



## From austerity to prosperity – procurement's contribution

**Taking a holistic approach to the acquisition of goods and services can make a big contribution to increasing productivity, says Mark Hubbard**

A recent report by management consultants McKinsey identifies seven priorities for the UK to focus on as we move from a period of austerity to one of growth.

The first of these is that business must increase its productivity, defined as average output per employee hour. Although the UK's productivity growth has been encouraging over the last 15 years, says McKinsey, it still lags significantly behind the US and Germany.

The gap must be closed if the UK is to continue to enjoy economic success, and although McKinsey does not highlight procurement as a key factor in its report, *From austerity to prosperity: Seven priorities for the long term*, it is clear that effective strategic purchasing has a role to play in delivering this improvement.

While traditional purchasing usually focuses on driving lower prices, a strategic procurement approach of the kind now so badly needed has a far broader remit embracing not only price, but also targeting cutting costs and increasing value.

Such non-price opportunities are often abundant and are rarely mined to their fullest extent. When outlining the initial position in a particular area of spend, it is too easy to focus on the price history.

We also need to understand the way in which supply chains work and the inefficiencies that are built into them, often over a long period of time.

Examples of such inefficiencies we have found include the impact on waste of volume uncertainty in production, a lack of understanding of maximising the use of any particular asset and the impact of over-stocking items resulting in eventual disposal, often at the most expensive point of the production or service provision cycle.

What is striking is how often businesses maximise the potential for waste within a supply chain, running all the way through a development and production cycle and then disposing of the product or service before it is delivered. This maximises the value contained in the product or service just before it is used.

A good example of this is in the food supply chain. Many of us have disposed of unopened food which has gone past its sell by date. This is the point at which the food has greatest value - all the production, transport, storage and purchase costs have been embedded in a product that has travelled all the way to our house only to end up in the waste bin.

We have a unique opportunity in procurement to look across the whole of the life of a product or service, not only at price, but to challenge the way in which products and services are acquired and used. When we do this, we are at our most effective and most inspiring within a business, taking a genuinely holistic approach to the goods and services we source.

Our challenge in addressing the productivity gap identified by the McKinsey report is to look for every area of opportunity within the businesses we serve and ensure that no stone remains unturned in the search for efficiency.

*\*From austerity to prosperity: Seven priorities for the long term*, published by McKinsey's London office and the McKinsey Global Institute

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