

# So You Want to be More Strategic? Start by Asking Yourself These 20 Questions

By Ray T. Jensen, C.P.M.



**M**any of today's higher education procurement leaders recognize the importance of moving from a tactical procurement function to a strategic procurement function, and with good reason. As budgets tighten, enrollments decrease, and endowments are stressed, improving procurement practices on campus should be viewed as a compelling area to effect positive change.

Of course, talking about becoming strategic, and actually doing something about it, are two different things. There's a considerable amount of preparation that goes into an initiative like this, and a certain level of self-reflection is required. To begin, ask yourself the following:

## **1** *Are you looking at the right things in your organization?*

Don't know what the 'right things' are? Consider your performance and activities within the following four categories: organizational model, operational components, people and data. Here's a list of key questions to get you started:

### Organizational Model . . .

## **2** *Are the goals of the procurement function aligned with the overall goals and vision of the institution?*

The issue of alignment is one of the most important things to consider. We've seen many instances where a procurement officer may run a great program, but if its objectives are not consistent with what the CEO is looking for, and/or with the institution's mission, it really doesn't matter.

For example, if a university is focused primarily on driving down costs, and the procurement officer is looking to raise the quality of products purchased (which may therefore increase costs) then they're not in alignment. And that's not very strategic.

## **3** *Is the procurement organization the right size for the institution?*

In our work with various universities, we've found some small institutions with very large procurement operations and alternatively, we've found some big institutions with small procurement operations. The question of 'right sizing' is critical. It's important to have a staff sized adequately to handle the different functional components necessary to become more strategic.

## **4** *Where does procurement fall in the reporting hierarchy?*

If procurement reports at a low level in the organization then it may be difficult to compete for resources and it may not have the influence on the institution that it should or could have. In order for procurement to be truly strategic and properly aligned, it has to report high enough in the organization in order to be able to effect change. There must be an organizational culture that understands the importance of an effective procurement function.

## 5 What's the relationship with payables?

In order for a procure-to-pay program to be effective, there has to be some level of interaction - and preferably integration - between accounts payable and procurement. These two functions should be viewed as a continuum rather than as separate and distinct entities. Having an effective relationship with payables is a critical component in managing your suppliers and supporting your internal customers.

## 6 Do you have the right people doing the right things?

Do you have people who are dedicated to a sourcing function? Do you have other people who are focused on transactions? Do the transactional people also manage your small order system? Some individuals can be very effective in the transactional environment, but they may not be as effective on the sourcing side. And vice versa. Make

sure you have the right people in the right places doing the right things.

## Operational Components ...

### 7 Do you have an effective small order system in place?

The key to a successful small order system is this: it's got to be easy to use and properly managed. Preferably, a small order system is used to purchase against contracts that are developed and established by purchasing.

### 8 Are you using p-cards effectively?

Most institutions have a p-card program, but what we've found is that they are not always being used effectively. For example, there are some institutions that focus on growing the p-card program as much as possible, in an effort to increase the rebates associated with that spend. At some point, these institutions run the risk

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of sacrificing contract compliance for rebates. A p-card program can be effective in small order transactions and even in large order transactions, but you don't want to detract from putting your spend against the contracts that are in place. You've got to have a well-balanced p-card program.

### 9 Do you manage an RFP process or a competitive solicitation process well?

The foundation of any good strategic sourcing function is the effective use of RFPs and the skills that come with that, including contract development, negotiations, etc. Does your team do this well?

### 10 Are you leveraging cooperative contracts and other group purchasing opportunities available to you?

In addition to cost savings based on aggregated spend, cooperative and/or group purchasing contracts provide significant time savings as the contract development and management process has been handled for you. By eliminating time spent on more labor-intensive tasks, your resources can be reallocated to focus on more strategic initiatives.

### 11 Are you developing a standardization program in key areas?

The purpose of a standardization program is to drive down costs by having a higher percentage of spend on stan-



standard products or configurations. That is typically your lowest cost option, and is another way you can increase value on the sourcing side.

## 12 Do you have an effective e-procurement system in place?

An effective e-procurement system can significantly improve process efficiencies by eliminating paperwork, expediting contract fulfillment and controlling compliance. Cutting your administrative costs this way can significantly reduce transaction costs.

## 13 Are you utilizing new and emerging tools, such as reverse auctions?

There's a good chance to leverage your spend through the use of reverse auctions. Reverse auctions bring transparency, savings and speed to the bidding process, while ensuring that you receive the best value available. We've seen some extraordinary savings in such areas as energy, and we're currently working on several more initiatives.

## 14 Do you have the right bid thresholds established?

If the bid thresholds and contract term and limits are too low, then it restricts the ability of a procurement function to truly be strategic. If you're constantly going out for smaller quantities or for shorter periods of time, you literally, by definition, are turning yourself into a tactical operation.

In some instances, these bid thresholds have been established by a policy imposed by a Board of Trustees or even by state statute. In these cases, a procurement officer can attempt to lobby the proper channels within the organization to raise that level for the purpose of becoming more strategic.



