New Jersey BANKER

It’s the Process, Not the Products…

In the procurement world, saving money is the name of the game…. If you know how.

Kevin Wm. Bless

Purchasing departments do not generate revenue – they improve net performance by reducing the cost of product, or manual tasks done by staff.

Most annual expense budgets target percentage reductions in the cost of goods sold by vendors.

Purchasing staff then goes out to bid, seeking to increase savings on high volume products. Vendors respond by offering special pricing. Year after year it goes on with the same results.

After establishing or retaining a relationship, vendors then proceed to offset their lost revenue by charging higher margins on low volume, non-contract items. This process takes six to 12 months before it reaches breakeven, back to square one.

Over time, the bidding process begins again (typically in three-year cycles). In doing so, the cost of administrative time negotiating prices largely offsets any hard dollar savings.

The reality is that most of the savings that were found in the initial bidding process have already been obtained. Most vendors gave up their “soft” margin spread years ago, and now it has become a game of financial whack-a-mole, with vendors constantly moving profit margins from product to product, attempting to keep ahead of the purchasing manager’s relentless cost-reduction efforts.

There is a better way, but it requires standing back and taking a critical look at the entire procurement cycle.

FOLLOW THE AUDIT TRAIL

Banks must keep detailed audit trails of cash flow. Tellers must sign out their money drawers each morning and balance all transaction activity at day’s end.

Purchasing must be held to the same standards, but the process is different…..

Starting with an item request, a bank must establish an audit trail that carries through to the reconcilement of a vendor’s invoice and release of funds by accounts payable. This audit trail must be easily recalled to be recertified over time.

Today, the vast majority of purchasing occurs electronically, using vendor “shopping cart” programs which have replaced the sales person who arrived with donuts and an order form.

Orders are now placed online with attractive graphics and lists of previous purchases to speed the process along.

This ‘friendly’ environment leads to emotional purchases and a lack of adherence to budget control. Everything is one click away, including payment, well almost…..

When the products arrive, the individual who placed the order must physically check all the items, then send the ‘notated’ packing slip back to Purchasing, which reviews the information once again.

Everything is then placed on hold until the vendor's invoice arrives, which starts the paper trail over once again, this time with emphasis on price compliance with contract terms or discount agreements.

Once this manual paperwork task complete it is then sent to accounts payable, where it is re-checked for accuracy and eventual payment.

All this is required for a semi-automated process that uses a vendor's Web ordering system. It spins out of control when there is no internal purchase order protocol. Often, order requests are simply emailed to a vendor, or even placed verbally by phone.

TIME COSTS MONEY

The Aberdeen Group (Boston, MA) estimates that it takes approximately 1.5 hours in administrative time ($60 in total salary / benefits expense) to process a Purchase Order cycle.

Our experience suggests that a typical cost center originates approximately 40 purchase orders per year. For a bank with 50 branches and 20 internal administrative departments (70 total), they would end up processing approximately 2.800 P. O.'s a year, equivalent to $168,000 in labor expense.

To reduce this cost, the entire purchasing cycle must be automated. There are a number of ways to accomplish this.

Procurement management software is available on a licensed basis for installation basis on your company's file server. The advantage and the disadvantage is that you own it.

Locally installed software must be supported by locally employed IT staff.

As the software is generally obsolete the day it is installed, updates and support are necessary. You could also write your own program, but only if your IT staff has the time or experience to spend reinventing wheels.

Today's solution is Web based Software as a Service (SaaS). [Search on SaaS purchasing systems for provider listings].

SaaS-hosted procurement systems provide dramatic cost reductions, and yield significant increases in management control.

They don't require local IT support, are regularly updated, and typically operate without long-term contracts. Payment is normally subscription based, without initial investment.

After taking into account the range of most software/service provider fees, by utilizing an online e-Procurement system, a bank with 70 cost centers will typically reduce administrative, audit and procurement work flow expense by between $98,000 and $120,000 a year – significantly more net savings than can be obtained by going out to bid for office products.
■

Kevin Wm. Bless is the president of Expense Reduction Associates, Inc. He can be reached at: kbless@ertechnologies.tech