11 THOUGHT-PROVOKING EXAMPLES OF DISRUPTIVE PROCUREMENT IN ACTION



When I tell people that my passion is procurement, most people move on to ask the person next to me what they do for a living. A few others ask questions about the biggest tender I have ever dealt with, or how I feel about supermarkets bullying tactics with food growers and the like.

The uninitiated think that as procurement professionals we spend our time creating tender documents and beating up suppliers on price. In fact, nothing could be further from the truth. Our approach is VERY different. There is so much more value procurement can add - when you understand the true power of insider knowledge.

I'm not quite sure who invented the term "disruptive procurement" but I wish I could lay claim to it because it is exactly what I have been doing for most of my career.

"Disruptive procurement" uses knowledge of the entire supply chain to challenge requirements and drive out business benefits far in excess of any improvements in margin.

I've often talked about "using our unfair advantage", "challenging the status quo" and other metaphors, but "disruptive procurement" really does sum up the way the partners and associates at Insider Pro think, act and do. In fact we ONLY recruit people with hard won, gritty procurement experience who can a) prove that they work as a disruptor in a positive and creative way and b) have real insider knowledge which helps our clients create incremental value in their business.

If fact, insider knowledge is one of the seven fundamental ingredients of disruptive procurement.

In this eBook I am going to share with you some great real life examples of "disruptive procurement"; including examples where the potential savings and "win-win" outcome seemed almost impossible.

I hope when you read this you share my sense of passion, enthusiasm, fun and determination to succeed through disruptive procurement.

Jeremy Bowley



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INTRODUCTION

We are going to share with you some very real examples of disruptive procurement in action. Names have been withheld for privacy reasons, but each example is very

First, let's recap on the subject of disruptive procurement and the importance of insider knowledge.

Disruptive procurement is the process of creating real business value by:

- deconstructing what the business really needs
- challenging established business processes, and
- leveraging knowledge from outside the normal points of reference.

It is a creative process in which the buyer re-imagines the supply chain and creates additional value through insight and smart thinking.

In our blog (blog.insiderpro.co.uk) we talk about the 7 key ingredients of disruptive procurement, namely:

- 1 Look at everything through fresh eyes
- 2 Find the real need
- 3 Understand how your own business drives stakeholder value
- 4 Think like an HR Director focus on cultural fit and values
- 5 Find innovative ways to drive out cost
- 6 Learn from other industries
- Know your supply chain inside out

The final ingredient is best achieved by getting insider knowledge and experience.

At its simplest level, if you are a property director buying land, buildings and equipment get insider knowledge from people who have worked in the construction industry. If you are buying paper cups for a world-wide chain of coffee shops, get help from someone who knows the global players in that market, and knows how much those items *should* cost.

"Insiders" truly understand the margins, rebates and discounts available in their industry. They know what delivery timescales are possible, how to get design changes made and what elements might adversely impact quality. Their knowledge helps them accurately predict supplier behaviour ahead of time, understanding what levers to pull to bring out the best and develop new approaches.

With that in mind, the examples in this document show disruptive procurement in action and illustrate how insider knowledge can create that illusive win-win proposition for buyer and supplier.





WHEN IS A PROCUREMENT EXPERT NOT A PROCUREMENT EXPERT?

Answer: when they are buying from an industry sector about which they have NO INSIDER KNOWLEDGE.

This can happen with lots of categories, but is very often the case with goods not for resale or "GNFR".

Buyers become experts in the areas that impact the operation of their business - be that the products that they sell on, the raw materials they convert, or the items they use to assemble their finished goods.

GNFR like stationery, packaging, shelving, printed materials, IT, distribution and consumables are very often treated as categories that are tendered perhaps annually (if at all) and then bought by non-buying professionals often operational managers as and when required.

When tendering for these items, the person doing the buying will often look at past purchases as a guide as to what might be needed in the future. They go to suppliers they know can deliver on an as-and-whenneeded basis.

In other words, traditional desk top procurement methods tend to be used in this area.

We were approached by a company we had already worked with who knew that we had insider knowledge of the consumables market place. They challenged us to use that knowledge to lower the cost of these items.

We could have done just that:

- → We could have introduced new suppliers.
- We could have challenged the prices we were being shown in comparison with others we had seen.
- We could have tested out different purchase volumes and other ways of obtaining discounts.

