Why do SMEs lose out in the buying stakes?

In this article specially commissioned by the Buying Support Agency, **David Molian** of **Cranfield University** asks why so many independent business lose out in the buying stakes.
David Molian is Director of Cranfield's Business Growth Programme (BGP), which runs Britain's biggest and most successful programmes for owner-managers.

Would you take a pile of ten pound notes and set fire to them? I thought not. Yet that is exactly what an awful lot of smaller businesses do in the way they approach their purchasing.

Apart from salaries, the biggest area of expense for most businesses is purchasing. In my experience, a sharpened focus on buying can reduce a business's costs by as much as 20%. What would be the impact on your business of even a 10% saving on your total purchase bill?

It's obvious that smaller businesses are inherently disadvantaged in their ability to buy cost-effectively compared with large organisations. Yet all too many compound this basic handicap by ignoring some simple steps that can *not only save money*, but also produce *a superior proposition for their customers*.

Five steps along the road to better buying

First step: *take advantage of buying consortia*, which provide the purchasing muscle of collective procurement. Virtually every business shares the same basic buying requirements of janitorial supplies, office stationery, power and telecoms utilities. By purchasing collectively, small businesses acquire the negotiating power of the big players – and lose some of the routine administration headaches into the bargain. The reluctance of many owner-managers to explore this route is all the more surprising because the best consortia let you try before you buy: you can do a real-time cost comparison to find out exactly how much you'll save before you commit for the long term.

Second step: *invest in your people*. Would you spend money on your sales staff, to increase their productivity? Most owner-managers I know wouldn't hesitate. But buying is too often the poor relation: finance, sales and marketing, for example, are acknowledged as areas where trained professionals are needed, but not so purchasing. In particular, those charged with buying rarely have training in either negotiation or analytical tools and processes. It's the norm in many businesses for those charged with purchasing to be expected to pick it up by working on the job – regardless of whether the firm employs good, indifferent or downright awful purchasing policies.

Third step: *review your buying across the board*. In a typical smaller business, buying is a set of fragmented activities. Nominally the MD or FD – or even the office manager – has control, but in reality nobody is accountable or responsible across the piece. The accounting systems rarely help, since they are set up to record purchasing transactions, not bring them together in a way that enables effective decision-making. The problem is that a lot of small, separate decisions can add up to a rather big number.

Fourth step: *focus on the potential big wins*. Equal amounts of time and effort are routinely expended on low value-added purchasing as on suppliers of strategic importance. Your choice of loo roll and office stationery is not going to secure the long-term future of the business: your critical supplier of labour or raw materials, on the other hand, just might. As they say in the States, don't sweat the small stuff!

Fifth step: *continually identify and share the gains from better buying*. Reviewing your buying processes on a regular cycle should be an integral part of business management. You should be expecting more value and improved innovation from your suppliers, just as your customers expect these from you. And not just once in a blue moon, but consistently and predictably. Benefits from your suppliers can often be translated into a superior proposition for your customers. In an ever more competitive business environment, every little helps!