

# How Strategic Procurement Can Give You a Competitive Advantage



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During challenging times, many procurement professionals would forego following procurement procedures in favor of a “hand-to-mouth” strategy. Your procurement process however can help you get through the challenging times and give you a competitive advantage.

A competitive advantage is your company’s ability to provide better products or services than your competitor. Your competitive advantages are generally developed over time with contributions from multiple areas of your company.

An effective procurement process allows your business to choose the optimal selection of suppliers and align them to your overall business strategy and mission. You can do it by negotiating favorable terms and promoting collaboration with cross-functional teams.

With an effective and efficient procurement process, you can quickly deliver cannibal cost Improvement while enhancing supply chain agility.

Having a well-defined procurement process provides your organization with numerous competitive advantages. It helps to reduce costs across the value chain, creates more efficiency when delivering goods and services, helps with developing innovation, managing supplier risk, and ultimately increases supply chain resiliency.

Procurement departments seeking to build or improve competitive advantages need to evaluate their current procurement strategy and process to determine how well the existing approach supports competitive advantage.

In this article, we'll discuss the various ways strategic procurement can give you an edge over the competition.

## **Improved Efficiency**

When it comes to purchasing, all sourcing and procurement activity is designed to use external markets and suppliers as optimally as possible for a competitive advantage.

Every good or service you're sourcing should contribute either directly or indirectly toward your competitive position. When your company has an effective procurement process, the procurement department eliminates redundancies within the operation while promoting collaboration and identifying key suppliers and underperforming ones. This makes for better long-term relationships with your most critical suppliers.

When your process is efficient, your organization has economies of scale. As a result, you can reduce costs while producing more for less to give yourself a competitive advantage.

When you have efficiency within your supplier relationships, your procurement team can easily determine your supplier's interest, competitiveness, capabilities, and financial strength which further allows you to optimize your supplier base. By getting rid of the underperformers and working with suppliers that are capable of handling your organization's needs, you can enhance your competitive advantage.

Your suppliers are crucial to your success, but a lack of trust between buyer and seller is more common than many procurement professionals are willing to admit. You cannot improve supplier participation and loyalty without incorporating

supplier optimization practices into your supply chain management.

The reality is that most businesses purchase 80% of their goods and services from only 20% of their suppliers. Therefore, it is absolutely essential that every procurement team spends time building relationships with those top suppliers so that you can achieve financial benefits, including cost reduction.

*Optimizing your procurement practices enables your organization to take advantage of discounts and warranties that are often improperly managed or worse, forgotten completely.*

## **Cost Savings Across the Entire Supply Chain**

The primary goal of the procurement function is delivering value. When your procurement department is operating effectively, you reduce operational costs by purchasing goods and services at the best available price.

Optimizing your procurement practices enables your organization to take advantage of discounts and warranties that are often improperly managed or worse, forgotten completely.

But, if you can't see what your organization is spending, it's practically impossible to effectively manage our costs. It's crucial to minimize maverick purchasing. Effective procurement processes require total visibility into your company's expenditures for all purchasing activities.

This is what gives you the ability to reduce your procurement costs while improving relationships with your stakeholders. Through tracking purchasing patterns, it's easy to spot where you can make financial improvements over the long term, for a more cost-effective sourcing strategy.

By controlling costs, you can make adjustments to ensure your product is more cost-competitive in the market.

# **Easier to Mitigate Supply Risk**

Supplier risk management is crucial for any organization. Supplier risk events are typically found in four categories: operational, financial, strategy, and compliance.

Risk mitigation is more than risk avoidance. It also includes risk-sharing and risk reduction which need to be both continuous and evolving to properly address all risks associated with past, present, and future activity.

An effective procurement process addresses the sustainable method of identifying, assessing, and alleviating supplier risks. If you are not prepared in risk management and you do not find an address a company's potential vulnerabilities, you negatively affect your company's ability to compete in the market.