And that is exactly the way many procurement consultants would work.

We disrupted the whole process by first looking at what was spent and why.



We examined the category as a whole and understood how it added value to the clients operation. Our systems thinking inspired approach saw us review product prices, specification, distribution efficiency and crucially, how the demand for these items delivered value to our clients' customers

In common with a traditional approach to procurement we uncovered price improvements, consolidation opportunities, volume discounts and specification changes. In fact it was a good result for the client, identifying almost £1.0m of benefits on these elements alone.

But this was just the beginning. By understanding the operation and role of the category in the business we uncovered an incremental £1.5m of savings through;

- Restructuring processes, reducing demand and eliminating waste
- Releasing fixed costs (people and assets) within the clients business
- Improved working capital utilisation
- Refining the service offer to the end user and focusing spend on the elements of spend which gave the high return.

This was a great example of disrupting the procurement process in favour of finding the real need.

INSIDER KNOWLEDGE EXAMPLE - THE CONSTRUCTION INDUSTRY

One of the most important elements of disruptive procurement is insider knowledge of the value chain to which you belong. Understanding how your business adds value to your customers and understanding how suppliers can add value to your business moves procurement discussions to be not "Who should we buy from?" but "What should we be buying?"

Real insider knowledge of your suppliers enables you to take this further and be able to answer questions like "What **SHOULD** I be paying?" and "How do I drive the best performance from my suppliers?"

The following three real life examples stem from our significant experience of working with businesses throughout the construction industry supply chain - from mining and primary manufacturers to civil engineers and building companies.

We helped a national builder cut £millions off their cost base, and move their business from being uncompetitive to one of the most profitable in the industry.

#1 DECONSTRUCTING THE COST BASE

For the most part, construction companies need to take delivery of materials and fittings on a project by project basis. Many materials are bulky and/or heavy and ideally they need to be delivered to site as and when they are needed. Site planners work out how many baths, toilets, bricks, windows etc are needed and deliveries are often scheduled by the project manager who has the latest information on the timings of requirements.

Yet that same firm may be purchasing the same things at the same time in a different location.

It seems obvious therefore, to consolidate requirements across multiple projects, but because each project manager is working to slightly different timings, enable them to call off what they need at the appropriate stage in the building work.

This gives the company the opportunity to look at volume purchases.

However, common practice amongst building materials suppliers is not to give an immediate discount based on promised volumes, but to discount based on actual order deliveries. This is often referred to as a rebate. Rebates are generally retrospective discounts, tiered discounts based on total volume in a given time period, or based on the purchase of a combination of items.

The rebate is often negotiable, whereas the price is fixed across the industry. It allows the suppliers complete control over discounts by volume and reduces any downward pressure on the price - since the discussion is always about the discount.



Procurement teams in the construction industry therefore often spend their time focused on negotiating the best rebate deal for their company. But this can only be realised if the information they are given about demand is accurate. If a retrospective discount is agreed, and the purchase volume does not reach the agreed amount, then the discount will not be applied.

The result is that margins are squeezed and profitability impacted.

A large construction firm asked us to step in when they worked out that they were losing out because their cost base was higher than their competitors. They had been working in the traditional way and their buyers were incentivised on achieving set amounts of rebate income. Being a national company, they tended to contract with national suppliers with whom they could agree a) a large volume based on national requirements and b) local supply to site.

On the face of it those buyers were doing everything in their power to affect the best possible price.

We stepped in and used our inside knowledge to start from the cost price not the selling price.

Having worked for building materials suppliers in the past, we knew very well the true cost of many items that they were buying. We were able to cut to the chase with suppliers and negotiate on a price per unit basis instead of a rebate against the "list price".

This took us into completely different territory. By assessing the value that suppliers could add, we derived the unit price calculation. In some cases, those suppliers prepared to deliver at short notice deserved a higher price than those with lengthier lead times. Other factors like comparative quality, supplier flexibility, returns policy and so on were factored in to provide a complete picture of the VALUE being delivered by the supplier.

This approach enabled us to buy based on value decisions, not on discounts and rebates.

We reduced costs and added value to the business by delivering not just the goods but also the delivery times, flexibility and quality that the site managers need.

