

# Entrepreneurial Purchasing

By Colin Coulson-Thomas



**'You are what you eat' is a slogan of our time. The corporate equivalent could arguably be 'you are what you buy'. While over indulgent eating can lead to obesity, flabby buying can drain a company's coffers and impair its performance.**

The cash generated by a business is the difference between payments into and out of corporate bank accounts. Companies need to be entrepreneurial when buying from their suppliers as well as entrepreneurial when generating revenues from their customers.

Far too many purchasing teams focus on short-term issues and do not contribute to the formulation of corporate strategy or the development of new products. They fail to strike up and sustain relationships with external suppliers that might both help them to control costs and improve the quality of their offerings.

Many purchasing professionals also fail to secure senior management appointments because they struggle to demonstrate the value they are adding. They are perceived as paper processors rather than creative entrepreneurs. The attitudes, competences and approaches of many purchasing professionals need to change.

One of the 'winning companies: winning people' research teams led by the author found that for almost 70% of 296 companies surveyed, purchases of external products or services amounted to over a half of their total costs, while all companies reported that their purchasing

achievements were falling short of their aspirations. Clearly more effective purchasing can have a very significant impact upon the bottom line.

#### **Effective purchasing**

The 'effective purchasing' study of European purchasing was undertaken with the cooperation of the European Institute of Purchasing Management. The resulting *Effective Purchasing, the Critical Success Factors* report\* reveals significant differences between the approaches of winners and losers, the companies that succeed and fail respectively at achieving the benefits of effective purchasing.

# When negotiating, losers play win-lose games

# Winners are more likely to pursue win-win approaches

Losers tend to view purchasing as an administrative activity of relatively low status that is sometimes a source of both management and quality problems. Purchasing arrangements are often fragmented and attempts to consolidate them are viewed as empire building by cynical business colleagues. Targets tend to focus upon year on year savings, yet often ignore price movements over business cycles.

Purchases by losers are often ad hoc. Losers like to shop around. They avoid 'getting involved' with particular suppliers. They look for 'deals' and opportunities to make quick savings. They also fail to recognise differences of capabilities among different suppliers, and that one's approach to purchasing may need to vary according to factors such as degree of commoditisation, volume, storage, transportation, quality and item importance, value or visibility to end customers.

Compared with effective purchasers, losers are less successful at all of the considerations relating to choosing suppliers that were examined by the research team. Sometimes they have so many relationships with different suppliers to maintain, that finding the time to assess individual providers and properly distinguish between alternative suppliers becomes difficult, if not impossible.

When negotiating losers play win-lose games. They keep their various suppliers at arms length and endeavour to play one supplier off against another. They tend to be oblivious to the longer-term consequences of their relentless drive to cut costs. The benefits of consolidation, bulk-buying and cooperation elude them.

Losers give a low priority to the ethical employment, environmental and safety records of suppliers. They also seek to avoid the scrutiny of their colleagues and are slow to assess their own performance. Winners are different. They measure and report their achievements, and demonstrate their contributions to colleagues. Their greater openness encourages others to have more confidence in them.

For winners purchasing is a source of competitive advantage. They work with their suppliers to reduce costs, innovate, and improve quality or speed up deliveries. Involving purchasing and preferred suppliers earlier in the new product development process can often reduce the time required to bring new products to market by a quarter or more.

## Winning teams

Winners are more likely to be involved in boardroom discussions of business strategy and new product development. Integrated systems are also more likely, that provide group-wide information and monitoring capability. Winners are able to show they are in control and achieving

purchasing objectives. Their targets are more likely to include the building of longer-term and partnering relationships with strategic suppliers, and integrating purchasing into group strategy.

In comparison with their less successful peers, winners are also more likely to pursue win-win approaches to negotiations. They recognise that building value can be as important as controlling costs, and that working with certain suppliers might enable the delivery of improvements and innovations that lead to more competitive offerings and benefits for both parties.

Canny winners recognise it is usually in their best interests that strategically important suppliers do well. Squeeze them too hard and they may lack the margins needed to fund the investments that would enable them to stay at the top of their game. Collaboration to find new ways of working together can lead to opportunities to save both sales costs for the supplier and purchasing costs for the customer.

