

# The Buyer's Blog

## A Procurement Field Guide

2010



CIPS Australia



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For my long-suffering wife:  
*who is often a temporary single-parent when blogs are being constructed*



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## Introduction

Buoyed by a successful first year in 2009, The Buyer accelerated his blogging throughout 2010 and produced an additional 115 blogs on Procurement Professional Online throughout 2010 - even being awarded space on the home page of the host website **[www.pponline.com.au](http://www.pponline.com.au)**

The Buyer's Blog is an occasional viewpoint on matters relevant to procurement professionals from our anonymous former senior procurement manager with a "naturally biased, but totally justified, opinion." Generally the blog aims to offer relevant and practical down-to-earth opinions that help busy procurement professionals to simply do a better job and see through the fog of complexity with which they are often presented.

But, again this year, The Buyer has offered an extraordinary amount of pragmatic and workable advice masquerading as flippant comment on current affairs relevant to the profession. Some of the blogs (and the provided links) still count as the 'most viewed' pages on PPOnline. You can comment on the blogs individually by posting comments.

This compendium of 115 blogs from throughout the last year also offers a retrospective of the year in procurement. It chronicles the year in procurement terms – the news, issues, questions and recurrent themes close to the profession.

The Buyer has his own style too, with a sardonic twist and several pet themes such as the limitations of process, day-to-day ethical dilemmas, practical ways to save money and reduce workload and the dangers of buying and selling for the wrong reasons. New themes have also emerged this year – managing to the tip of the supply chain, low cost country sourcing issues, the dangers of protectionism & buying too local, auditors ignoring results, how to beat the skills shortage, the salesman's point of view, the need to invest in capability building, the value of standards and the impact of bad PR from the supply chain.

Naturally, the views of The Buyer are entirely personal and are absolutely not those of Procurement Professional magazine, its editor, BTTB Marketing nor CIPS or CIPS Australia. Some blogs have been slightly edited to remove typos or include content from links, but they have not been materially altered at all and retain their raw and topical edge as intended at the time of writing. Clearly, some blogs have aged well and proved prescient – others have aged worse and seem a tad hasty when read with the benefit of 20/20 hindsight.

More than anything, The Buyer's Blog demonstrates the growing relevance of the procurement profession for everyone.

I hope you enjoy reading them in retrospect, as so many seemed to last year.

**Jonathan Dutton, FCIPS**  
Managing Director  
**CIPS Australia**

Melbourne, December 2010

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## #101 - Possible predictions for a year of volatility in 2010

It is traditional [and foolish] to offer bold predictions at the start of the year.

The Buyer, being prudent, only offers possible predictions though.

They may not happen.

But after a torrid two years, a period of stability is unlikely. A period of volatility more likely.

So these bold possibilities for 2010, may help procurement professionals imagine how a year of likely volatility could impact their own supply chains?

What if one, or two, or more, of these possibilities actually happened? What then for your strategic supply chain?

TEN bold possibilities for 2010:

1. The Aussie dollar to hit parity with the US dollar during the year; and 60p against the Pound
2. Oil to exceed \$100 per barrel once again
3. GOLD to exceed \$1,500 per ounce
4. Interest rates to reach 5.75% as a base rate by Christmas 2010
5. GDP growth exceeds 3%, with inflation a similar figure
6. Unemployment stabilises around 6%
7. USA and China start introducing tariffs
8. The ALP to win a general election and secure a majority in both houses – and an ETS scheme
9. The ASX to surge past 6,000 pts before Christmas
10. The mighty Saints will win the flag in September

You heard it here first ..... but let's hope I am wrong – apart from the last one that is.

The Buyer – posted 17th January 2010

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## #102 - Why Copenhagen wasn't important to procurement in the end ...

The recent postponement of the CIPSA conference due for 4th March 2010 (on the previously imminent CPRS scheme's impact on procurement) seems obvious now.

But only a few months ago, Malcolm Turnbull [remember him?] seemed to have won the argument to let the ETS bill pass the Senate, and COP 15 looked like becoming a watershed global agreement on climate change.

How wrong can you be?

The ETS bill failed of course, and produced a new opposition leader and front bench from the right.

COP 15 was a wash-out.

So, no CIPSA CPRS event then. A sane decision given the blurb in the original brochure,

"The aim of this event [is] to provide procurement practitioners with sound practical advice in relation to how the new legislation [will] impact on them and their organisations"

A second-hand ETS scheme anyone?

The Buyer – posted 18th January 2010

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## #103 - Supplier choice the first step for CSR

ABC radio ran an interesting piece before Christmas [17 Dec, am news] ... highlighting the 'please explain' that Qantas had received following their choice of supplier for the tedious and low-paid toil to repack their cleansed on-board headsets.

Apparently Qantas chose low-paid prison inmates over a disability centre as the supplier? Doubtless the decision was commercially sound. But the audience were left wondering that a little penny-pinching by the airline had completely betrayed their corporate social responsibility (CSR) credentials.

Sometimes the actual choice of supplier speaks louder than any commercial factors.

The Buyer – posted 19th January, 2010

## #104 - Who is supplying your suppliers?

The allegations on the front of the Brisbane Courier Mail not too long ago that the biggest sub-contractor on the new 'Bris Connections' airport link toll road project has deep connections to a bikie gang [www.couriermail.com.au](http://www.couriermail.com.au) raises again the question of do you know who exactly is supplying your suppliers? Even deep down the supply chain. [See previous blogs #28 and #102].

Also, whilst we are on this subject again, why exactly do you need layers and layers of sub-contractors forming such a long supply chain – especially for infrastructure projects. Certainly some projects are too big for a single contractor, but how many do you need? In this case the project builder has a project management team, head contractor, main sub-contractor, appointed sub-contractors and a wide range of small subbies. A long tail to control and manage specialties and quality. But also at least SIX mouths to feed at the trough. Six margins. No wonder the price is over \$5.6billion.

Maybe Dan the man had it right at the conference after all? [see Blog #89]

The Buyer – posted 20th January, 2010

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## #105 - Gen Y not ready to take over ... yet.

The story fronting The Age recently suggests Gen Y'ers [born between 1980 and 1994] are ready to lead. To take over. To skip Gen X [born between 1965 and 1980] and move to the top. To become business leaders. Now.

<http://www.theage.com.au/national/gen-y--30-charmed-tech-savvy-and-ready-to-take-over-20100108-lyy6.html>

But that is not the view of typical middle manager's in most large companies (Gen Y's bosses). And not the general view in procurement either, from anecdotes that The Buyer hears. Which is shame as the baby-boomers [born between 1945 and 1965] start retiring en masse now – from this year onwards, taking the corporate memory with them. Gen X seem ill qualified and ill experienced to lead - partly because the BB's didn't write anything down, or were actually inventing how to do things in the pre-data entry era. They have not captured the corporate memory.

Today there is much written about Gen Y - Peter Sheahan's book being perhaps the most original and most celebrated "Generation Y: Thriving and Surviving with Generation Y at Work" ... see also [www.petersheahan.com](http://www.petersheahan.com). The Buyer has met a few good Gen Y'ers working in procurement that seem to buck the trend. In fact, role models for their generation. But they are few in number and the profession needs masses more. But, mainly, Gen Y stand accused by many of being spoilt, mollycoddled, poorly educated and ambitious without substance. Of demanding reward without true effort or attainment and of needing the security of groups, technology and causes.

The Buyer doesn't enjoy arguing against youth. They should be encouraged and given the resources to perform at their best as a rule; and they often surprise with their ingenuity. But Gen Y as a whole just don't seem to get it. The work ethic is missing, the sense of entitlement galling and the idea of instant success unrealistic. They think everything is [or should be] free, that process is success [not results] and failure is impossible [because it has been abolished in the schools]. In a nutshell, they sometimes don't seem ready to apply themselves and earn success, but expect it on a plate.

The irony is that Procurement needs Gen Y. They could make or break the profession with mainstream business. They are capable of bringing real professionalism if they are prepared to learn how to do business. They have enormous potential. Gen Y not only have to take on formal learning but, crucially, have to apply themselves and bring their confidence, soft skills and tech savvy to bear.