Lesson learned: Insider knowledge helps disrupt the procurement process by turning pricing and discounting discussions into examinations of "should cost" and "value add".



#2 BREAKING DOWN BARRIERS TO ENTRY TO REDUCE COSTS

In our mission to reduce the cost base for that same construction company, we examined the supplier base in detail and questioned why the same (large) suppliers were used as opposed to some of the smaller, regional operations.

In some instances, their small supplier base gave little room for negotiation. The construction company had no objection to dealing with smaller companies, and could see the advantage in having a wider pool to choose from.

Using our "Why, why, why" approach, we asked the suppliers why they were not getting more involved. Interestingly, they informed us that the building company was "difficult to do business with", so we explored that in more detail.

Vendor reliability is an important factor in any procurement decision - but crucial in the house building sector. The cost of rework due to poor quality or noncompliant raw materials or fittings can be huge, and late deliveries from suppliers that cause delays to the build can incur large penalties for any construction company.

For that reason, all suppliers had to go through strict processes to vet them in terms of product quality, financial stability and reliability. In their case this was a lengthy process that had to be repeated each time a new product line was supplied.

This made it hard for small businesses to trade with them.

We worked with the building firm to change their vendor onboarding process to make it the quickest in the industry.

In fact, we enabled more than 2,000 vendors to be onboarded in just six weeks!

With more vendors to choose from, more competitive pricing was achievable.

Finding local suppliers for specific projects who could add value by being more reactive and flexible to requirements was a real bonus for site managers.

The lesson here that by examining every interaction a supplier has with your organisation, you may be able to remove perceived barriers to doing business, increase competition, drive down costs and add true business value to your colleagues. Disruptive procurement doing things differently.

THINK VALUE: sometimes smaller, local suppliers can deliver more VALUE to the business than the biggest in their industry.



#3 SUPPLIER PERFORMANCE MANAGEMENT - THE EASY WAY

With such an emphasis on supplier reliability during the on boarding process, we naturally questioned how supplier performance was rated on an ongoing basis.

Previously project managers would place orders and be responsible for day to day liaison with suppliers. Project managers would be aware of which suppliers performed well - and those that didn't. But the information was held in isolation and where one project manager might refuse to work with a particular supplier, another would be discussing future requirements.

There was a rating system whereby the team could rate suppliers on a range of criteria using a 10 point scale, but the questions were complex and being short on time, most suppliers got straight 7's. This result was a pretty meaningless metric.

We simplified the process to just 7 questions each with a yes or no answer. We asked those dealing with suppliers to answer this for each supplier on a monthly basis.

All data is held centrally so that project managers and buyers can review the statistics before inviting suppliers to quote.

The big result, however, was not a simplified process per se, but the impact this had on supplier performance. Knowing they would be rated helped to increase on time deliverability which in turn impacted the performance of the construction company against their contracts.

Added to that all involved determined that there was a lower risk rating on each contract as the chosen suppliers could be trusted to deliver.

Lessons learned: Simply changing the way you monitor supplier performance can actually lead to an improvement.



FACILITATING LOWER TOTAL COST OF MPROVED SERVICE LEVELS

Facilities managers are always under pressure to reduce costs in everything that they do, but there often comes a point when a cheaper alternative fails to deliver the service that is required.

Getting the absolute cheapest plumbing service in the area might force the supplier to cut corners in order to deliver at that rate. They may prioritise higher paying customers and be slow to respond. They could add unexpected charges to the bill or simply not turn up, leaving the facilities manager with a disgruntled customer at best, or water damage and more.

So what do you do?

- Pay a bit more for a (hopefully) better service?
- Put suppliers through a trial before awarding a contract?
- Or think a little differently?

Disruptive procurement is about the latter option thinking about the issue differently.

In the case of one Housing Association, whilst we were invited in to help them cut service costs, we started by looking at their business from a very high level.

Housing Associations are subject to scrutiny by the Homes and Communities Agency (HCA) whose focus is and has been for some time on the comparative efficiency of housing associations. This is measured as the running cost per home and can vary between housing associations from £3120 to over £10,000 per home per year.

Cost per home is clearly an issue - and the reason we were brought in to help in the first place.



On further research, we discovered that STAR (surveys of tenants and residents) shows that it is the TIME it takes to effect a repair that commonly leads to poor satisfaction.

