

Linking strategy and purchasing

An organisation usually has a corporate vision - a 'North Star' - something it is aiming for and which is often aspirational. The vision is then supported by the mission that is a realistic aim over a reasonable time-scale, being reviewed, typically, every 3-5 years.

To support the mission, functions within an organisation often have objectives with time-scales of approximately 12 months. The purchasing function should be no exception. The goals should be SMART in that they are Specific, Measurable, Achievable, Realistic and Time-bound.

The relevant strategies are then developed and perfected to ensure achievement of the objectives.

Policies, although not cast in stone, generally are of long duration and are updated every 3-5 years. They reflect the ethos of the organisation and are a key aspect on which purchasing and supply management is able to exert an influence.

It is important to avoid, or at least minimise, problems arising from mismatching time-scales. One of the key responsibilities of purchasing and supply management professionals is to be aware of (and if necessary draw to the attention of the relevant people within the organisation) cases where procurement strategies are at variance with the time-scales of the corporate plan as a whole.

Notwithstanding the above, CIPS acknowledges that different terminology is used interchangeably and often inconsistently within the sphere of organisational strategy, with terms like policy, objectives, procedures and indeed the term strategy itself often being confused.

The situation is not helped by the fact that strategy comes in a variety of forms. Thus, there are various levels of strategy such as the eProcurement strategy and how that feeds into the purchasing and supply management strategy. There are also strategies for a particular category of spend or for a project.

These are often termed 'contract strategies', 'category plans', 'procurement strategies', 'commodity strategies' which are actually individual plans for particular procurement projects. It can be argued that these are tactical plans. Sometimes such tactical plans generate and influence organisational strategy by means of backward integration i.e. acquiring the supplying organisation.

Examples of Corporate Goals

These are relatively few in number, but typically include:

For profit-driven organisations:

- Increasing profitability
- Developing the business
- Staying independent
- Safeguarding the organisation's future.
- For public bodies or non-profit making organisations:
- Achieving improvement and value-for-money in public services
- Promoting democracy and/or political objectives (central and local government)
- Promoting certain values or causes (e.g. Commission for Racial Equality, Countryside Commission, charities)
- Protecting people (health, social care, armed forces and emergency services).

For a company whose goal is to maximise profitability, strategies might include:

- Cutting manufacturing and distribution costs
- Removing unprofitable lines
- Being lean and mean
- Developing new, more profitable products
- Transforming unprofitable customers
- Selling the existing profitable products into new markets.

An organisation with the primary goal of expanding the business might:

- Grow through merger and acquisition
- Sell existing products into new markets/sell more of existing products in new markets/sell new products into existing markets/sell new products into new markets
- Reduce prices so as to sell more.

A public body whose goal is to achieve improvement in public services might:

- Seek to optimise the use of resources to maximise the benefit
- Improve efficiency and eliminate waste
- Invest in infrastructure and new technology
- Recruit, train and develop its people.

The examples below reiterate some of the typical goals of an organisation and indicate what procurement strategies are appropriate for achieving those goals.

- Cutting manufacturing and distribution costs
The relevant procurement strategy is to reduce supply chain costs

- Cutting out unprofitable lines.
The procurement strategy is to negotiate the organisation out of existing supply contracts for materials or services that support those lines.
- Improving efficiency and eliminating waste
Rationalising support roles so that core activities focus only on clear prime objectives. The procurement strategy is to consolidate procurement to ensure learning and good practice is shared.

Integrating Purchasing and Supply Management with other Corporate Functions

An organisation's individual functions such as purchasing and supply management, marketing, operations and human resources then generate their own objectives that support and align with the organisation's corporate objectives and strategies. These must also dovetail with each other so that the purchasing and supply management objectives align with those of operations for instance.

Purchasing and supply management strategies should be visible and demonstrable. A Balanced Scorecard approach is recommended to ensure consistency across the organisation (Kaplan and Norton, 1996). It can also be argued that in times of increasing organisational change, the objectives of an organisation must be integrated carefully to ensure that it remains focused on the central strategic objectives. Purchasing and supply management professionals have sound commercial skills that should be applied across the organisation. CIPS encourages purchasing and supply management professionals to work with marketing and sales in teaming and bid preparation activity and with senior management when considering joint ventures - these are just two commercial activities where purchasing and supply management skills can be applied to good effect.

In essence, purchasing and supply management must be aligned, and remain aligned, to the organisation's corporate objectives.

CIPS Positions on Practice

CIPS considers that the key roles, characteristics and objectives of the purchasing and supply management function with respect to the implementation and development of a corporate strategy, whether it is in industry, commerce, public service or in a not-for profit organisation, are as follows:

- To ensure that as far as possible procurement strategies are in harmony with the time-scales and objectives of the corporate plan.
- The purchasing and supply management department should be quick to capitalise on those occasions when, due to external PESTEL forces, directors are particularly aware of the impact which sound purchasing techniques can have on the bottom line.
- An effective purchasing and supply management department, staffed by fully-qualified professionals, is in a strong position to influence corporate behaviour.
- To maximise its contribution to corporate wellbeing, it is essential for all members of the purchasing department to have an in-depth appreciation of the strategic objectives of the organisation and how purchasing and supply management can contribute to the achievement of corporate goals.

- Purchasing and supply management professionals should have the ability to analyse the corporate plan in such a way that they are able to generate objectives and opportunities for the purchasing department.
- Purchasing and supply management professionals possess sound commercial skills which can be of benefit to the organisation as a whole - in the development of joint ventures, for example.
- Purchasing and supply management professionals should in general be supportive of change where it can be seen to be of benefit to the organisation
- Effective communication is critical to the success of any strategy.

Conclusion

As this position paper has demonstrated, purchasing and supply management has a pivotal role to play in the formulation and evolution of an effective corporate plan; indeed CIPS would suggest that it can be unwise to develop such a plan without the active involvement of purchasing.

By definition this means close co-operation and regular discussions with members of the Board and it is essential therefore that the purchasing department is seen as an efficient function within the organisation, staffed by qualified professionals.

Whilst it is not being suggested that efficient purchasing is simply about cost savings, experience has shown that an efficiently run purchasing function is able to make a significant impact on the achievement of corporate strategic objectives.