

5 STEPS TO VALUE CREATION IN PROCUREMENT





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The procurement function can be an important contributor to performance improvement in organisations that are subject to public-sector procurement rules, as is the case for civil aviation authorities (CAAs) as well as most airports and air navigation services providers (ANSPs.)

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In this sense, procurement is an area where the management can exercise a great deal more latitude in driving change and improvement. Importantly, it can free up money that can be spent in other priority areas. Further, improvements in the procurement function will allow managers to make better decisions and plan more effectively, ensure better compliance with regulations and the tendering process, and prevent fraud and maleficence.

CHALLENGES TO OVERCOME

While the benefits are clear, there are several challenges that must be overcome. Organizations that do not treat procurement as a strategic function generally lack a consolidated view of their spending due to a lack of centralised oversight. It is therefore difficult to envision the potential benefits that can be realised from a better alignment of procurement practices with the strategic goals and objectives of the organization.

In the public sector, there are often trade-offs made with various other political objectives, where procurement decisions are made to support the local or regional economy, industry or even a specific company.

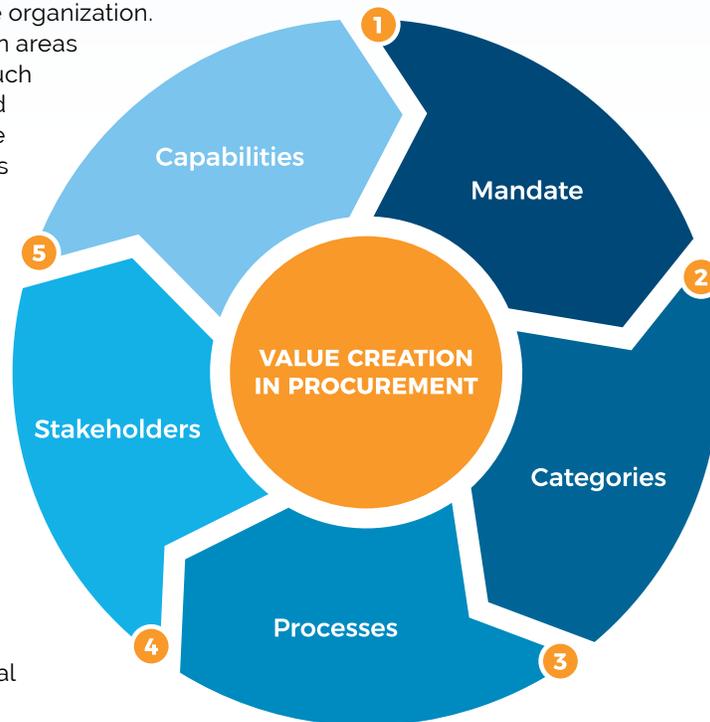
The public sector is also subject to complex and constraining procurement rules as set out by governments and other relevant authorities, such as the European Union and the World Trade Organization, which were established to ensure openness, fairness and non-discriminatory practices for all bidders. Such tender rules can constrain the ability of a public-sector procurement organization to leverage the tools and practices that are available to the private-sector and, consequently, its ability to claim similar efficiencies. However, there are steps that organizations can take to improve their procurement practices without running afoul of procurement laws.

1 | SET A CLEAR MANDATE FOR PROCUREMENT

Procurement needs to be regarded as a strategic value creating function. The realisation that more efficient procurement can free up resources that can be reallocated to other priority areas should be incentive enough for change in current procurement rules and management practices. However, this change will require vision and leadership, and advocacy with the relevant policy-makers and authorities. It will also require continuous improvement in the procurement processes that needs to be supported by a feedback loop from internal customers and end consumers.

2 | CREATE A COMPREHENSIVE VIEW

Managers should introduce a system that will be able to gather and track cost and other data from a variety of sources and allocate these to the key procurement categories that are to be created. Initially, this should be approached in a pragmatic way rather than attempting to implement a sophisticated system, the objective being to create a picture of what is going on in all categories prior to capturing any savings that an improved procurement system can realise.



3 | STREAMLINE PROCUREMENT PROCESSES

Managers should design strategies for each of the procurement categories, considering elements such as product complexity and competitiveness of the supplier market. Supplier workshops should be encouraged and can be conducted within the tender rules, if implemented at the appropriate point in the process and in adherence to the principle of equal treatment of all suppliers.

Selecting the right procurement channel ensures an optimal trade-off between the resources needed to procure the product, its quality, and its price. Functional tenders, as opposed to technical specifications, are typically best suited for product categories that are technically complex.

5 | STRENGTHEN THE PROCUREMENT FUNCTION

To lead a centrally coordinated effort, it is best to create a multi-disciplinary team of change leaders who can introduce and replicate successful initiatives, train employees and build the necessary capabilities throughout the organization. Formal training programs in areas specific to procurement, such as contract negotiation and category expertise (e.g. the procurement of IT solutions and services), as well as programs to develop organizational skills can also be introduced. The objective here is to build the organizational capability in procurement.

4 | ENGAGE RELEVANT STAKEHOLDERS

The procurement team should also establish formal channels and binding rules for stakeholders to submit requests and access information, which will make it easier to manage competing stakeholder interests. A transparent and defensible process for evaluating requests will always be easier to defend. The challenge in defining the process is to adopt the same tools and practices as those used in the private sector and still operate a rigorous tender process within the framework of relevant rules and regulations.

KEY TO SUCCESSFUL TRANSFORMATION

Organizations must take care to guard against centralized procurement processes that will result in poorer purchasing decisions. This can happen if those decisions are made further from the point of use. It is important to ensure that those doing the procurement work closely as partners with the relevant departments to understand and meet their needs. A multi-disciplinary team approach must be adopted.

Further, it is important to start off in small steps, and by demonstrating the potential for change and value creation. It is best to begin with changes in a few discrete spending categories and using the success of these changes as a foundation for making similar improvements in other areas. Early successes and senior management commitment will be critical to building and maintaining momentum. In time, process best practices can be identified and tools can be developed. These can then be instituted as standard, and the procurement organization trained accordingly.



Building a value-creating procurement organization will take time. However, aviation organizations that are subject to public-sector procurement rules and operate within a limited budget stand to gain significant efficiency improvements, freeing up resources that can be reallocated to other priority areas.

DO YOU WANT A MORE EFFECTIVE PROCUREMENT SYSTEM FOR YOUR ORGANIZATION?

Contact **EH&A** today about how to setup your procurement function so that it can save you money and deliver more value.

ABOUT EH&A

EH&A works with aviation organizations to improve their performance and drive bottom-line results by managing risk and reputation. For over 25 years we've supported aircraft operators, airports, ANSPs, manufacturers, technology solutions providers and industry associations to enhance their reputation and brand recognition, achieve millions of dollars in cost savings, and create competitive advantage. We guarantee similar results for your organization.

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