

Practical Purchasing Solutions for Small to Medium-Size Companies

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Abstract. The general perception is that “Purchasing is Purchasing”, regardless of the size of the organization. The conclusion is that the main difference is the just number of zero’s on the order, whether it is the quantity or the total dollar amount of the purchase. To some extent, this is true for the basic principles of purchasing and supply management. Many purchasing principles and functions apply regardless of the size of the organization, however small to medium-size companies face different challenges than do their large company counterparts. There are many different ways to achieve cost reductions and best total cost of ownership, however some of these methods are not a good fit for small to medium-sized companies. Many purchasing solutions offered in today’s marketplace require large manpower allocations, as well as substantial financial investments that many small to medium-sized companies do not have at their disposal.

The objective is to offer alternative solutions for some of the challenges facing the smaller organizations such as:

- Strategic sourcing with limited manpower
- Controlling “maverick” spending
- Handling the “buy local” pressures from area suppliers
- Using Reverse Auctions to make a difference for small companies

We also hope to point out many advantages that the smaller companies have to handle the above listed challenges and uncover practical solutions that have been successfully field tested by other companies similar in size.

Strategic Sourcing in Smaller Companies. Large companies are very effective at strategic sourcing. They have the financial resources and personnel to do this on a grand scale. They have purchasing departments that are larger than many small companies. However, smaller companies can use the basic principles of strategic sourcing and, in many cases, be more effective. Some of the advantages that small to mid-size companies have over their large counterparts are:

- Less chain of command, which makes senior management “buy-in” easier and more meaningful.
- Closer working relationship with the end users.
- Easier to get the information required.
- Team selection is easier – there are no logistic problems, easier to schedule meetings, and team members know, or at least know of, each other.

Controlling Maverick Spending. Actually, smaller companies may have an advantage over larger companies, because the smaller the organization, the easier it is to uncover maverick spending. In a large organization with many locations and/or departments, a maverick

spender can buy \$5,000-\$10,000 without even a “blip” on the screen because that is such small potatoes in a large company. But in a small to medium size company, this can diversify the total spend, which reduces the leverage you could use if the total volume was bundled. Discovery is the hard part, so once found, it's easier to stop, provided you have upper management support. Strategic Sourcing can go a long way in solving this problem in smaller companies because the sourcing teams select the supplier. Since a co-worker, or even the “maverick” may be involved in the sourcing decision, it would be much more likely to stop.

Many times, the maverick spender is using a credit card. Because these transactions are more paperless than the traditional purchase order transactions, it can be a very difficult, as well as a time-consuming task for a large corporation to discover problems. It is much easier for smaller companies to uncover and control any ill-advised spending. If the P-card user is keeping a monthly charge log, which should be required, a monthly review of the log by management should uncover the maverick spend.

Handling the “Buy Local” Pressures. This can be a very touchy subject for smaller companies. You face the constant pressure of trying to reduce your costs to remain competitive, yet at the same time, you face the constant pressure from local suppliers to buy from them to keep the money in the local area.

Buying locally should not mean having to pay prices 10% higher just to support a local company. Many factors should be considered such as:

- Will my company benefit from buying locally? Are there “hard cost” savings or are there “soft cost” savings that can be derived?
- Is my product or service sold in the local area? If there is no chance for reciprocity from the local suppliers for your product or service, what is the advantage for you?
- Is there an advantage for buying local, such as community goodwill? Will the local public or other local companies that may use your product or service be aware of your financial involvement in the area?

Buying locally could be to your advantage. Lower delivery costs, shorter lead times, and closer communication could actually lower your total cost of ownership. Put the pressure back on the local supplier by asking how you can help him meet or lower your current total cost of ownership.

In some cases, maybe the local supplier hasn't even approached you because they think they may not be able to compete with larger suppliers that they assume you are buying from. It may be advantageous on your part to approach them with the idea that you want to buy locally if possible and you would be willing to help them, if you can, to lower your total cost of ownership. If they're not selling to customers in their own backyard, how can they compete outside their local area? This would be a win-win situation for both.

Reverse Auction Practicality for Smaller Companies.

For several years now, reverse auctions have been utilized by many large corporations in many different categories of their total spend. They have realized huge savings, which greatly impacted their bottom line. These huge savings definitely brought the visibility and stature of their procurement departments to a much higher level of respect within the organization. The

role of reverse auctions has now gone from strictly commodities like office supplies, paper, computer hardware, etc. to services such as equipment maintenance agreements, fleet services, and cleaning services to name a few.

There has been great debate as to the effect that reverse auctions have on the ability to maintain long-term relationships with suppliers. Some argue that they can actually strengthen the buyer/supplier relationship because the auction allows the cream to rise to the top. Others say that the supplier becomes wary of the buyers' intentions to constantly try to erode their profit margins to retain the business without analyzing the value added services they have supplied in the past. Who's right? That can only be determined in the long term depending on the manner in which each company handles their reverse auction program.

But what about the small to medium size company? Can they benefit from reverse auctions, not having the astronomical volumes as the large corporations have? Some of the things that the small to medium size company needs to consider are:

- Do you have the time and resources to conduct your own event or will you need to utilize an outside company to handle the auction for you?
- If using an outside company or conducting your own event, will the savings (in dollars, not percentages) be enough to justify the time and expense required to conduct the auction?
- Will changing suppliers cause other problems?
 - Disrupt current supply chain until the new supplier takes over?
 - Will the "new supplier hiccups" neutralize any anticipated savings?
 - Deteriorate local goodwill in the community?
- Will senior management provide support if buyers balk at using a selected supplier and begins to "maverick" spend? This is critical to gain the proper ROI promised.

The decision to use reverse auctions can only be made after everything is taken into consideration. Some smaller companies may find that using reverse auctions can help them be more competitive with larger companies. On the other side, some may find it can lead to more problems than they now have. The bottom line. . . What will it do for YOUR company? Only you can be the judge of what's best for your situation.

Summary. Whether it's a large corporation or a small company, a sound procurement and supply management strategy is extremely important to the overall success of the organization. Depending on the size of the company, the strategy may be different, but it can work just as effectively as another. There is no one approach or strategy that works in all situations, so don't get caught up in a packaged, "ultimate procurement/sourcing" tool being offered up as a "magic bullet" solution to your own particular problems. Common sense and open, honest communication is still the most practical purchasing solution for the small to medium size company.