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In return the profession has to sell itself to GenY – they can reasonable ask "why join procurement?". After all procurement is not known for its sex, money or glamour! Procurement offers a broad based business education, a chance to be at the heart of things within large organisations and a way to make a real difference. The GenY'ers have to be convinced it is not a business backwater.

There are only marginally over 300 people in Australia & New Zealand with full membership of the peak body – MCIPS at CIPSA. This is a globally recognized standard of professional competence in the subject of procurement. But it is a career start-point, not a reward or a medal for a great career in procurement – so 300 is way too few. The only mitigating factor is CIPS short tenure in Australia [post 2004-5], and the few courses at universities in procurement or supply chain that were available in the past – though this has changed recently: CIPSA say there will be 22 courses at Aussie Uni's in 2010 offering MCIPS accredited courses.

But procurement people, particularly, have much to learn because of the eclectic nature of where procurement people are sourced from – like accounts, engineering, operations and general admin roles. In order to be taken seriously and to make a difference when taking a career development move in your twenties or early thirties you have invest in training & development to meet your new responsibilities; to learn your new profession quickly. Which is something GenY are good at. They learn quickly. Better get to it then.

The Buyer - posted 23rd January, 2010

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## #106 - When holster selection drives pistol choice

The news in The Age that the purchase by Victoria Police of their long awaited new semi-automatic firearms is in its "final stages" is hardly reassuring for a concerned public and police association that impatiently feel Melbourne police are currently outgunned by the bad guys. <http://www.theage.com.au/national/victoria-police-close-to-signing-deal-on-pistols-20100113-m6za.html>

And on the face of it, it seems odd that the choice of the best pistol seems to some extent to be driven by the selection of the most appropriate holster. A bit like choosing the best new plasma TV by which is the best stand to put it on perhaps?

But, actually, this carefully worded statement highlights the careful consideration of all the issues. It reeks of someone thinking through the best solution and considering all the issues prior to final selection and professionally managing the best outcome for everyone. Ease of drawing a weapon from its holster in emergency response, (without losing it in the shopping mall) is a key selection criteria. Keeping their powder dry on pistol selection, whilst considering this vital holster selection will also maximize their negotiating position with all vendors.

So this story is good news for professional procurement as, for once, news about a major purchase is not any of the usual reactionary headlines such as sour-grapes from a spurned vendor, new kit not working, internal clients complaining about the choice of supplier, consumers dissatisfied with the offer, contract headaches, bad process or the price.

Complex procurement is just that - complex. It takes time to get it right, to see through all the issues, cover all the bases, consider all options and make the right choice to deliver a solution that is the right product on the right terms with the right price. It is a choice that the VIC Police will be stuck with for a long time. It is worth investing in the right decision.

The Buyer – posted 26th January 2010

## #107 - How to demotivate procurement people

A recent audio conference from PB Conferences described the 7 reasons employees lose motivation;

<http://www.pb-conferences.net/Z8/0/2/p35DQZc/p3PT7X48i/p0e>

This inspired The Buyer [and honorary President of the *Buyers' & Procurers' Union*] to neatly list the seven things that hack professional procurement people off the most:

1. Lack of recognition by the CEO
2. Internal clients doing deals with suppliers, without you
3. Internal clients only inviting you on to a project at the very last minute
4. Bought-ledger department failing to pay suppliers on time
5. Poor service level from in-house legal department; then getting legal not commercial advice
6. Flashy sales people driving nice cars
7. Comparatively low remuneration, especially lack of a bonus structure

These are just the top 7 things of course. There are as many demotivators as there are procurement people.

But what is striking is just how many of these 'demotivators' are actually within the power of procurement people to ultimately resolve. "Physician heal thyself" as the saying goes.

So, what are we waiting for then; permission from someone to make your case?

The Buyer – posted 1st February 2010

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## #108 - Are even better outsourcing deals now possible in India?

IBM is now the leading provider of IT solutions to Indian firms ironically – not the local Indian providers of outsourced IT solutions like Wipro and Tata, reports The Economist recently [http://www.economist.com/businessfinance/displayStory.cfm?story\\_id=14710627&source=hptextfeature](http://www.economist.com/businessfinance/displayStory.cfm?story_id=14710627&source=hptextfeature)

As the GFC drags on around most of the world, and global suppliers increasingly look for new markets, competition looks likely to intensify on the sub-continent as rival firms compete for overseas contracts from places like Australia as well as the local business.

Might this mean better deals in India are possible, all of a sudden?

The Buyer – posted 3rd February 2010

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## #109 - National Broadband: The high cost of tendering

Communications Minister Senator Stephen Conroy was under criticism yesterday after the publication of the Auditor General's report on the cost of the ill fated tender exercise for the national broadband project last year

<http://www.theage.com.au/technology/technology-news/aborted-broadband-plan-cost-us-17m-20100203-ndj8.html>

You will recall that the federal government decided to abandon the tender exercise at the shortlist stage, forgo the 'buy' option altogether and select the 'make' option – even though it wasn't an option at the start of the exercise. They now plan to spend \$43billion over the next eight years building their own national broadband network [NBN].

Anyway, the costs of this truncated exercise were published yesterday, over \$30m all up says the auditor general. The tenderers together apparently spent \$13m preparing their bids. Though maybe the Telstra bid didn't contribute quite so much of that amount [apparently two sides of A4 wasn't it?]. Still, any professional buyer will tell you that tenderers in any major project incur significant costs to prepare their competitive bids. Management time alone adds up to a lot, feasibility studies, consultancy reports, spec-building, samples production, design costs, environmental reports, quotes and costings all take time, money and effort. And all on a speculative basis.

But it was odd that the government's costs came in at even more - \$17m. The Buyer is at a loss to understand how the client spent more than the bidders?? The minister blames the GFC of course. <http://news.theage.com.au/breaking-news-national/nbn-tender-process-not-a-waste-conroy-20100204-ndxh.html> Though no one seems sure quite why? But it will be a drop in the ocean compared to the \$43billion they will spend over the next eight years now. Busy days ahead for someone.

The Buyer – posted 4th February 2010

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## #110 - Profile of public procurement on the rise

The news yesterday that federal minister of finance, Lindsay Tanner, is to appear at the annual CIPSA event for the public sector on 27th May in Canberra can only be good news for procurement as a profession. [www.pponline.com.au](http://www.pponline.com.au)

It is testament to the growth in respect for the profession, especially in the public sector these last few years (following the fine work between the APCC [www.apcc.gov.au](http://www.apcc.gov.au) and CIPSA). And, it will help drive the higher profile that the profession is building nationally across all sectors of business.

Of course, the CIPSA PSPF5 event is strategically placed just after the budget in an election year – when the Rudd Government will be keenest to punt their message to the electorate. But nonetheless it is a coup for CIPSA, and the profession itself. Tanner was good value at the event last year in Sydney, and addressed key questions from the audience with sincerity and candour. A repeat effort will be good news all round for procurement, especially in Canberra.

And it will illustrate yet again that procurement matters.

The Buyer – posted 4th February 2010

## #111 - Should Defence uniforms be purchased from China?

Reports that the chosen supplier of Aussie diggers' uniforms might have been set to source the material from China triggered alarmists and reactionaries into howls of protest.

But the minister for defence procurement, Greg Combet, now insists all the Australian Defence Force [ADF] uniforms are sourced locally from Bendigo and Wangaratta.

**<http://www.abc.net.au/news/stories/2010/02/10/2815392.htm?section=business>**

So that's okay then.

Of course the idea that Aussie diggers fighting overseas [or defending their homeland for that matter] wearing uniforms 'made in China' feels instantly wrong.

But why? They are only uniforms after all. And much high quality, designer apparel is sourced from China and South East Asia nowadays.

You are probably wearing something made in China whilst reading this.

If the best supplier (based upon commercial total costs and quality considerations) was based in China, why not source from them?