And The Leadership Factor showed that higher levels of tenant satisfaction resulted in lower call volumes - each tenant making around 5 calls less per year than their dissatisfied neighbours.

Taking all of this into account, plus some previous experience learned from a different industry, we recommended the company invested in a third party "triage" service to manage requests and schedule service providers accordingly.

There was concern over the additional service (and specifically the additional cost) but we had seen this before and knew that with careful setup and monitoring, we could add in this new service AND reduce overall costs.

We convinced them that they needed a facilities management company to try to resolve issues over the phone before calling on any service engineers, and then manage the whole process to a conclusion.

Then we went a step further and constructed a deal that resulted in instant payback.

On average, they had been spending £5million per year on maintenance. It was variable, of course, depending on the amount of requests in any given year.

The facilities management company that we selected were so confident about the results that they agreed to manage everything for a capped annual fee of £4million.

The housing association has continued to enjoy those savings each year, provided a superior service AND achieved high satisfaction ratings from their tenants.

This example is a great illustration of how old fashioned procurement methods need to change. Dealing with the problem (how to reduce costs) is not simply a matter of tendering and pushing costs down further. Disrupting the process, challenging assumptions and creating a new solution to an old problem often gives the business additional important benefits way beyond simple cost reduction.

Old fashioned procurement methods need to change: disruptive procurement drives benefits beyond simple cost reduction.



WHEN BUYER EFFICIENCY IS A BAD THING

There is a phenomenon we have observed with procurement team expansion. As with many things in life, the law of diminishing returns impacts buying teams too!

As the team starts to grow, new members bring different knowledge and experience to bear. Fresh ideas, knowledge and new procurement methods are shared and there is a buzz about the team.

As growth continues, procurement teams reach a point where each person is responsible for their own particular category (or categories), and the procurement function is so big that any new recruits lose their chance to disseminate their experience to the whole team.

Incentives are introduced to focus the mind on getting the best discounts available for each line item.

To make efficiency improvements, process reviews are undertaken so that each team member operates in accordance with standardised procedures. The team members become pretty static in their approach and whilst each member has their own specialist area, there is little ability to deviate from the standard procurement processes.

This stagnation - this reduction in creativity - leads many procurement teams to struggle to obtain the margins the business demands.

Time for a serious review!

We were asked to review the purchasing operations in a wholesale distribution company. They had a team of 85 buyers, all working to their company guidelines. Each person had a clear area of responsibility, and a good level of knowledge of the categories they regularly purchased. Incentives were in place to focus their attention on maximising discounts, and most buyers were achieving their targets.

All good so far.....

Until we pointed out that focusing on discount levels could actually drive the price up and/or the margin down!

This happens in several ways:

- Suppliers, once they know that discounts are the way to win, will simply inflate the price to deliver what the buyer wants.
- Agreeing to volume purchases in order to achieve higher discount levels can lead to higher stocking costs which means the overall cost to the business is higher than it would have been if the item was purchased in lower volumes
- Olume based agreements can result in sales having to apply discounts in order to shift products that are at the end of their life, thus negating the achieved discount
- ⇒ If retrospective discounts are negotiated, their achievement is not in the hands of the buyer but the sales team. If the items are not sold in sufficient volume then the promised discount cannot be achieved.

In summary, whilst the buyers were achieving good levels of discount, the way they were achieving it (large volume purchases and/or retrospective discounts) actually resulted in lower margins in the long term.

Added to that, because the buyers and sellers didn't collaborate on purchasing decisions, there were frequent examples of lines being bought that had to be discounted at the point of sale because new ranges / new packaging / competition was forcing sales to discount in order to shift remaining stock.

We recommended a restructuring of the purchasing team:

We restructured the team and asked people to develop expertise in different categories to the ones they were used to.

The purpose of this was to encourage them to ask "What do I need to know to be successful at this?" "Who are the main players in this area....and why?" "How do I discover the market trends in this area?" and "What should the margin be on these items?"

(Imagine having purchased cement and bricks and being asked to buy bathroom suites instead!)

The team opened their eyes and ears. They questioned what was being bought and why.

They spoke to their colleagues in sales, they researched the market, they found different potential suppliers. We disrupted their process.