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## 15 Who is really making the decisions regarding procurement?

The procurement operation must have a sufficient level of autonomy to be strategic. Ultimately, the procurement officer should be the individual who makes the final determination on sourcing-related decisions. If the faculty and staff on campus are given complete autonomy with regard to spending, then it's virtually impossible to develop a strategic operation.

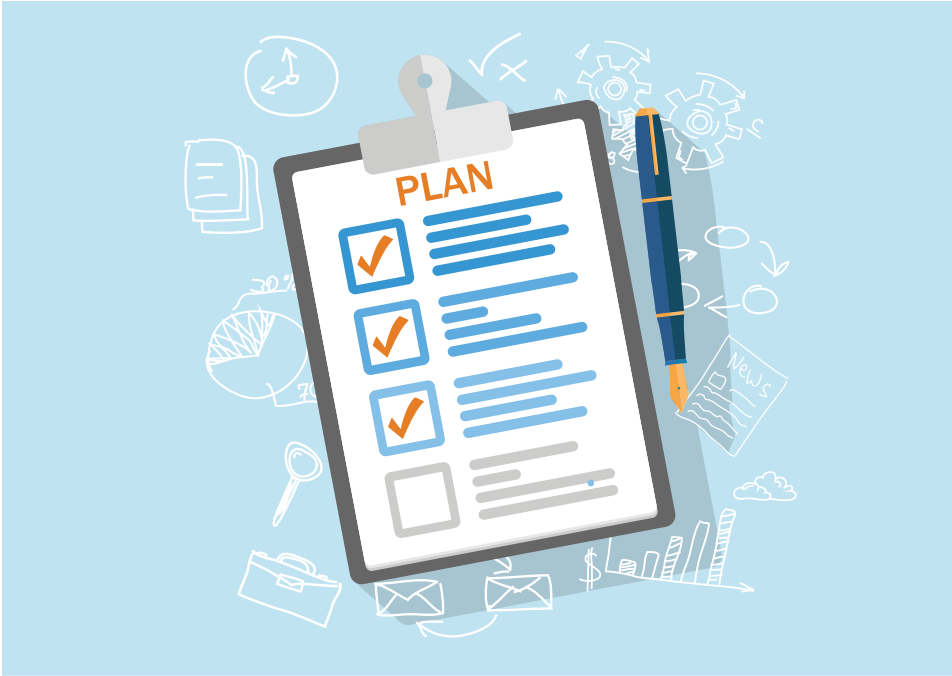
People ...

## 16 Do you have the right people?

Make sure you have people with the right level of experience, the right educational background, and the right certifications in the right positions. And then make sure you keep them at that level. This requires an ongoing focus on professional development within the operation. It helps—and it demonstrates a true commitment—if the cost for this professional development is incorporated as a percentage of the personnel budget.

## 17 What performance measurements do you have in place?

Do these performance measurements actually align with your institution's performance measurements? This goes back to an earlier point, but it's important to remember to align the university's objectives with the procurement function's objectives so you



can ensure everyone is spending their time doing the things that will drive the institution's mission. You need to be able to measure this, not only at the department level, but all the way down to the individual level.

### Spend Data ...

#### **18** Do you know where you are spending your money right now?

Make the commitment to look beyond the basic information you can get out of your financial information system on vendors. Take it a step further and start digging deeper into your sub-categories of spend. This means evaluating not just who you are spending your money with, but what specific products/services you're spending it on.

#### **19** Do you have a sourcing plan?

After you gather that detailed spend data, you can develop a strategic sourcing plan to determine where you're going to get the biggest return on investment of your organization's time and resources. This means comparing your spend and pricing in specific areas with other institutions, GPO agreements and state contracts to determine where you have the biggest opportunities. Ask yourself where there are opportunities for standardization, and where there are opportunities for consolidation and collaboration.

#### **20** What kind of contract utilization and compliance do you have?

You may have great contracts in place, but if the people in the institution are not using those contracts, or if your suppliers are not complying with those contracts,

then you're leaving money on the table. And that's never good.

The benefits of a strategic procurement operation can be significant and far-reaching, and include everything from greater spend visibility and streamlined operations, to new cost saving opportunities and improved sourcing options. When asking yourself these –or any– questions in an attempt to become more strategic, however, it's important to always make sure that the goals of the procurement function reflect your institution's overall mission and goals. As the Cheshire Cat advised Alice, "if you don't know where you want to go, it doesn't matter which road you take." Make sure you are on the right road. It's the only way to achieve success.



Ray T. Jensen  
C.P.M.

*Ray Jensen is currently the National Category Director, Athletics for E&I Cooperative Services. He served as Associate Vice President for University Business Services at Arizona State University. Ray is a past president of NAEP and a recipient of the Bert C. Ahrens Award. He is also a past Board member of E&I and a recipient of the David H. Lord Award. He is an independent certified John Maxwell speaker, trainer, teacher, coach.*