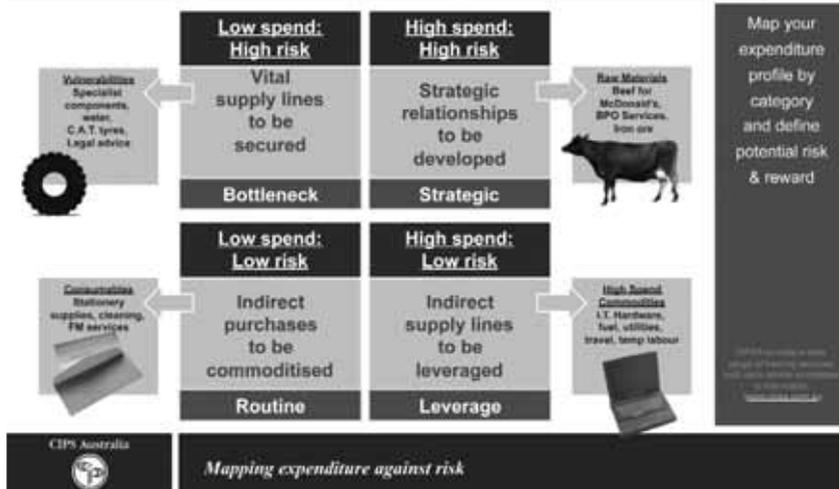
Because we may be fighting the Chinese or their allies one day? Because Aussie diggers deserve Aussie apparel? Because the ADF should be saving local jobs? Because the Chinese may get advance intell on Aussie troop sizes? Because they might sell them to bad guys who could then sneak up on us in disguise?

All non-commercial considerations, and perhaps quite dubious reasons for not sourcing with the best commercial option.

But all fair questions nonetheless. After all, the whole point of the military is to cater for the question, "what if?"

At the end of the day, uniforms are not really strategic and could be quickly sourced elsewhere if the worst ever happened - as they are hardly unique to individual suppliers. They fit in the bottom right box on the two-by-two matrix of spend mapped against strategic importance as HIGH SPEND/LOW RISK:

## Basic spend analysis ...The Kraljic Matrix



Fighter planes, tanks, rifles, ordnance and aircraft carriers might fall into this category.

And they can become difficult to buy off enemies, should things get ugly.

So, defence procurement should think very carefully before sourcing items that fit into the top right box.

In fact commercial considerations can become secondary to strategic possibilities and to ensuring security of supply or military advantage.

ADF often face this dilemma. Where to buy strategic military equipment from? Buy for the best quality [Germany perhaps?], the lowest price [South Africa?], defence compatibility [the USA?], quickest delivery [Russia?], to create jobs [Adelaide?], to use only as a deterrent [Sweden?], to get the biggest bang [North Korea?] or based upon tradition [the UK?] ....

In military sourcing, the strategic questions come first, the commercial ones second.

The Buyer – posted 10th February 2010

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## #112 - National Broadband: The right choice for CPO appointment

The new CPO for the National Broadband Network [NBN] company started work 1st February, Alasdair Fuller – an obvious but sensible choice.

Until Christmas he was CPO at OPTUS with whom he has worked for the last nine years based latterly in North Ryde. Doubtless the executive search firm considered only fleetingly the merits of appointing anyone from Telstra – given the stand-off between the NBN owners (the federal government of course) and the spurned bidder in the ill fated tender process last year ..... see previous blogs 29, 38, 48 and 109

In a number of ways, the new NBNC Co CPOs role is to be much envied: a Greenfield site, reporting to a director on the management board, procurement as part of the core business process for years to come, a purchasing process designed from scratch by top-class specialist procurement consultants and the chance to recruit his own team by June to join him in North Sydney.

On the other hand, there are few more challenging or complex regulatory environments within which to develop and deliver any procurement strategy than the telecommunications sector. And working in any state-owned-enterprise [SOE] can bring its own challenges - especially one with such lofty expectations and such a high-profile. So does an addressable spend in the billions – the lion's share of the \$43 billion budgeted by communications minister Stephen Conroy to finance the development of the NBN. In fact, it might just be the largest single procurement project in Australian history? No pressure there then.

So, this should keep Mr Fuller and his imminent new procurement team busy for every waking minute of the eight years that it is planned to take to deliver the thing. Good luck Alasdair then.

The Buyer – posted 11th February 2010

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## #113 - Jobs galore in procurement ...

The Buyer couldn't help noticing the plethora of job news within the profession this last week or so.

A casual glance in 'The Age' newspaper on Saturday 13th February showed three senior procurement manager roles being advertised prominently for the VIC government, a power provider and a pet food company respectively. This followed a week that saw the announcement of a major recruitment drive at Qantas procurement, the CPO vacancy at CBA in Sydney and the new NBN Co. set to recruit a whole procurement team.

The SA Water full page advertisement in the UK CIPS Supply Management magazine page 41 last week [www.supplymanagement.com/jobs](http://www.supplymanagement.com/jobs) for Adelaide based procurement specialists is also telling, and the NZ public sector initiative to import MCIPS qualified procurement professionals is set to gain traction from this month onwards now the new business season is here. Specialist procurement recruiters privately acknowledge significant numbers of new briefings in Sydney and Melbourne. Reports of rampant poaching in the west also continue on from late last year – allegedly the Gorgon project is systematically offering instant wage increases of around 30% for seasoned procurement people to swap projects in Perth. There are also 37 job vacancies listed on [www.pponline.com.au](http://www.pponline.com.au) alone this weekend, a relatively high number for early February.

Recent senior appointments at NBN, Coates Hire and Healthscope as well as at The Faculty complete the feeling that busy times are upon us again.

Maybe people are recognizing the contribution procurement people can make during challenging times? Or maybe boom times are here again? Either way it is good news surely?

The Buyer – posted 15th February 2010

## #114 - How to make BIG savings quickly - through centralisation

The recent article on Wal Mart's central intentions from Supply Chain Digest [6 Jan 2010], [www.scdigest.com](http://www.scdigest.com) tells many buyers what they already know – that the key to fast, impressive savings off price is very A B C:

- A. Centralise procurement and mandate purchasing through the department
- B. Buy direct from manufacturers where possible
- C. Harvest savings centrally into a new suspense account held by the CFO

This price-focussed approach isn't right for everyone all the time of course; but it doesn't half work when:

- 1. You are starting a procurement effort in a Greenfield site,
- 2. You are dealing with a organisation that has matured to fully decentralised
- 3. You have internal clients and stakeholders that just don't buy-in.

But if you have;

- 4. A mature procurement effort in your organisation
- 5. Complex procurement needs
- 6. Stakeholders that get it with a culture that support procurement efforts and teamwork

.... you might want to think more deeply before acting.

Generally things go in cycles. Centralised savings or local profit focus tend to be mutually exclusive. Or at least on a swinging pendulum, as Hopkins argued in the CIPSA white paper from 2007:

[www.cipsa.com.au/professionalresources/whitepapers/thecasefordecentralisationinpublicsectorprocurement](http://www.cipsa.com.au/professionalresources/whitepapers/thecasefordecentralisationinpublicsectorprocurement)

CEO's often try to get both benefits – by changing the organisation around every three years or so:

- I. Matrix organisation today for profit focus and market agility –
- II. Functional organisation tomorrow to harvest savings and bring professionalism

At the end of the day though; always do what is right for your organisation at the point in time your needs can best be defined.

There, that should help.

The Buyer – posted 16th February 2010

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## #115 - Car makers 'fess up to supply chain shocks galore

Procurement professionals everywhere will be updating their Powerpoint presentations this week:

The slide that illustrates the impact of supply chain shocks usually features those three well known case studies;

- Compromised baby powder in China
- Lead paint on Mattel toys made in China
- Nike's alledged use of child labour in Vietnam
- Of course there are many other examples – these are just the most oft-quoted and perhaps highest profile cases.

But the news that Honda is recalling 437,700 cars due to airbag problems immediately follows the Toyota recalling millions of cars for sticky accelerator pedals or dodgy brakes.

**<http://news.bbc.co.uk/2/hi/business/8507450.stm>**

And, surprisingly, it is not a low-cost manufacturing country guilty of shoddy efforts, but the legendary high quality/higher-cost Japanese market – formally Australia's largest trading partner; until China took over.

How times have changed.

The Buyer - Posted 18th February 2010

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## #116 - The best white-paper yet

The new CIPSA white-paper tumbled out of The Buyer's PP magazine pack this week. 'The business case for professional development'.

**[www.cipsa.com.au/professionalresources](http://www.cipsa.com.au/professionalresources)**

How useful is that? Put it to work and it should even make you money.

