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PROCUREMENT BALANCING ACT

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Welcome to Procurement Talk and this is your host David Byrne. Procurement Talk is for procurement and business professionals, where we provide insights and solutions to your procurement challenges.

Hello and welcome to Procurement Talk. This is your host, David Byrne. It's great to be back for another episode. This episode is titled “The Procurement Balancing Act”, and I'm going to cover off 11 key topics that you might be balancing in your current role. And it's pretty common for us to be juggling all sorts of things in procurement. That's what makes the role such interesting and diverse. But here's a couple of words that you might frequently hear from management about right-sizing the procurement function or ensuring it's fit for purpose. There's a couple of sayings that you frequently do hear that do lead to these 11 topics that I just want to cover off with you today. And the most critical and balancing that performance, some pros, some cons to make sure you strike the right balance and some of the key metrics that you can measure for success within your role.

First of all, global sourcing and local reliability. A couple of challenges there. Global suppliers may offer lower costs and innovation, but they do introduce risk around tariffs, delays and geopolitical instability, so that's not uncommon. But with your local reliability, you also could have that benefit of having that knowledge of a local supplier that's able to deliver critical and time-sensitive needs rather than the global supplier. So look at suppliers' lead times, variability, and the frequency of supply disruptions when making those decisions.

Second, Innovation or proven suppliers. Innovation is a real catch cry word and people love to use it. I think a bit over the top I reckon at times, but innovation is important and new suppliers that are innovative and bring fresh ideas to the table are sometimes really beneficial against the proven suppliers that you have been using for years. The balancing act is to maybe pilot some of those innovative suppliers in some low-risk categories while maintaining that core relationship for those critical items. And that way you could get the balancing act right of trialling the new innovative suppliers whilst also keeping your proven suppliers with you and on board. And supplier scorecards and innovation, adoption rates are all ways that you could measure how that's working best for you.

Thirdly, sustainability and cost efficiency. Sustainability is a key word, and you see that alot today. I recently did a podcast on sustainability. I think it's a really important topic, but it does come up with some upfront costs and making justifications for it around the budget, can be challenging at times. Whereas management does really push for cost efficiency to prioritise saving money and reducing that long-term cost. And it could be around energy efficient packaging or reusable materials. There's ways to do that, and so making sure that the life cycle cost analysis for your products and services, and if possible, looking at the carbon footprint you're doing in, and so that you're balancing that sustainability, but also with that cost efficiency lens across it.

Fourth, automation and human oversight. Automation is really big, and obviously AI is pushing that very hard, but there are some smaller aspects of AI and automation that you can automate and speed up and boost the accuracy and the delivering of the content in your organisation, without spending an enormous amount of money. But to balance that out, you've got to make sure that you reserve the right to have that human oversight for input into strategic decisions and understanding exceptions and how that works. So automation's good, but you also need that lens, that human oversight, to make sure what you're seeing is right and that you are getting the right decisions so that if there are exceptions, you can honestly, fairly and equitably manage them to ensure that your procurement process is right, the error rate in procurement process, and the time line is right on the money for your organisation.

The fifth item is risk mitigation and supplier trust. Overly strict controls can alienate suppliers, but on the other hand, too much trust can expose the business to risk. So you need to balance this by building transparent, performance-based contracts with clear KPIs and escalation paths for your supplier base. You can do this and measure this by having contract compliance rate, supplier satisfaction score-carding, and the number of risk incidents per supplier. And that way you can effectively manage the supplier trust and also the risk mitigation to your organisation.

The sixth point I want to cover off is inventory and cash flow. Holding too much inventory ties up capital. We all know that, and it's been a strong push to deliver on-time inventory over decades now. Too much stock increases storage costs, requires space, and you just get left with too much inventory. You then have to undertake stocktakes which go on and on and you lose sales. It's just a poor thing, so effectively managing your inventory is a key component. To balance that and with the cash flow, it's maintaining that optimal levels to ensure the demands, forecasting and just-in-time strategies are hitting the money. Inventory turnover ratios are important. Day inventory requesting and stock take rates and working capital can't be tied up too much in your inventory. So you've got to manage that well and you've got to ensure that you've got a keen eye across that.

Number seven in our balancing act is speed versus compliance. Fast procurement can bypass the necessary checks. We all come across the constant, ‘I want it, I need it now, you don't understand, I've got to go and buy it’. That's fast, but it really does bypass those compliance issues. So ensuring that you've got a streamlined process for your procurement and having adequate compliance controls and automated approvals at an appropriate level to ensure that you can deliver the speed for certain items at a certain value, but at that higher level of procurement, you still need to have that level of rigor and compliance put into your process. The percentage of complaints that in procurement is around those smaller items that we can't procure them quickly enough. So make sure you have the appropriate streamlined processes in place to ensure that your procurement can run smoothly.

Number eight on the list of the balancing act is cost savings versus strategic value. Focusing solely on costs can undermine supplier quality, total cost of purchase, innovation and long-term value. So if you're going to focus really hard on those costs, it's going to come at a challenge and that strategic value that you're looking for from your supplier base might evaporate if you're focussed so hard on cost. If you're just pushing so hard on that, the ownership and the control within the business tends to evaporate and then that strategic visions and the goals that you want to achieve will be missed. You need to balance cost savings with strategic value. Think about supply performance, percentage of strategic spend within your organisation and the return on investment that you want from your strategic suppliers. That's an important part.

Number nine is standardisation versus flexibility. Rigid processes can stifle responsiveness. Too much flexibility can lead to inefficiency and non-compliance. So you need to balance this out.Standardise core workflows while allowing exceptions for unique and urgent needs is a key component of having an effective procurement process. Use satisfaction scores, compliance rate across categories and time to process manage non-standard requests. These are all do-able within your organisation.

Number 10, and this is a biggie, centralisation or decentralising of the procurement function. The amount of times that you'll see this and it's constantly debated, centralised procurement function offers much better control on a larger scale, whereas decentralised model enables agility and local responsiveness. It's that balancing act on what your organisation is doing and what you're doing. So maybe a hybrid model is the best, having some centralised strategic sourcing, but also some decentralised tactical buying that suits your organisation. And you could do this by measuring your spend under management, versus centrally and locally. Procurement efficiency by regions. supplier consolidation rates and look at stakeholder satisfaction across your business units is a good way to measure whether or not the centralisation or the decentralisation model is right for you. But there's ways to do it, so just have a look at it and think hard about what works for you, or it could be the hybrid model.

Number 11, the last one of the procurement balancing act - Single supplier or supplier diversification. Relying on a single supplier can simplify your operations and deepen those relationships with your strong strategic partners. But it also increases your vulnerability to disruptions, and that's a real concern. Alternatively, if you can diversify your suppliers, you can spread the risk. But this adds with some complexity and also some costs. I'm a fan of diversifying and spreading the risk because you never know what's going to happen.

And it comes back to those couple of key phrases I said at the start. It's about right sizing your procurement function and ensuring that it's fit for purpose, and that's a balancing act. And I think I highlighted for you today those 11 key topics around making sure that your organisation has the right balancing act, and you've got it fit for purpose for your organisation.

Well, that's it for today, all the very best and bye for now. This concludes this episode of Procurement Talk. Thank you for listening.

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