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Rest assured in the quality of your procurement process



Every day, in thousands of businesses all over the world, procurement departments are tasked with cutting costs. Savings are made using techniques like e-auctions to increase competition and squeeze supplier margins, and the outsourcing of procurement functions and/or spend-categories. There's no doubt that much of this is good business practice. If you take Coca-Cola as an example, they have an annual turnover of \$46b and \$15b of indirect costs. So, even small gains in marginal efficiency can immediately improve bottom line performance and put a smile on shareholders faces.

Imagine we live in a parallel world, and a global brand like Coca-Cola doesn't have robust Quality Assurance processes in place... Their procurement team are looking to save costs in one particular region and outsource their spend on promotional materials to a single source agency. They could save up to \$10m in employment costs but no guaranteed reduction in cost of procurement of materials. Everyone's delighted with

the new savings, and annual bonuses get paid to those responsible in procurement.

Let's suppose, for a minute, that the agency they outsource to has little experience and inadequate processes in place to manage sourcing from the Far East. They may not fully understand the risks associated with producing merchandise in developing countries but they are under pressure to reduce costs so push the supply chain too hard.

At some point mistakes get made

Coke could be sponsoring a high-profile global event like the Olympics. For every item of merchandise they produce co-branded with the Olympic rings a royalty needs to be paid to the IOC, which pushes up the cost of promotions. As a result, pressure gets applied to the outsourcer to squeeze the vendors. This may force the agents in the Far East to use cheaper, unproven factories who, in turn, may be subcontracting production to 4-wall factories who do not meet the appropriate Health & Safety standards.

At some point there's an industrial disaster, like a fire at one of the subcontracted factories. The world's media cover the story and all that consumers see is Coca-Cola branded materials burning, whilst workers suffer in unacceptable working conditions.

Appalled consumers boycott Coke and global sales fall, leading to a 10% drop in share prices. For an organisation worth \$80b, this equates to a loss of \$8b – Hardly worth it for the \$10m saving in employment costs!

Do you know exactly where everything your organisation purchases is manufactured?

If you don't know exactly where everything you purchase is being manufactured, then you are putting your company at risk. These are the three primary areas where quality needs to be assured in any business:

- The Manufacturing Site: Have you got a certified independent audit of the factory that manufactures your product – Not just the agent!
- The Product: Can you access product safety certificates at any time?
- The Production Run: Can you download and read in-line, independent inspections of any production run?

If you can readily access the information listed above in minutes – That's great! If it can be on your desk by the end of the day – There is room for improvement! If it is simply not available, then you could be sitting on the proverbial ticking time bomb.

Ticking time bomb...

We all know the stories of other issues within major corporations suddenly hitting the headlines to devastating affect. Mattel and the lead paint scandal turned out to be a case of its most trusted vendors secretly changing their suppliers for cheaper ones. Then there was the shocking sweatshop outrage involving massive brands such as Nike, The Gap, Primark and even the super white Disney Store. The bottom line in all of these instances – Share Price Falls!

The clue is in the title...

Genuine, well documented and expertly executed 'Quality Assurance' is so much more than a tick in a box or an accreditation on a website. It is a watertight process that 'assures' you of the 'quality' that you are paying somebody else to deliver. Whether it is an employee or an outsourced resource, the only way to control the quality of your entire supply chain is to have access to all of the right information.

A single point of truth!

For people who work in procurement, there is a tendency to focus on price, availability and a delivery deadline – with an assumption that the quality is OK. They expect the traders and suppliers they are buying from to have actioned the relevant due diligence. But global, commercial evidence

suggests that suppliers are still forced to cut corners in an attempt to remain competitive.

The only true solution to diffuse this potential minefield would be a vendor neutral, single source of truth that can check, monitor, report and assure you of quality throughout your supply chain.

Are your procurement systems capable of providing this level of detail?