In fact, The Buyer wonders what else this pro-forma universal business case could be used to justify? Answers on an email to the

**[thebuyer@pponline.com.au](mailto:thebuyer@pponline.com.au)** eh?

The Buyer – posted 22nd February 2010

# #117 - The top 10 global supply chains

Poor Martin Christopher. The renowned professor from Cranfield Business School in the UK was presenting at the CIPSA biennial conference in Adelaide the other day, as one of his contributions on his annual trip 'down-under'. But The Buyer noticed his sleight of hand that removed one slide from his presentation ..... a few hours after the Toyota CEO's apology for the recent brake/floor mats/peddle problems in 8 million Toyota cars was in the news.

The Buyer managed to salvage the slide from the circular file behind the AV desk. It was Martin's personal list of the top ten global supply chains. And, yes, you guessed it – number ten was Toyota.

Still it was number ten, and not number one.



SOURCE: AV desk bin at Stamford Plaza Hotel, Adelaide 18 Feb 2010 – after Dr Martin Christopher.

The Buyer is now wondering who will be promoted to be the new number ten then?

Perhaps he will say at his next presentation – the CIPSA Victoria region business breakfast with Professor Christopher next Friday morning at 7am at CROWN in Melbourne.

Book online

<http://www.cips.org/australasia/events/victasevents/details.aspx?id=874> and don't forget to claim your CIPSA member rate.

The Buyer gets commission of course, and will be found routing through the bins at the end. You never know what you might find!

The Buyer – posted 23rd February 2010

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## #118 - National Broadband: The forty three billion dollar question:

The forty three billion dollar question is a very simple one: Will the national broadband product, when it is finished, actually be better, faster and cheaper than competitors' products?

After all, it is at least five to eight years away – and much happens in technology over such a timeline. Moore's law for instance – that computing memory capacity & processing speed double every year.

An interesting change of events suggests Telstra will be selling us the NBN in the future, as the primary distributor? But maybe other competitors will have a better claim by then? They may perhaps include Optus and the other spurned bidders from the original tender, possibly – Acacia, Axia or TransAct. But, by then, mobile operators like Hutchinson & Vodafone may be competing with a wireless 3G+ offers perhaps, or better? Even Foxtel, iiNet or i Primus may have offers of some description wither as carriers or providers? Or AT&T in the USA who offered a launch package for users of the new iPad in cahoots with Apple recently? Or, crucially, Google. Who recently announced plans for a super fast wireless wide area broadband [wi-fi] service for the USA that is planned to be ten times faster than the Australian national broadband that is currently planned. Alan Kohler at ABC explains it all <http://www.abc.net.au/news/stories/2010/02/15/2819334.htm?site=thedrum> and the Andrew Bolt blog comments on it lucidly.... <http://blogs.news.com.au/couriermail/andrewbolt/index.php/couriermail/P60/>

Stephen Conroy, the federal minister of communications may just have bitten off more than he can chew? And as fast as the new procurement team at NBN Co can buy hardware, processing speeds will be going up. Sounds a lot like a hiding to nothing. For the consumer it may come down to price. Possibly the only way NBN can compete in future, by offering a cheaper – or free – service, which may be slower, but has other benefits?

Which means minimising costs from the outset could be a good idea – with a pretty sharp strategic procurement team and some far-sighted telecoms experts to aid them. Good luck lads.

The Buyer – posted 26th February 2010

## #119 - Why Coles need a CPO with a property background

Yes, obviously, Coles have lots of property in their portfolio. But, actually, nowhere near enough thinks The Buyer. Any pom will tell you that supermarkets in the UK offer a sublime experience compared to Coles and Woollies here. The leading UK supermarkets are world leaders in the genre – Tesco, Sainsbury, Asda, Waitrose and, even, Marks & Spencers.

Each also has their own unique selling point [USP] which are respectively .... range, quality, price, service, luxury.

Whilst UK supermarkets offer everything Australian ones do, they also offer a whole heap more, such as;

- Enormous international stock range
- 48 staffed checkout points [not 10 unstaffed ones]
- Conveyor belts ten meters long [not one meter long]
- Self service hand scanners or self-service point-of-sale units
- Aisles wide enough to drive a car down
- Oceans of car parking space
- Trolley's that do as they are told
- In house bakeries, fishmongers, butchers and deli's etc....
- High quality 'ready-meals' sections
- Cafès and crèches
- Clean toilets, change stations and rest rooms
- Dry cleaners, post offices and chemists in-store
- Notes for Coins change machines
- Appliances, white goods and cheap grey imports [a bit like Harvey Norman too]

Innovations include the internet shopping service plus entertainers, cooking demos, free stuff, prize promotions and 24/7 opening hours – as well as cheap petrol on-site.

The Buyer's wife is eloquent on the whole subject.

At Waitrose you can even push your trolley at a checkout kid as you leave and they unload it, scan your stuff, charge it to your account, pack it right and have it delivered two hours later in a refrigerated truck by a bloke in white-gloves on who puts it away in your fridge then makes the wife a cup of tea. Free of charge. Seriously.

But all this extra value ultimately demands the one thing that Coles [and Woollies] do not have – space.

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You see most UK supermarkets are out-of-town hypermarkets on 'reclaimed land'. Destinations in their own right, between suburbs. One stop shops. And they are huge.

Most Aussie supermarkets are small buildings squeezed behind the high street with low ceilings, high racking, little space and less parking.

A property problem then, and not a marketing problem.

So, maybe Wesfarmers have figured this out? Maybe they have a plan? The Buyer's wife hopes so.

That would explain the appointment of Simon Le Geer the former Nab CPO, who has a background in property management, as the new GM – Strategic Procurement [for non-merchandise] at Coles.

Just like the CPO at Coles back in 2005-6 who left during the clearout at the time – Andrew Target, who is also a qualified surveyor as well as MCIPS, and is now a category master at The Faculty ..... for property.

So, actually, maybe they have just gone around in a circle over these last four years, perhaps, and just feel property maintenance is a high priority for their shabby stores? We'll see, but either way it's a big job.

The Buyer – posted 27th February 2010

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## #120 - What buyers must read about the real CHINA ...

There are thousands and thousands of books about how to work with China – now Australia’s largest trading partner of course.

So, which one to choose?

Simple – ‘The Factory Girls’ by LeslieT Chang [published by Spiegel & Grau; First Edition (October 7, 2008) ISBN 0385520174] available from most good book stores, including the usual CIPSA choice = the Co-op [www.coop-bookshop.com.au](http://www.coop-bookshop.com.au) or [www.amazon.com](http://www.amazon.com). Three different people compelled The Buyer to read it – one even an expat CPO based in Guangdong province, north of Hong Kong.

They were right. It paints a picture of how life truly works inside the world-class factories that manufacture all our stuff.

It is a compelling tale of two peasant girls from the provinces, looking for a new life in the city, who take a job as migrant workers in a modern Chinese factory.

It has a ring of real truth and procurement people will learn much from reading it, not least a better understanding of how our suppliers’ in China can operate.

Xisu Wang, China’s first management consultant, showed at the 4th annual CIPSA conference that a simple story well told explains more than any great tome.

CIPSA’s gruff conference producer Nigel Wardropper says Xisu is still CIPSA’s top rated speaker [by audience feedback scores] from over 300 speakers at 22 major CIPSA events over the last five years.

Indeed, The Buyer learnt more about China from Xisu in 45 minutes than from any other source over 25 years in business.

Of course, there are other books too – TIME magazine just ran a convenient summary of the major ones. Some entirely relevant to outsourcing:

[www.time.com](http://www.time.com) [“Enough of the big picture” page 43 vol.175/v5 dated 8 February 2010] ... they also recommend, inter alia,

- “A fast boat to China” by Andrew Ross
- “The last days of old Beijing” by Michael Meyer

We are obliged to learn more about China folks: they are learning about us very quickly.

And we wouldn’t want to be at a competitive disadvantage. Especially as buyers.

The Buyer – posted 2nd March 2010

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## #121 - A novel way to tackle corruption in India

Many countries suffer from corruption. Some more than others of course, and some quite close to home even. But India certainly has its fair share and, given the size of the country, their fair share is a lot.

