept a late tender and when not is partly down to three questions;

1. Did we give (them all) enough time to offer their best solution?
2. Has the bidder got a good reason for being late?
3. Is it fair on the others, or did they get an unreasonable advantage?

Process is sometimes just a poor substitute for judgment.

In the end, use your best judgment at all times.

The Buyer – posted 9th November 2009

#92 - Is category management the new black?

Earlier in the year, The Buyer was loitering in the corridor outside a CIPS category management workshop.

A procurement manager for one of Australia's best known business brands emerged.

"We might give that a try," he said.

"Give what a try?" asked The Buyer.

"Category management," he said, seriously.

Maybe trends, fads and vogues have a role after all – at least in converting the laggards of the profession to the new way.

But what is CATEGORY MANAGEMENT exactly? The Buyer asked CIPS who, after some thought, offered a definition:

The entire art & science of procurement applied to a single genre of spend.

Not bad; but not the full answer perhaps. Category management is a genuine end-to-end process. Which is mostly what separates it from an upstream/downstream strategic sourcing role.

Cat management envelops all aspects of the supply process more naturally than basic strat sourcing. Yes, it is more end to end. More supply chain management than procurement. Maybe even the fulfillment of the marketing proposition – from CONCEPTION to CONSUMPTION. Necessarily more involved with both the tip of the supply chain right through to the actual consumer need.

A Sydney based recruiter offered a definition too – *a mini-CPO role for one category of expenditure*. They elaborated that they saw an easy business case to justify it – for controlling both buying and marketing of a key supply line within a business, with a calculable Rol.

Maybe the real definition of category management is a mix of the two....

The entire art & science of supply chain management applied to a single category of expenditure. And, if that is the case, maybe 'Cat Man' is the new black – or even more, a glimpse of the future of professional procurement perhaps?.

The Buyer – posted 11th November 2009

#93 - Goal alignment the key to successful procurement

At a recent procurement event, The Buyer got stuck in conversation with some dullard who believed in the 'good housekeeping' theory; that simply delivering cost savings, elongated tender processes, great probity, lengthy contracts and tidy files was enough to justify their existence.

If that is the case (and it is for some) then the principles & practices of professional purchasing are the same regardless of the business. Whether it is private or public sector, goods or service orientated, red or blue, or just another poxy company.

It doesn't matter what the business is, professional purchasing will do some good. At least until diminishing returns sets in.

But for 'Purchasing' to become 'Procurement', and for such practice to make a true difference it has to be strategic. It has to work to the common organisational goal and in harmony with the central organising thought for that enterprise – in other words, to the values of the brand. Aligning the goals and deliverables of the procurement effort to the corporate goals is the key to successful procurement. Because then the beauty of the professional contribution is in the eye of the beholder, as the primary measure of success is what the customer wants – in this case the organisation.

Procurement has to be relevant to deliver well, and therefore strategic in its results.

Purchasing can be outsourced – increasingly to a computer.

The Buyer – posted 12th November 2009

#94 - Why carbon trading should be a job for procurement

Just think of 'carbon credits' as a new currency, like Euros say.

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?

Procurement should volunteer for the job, before someone else gets it and makes a hash of it.

Mug up folks – carbon trading is almost here.

The Buyer – posted 16th November 2009

#95 - How to be professional in procurement...

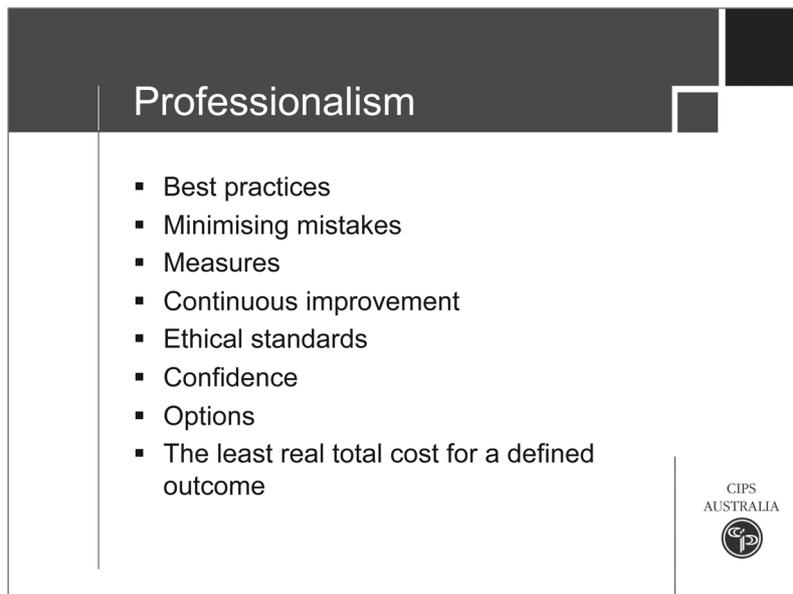
An article in UK newspaper 'TheTimes' [<http://business.timesonline.co.uk/tol/business/columnists/article6860903.ece>] asked the question recently, "what is the point of HR departments?" Quite, you might concur?

