Spend Aggregation Obstacle Course for Procurement!

supplychaingamechanger@gmail.com April 2, 2020

> *Procurement – How to Enable Spend Aggregation!*

The theory is simple! If you can increase spend levels through centralized spend aggregation across entities then you increase your leverage in negotiations. This leverage should translate to lower costs and better terms and conditions. But there is a spend aggregation obstacle course to be overcome first.

These entities may be different departments or facilities within your own company. They may be different companies under common ownership. They may be disparate companies within an industry. Or they may be unrelated companies spanning many industries.

The benefits seem clear. So why is there so much resistance when it comes to trying to aggregate spend across these entities?

When you run a central Procurement organization you are trying to get the best deal for your company. The best deal includes lower prices for the goods or services you are buying. It also includes better terms and conditions. But to

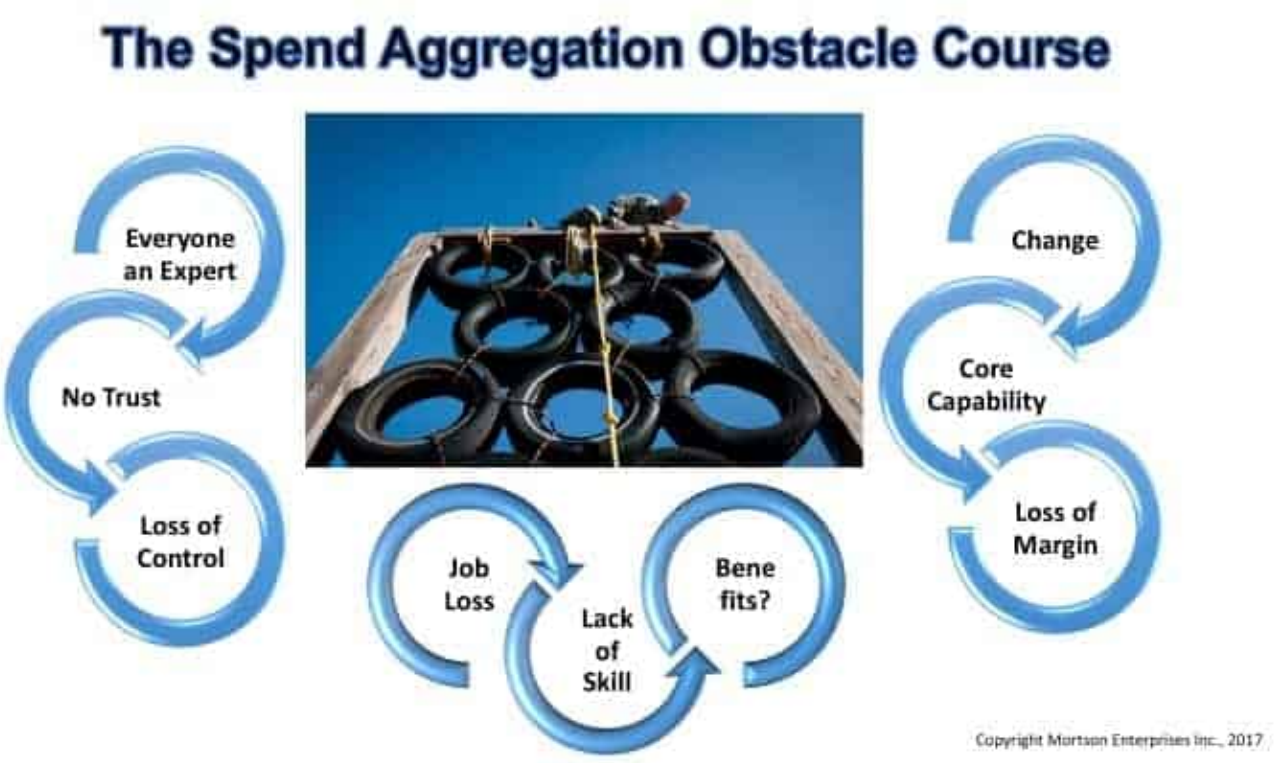
be able to get these benefits you need the formal and informal authority to negotiate against all of that spend.



However there can be a lot of obstacles put in your way. There may be rogue buying in your company. Some departments or remote facilities may want to keep managing negotiations on their own. If your company is either acquiring another company or being acquired this issue may arise. And Group Purchasing Organizations (GPOs) are specifically designed to deliver benefits from Spend Aggregation. Yet they are a completely separate entity.

Procurement people are proud professionals. And they often don't trust that someone can negotiate better than they can even if their spend levels are lower.

Before we can address these landmines and hurdles we need to understand what they are. So what are the issues on the Spend Aggregation Obstacle Course?



Everyone is an Expert

One of the key issues in having areas give your Procurement team spend control is expertise. Everyone believes they are an expert and that they can get a better deal. This is a prevalent issue particular in common areas such as business travel. Everyone believes that they have a better website or a better contact.

Lack of Trust

People can be very protective about their department or operation or company. And rightly so. So when someone outside of that organization comes in and states that they will be now negotiating on their behalf, people can be distrustful. The Procurement team needs to take measures

to show that they understand and are accountable to the local teams. Without proper communication distrust will remain.

Loss of Control

People like to control their spend. And they don't easily give up that control. Especially if that spend has been managed locally for a long period of time. It may be a perceived loss of relationships with suppliers. It may be a perceived loss of control over that which impacts their financial results or service levels. In any case this is a large concern for many entities.

Job Loss

This may or may not be the case. If spend aggregation is done as a part of an effort to streamline the procurement organization there may be job redundancies. Certainly if someone faces the prospect of losing their job they may not be open to turning over spend control.

Lack of Skill

As mentioned previously Procurement people are very proud. They are often career professionals. And there is a tremendous amount of skill and experience required in Procurement. If someone from a central corporate

organization explains that they are going to take control then local Procurement people are going to want to know that they have the skills to back it up.

Benefits?

Naturally it should follow that with spend aggregation there should be the opportunity to lower costs and improve terms. However there are also other factors that come in to play in getting better results. Being bigger is not always best. I have seen many cases where smaller companies can get better rates on some type of good or service. Negotiating skill and relationships can play a big part. And local knowledge can make a huge difference.

Loss of Margin

I've visited many companies trying to sell a spend aggregation capability. The premise is simply that if the company turns over their spend control you will deliver savings greater than anything they have ever accomplished. And this is backed up by detailed analysis.

Often however these companies don't see the greater savings they will get. They get consumed by the amount of margin you are going to make. And many companies won't proceed because they believe they can somehow now get that greater savings without you. (But they never do.)

Core Competency

Depending on your organization Procurement may be a core competency. Procurement is always a critically important role. But if you are in a Software company for instance, chances are your core competency is programming not procurement. Some organizations may believe this is a core competency which can create an obstacle to proceeding with an outsourced spend aggregation solution.

Change

It may go without saying but often people don't like change. It doesn't matter what it is. When the prospect of spend aggregation is offered up it is a departure from the way things have always been done. Without a proper Change Management program this can often be the greatest obstacle of all.

The Spend Aggregation Obstacle Course

Spend Aggregation has tremendous potential. Intuitively the rewards should be enormous. However there are many real and perceived obstacles to making it successful.

Whether they are landmines to be avoided or hurdles to be overcome, these obstacles must be addressed for any

Spend Aggregation initiative to succeed. You must navigate the spend aggregation obstacle course.

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