In an effort to combat corruption, the Indian government's ploy of naming and shaming allegedly corrupt officials backfired, reports *The Economist* on 30 January 2010 as all that was achieved was to neatly list exactly whom to bribe! [http://www.economist.com/world/asia/displaystory.cfm?story\\_id=15393714](http://www.economist.com/world/asia/displaystory.cfm?story_id=15393714)

But, explains the article, a unique initiative by Indian not-for-profit group '5th Pillar' takes a novel approach to the problem. Since 2007 they have printed over one million zero rupee banknotes and handed them out to lowly villagers who are often the hapless targets of dodgy officials and petty corruption. Handing over the notes when bribes are solicited embarrasses many officials into immediately going straight apparently. Anecdotes abound of officials returning cash and mending their ways. Amazing.

Perhaps the idea could catch on elsewhere perhaps; though not everyone might react in the same embarrassed way elsewhere in the world – Kabul for instance, or zero dollar greenbacks in the backstreets of LA maybe?

We would never need them here of course.

The Buyer – posted 5th March 2010

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## #122 - A new name for supply chains?

Professor Martin Christopher from Cranfield University in the UK, explains that the term 'supply chain' was first coined in 1969 by a pair of busy consultants at Booz Allen Hamilton. Their term soon eclipsed the existing tardy label in use at the time – PDM: Physical Distribution management. Good job too.

But now, in 2010, the issue has resurfaced. Now supply chain management SCM is considered old hat, demeaning to a budding profession and insufficiently descriptive to the great value being added. In the past Martin has offered 'demand chain management' as a better descriptor. Certainly that is consistent with Dr John Gattorna's work in "Living Supply Chains" where he suggests aligning the corporate organisation structure to segmented customer behaviour – as customer demand is driven by their particular needs and peculiar behaviours that differ by motivation and, therefore, need fulfilling differently based upon different purchase decision criteria

After two days of debate at the recent 'Supply Chain Business Summit' led by John Gattorna himself at MGSM in Macquarie University, the group of senior supply chain professionals has finally decided to risk being jargon-builders and have agreed on a new name for "supply chain management" – VALUE NETWORKS.

You heard it here first .... though the editor of magazine 'Supply Chain Asia' was present and will be claiming the scoop. John even promised to title his next book 'value network management' <http://www.johngattorna.com> CIPSA members get a discount on his books too – go to [www.gowerpublishing.com/johngattorna](http://www.gowerpublishing.com/johngattorna) and quote discount code G9AXZ35 apparently. Martin Christopher's latest book is actually called, "Logistics & SCM: Creating Value-Adding Networks".

But then, Australia as a service based economy is more orientated to service chains. And 'Service Networks' doesn't have the same ring to it. Value networks it is then

The Buyer – posted 9th March 2010

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## #123 - CEO's want Superman as their next CPO [... or Superwoman]

Peter O'Brien, the debonair headhunter from Russell Reynolds Associates, [www.russellreynolds.com](http://www.russellreynolds.com) was speaking recently about the typical brief he receives nowadays from anxious CEO's who have decided to hire their first CPO or CSCO. Attributes of good candidates should apparently include most of the following;

- MBA and MCIPS
- Extensive and relevant SCM experience working in at least three countries [one being a low-cost country source]
- Detailed procurement experience across direct and indirect categories including services and low-cost country sourcing
- Speaks two or three languages fluently [Mandarin is good]
- Practical knowledge of 3PL and 4PL logistics industry
- Experience working in other disciplines at senior levels – including sales or marketing
- Customer service perspective
- Green outlook
- Large blue-chip corporate company background with high level management training and has led large teams
- Strong business acumen, great relationship skills, tech savvy and a strategic thinker with a global perspective

That's all then. So, form a queue at the posh RR offices in Sydney....

Seriously, it is nice to be flattered, but nobody could have such a CV. CEO's are truly looking for Superman/Superwoman; just as Peter exclaims.

Though maybe it is flattering that CEO's recognise the challenge facing the profession, and their businesses nowadays?

And perhaps the real message is that we could usefully brush up our core capabilities ready for a complex, challenging and rewarding future maybe?

The Buyer – posted 11th March 2010

## #124 - How to make government business more attractive overnight

One of the increasingly acknowledged challenges in public sector procurement is, how to make government business more attractive? Especially to rafts of SME sized businesses who effectively 'boycott' government business as a matter of course. They fear red-tape, fastidious compliance issues, fearsome small print, extra insurance costs, long-winded decisions, fussy clients, payment delays and selection processes geared to favour incumbents.

One way to ease their fears might be to adopt the UK government opposition's idea to publish online all government contracts worth over £25,000 in their entirety – as announced by Tory leader David Cameron in New York recently, as The Economist reported [http://www.economist.com/world/britain/displaystory.cfm?story\\_id=15549021](http://www.economist.com/world/britain/displaystory.cfm?story_id=15549021) Vendors can examine every aspect of the incumbents deals, easing their worries and allowing them to undercut competitors.

It is a bold idea that in theory allows the public service to drive better deals. But suppliers have some right to privacy in doing their best to secure deals and meet their client's needs. Commercial confidence exists as a concept for a reason. Also, it tramples over the long-held ethics of buyers' not revealing suppliers' exact terms to competitors. But, most importantly, it ties the public procurement professionals hands even more. They will be forced to explain in detail and exactly why the cheapest supplier or suppliers did not get the gig. It leaves less room for judgement, and ties professionals to process and 'sausage-machine' decision making - 'The computer says YES'. So, it is not as good an idea as it sounds thinks The Buyer.

Interestingly, recent issues of CIPS UK based Supply Management magazine [18 February 2010, 'Mind your PQQs'] offers an interesting article on how vendors can get more government business in a UK context:

<http://www.supplymanagement.com/analysis/features/2010/mind-your-pqqs> it offers firm examples of bad and good practice by buyers trying to attract more interested suppliers – especially SMEs.

Also, the UK government recently published a free online course "Winning the Contract" for how SME vendors can secure more government business

<http://www.businesslink.gov.uk/bdotg/action/layer?topicId=1074033478>

Invest in the market, and it will pay you back -mostly. So maybe there is no real need to take the short cut of publishing 'chapter & verse' of every deal the public sector does really.

The Buyer – posted 15th March 2010

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## #125 - Ten ways consumers have changed their behaviour since the GFC

Buyers should be more in touch with their organisations customers. It pays to be customer focussed, they pay our wages after all. It also facilitates goal alignment with the organisations strategic objectives – see previous blog #93.

So a useful list compiled from internal research by TARGET, the Wesfarmers apparel & homeware store, and explained recently by their supply chain director, Denis Leahy, is worth repeating; additional Italics compliments of The Buyer:

Buyers have changed their behaviour since the GFC by;

1. Staying home more – *and changing their purchasing profile*
2. Using coupons more – *and chasing discounts*
3. Wanting green products – *but not wanting to pay extra for them*
4. Combining errands with shopping trips – *to save time & money*
5. Trading down purchase choices – *and sticking with them*
6. Devaluing the status of luxury products and designer brands – *and staying down-market*
7. Using social networks more – *influencing behaviour change*
8. Acting on word-of-mouth endorsements & referrals before choosing products – *and acting on little else*
9. Buying more online – *and visiting stores less, so impulse-buying less*
10. Entering competitions and promotions more – *hoping for unearned reward*

How have you changed your professional buying behaviours since the GFC then?

Or is everything actually back to normal instead??

Tell The Buyer at [thebuyer@pponline.com.au](mailto:thebuyer@pponline.com.au)

The Buyer – posted 16th March 2010

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## #126 - How to solve the skills shortage in Procurement

The news reported both in The Age and widely throughout the media that job advertisements jumped a record 19.1% during February, quickly followed by the news that actual full-time jobs were also on the rise last month was no surprise to The Buyer [see Blog # 113]:

<http://www.theage.com.au/business/job-ads-rebound-with-record-jump-20100309-ptol.html>

<http://www.theage.com.au/business/jobs-figures-a-steady-result-gillard-20100311-q0kd.html>

You heard it here first – the procurement recruitment marketplace is alive and well, on fire even. Vacancies are up, appointments up, new roles being created and backfilling required. Perhaps procurement recruitment is a counter-cyclical economic barometer? Maybe just new and old organisations are recognising the real impact and tangible benefits that professional procurement people are bringing, and clearly want some too?

But demand is outstripping supply. So prices inevitably will rise as poaching proliferates – like in WA at the moment. Predatory ‘phone calls to the desk of practiced buyers become more common in such times.