Start by evaluating your current process to account for any organizational vulnerabilities and make sure that you have solutions in place, even if they are temporary for right now.

# **Better Support for Supply Chain Resilience**

Your ideal procurement process needs to address solutions and continuity for unexpected conditions. Today's economic uncertainty, natural disasters, and labor fluctuations are perfect examples of what you need to prepare for.

In 2020 when the coronavirus pandemic first hit, procurement departments were faced with a number of challenges. They had to work to adjust their strategies to manage supply interruptions and cash flow is shoes while managing to keep services up and running for their stakeholders.

Two years into the pandemic, we've found a new reality that has directly impacted how procurement departments must adjust their strategy. No longer can strategic sourcing be just in time and just in case. You must make adjustments in the process to keep it resilient enough to accommodate unforeseen circumstances.

To build a resilient supply chain, your organization needs to design a network of partners that are strong enough to adapt to disruptions while maintaining control. If it is at all possible, you should aim to Move past the disruption more favorably to gain a competitive advantage.

If you have a resilient procurement process that can account for the future disruption that may happen, your company will be stronger in the long run.

## **Strengthen Innovation**

Today's procurement professionals not only have to have skills to cut costs, reach social responsibility targets, and manage supplier relationships and risk but must also innovate to gain a competitive advantage.

Procurement can contribute to innovation in the product development phase. As much as 80% of the cost of a product or service is determined during the specification and design phase, which directly impacts a business's competitive advantage in the market.

The procurement department can also contribute to Innovation by communicating complex data, supporting the negotiation phase with multiple suppliers, and so on. With the use of online auctions, bidding systems, and online catalogs, procurement can easily check product availability, place and track their orders, and make payments.

Using tools like this is no longer a luxury, but a necessity for efficiently procuring goods and services as they help reduce costs overall.

Procurement won't be efficient if it is managing costs in a decentralized environment. This management style actively works against creating a competitive advantage because it increases operational costs. And this is why we continue to see an increasing number of procurement leaders invited to the executive suite because company leaders understand that procurement is evolving away from a backup office function to a crucial business operation.

A recent study found that chief procurement officers have a direct impact on a company's profitability. The study found that high-performing procurement departments report 7.12% profit margins compared to 5.83% for those with low-

performing procurement departments.

## Are Today's Procurement Organizations Ready?

As we've seen the procurement function evolve over the years, it is now in a position to deliver on its potential but in many cases, it's not ready. Many organizations tend to hamper progress with:

- Too many metrics focused on cost reduction. On the surface, this may seem like a good thing, but if the distinction between cost avoidance and cost savings isn't clear, it can be problematic. While cost leadership should always remain a metric, it has to be balanced with other objectives such as supply certainty, innovation, and agility.
- System and functionality gaps. As outdated systems are now migrating to the cloud, the platforms are built to satisfy standard requirements of procurement in the past. Many of today's systems are not built to be flexible enough for ever-changing market conditions.
- Talent shortages. As much of the workforce is looking for work-life balance and flexibility, finding, hiring, developing, and keeping top talent remains a sticking point for many organizations. Because the procurement function is now influencing much more of an organization than just buying goods and services, the need for strategic thinkers is crucial.
- Change management. Repositioning the function of procurement and stakeholders' minds allows the procurement team to focus on value-added activities rather than transactional ones. It moves the transactional activities to low-cost technology-enabled Solutions like Planergy.
- This is about using data not just to understand spending and influence pricing, but also to uncover insights and demand patterns that can impact deliveries and inventory, working capital, and standardization.

To build a strong procurement strategy that enables you to capitalize on your market share, you must analyze your current activities, and look for areas you can improve.

Start with one or two initiatives, such as reducing the number of suppliers you

work with or revamping your purchasing practices to eliminate dark spending. Start with benchmarking where you are, so you can revisit things in the future and see how things have improved.

You won't build a competitive advantage overnight, but if you can reduce your total cost and improve your bottom line, you're on the right track.

## **What's your goal today?**

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