

Stopping your Company being a Cash Cow

By David Byrne

Companies are being taken for granted and if your supplier network is not doing the right thing by you then they are not being fair or reasonable on how they are establishing contracts. That is what I call a Cash Cow and I have seen it plenty of times and I have helped companies with over a 100 employees and larger companies with thousands of employees put structure into their organisation to stop the Cash Cow. You shouldn't assume that big is always better as I have been in those organisations, it is a lot more of a challenge and fun and this is what I enjoy about my job. You can go into an organisation and it is a Cash Cow and you set about turning that around and stop the company being absolutely milked by their supplier network. I really enjoy that and get a kick out of it as it is a lot of fun for me.

That is not to say there are a lot of challenges and you put a few people and suppliers offside, but that is okay because if your supplier's network is not being fair and reasonable to your company then something needs to change and you need to be the person to make that change. We all go the direction we face therefore we must determine the direction we are going. If you are running east looking for a sunset then you have some serious problems ahead of you cause that is just not going to happen.

If you roll into an organisation and you believe that it is being used as a Cash Cow here are some simple signs of why and how your company is a Cash Cow:

- (1) your supplier base is growing and growing relentlessly and doesn't stop. New suppliers are constantly being added but why hasn't the business established a procurement framework to support this.
- (2) you don't have a contracts register. This may sound really simple but it is quite common and especially in large organisations that you assume, and rightly so that they would have things under control and a contracts register is one of the things they don't.
- (3) the company don't know how to manage contracts. You come across this a lot where there is no structure in place for actually managing contracts. This is just a gravy train for suppliers who take advantage and think "I just need to get into this Cash Cow" and keep rolling through the money and they keep draining the trough as they keep going.

You see it a lot in organisations where they have no idea how to manage contracts. They put a contract in place and bang off you go. They believe the supplier will keep sending the invoices and the organisation pays it. This happens with no checks and balances put in place and from here the Cash Cow just keeps milking it.

- (4) you have no process for tendering or signing contracts and when this is the case things can get out of control. There is no prudent financial management on actually deciding which suppliers obtain contracts through your organisation.

You then realise you have no purchase order system in place. This is something I have seen a lot in both large and small organisations and verbal purchase orders are an absolute killer as they allow your organisation to get milked which is a crying shame.



Software these days is amazingly cheap when you consider what you can pick up on the cloud, therefore having a purchase order system is really a basic fundamental to your business. It protects you as an entity and gives you a structured process on how you will order and spend money within your company. It is criminal to think some companies don't have it and the focus is too much on gaining revenue where purchase orders you just see the money going out the door. Verbal purchase orders just lead and open the door to a fraud event and you don't want to go there.

Next is your inventory ballooning out of control. I have seen this a lot where people say "I need one but I will buy six" and it is crazy to think it happens but it does. Understanding how you are going to manage your inventory is a really important part of your organisation.

Lastly, the level of business acumen within your organisation may not be up to the standard that you are looking for. Business acumen is a key part of the function. I had a senior IT person ask me once "why do I need a contract for some software we are buying". This was in a large financial institution involving customer data and he didn't understand why we needed a contract. This particular person was also in charge of a significantly sized team. In my eyes this was a real lack of business acumen and understanding of why contracts exist and a total lack of business acumen with this person.

So, how do you stop your company being a Cash Cow – put together a procurement framework which will give you structure, systems and processes across your organisation. Any good procurement specialist will be able to do this for you and it may sound really simple but that is the basis of all good controls on how to stop your company from being a Cash Cow.

If you are that person that is still running east and looking for that sunset I think it is time you changed and embraced what a procurement framework can do for your organisation and the level of risk management it can deliver.