So how is the profession to solve its skills shortage [often called a ‘talent scarcity’ by CIPSA]?

Easy.

Hire good people from other professions and train them properly to do procurement.

That means training them prop-er-ley. Not just parachuting them into a desk and asking them to copy their neighbour, take responsibility themselves for on-the-job training or making them fill a step in a regimented corporate process.

They need real training. Building capability through assessed study. Developing competency skills through training. Learning from others and role models at conferences and networking events. Reading up on their categories and growing market knowledge by getting out into the market – visting suppliers, contractors, subbies and, even, trade shows.

Good forward-looking firms should also be hiring young graduates from relevant disciplines and driving them through proper development programmes, designed for them to grow them enough to meet the strategic need in front of them.

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Also, all firms should have clear policies on reimbursing fees for study, professional development activity, exams, professional memberships and e learning. These things all benefit the organization directly and swiftly. Other broader HR policies should also be in place to cover study leave, exam leave, book buying and mentoring.

Why is all that so hard?

Payback from such an investment can be dramatic – as the CIPSA white-paper explains: “The business case for professional development” see <http://www.cips.org/australasia/professionalresources/> (you need to log in as a CIPSA Member to access the paper)

By the way, don't be shy with the 'golden-handcuffs'. Employees benefiting from such investment can reasonably be expected to pay half back if they leave the organization within two years of finishing.

You are simply and fairly protecting your investment.

The Buyer – posted 18th March 2010

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## #127 - Chipped chips is the best use of RFID.

Whatever happened to RFID – Radio Frequency Identification Devices .... the little radio enabled chips that can be used instead of barcodes to tag stock?

They are tiny little things using radio technology to communicate to a 'reader' or host. About the size of a sequin.

Applications are almost endless, but they were designed to tag stock on high volume supply chains.

Now they are often associated with apparel. But a few years ago they were expected to takeover, and were all the rage.

**<http://www.securityfocus.com/columnists/169>**

Simply, many organisations and supply chains that tried them found too many limitations and too few benefits over old fashioned barcodes.

They are not cheap, and people struggled to get business cases to float. Retailers wanted manufacturer's to pay. And they said no.

So RFID has largely become a niche solution for those that won their business case – such as retailers of high value stock items.

Except casinos' have been using RFID chips inside casino chips. They offer an almost foolproof way of keeping tabs on them; preventing theft.

They also offer instant counts of the value of chips to the nearest dollar in front of the fattest high-roller. That's how they count them so quickly on the TV poker shows.

But, and here is the killer, casinos can track who is winning big as it happens. Even spot betting patterns and anticipate players' gambits.

**<http://www.usingrfid.com/briefs/archive.asp?action=read&bid=987>**

But it didn't stop fraudsters counterfeiting casino chips last year.

**<http://www.gamingfloor.biz/forum/showthread.php?t=3377>**

So, big brother is watching – especially at Crown. The Buyer will now have to be extra careful after the PP Awards dinner in October.

At least The Buyer's wife won't be watching though.

The Buyer – posted 24th March 2010

## #128 - The World Vision of supply chains

Tim Costello AO, CEO of World Vision, former Victorian of the Year and brother of bitter farmer Treasurer Peter, was speaking at a supply chain function again recently. World Vision [www.worldvision.com.au](http://www.worldvision.com.au) and their partner's Business for Millennium Development [www.b4md.com.au](http://www.b4md.com.au) are keen to persuade corporate business to take more responsibility for the tip of their supply chains – which often end up in developing countries. They see the solution to global poverty as trade rather than aid, and believe business can help. Bringing commercial solutions to social problems if you like. *[By the way, as much as business people are derided, it is surprising how much senior public figures still respect their common sense, the way they get things done and their ability to raise money].*

Anyway, World Vision cite the example of fair trade chocolate as their recent best case study on solving third world problems through business. The Cadbury fair-trade choccy bar now guarantees a fair daily wage to cocoa bean pickers in the Ivory Coast, no longer on a measly seven cents per hour, but a reasonable daily wage. Other products are going fair too, like coffee at Starbucks and others. See previous blog #80.

But Tim was again at pains to paint a vision of how supply chains should be: transparent, accountable, ethical, independently verifiable, sustainable and fair.

Unfortunately, he had to add that most supply chains were not yet comparable to this vision. That non-compliance and poor working conditions still haunt many supply chains in to developing countries. Long working hours, no safety ethic, underage labourers and pitiful wage rates were more normal in their experience.

Maybe our profession can help change that a bit? Even if it costs a tad more?

The Buyer – posted 26th March 2010

## #129 - Is INDIRECT the new DIRECT?

At the recent CIPSA Category Management conference, an early speaker - David Callahan, the smart head of internal business services team at PWC in Sydney, argued that ultimately everything purchased by an organisation was DIRECT expenditure, and INDIRECT spend no longer really existed. That, in the end, even a humble pen was of use to people in the front line doing the job, for without it they would be disarmed.

Well, ultimately, he is right. The purchase of INDIRECT supply lines is still vital, for they are enablers. They enable people to do their job. Without these 'indirect supply lines' they cannot do their job – certainly not as well as they could without them or as readily.

In a mid-sized, service based economy with a modest manufacturing sector like Australia, we have many procurement professionals focused on INDIRECT spend. In fact, a large amount of money is spent by Australian firms on INDIRECT categories.... as Guy Callendar explains in this month's issue of Procurement Professional magazine [PP30 page 10 [www.pponline.com.au](http://www.pponline.com.au)]. Certainly too much money is spent on indirect categories to be wasted. Or patronized. There is a real job to be done. Over 240 people attended the CIPSA 'Cat Man' event – mostly INDIRECT category managers focused on just the top twelve indirect categories [www.cipsaconferences.com.au](http://www.cipsaconferences.com.au)

There is no escaping the real opportunity in expert indirect procurement – it drops the organizations cost base permanently, builds credibility for the procurement team's efforts and gets the message out to their colleagues to save costs where they can. It can then offer competitive advantage. The firm that saves \$50m on an indirect spend of \$450m, is better placed than their nearest competitor that doesn't bother.

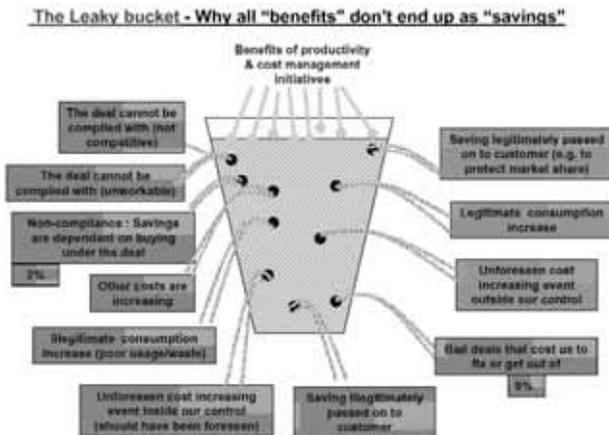
One sector that could embrace this thinking is the banks. All four major banks spend substantial sums on indirect categories – IT, temporary labour, printing, office equipment, travel and the like. But they have no strategic supply lines really – ATMs or software driven systems at a push maybe. So getting on to the strategic agenda in those companies is difficult for the procurement team. Especially with a message that is only money-based. Bankers have lots of money, and are not impressed by big numbers. But arguing to build competitive advantage is a strong proposition. It might even help the banks restrict their 'essential' rises in interest rates beyond the official RBA cash-rate rises! Which would be good news for everyone of course - - and, by the way, fulfills the CIPSA prime directive – doing public good through better procurement. They will be pleased.

The Buyer – posted 29th March 2010

## #130 - How to make the CFO your new BFF..

Switch deals with suppliers from discounts to rebates. Then personally hand the CFO a rebate cheque from your favourite supplier at the end of each quarter – just before the accounts close for that quarter suggested Tom Pearson the former PaperLynx and Telstra CPO, who recently joined SupplyTransformation, at the CIPSA Adelaide conference during February.