Winners prefer longer-term contracts with reviews, and framework contracts with local call-offs. They are more interested in establishing and building collaborative relationships with a smaller number of strategic suppliers, and monitoring the quality of what is procured. They are also ahead when it comes to using IT and ebusiness technologies to automate aspects of purchasing, and facilitate methods of purchasing such as 'internet auctions'. Losers play catch up where the winners pioneer.



When assessing suppliers, winners look for a willingness to enter into a partnership, flexibility and senior management commitment. Other considerations when selecting key suppliers are product quality, low cost and delivery track record, while for building a successful relationship, responsiveness, technical support, technical leadership and, once again flexibility, are especially important.

## Changing times

In recent years purchasing has been transitioning from a regional to national and from national to multi-national model. In larger companies it is becoming increasingly continental or global in scope. Winners favour smaller but more able teams, made up of purchasing professional who endeavour to keep their skills up to date.

Losers appear to be some way behind the winners in relation to longer term trends. Thus many of them were still centralising, while their more successful peers who bought more centrally were devolving responsibilities to operating units within a framework of approved suppliers and group standards. Winners are more willing than losers to trust colleagues to make higher value purchases.

While losers buy a smaller proportion of a wider range of goods, winners are more likely to spend over half their total costs on bought in items. In particular, they enter into more partnership arrangements and are more willing to outsource. While the purchasing costs of losers are sometimes hidden, winners are both more aware of such costs and more likely to allocate them either to benefiting business units or central overheads.

Few companies appeared to have an integrated approach to checking the quality of purchased supplies. Winners were more likely to get the quality checking basics right, while losers tended to 'hope for the best'. Some losers play Russian roulette with quality, neither requiring supplier liability for faults, nor carrying out supplier audits.

Benefits of effective purchasing secured by purchasing winners include control of product quality, the integration of purchasing into group strategy and product plans, minimum costs of goods purchased, the use of standardised components/materials specifications, minimum work in progress stocks, security of supplies, partnerships with key suppliers, and retrospective discounts.

Losers tend to operate in isolation, while winners are more alert to what is happening in the marketplace. Effective purchasing teams aim to beat market prices by continually monitoring what others are buying, and taking immediate action to remedy any divergences of prices paid by competitors. Winners also embrace just in time or lean purchasing and benchmark their performance.

Companies with successful purchasing departments are more likely to be engaged in international trade. International sourcing is spreading and more activities are being outsourced, including the purchasing function itself. By adopting a more strategic approach, and acquiring the skills and experience to manage and monitor collaborative relationships, winners are more able to safeguard the intellectual capital and know-how needed for knowledge-based competitiveness.

It is important you understand where you are in relation to the differing approaches of winners and losers. The 'effective purchasing' database has been constructed to allow companies to benchmark their approaches against their peers in the survey sample and the winners who derive the most benefits from their purchasing functions. The 15 page bespoke report\* that has been produced covers 137 purchasing issues and enables those who complete a questionnaire to identify the areas they most need to improve.

## Further information

\* *Effective purchasing, the critical success factors and related bespoke benchmarking reports*, that compare corporate performance with the average for both all companies and those companies that win most benefits from their purchasing functions, are available from Policy Publications by: Tel. +44 (0)1733 361149; email: [colinct@tiscali.co.uk](mailto:colinct@tiscali.co.uk), or from [www.ntwkfirm.com/bookshop](http://www.ntwkfirm.com/bookshop).

The findings of the winning companies: winning people research programme are summarised in *Winning Companies: Winning People, the differing approaches of winners and losers* by Colin Coulson-Thomas which can be obtained from Kingsham Press, +44(0)1243 779378, Fax: +44(0)1243 779078, email: [sales@akdpress.com](mailto:sales@akdpress.com) or from [www.akdpress.com](http://www.akdpress.com) or [www.ntwkfirm.com/bookshop](http://www.ntwkfirm.com/bookshop).

## About the Author

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