We changed the buying teams' incentives to focus on better product sourcing

We showed them new ways of collaborative working with their own sales teams that would help maintain margins and profitability by focusing on the product ranges that are the most popular with their customers.

In other words, we put in place a structure that disrupted the way procurement had always been done in that business. Buyers were forced to challenge assumptions, and apply learning from their previous role into their new one. To achieve their new targets they had to work with their counterparts in sales to drive profitability.

The end result was a 9% reduction in the overall cost base for the business.

Lesson learned: Buyer effectiveness is what most companies seek, but all too often the starting point is process standardisation and efficiency. As a result many larger procurement departments can lose sight of the impact that truly inquisitive, disruptive procurement experts can have on profit margins.

Focusing on buyer effectiveness not efficiency is what adds real value to a business.





TURN PRODUCTS INTO SERVICES - ERADICATE REPAIR VS REPLACE DECISIONS

Facilities managers, operational heads, maintenance managers and financial directors all get involved in repair vs. replace decisions.

It's not always easy to determine the point at which an item should be replaced, but in most cases buyers will choose to either wait till it fails or (especially for safety or production efficiency reasons) replace in line with manufacturers guidelines.

But there is another way.....

For one facilities manager, we reviewed the NEED and expressed what we wanted in terms of a required performance over time.

We then tendered for a complete service based on the need rather than the solution. This put the onus on the supplier to:

- supply equipment and spares that were designed to meet the need
- supply parts thought to be sufficiently durable to last the length of the contract

- arrange proactive and reactive maintenance such that the need was satisfied for the duration of the contract
- replace faulty parts promptly at a cost that was included in the contract

The end result was that we tendered for a contract to service the equipment, rather than supply replacement equipment when needed. We achieved a reliable solution to the need and removed costs in the process. We no longer needed to monitor the equipment nor the servicing of the equipment, just that the need was being fulfilled.

Turning problems into service requirements helps to take risk out of the business and can reduce cost.



PROCESS RE-ENGINEERING TO CUT COSTS WHILST MAINTAINING SUPPLIER RELATIONSHIPS

A well known high street chain of restaurants asked us to help reduce costs associated with managing their buildings.

They had a facilities management contract in place for over seven years and were happy with the supplier. Fast response times and reliable performance are important to them, and maximum operating hours are a critical function of profitability. The incumbent supplier delivered on this promise.

They simply wanted us to negotiate with them and reduce costs whilst their own procurement team maintained a strong relationship with the maintenance contractor.

Of course, the reader will know by now, that we didn't simply get out the red pen and make a hard line attempt to reduce the price.

Instead we looked at what the contractor was being asked to do, how they did it and the associated communication process. We sought to reduce cost from the process, not (necessarily) the hourly rate that was being charged.

Restaurant staff would call on the contractor and the firm would send an appropriate engineer to address the issue. As with most trades, there would be a call out fee and a rate per hour for their work.

Invariably, the contractor would look for other issues and provide an advisory notice of other issues that required attention.

There were lots of examples of inefficiency in the process. One member of staff reported an instance when the restaurant was too hot. The company sent out an air conditioning engineer who found no fault and suggested that a colleague who specialised in catering equipment should be called in. He found no fault either and the conclusion was that, being a hot day perhaps they should turn the aircon up or open more windows!

Based on our experience and observations in this case, we recommended a triage system manned by a third party to log calls and attempt to deal with issues over the phone before calling on an engineer.

We put a measurement system in place to ensure that each element of the process was monitored. For every ticket raised we asked the user to answer three simple questions:

- → Was the issue fixed over the phone?
- Was the issue triaged correctly so that the right engineer turned up with the right tools?
- What was the time to resolution?

The three year deal saved the company £1.5million. A good working relationship was retained with the maintenance contractor and restaurant staff were pleased with response rates.

Lesson learned: Looking for process efficiency improvements can be a way to reduce costs and maintain relationships.



PROPER PROPERTY PROCUREMENT

A care home provider had come up with a winning formula for care home design. They had already implemented this in several locations in the UK, and had significant expansion plans.

They were going out to tender for all equipment, fixtures and fittings for their newly built care homes, and called on us to help with that process. They simply wanted the best possible price for the items they had selected.

Because of our experience working for construction companies, we have a detailed understanding of way rebates and discounts work in the building materials sector. By working with the architects, we were able to create a standard bathroom specification or "pod", since we knew that this would be the cheapest way to source sanitary ware in the long term.