But there is a lesson here for procurement too. And IT, Marketing, Legal, Property and any other 'service' professions within large organisations.

The point of this article is 'how hard can it be, dealing with people?'

Many think the same about procurement. Buying stuff. How hard can it be, shopping? I mean I do it every day, the occasional haggle and a bit of chasing perhaps – can't be difficult, surely?

And that's the argument for professionalism. Not to make things obscure. To professionalise them. The key question is though, what does professionalism truly mean? There are many definitions. Almost every dictionary has a different slant on the definition. This is a CIPS slide defining professionalism – of course the whole point of the Institute is to effectively promote professionalism:



Professionalism

- Best practices
- Minimising mistakes
- Measures
- Continuous improvement
- Ethical standards
- Confidence
- Options
- The least real total cost for a defined outcome

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The Buyer's favourite definition of professionalism is the second line – minimising mistakes. Forgive the inference, but hiring an 'old pro' gets the job done right and for the least total cost in the end. Professionals deploy the corporate memory of the profession. Everything that the profession has learnt over the years encapsulated into accepted standards and the best practice for the given situation [see also The Buyer's Blog #7], guided by the right process.

We all make mistakes, we are all human, but professionals make fewer mistakes. Moreover, they don't fall for the obvious mistakes, they will relate theory to practice, apply standards & ethics and deliver a least total-cost outcome for the beneficiaries (unlike HR of course). And that way we demonstrate that professional procurement is not just 'shopping' and not everyone can do it. Because it is complex and difficult to get a good outcome, because so many stakeholders want so many different outcomes from their buying – not just delivery, not just a good price. But less risk, better quality, lower total costs and so on. In fact, there's a CIPS slide on that too.....

The benefits of professional procurement

1. Security of Supply
2. Price management
3. Cost reduction
4. Greater efficiency
5. Risk mitigation
6. Improving quality
7. Adding value
8. Value generation
9. Sustainable options
10. Speed to market

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The Buyer – posted 19th November 2009

#96 - How NOT to use your in-house lawyers

Oddly enough, a CIPSA person told The Buyer, the most popular training courses and seminars that CIPSA run are the legal-beagle ones. Especially the two-day 'Contract Law Masterclass' apparently.

It is odd because almost all major organisations have their own in-house legal department. Surely that is their domain?

Do procurement professionals not just delegate (or in-source) their legal queries and drafting to the indolent team of legal colleagues ready to re-charge by the six minute time block on the chess-clock the have on their desks nowadays?

Obviously not. Because they are busy. There is much legal work in all major organisations of course. But there are rarely firm SLAs in place with busy in-house legal departments, so tiresome and repetitive queries from the procurement team often go to the bottom of the pile. What buyer can wait three weeks for a legal viewpoint? And then get 'legal' not 'commercial' advice at the end of it? It is not a good use of the buyers' time, the lawyers' time nor a client's resources.

So the onus is on all procurement professionals to have a decent, working level, understanding of contract law. That is why there are two modules [at Level 4 and Level 6] within the CIPS qualifications syllabus. It is an essential part of the job – right down to *Hadley v Baxendale*, the *Carbolic Smokeball Company* and an *Invitation to Treat*. It is part of being a procurement professional.

Moreover, buyers need to know exactly where the boundaries are – they need to know when they are on safe ground if drafting & negotiating contracts, and where they are in deep water and need legal support and advice. Then they will also then know just enough to specify the RIGHT question for the in-house counsel and, therefore, get the RIGHT legal advice to apply commercially to the case in hand. Making contracts is part of being a professional buyer. And making the job easier for yourself and your legal 'supplier' just common sense.

The Buyer – posted 23rd November 2009

#97 - What to wear on dress-down day – for natty procurement people

There is a safety in dressing for work in an office environment, especially in procurement – just grab the first thing in the wardrobe, usually in the dark.

Any mix of corporate uniform will do – and the darker the better for suits, jackets, trousers and skirts.

But, what to wear on dress-down day? Or for the office awayday? Or on a training course?

Are chinos okay? A summer dress? Jeans? Runners? That top?

The rules vary – but the principle doesn't = casual is okay from time to time if not seeing key stakeholders/managers/suppliers that day: But always look professional and groom well.

For rule-needers amongst us, it gets simpler: Don't look like you've just come from the disco, the beach, the gym, a building site or the street corner.

