Am I the customer of choice?

Measurement of the procurement organisation’s performance in terms of effectiveness and efficiency is of equal importance, to ensure that you are the customer of choice and secure great deals time after time.

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Procurement professionals regularly measure their supplier’s performance throughout the duration of a contract, but how often do they rate their own performance? Measurement of the procurement organisation’s performance in terms of effectiveness and efficiency is of equal importance, to ensure that you are the customer of choice and secure great deals time after time.

It is not the intention of this article to cover the wider issue of performance appraisal, which should be conducted in an organisation as part of its normal management practice. Instead, this article will focus on the review of procurement in relation to the upstream and downstream activities of a particular procurement. Both practices will contribute to the development and training of professional procurement staff. Briefly, effectiveness is concerned with the ability to accomplish a given goal or purpose, and efficiency is concerned with the ability to maximise productivity with the least amount of effort, money or resources. In other words, effectiveness means “doing the right thing”, whereas efficiency means “doing things right”.

The aim of performance measurement of the procurement department is to: (Lysons)

- ensure consensus between individual, functional, and corporate aims
- compare actual results with planned performance
- identify reasons for substandard performance and the basis for improvement
- improve decision making
- identify the contribution procurement can make to the organisation
- motivate and encourage staff

A range of traditional procurement performance measurements can be gathered from the ongoing management of a contract, including metrics such as:

- savings on the purchase price
- reduced inventory levels
- incoming defects
- on-time deliveries
- procurement cycle time
- cost of change
- cost of placing orders.

These can be considered as quantitative questions which are readily monitored and measured. They are often considered to be basic, minimum performance standards today; nevertheless, they are extremely important. At a higher level, effective measurement of procurement will be concerned with establishing the need, managing internal and external relationships, managing contracts and performance, managing change, customer support, infrastructure issues, business continuity and transition.

In relation to a particular contract, these issues can be addressed by raising questions. Although more qualitative and subjective in nature than those set out above, these are concerned with the upstream and downstream management processes and relationship issues. Issues should be covered as follows:

- documentation – clarity, understanding and comprehensiveness
- pre-award contract processes, understanding and timetables
- change control procedures – ease, understanding, comprehensiveness
- communication - suppliers, customers and other stakeholders
- risk - identification and management
contractual relationships - smoothness, conflicts
- customer satisfaction
- business continuity and transition issues.

Each topic will suggest a range of questions related to the particular procurement as the measurement drills down to obtain data which will make a meaningful contribution to the assessment of performance. Responses may be measured in terms of extent, for example “not at all”, “partially”, “largely” or “fully”.

In addition to conducting an internal review of the project and documenting the findings, valuable information on the performance of the procurement department can be gathered from suppliers during performance review meetings. It should be recognised that while some information can only be properly and usefully gathered following completion or closure of the contract, other information should be gathered before closure in order to implement process improvement changes for future procurement contracts, including the possible re-letting of the current contract.

This collaborative approach will help to reinforce buyer-supplier relationships to forge stronger relationships going forward. Being the customer of choice for your suppliers is likely to create an environment for increased collaboration, supplier development, innovation and creative input from the supply-side organisation.
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