It didn't end there...

Balancing the potential cost and impact of late delivery against price is crucial in cases like time-sensitive building projects. The key for any building project is to complete it in as short a time as possible, but for those buildings - like care homes, hotels and offices - where the building is intended to be a revenue generating asset, every day of delay is potentially a huge cost to the business.

This meant that the cost of bathroom pods had to be weighed against the suppliers' ability to deliver to a schedule.

In the end, whilst some suppliers appeared to offer a lower price per bathroom pod, their ability to supply to a schedule was questionable.

When the cost savings for bathroom pods were compared against the risk of delayed opening of a care home, the more reliable suppliers won.

Combining elements into a single specification sometimes gives suppliers more room to provide discounts.



PACKAGING UP MORE PROFIT

Making a saving on packaging doesn't sound very glamorous. Especially when you are a household name and have an established specification for those items. There can be little change, if any to the specification. So what do you do?

- Go to the incumbent supplier and try to cut the cost more?
- Go out to tender to known suppliers?
- Investigate others?
- All of the above?
- We think that's all good, but a bit old school.

Here's what we did:

This particular business had reduced their packaging costs by £500,000 in the previous year, but were under pressure to improve profits and were looking to reduce costs in every area of the business.

Being a significant global high street player, they knew of only 3 suppliers who could guarantee the consistency across all locations in the world.

They challenged us to retain consistency across the globe and drive down margins still further.

An added complication was that they rather liked the incumbent supplier and someone had actually told them that their competitors' products were inferior!

It was a really tough challenge and we needed to think differently.

How could we disrupt this?

We looked at the market and agreed with the buyers that only these three suppliers had a chance of delivering the volume and quality that was required across the world.

We couldn't disrupt things by introducing new competitors.

We couldn't really disrupt things by going with one of the other known suppliers, as the company clearly preferred the incumbent. And he was so comfortable that he would have had confidence to hold his price.

The only thing we could disrupt was the emotions of the sales person.

So, we staged a piece of "theatre" as part of the procurement process.

In order to protect the innocent (and the not so innocent!) I can't share exactly WHAT we did, but can tell you that we set up a meeting in a very prestigious office, with samples of all the competitors products prominently displayed.

Our objective was clear: to unsettle the seller.

So we thought how we would feel if we were in the seller's shoes.

- How would he FEEL if a competitor got this deal?
- → How would he look to his boss when PR went out about a competitor snatching their biggest customer from their grasp?

So, we acted as we would if someone else had provided a better offer: cool, disinterested, angry, insulted... our procurement team displayed all of these emotions and the salesman changed from ultimate confidence to concern about losing his biggest customer.

The end result?

The incumbent revisited their margins and determined that they could, in fact, offer a further cost reduction. We saved a further £1.5m per annum.

That is disruptive procurement in action.

Lesson learned: If all avenues have been explored, you'll always have one disruptive act available - manage emotions and disrupt thinking.



SPECIALIST PROCUREMENT: WHAT TO DO WHEN INSIDER KNOWLEDGE ISN'T **AVAILABLE**

A large private health supplier asked us to save money across the board - from stationery and consumables to translation services, orthopaedic implants and ocular implants.

Whilst we had inside knowledge of a number of categories, we had no experience to draw on when it came to medical implants.

Nor did their procurement team. They regarded their surgeons and consultants as the experts and would purchase the devices from the manufacturers they preferred.

We carried out a thorough assessment of the marketplace and delivered a well-structured and objective analysis of competing products. This was presented to the medical team and they were given final authority on which items to purchase.

As we had suspected, the consultants had simply been sticking with what they knew. Once armed with factual information, they were open to change and actually chose cheaper solutions.

Overall we cut £5 million per year from expenditure.

Operational specialists are not procurement specialists!



CONCLUSION

We hope you enjoyed this insight into the impact that disruptive procurement can have on businesses of all shapes and sizes.

As you have learned, we at Insider Pro pride ourselves on having the "secret sauce" - the inside knowledge - across multiple supply chains.

To discover whether we have suitable knowledge of your industry and your supply chain simply call and ask for a free 20 minute consultation. At the end we'll be able to tell you whether we think we have the experience you're looking for.

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