There, does that make it easier.

The Buyer – posted 26th November 2009

#98 - Why Copenhagen is important to procurement

In the future, carbon (or at least carbon credits) will become a new form of currency. A tool for buying and selling something of value. Who better to manage that process than procurement professionals? [see The Buyer's Blog #4].

Simply, all the techniques, skills, processes and procedures of procurement apply – just the actual currency changes to carbon. Think of carbon the same way as € euros say, and suddenly it makes sense. Procurement skills should be easily transferrable.

Many organisations still manage their CPRS strategy within the Strategy department, CFO's office, specialist CSR team, outsources or consultants. Few have handed over responsibility to their different brands/businesses/SBUs around their group. Even less have actually farmed out the responsibility to operational managers. That will start to change after December 2009 and the outcomes of the Copenhagen summit, as governments around the world start to implement any new treaty to start in 2013 post-Kyoto.

Copenhagen holds the potential to be much bigger than Kyoto. Or even an anti-climax to Kyoto – we'll see. But either way it will be a critical decision day for most organisations waiting to see how the land will lie in future with regard to global carbon trading? It could (and should) have a significant impact in the medium term – to save us all in the long term.

There is much stuff around on Copenhagen of course.....

- The Age ran a 'Copenhagen 101' story by Adam Morton on 10th October 2009 which helped explain it all simply [www.theage.com.au]
- Google 'Copenhagen summit' and you'll get a few billion hits.
- This site ran a news update on the story only recently [www.pponline.com.au/news] identifying some reasons why it is all relevant to procurement.
- Also, CIPSA have announced a one-day 'CPRS for Procurement' in March 2010 [www.cipsaconferences.com.au]

The key for us though, is what role should procurement people be playing in future? If actual carbon trading is left to those without trading skills, it may be doing a disservice to your organisation.

The Buyer – posted 1st December 2009

#99 - Should you treat suppliers the same as staff?

A recent white-paper from Kinaxis suggests you should treat suppliers collaboratively. Even treat them as an extension to your own organisation.

[<http://info.kinaxis.com/content/scmr-supplier-collaboration>]

Maybe. But that may be going just a tad too far thinks The Buyer. The old IBM account-management model (the best in the business) always taught their sales account managers to be 51% IBM and 49% customer orientated. That seemed very magnanimous in those days, even generous. But it looks more normal than exceptional nowadays – so they were probably right.

But certainly, treating suppliers as 100% the same as your own staff is going a tad far perhaps... otherwise what is the point of suppliers? You may as well buy up every company that supplies you.... there is a real cost to treating people exactly the same as staff. For example, low cost country sourcing has its benefits centred around lower cost labour.

What is not beyond doubt is that most buyers could benefit from treating suppliers better; much better in some cases maybe. Even collaboratively. Just not exactly the same, that's all, as there is still benefit in some modest distance in the relationship. One good sign was buyers hosting their suppliers for a night out at the CIPSA NSW Christmas Ball in Sydney last year. Who'd have thought it eh, buyers hosting suppliers for a change [see The Buyer's Blog #49].

The Buyer – posted 4th December 2009

#100 - What to accept from suppliers at Christmas

The time of year presents Bristow and busy buyers numerous tricky personal and professional dilemmas.

The Buyer will leave office party etiquette, gifts for the boss and mistletoe technique to others. But the annual dilemma of when to accept gifts from suppliers and when to decline can haunt honest professionals.

Different organisations have different rules. And if in doubt DECLINE politely citing the official or unofficial policy at your workplace.

But no one seriously suggests professional buyers are swayed by token gestures at Christmas. But where is the line? The Buyer has blogged before on this topic – and the rules and guidelines don't change just because it is Christmas [see The Buyer's Blog #12].

Simply, if you feel any disquiet at all or, importantly, if you think others may judge you – don't accept.

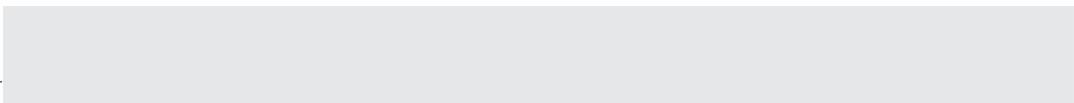
If a gift it arrives in the post or by courier – it is okay to return it if you must. You may look churlish – but better to be churlish to one, than greedy to many eh? Or, worst case, declare it openly and prepare to share with the team in the office, or donate to charity.

Only if it is trivial should you trouser the gift.....

Of course, it is okay to offer gifts to others – in the spirit of Christmas and building relations with valuable suppliers. They won't decline though.

The Buyer – posted 11th December 2009





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