

Profit-centric Procurement with ERP

Is your Procurement Department a black hole for profits? Black holes are most famous for sucking in everything around them - planets, suns, galaxies, even particles of light. They are also known to suspend time: if a clock was sucked in, it would slow until it appeared stuck, when in fact it was working perfectly.

This may be metaphorically apt for Procurement Departments of yesteryear, but this once simple purchasing function is what's driving partnerships and profitability in many businesses today.

It's surprising how overlooked procurement has been all this time, with executives traditionally scouring sales, marketing, R&D and operations, in an attempt to squeeze any remaining profits. But this has changed. Modern management is now only too aware how vital a company's purchasing activities are to its bottom line.



Global Economics

Businesses have been global for centuries; constrained only by communication and transportation. Now that communication costs have plummeted and delivery times reduced, procurement is no longer restricted geographically. It's now global, for everything from roses to iron ore.

Worldwide, Foreign Domestic Investment (FDI) has enjoyed phenomenal growth over the last two decades. It surpasses international trade three-fold, growing faster than developed economies. This globalization brings new markets, opportunities and a vast array of sourcing options for companies.

In fact, medium sized companies are increasing their sourcing and exporting components to non-traditional markets annually. In countries like South Korea and Germany, small-to-medium sized companies boast over 60% international trade as part of their operations.



Business Model

There are many compelling reasons to set profit targets for Procurement. Availability of the correct skills and staff must be prioritized as must the department's business model. The modern department must act as a knowledge resource and information store. It must have the time and capacity to better procure and forge partnerships with suppliers.

In the past, organizations believed that Procurement's role was to squeeze the best possible prices from suppliers regardless of sustainability. Management practices have since moved on; Procurement Departments are able to impact a company's liquidity by eliminating unnecessary purchases and stockholding, however, this benefit can only be realized once. Once the department is at its optimum efficiency, this can't be repeated.

Ongoing profit saving is only possible through supplier relationships. Welcoming suppliers as integral to an organization's success, and partnering and sharing vital supply-chain information, ensures both organizations are better equipped to plan and align their activities in a symbiotic relationship.

Through this, procurement initiatives such as Supplier-Partnering, Vendor-Managed-Inventory, Just-In-Time (JIT) and optimizing the supply-chain costs can be achieved. This leads to cost reductions and improved efficiencies across the complete supply-chain, improving profitability for all involved.

For example, Vendor Managed Inventory allows companies to guarantee input supply and expend working capital on its use. This vastly improves a company's cash position and removes the costs associated with managing that input stock. This, however, is predicated by a strong partnering agreement with suppliers where an organization is prepared to share sales and operational forecasts and plans with them.



The ERP advantage

Insights and data are the back-bone of a profit-impacting Procurement Department. Utilizing the company's ERP system to gain such is a prerequisite. A stand-alone procurement programme only assists in managing purchasing with greater efficiency; it lacks the mission critical quality of integration into the rest of the company and suppliers' systems. This is where the real advantage lies.

ERP systems are able to facilitate the required exchange of information between company and suppliers, recording usage of inputs, and notifying suppliers so they can react to the information. Additionally, financial transactions between the company and its suppliers are able to be automated.

With the improved efficiencies and automation ability that ERP provides, Vendor Managed Inventory, Supplier Rebates, Claims, Purchasing, Payments and Request for Quotation are all able to be managed with visibility, control and efficiency. This translates into cost reduction, and improved profitability.

Additionally, inventory trend analysis, forecasting and material requirements planning are features that ERP systems provide in refining the input requirements to the procurement department. With improved and richer information, procurement is better able to service other departments by ensuring that working capital is better managed via the reduction of wasteful purchasing.

But black holes have an upside. They are extremely dynamic, spitting out huge energy beams, shaping the universe around them. Profit-contribution driven procurement produces a similar power through utilizing internal and external information. The potential value that can be derived from the ERP system is limited only by the department's creativity.

Procurement is a promising arena in the quest for rapid sustainable profits. It requires executive commitment, profit-impacting targets, and talented staff. But rest assured, there are profits aplenty to be had if careful consideration is given to this once black hole.

