

Exceedingly Good Savings

A centralised procurement team made a big difference to costs and the function's profile at food producer RHM, writes Emma Clarke

A newly centralised purchasing team at RHM - one of the UK's largest food producers - cut costs by £20 million in one year. The department describes this achievement as a dynamic performance, and the judging panel agreed, characterising the benefits as, dramatic.

The transformation began in 2003 when Ian McMahon was appointed chief executive. His aim was to change a collection of independent food companies that manage brands including Hovis, Bisto, Sharwoods and Mr Kipling into a centrally co-ordinated group. His task began with procurement.

Gerry Walsh was appointed RHM's first group procurement director and was given the task of developing a centralised purchasing department to replace individual teams working in its four divisions.

Walsh started by consolidating procurement for indirect goods and services that were previously outside procurement's control. There are now no off-limit areas and all expenditure, even for sensitive spends such as marketing, professional services and HR, is routed through procurement.

The next stage was to look at direct spend and develop strategy plans for the firm's top 35 commodities. Rather than each division buying the same ingredients, RHM now has a team of lead buyers who manage spend for commodities used across the organisation.

A lack of cross-divisional working meant it was difficult for RHM to leverage its size, says Walsh. Suppliers didn't know that different divisions were part of the same group.

As well as enabling competitiveness, this new structure has also ensured risk mitigation and given the organisation a longer-term view.

With buyers working in a centralised/decentralised team across a number of divisions, RHM developed a set of policies and procedures to ensure all stakeholders were working to the same agenda. RHM was the first food manufacturer to achieve full accreditation from CIPS for its procurement policies and procedures, which, adds Walsh, have also prompted buyers to focus on areas such as corporate social responsibility and risk management.

The change has enabled RHM to build better relationships with its suppliers. By 2005, the firm had reduced its supply base by 40 per cent, which meant it could cut costs from the supply chain and allow procurement to form deeper relationships with remaining suppliers.

Between 2003 and 2004 RHM invited its top 200 suppliers to attend two conferences so the company could explain its procurement strategy and seek feedback. Suppliers that have committed to help RHM reduce costs and participate in product development have been rewarded by increased business.

Staff are now more energised and cohesive, says Walsh. All staff now work with internal business colleagues to provide procurement advice, sourcing, training and expertise.

Despite a more central approach, said the judges, these changes have the support of the internal customer because they can see the benefits which have been delivered.

In a 2004 stakeholder survey, 97 per cent of 211 staff questioned said they wanted procurement involved at the start of projects and 74 per cent thought the function provides necessary support in delivering business objectives.

Key to success, says Walsh, was backing from the top. Support from the chief executive and the executive team has been outstanding and helps procurement to carry out its role to maximum effect.

We set out to become leaders in our business area, says Walsh. Now we would like to move it further to become pioneers.

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