

Taking procurement to the next level



The information needed for further procurement optimisation could be found in benchmarking. By Marc Huijgen

The question of the relationship between cost savings and benchmarking is becoming more important as many logistics activities are now outsourced and most multinationals are offshoring production. Both of these trends result in more - and bigger - logistics invoices from service providers.

This automatically brings the chief procurement officer into the scope of logistics. Previously, the supply chain executive was in charge of logistics operations but nowadays, both need to work together to maintain execution at acceptable cost.

But the CPO and the supply chain exec do not only need to work together, they should also understand each others' business principles. Purchasing pushes vendors to drop their rates while logistics people are anxious about negotiating, as to them, service is key.

This tension is clearly visible when transport services are being purchased. I have often seen similar manufactures that ship similar products and volumes charged very different prices by logistics services. This validates the CPO's approach.

So, what is market level cost?

To get to the next level of logistics procurement, finance and logistics departments need information from benchmark reports. Purchasing need market pricing information to back up their negotiations and logistics need performance information for each vendor to convince purchasers the cheapest offer is not always the best solution.

Benchmark reports will allow the reporting of achievements to financial management.

Some companies achieve savings by squeezing vendors for year after year but one can't continue to squeeze because at some point, the minimum price level is reached. When this point is reached, purchasing needs to convince management that this is still a good result despite no new savings being reported. Using benchmarking, a new type of measurement can be unlocked - the cost of avoidance ratio.

With this, purchasing is able to report the outcome of their activities in a new way, comparing negotiated prices with average prices paid by similar companies for similar activities.

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