Of course, theoretical ‘savings’ are actually just trade discounts from suppliers at their basest level. These savings and cost avoidances often get usurped by hungry client departments, who spend the budget on more volume or on other products or other needs elsewhere. The famous “Leaky Bucket” theory from the suave Craig Lardner, CPO at George Weston Foods has been presented at several CIPSA events in the past – and best describes the scenario:



Negotiated savings and cost avoidance are often diluted and lost, explains Craig. Harvesting the real savings into a separate account held centrally cuts many of these red problems out suggested Tom. But such a move can be perceived as aggressive by user departments. It certainly doesn't make friends with internal clients. An alternative ploy is simply to pass every dollar saved back to clients and risk the bucket.

At the end of the day, the rebate-not-discount theory is a way of enforcing savings and turning hard-won savings into real cash saved and on to the bottom line. Harvesting savings into a suspense account, and not back into stakeholder budgets is a common tactic of enforced centralisation. Using rebates not discounts is centralised procurement without centralising.

The Buyer – posted 29th March 2010

## #131 - Ten essentials for decent contract management

In the old days, professional buyers haggled deals then signed contracts and then tossed them over-the-fence to some hapless user who was responsible for implementation. That was how buyers did their job then – they bought stuff, and moved on to buy more stuff. Nowadays, grown-up buyers realize that the job actually starts when the contract is signed. That's where the delivery comes and value is truly added.

This point was drilled home recently at the CIPSA Category Management conference [www.cipsaconferences.com.au](http://www.cipsaconferences.com.au) by the laconic American expert – Dr Sara Cullen [www.cullengroup.com.au](http://www.cullengroup.com.au). She rightly decried typical tardy contract management efforts and offered research to suggest around 6% of the contract value was a sensible investment in professional contract management to ensure value is properly realized – not the average 3% apparent in Australia. Without a decent investment in the contract management she warned, much lower delivered value is highly likely. And asking contract manager's to manage too many contracts simultaneously is also a recipe for disaster. Proactive contract management realizes business case benefits and minimizes both life-time total cost and risk.

She then, in a contract management tour de force, powered home the notion that the Aussie concept of "She'll be right" doesn't work and asked 'where is your line-of-sight [as the buyer], the contract signature OR achieving successful results for your business?'

To help Sara added an astonishingly useful list of basic contract management essentials –TEN things contract manager's must do to ensure the benefits of the purchase are realized:

Ten essentials for good contract management:

1. Audits & compliance analysis
2. Continuous reporting
3. Forecasting
4. Issue and risk management
5. Keeping informed
6. Performance management
7. Record keeping & the audit trail
8. Relationship management
9. Reporting
10. Variation management

SOURCE: Dr Sara Cullen

Print it and use it as a checklist; on every contract – at least every one you want to deliver business results on that is.

The Buyer – posted 7th April 2010

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## #132 - BHP pricing move a worry for steel laden supply chains

The news in The Age recently that BHP Billiton have reportedly increased Iron Ore prices to Japanese customers by 90%, and are now to openly change their pricing strategy for Iron Ore was perhaps something of a surprise to those of us not steeped in the resources sector <http://www.theage.com.au/business/bhp-rewrites-the-iron-ore-price-book-20100330-rbmh.html> But it certainly confirms anecdotal evidence witnessed by The Buyer of late that the boom times are back again – certainly in Western Australia. (Did the GFC really teach us anything ? The Buyer wonders aloud).

Generally, suppliers adopt new pricing strategies when times are either booming or desperate. And they don't look too desperate in the West right now – more on the crest of a wave of demand. And, doubtless, if the usually clever and well-thought-through BHP have decided on a new pricing strategy, you can bet that it is likely to be in their best interests – and not necessarily in their customers' best interests. And where BHP lead, others surely follow.

Apparently, around 70% of all Australian iron ore output is bought by China. But, of course, Chinese finished goods and steel components are readily bought here in Australia. Buyers with steel laden supply chains might want to be ready for more cost rises; maybe 100% more cost suggests this article in The Age newspaper.

The Buyer – posted 10th April 2010

## #133 - What the CEO still wants from procurement...

Increasingly less it seems. Especially as risk and cost become more and more manageable. And CEO's become more paranoid about supply chain disruption and particularly reputational damage from far along the supply chain and demand less and less risk [think Nike, Baby powder, Mattel toys and, now, Toyota].

But listening to some high level supply chain managers comparing notes with some CPO's recently (over some impressive examples), an impression struck The Buyer:

- Supply chain management [SCM] seems more about being in touch with DEMAND side needs (they talk about the customer a lot, cost to serve and efficiencies):
- Procurement is more about being in touch with SUPPLY side needs (CPOs talk about sources a lot, total cost to purchase and deals).

Maybe the disciplines are more similar than we think; simply that one is the mirror of the other? One has a perspective upstream to consumers, the other downstream to suppliers.

In the future though, The Buyer doubts that CEO's will care much. They will just want the whole supply chain issue fixed – from conception to consumption.

And they will want one person to be responsible for fixing it. They are already taking it for granted that supply professionals are driving down costs. Increasingly, when they meet their team, CEOs want to talk about managing risks not reducing costs.

The Buyer – posted 12th April 2010

## #134 - VIC auditor general's report misses the point

The long awaited report into local government procurement practices in Victoria was published in March by the Vic Auditor General's Office – "Tendering & Contracting in Local Government : 24 February 2010"

[http://www.audit.vic.gov.au/reports\\_publications/reports\\_by\\_year/2009-10/20102402\\_tendering.aspx](http://www.audit.vic.gov.au/reports_publications/reports_by_year/2009-10/20102402_tendering.aspx)

The relatively scant report makes three principal recommendations having sampled procurement efforts at FIVE out of the 79 boroughs in VICTORIA; briefly, and in broad terms;

- Stronger probity standards please
- Stronger oversight & monitoring of procurement
- More tenders would be good

Maybe it was unduly influenced by the Ombudsman's report into Port Phillip late last year [see blog #69]?

But, the auditor does not address the principal outcomes from good professional procurement, nor their effectiveness within the five sampled jurisdictions. So no mention then of how these councils have, just for example ;

- Achieved lower total costs
- Reduced risks in local government supply lines
- Driven better commercial outcomes for citizens & ratepayers

Professional procurement is not about process, but better outcomes for the benefit of all stakeholders – chiefly citizens & ratepayers in this case. Putting more and more barbed-wire around the procurement process hinders professional procurement and disables strategic thinking.

Sure, probity and good process are important – but they are means to an end – not an end in themselves. And they are inherent in good PROFESSIONAL procurement in any case, as ethics are a principal requirement of any profession. Greater value for money is really the desired outcome – it says so in the 'Audit Objective' on page vii.

The whole audit report is wrapped up in process concerns, tendering thresholds, avoiding conflicts of interest, oversight programmes, record keeping, compliance procedures, probity standards and general red tape. It is a detailed examination of how to buy stuff so no one thinks you're on the fiddle. It is not an insight into how well local government in Victoria achieves value for money for their stakeholders – or seeks to improve it.

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The report, therefore, fundamentally misses the point of professional procurement. Stewth, it even has the wrong title – ‘tendering and contracting’ are only two (relatively small) elements of a professional procurement job. And they are not in the slightest bit strategic and, sometimes, not even required.

However, the third recommendation does say, “LGV should review and enhance guidance to councils on strategic procurement” but then goes on to cover tender thresholds only. No further mention of strategic procurement.

But the ‘Overall conclusion’ to the report does say, “.. there is significant scope at the councils examined to achieve better value for money through procurement. There is a lack of attention to the benefits of strategic procurement”

Well, there is in this report too.

The Buyer – posted 13th April 20109

## #135 - The five essential skills for managers in 2010

The Australian Institute of management [AIM] recently published their listing of the five key skills all managers will need to succeed in 2010 [ManagementToday magazine Jan/Feb issue pp28] as part of a feature on businesses and managers rebuilding after the GFC:

The five key skills for managers in 2010:

- Identifying opportunities in a changing economic environment
- Recruiting and retaining talented people
- Strong financial control, especially of cash flow
- Understanding emerging global architecture
- Connecting any ETS with company operations (this was obviously written pre-Copenhagen)

SOURCE: AIM MT. Magazine Jan/Feb 2010

It is striking, thinks The Buyer, how many of these essential skills for success in 2010 are so directly relevant to procurement. Maybe procurement is truly at the heart of business at last; in the centre of things; in touch with real business needs post-GFC. This may be a sign of success, though a sign we have to live up to as a profession.

