

You don't know what you've got till it's gone: What happens when procurement disappears?

Introduction

The benefits of investing in professional procurement operations are well documented. So what happens when procurement resources are lost from an organisation?

The ongoing debate is mainly over how procurement should operate, how it can measure its achievements and how it can raise its profile in the wider business world. What is less often seen though is what happens when procurement resources are lost from an organisation. Evidence shows just how damaging this can be.

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The history of professional procurement so far has mainly been one of a gradual recognition as a key business function. Generally speaking, companies and other large organisations have seen how investing in high-calibre procurement professionals results in big savings often amounting to millions of dollars in the purchase of everything from raw materials to management services.

However, when procurement is reorganised, or its personnel redeployed or staff leave and are not immediately replaced, it causes huge disruption to the business, far more than is obvious at first glance. Yet this happens, and when it does, it throws into sharp relief the benefits procurement delivers. In the words of the song, you don't know what you've got till it's gone.

This was the case with a large manufacturing company who, whilst not intentionally looking to reduce their procurement function, did not comprehend the importance of sudden reductions in headcount. The company operated in six European countries, had annual revenues of £2.5 billion and operated a "lead buyer" model in which deals were negotiated centrally and then rolled out to the regions. However, several senior procurement personnel from a small team left the company and were not immediately replaced.

The result? Local buyers, left unsupervised as a result of the loss of procurement resources, reverted to local deals and prices paid started to rise. After 12 months the procurement bill was up on average by 6 per cent.

This is fairly typical: loss of procurement resources usually results in an increase in costs for the company of 6-8 per cent within 12-18 months. When procurement professionals are no longer there to keep an eye on contracts, deal with suppliers day-to-day, renegotiate deals where necessary and monitor the supplier markets, cost increases will result as night follows day.

There's a lesson here for top management and decision-makers about the value of investing in procurement. And there's a lesson for procurement leaders too: make sure everyone knows not just about your achievements but also understands the disaster that would befall them if procurement were no longer there to fulfil its vital role.