AIM offer a wide range of good management training programmes....  
**[www.aim.com.au](http://www.aim.com.au)**

The Buyer – posted 14th April 2010

## #136 - BREAKING NEWS: Footballer hurts leg

The news that the mighty Saints principal goal scorer, talisman and captain, Nick Riewoldt, could be out for months following surgery to a torn hamstring <http://www.theage.com.au/afl/afl-news/nick-riewoldt-confident-of-return-to-football-this-year-20100414-scsu.html?rand=1271217135079> is a blow for all St Kilda fans (including The Buyer of course) and their aspirations for the AFL flag this year following last year's disappointing Grand Final.

But how is it that a finely honed athlete in only the second game of the year suffers such a debilitating injury after such an innocuous mark? The fragility of perfection perhaps? The more finely tuned the athlete, the more easily they can be hurt, and the more dramatic the damage when they are.

'The fragility of perfection' was a phrase used by The Economist newspaper on 1st May 2008 [http://www.economist.com/business-finance/displaystory.cfm?story\\_id=E1\\_TTNJQVGR](http://www.economist.com/business-finance/displaystory.cfm?story_id=E1_TTNJQVGR) to describe finely tuned supply chains nowadays. It surmised that the leaner and more honed our athletic supply chains became, the more disastrous the impact when they were injured and failed. That supply chains were no longer robust. In fact they bust a tad too easily, and when they did, it mattered. Baby powder producers, toy manufacturers and, now, car companies would agree. The risk of major supply chain shocks is suddenly much higher profile again – and therefore being more proactively managed today. The cost of supply chain foul ups can be huge [see previous blogs #66 and 67] and long lasting.

Maybe both footy captains and critical supply chains should work to be a little less lean and a little more robust to thrive in such a volatile environment?

The Buyer – posted 15th April 2010

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## #137 - How to distinguish between HUNTERS and FARMERS..

Salespeople often consider themselves either 'hunters' or 'farmers' and are often organised accordingly within large sales teams:

HUNTERS are smart, sassy, pushy and work speedily. They focus on the deal, meet everyone and 'trial-close' [if we...would you?] all the time.

Often they are commission driven and offer compelling deals at the end of a month or quarter to get their commission into the next payslip.

As people they are gregarious, obvious and a tad vulgar.

You see them every day during deal-time and almost never after a deal is signed. They are the supplier's negotiators.

FARMERS are slower, more professional, more corporate. They farm accounts to drive ongoing revenue. They up-sell/cross-sell/switch-sell.

They look for more opportunities to sell to proven clients and try to grow the account organically, rather than by acquisition like a hunter.

They are less driven by commission and more long-term [annual] bonus minded.

You meet them rarely during negotiations, but see them every day after the deal is signed. They are the supplier's contract managers or vendor managers.

Of course, not all sales teams work like this. Some are organised quite differently.

But the ethos is often similar ... as are the roles – sometimes even in the same person.

The Buyer – posted 19th April 2010

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## #138 - A glimpse into procurement's future?

As more and more organisations recognise the importance and the value of professional procurement's contribution, so they are now loading more and more straws on to this particular camel's back.

The piece in pponline news

<http://www.pponline.com.au/html/californiapo.cfm> quoting a recent San Francisco Chronicle story indicates that the state of California is considering legislating for state supplier guarantees of ethical labor practices. It is perhaps a glimpse of what's to come. That is Procurement as a pure instrument of policy as well as a commercial tool to reduce costs and risks and add value.

Of course, procurement has to some extent always been an instrument of policy. But with a guiding goal of achieving value-for-money and, maybe one day, sustainable solutions. But, where will policy demands end? Some policies suit management from the supply side; but some don't. And will it ultimately mean that professional procurement's primary goal will not be value for money, nor even sustainability, but compliance? The corporate policeman even?

The worry is that this is not the best use of nor the best contribution from a professional procurement team. Hoisting compliance issues onto the supply base is a clumsy way of achieving policy. Surely if the policy is any good in itself, it will be adopted as good practice by everyone and make a difference for all. And not just adopted by the minor sector of bullied state suppliers, where it won't make a difference in the grand scheme of things.

As always, poor policy leads to poor outcomes.

The Buyer – posted 20th April 2010

## #139 - Re-negotiated FTA with USA could create new risks for public sector buyers

The recent news that the existing 2004 Free Trade Agreement [FTA] with the USA is under re-negotiation seems surprising. What is wrong with it you might wonder? Well, Rodney Tiffen in the Sydney Morning Herald on 3rd March 2010, for one, <http://www.smh.com.au/opinion/politics/mind-the-gap-benefits-from-free-trade-havent-quite-gone-the-distance-20100302-pg6p.html> says the deal is a dud and that the balance of trade between Australia and the USA has grown \$5bn in the American's favour since it was introduced. A neat summary of the woes in this FTA is explained in 'The Week' magazine [www.theweek.com.au](http://www.theweek.com.au) [2nd April issue page 35].

Of course, the FTA with the USA has a good number of clear and binding obligations for public sector procurement people; [http://www.dfat.gov.au/trade/negotiations/us\\_fta/outcomes/07\\_government\\_procurement.html](http://www.dfat.gov.au/trade/negotiations/us_fta/outcomes/07_government_procurement.html).

But there may be more for public sector buyers' to worry about if it becomes possible for US firms that trade with Australia to sue the federal government if they introduce environmental or health legislation that damages their profitability – as the USA apparently want. The sort of approach that gets business a bad name. Busy days ahead then if you're a public servant buying from the USA and this does become the case.

By the way, Australia's other Free Trade Agreements are as follows <http://www.dfat.gov.au/trade/ftas.html>:

Public sector buyers, especially, should be across the obligations they demand of procurement efforts.

### EXISTING FTAs

Bilateral agreements with –

- Singapore
- Thailand
- US
- New Zealand
- Chile

Multilateral agreement with –

- ASEAN (Sth East Asia) nations and NZ

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This has entered into force as of 1 January 2010, but so far only with Brunei, Burma, Malaysia, Philippines, Singapore and Vietnam. Thailand comes on board mid March and Cambodia, Indonesia and Laos probably later this year.

#### FTAs CURRENTLY UNDER NEGOTIATION

Bilateral agreements under negotiation –

- China
- Japan
- Korea
- Malaysia

Multilateral agreements under negotiation –

- Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi, UAE)
- PACER (Pacific Agreement for Closer Economic Relations) Plus (NZ and many Pacific Islands)
- Trans-Pacific Partnership Agreement (joining and thus widening the existing agreement between Brunei, Singapore, NZ and Chile)

The Buyer – posted 24th April 2010

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## #140 - UK general election offers different procurement manifestos

The UK general election is on 6th May 2010, and both major parties - the incumbent Labour party, and the opposition Conservative party (often called the Tory party & similar to Australian Liberal party) - are fighting for the 'procurement vote'; but with different approaches:

Gordon Brown [Labour] hinted at a buy-local policy in future, set big savings targets and targeted defence costs;

**<http://www.supplymanagement.com/news/2010/labour-manifesto-procurement-to-prioritise-local-people/>**

David Cameron [Tory] reiterated his plan to publish all government deals over £25,000 value [see blog #124 15th March 2010], allocating 25% of government business to SMEs and cutting MOD defence running costs by 25%;

**<http://www.supplymanagement.com/news/2010/conservative-manifesto-procurement-to-drive-innovation/>**

Procurement as an election issue – now, where have we seen that before?

Ah, yes, Victoria. The Bracks/Brumby government offered a large savings target of \$615m over four years in their manifesto at the last VIC election in late 2006 did they not? With the 'Buying Smarter: Buying Less' initiative, a shared services model, best practice grants and cost savings on fleet, advertising, consultancies, ICT.

**<http://www.alpvictoria.com.au/Policies-and-Platforms/Policies/Balancing-the-Budget.html>**

Wonder how they are doing? Perhaps they'll tell us in the forthcoming VIC election campaign?

The Buyer – posted 27th April 2010

## #141 - More sexy jobs in procurement ...

Anecdotes continue to reach The Buyer regularly to support the notion of a buoyant recruitment market in procurement presently throughout Australia and New Zealand.

But, nowadays, of course, a wide range of exciting roles in procurement offer spirit, adventure and great times all over the world as well as money, glamour and sex. As a service to the profession, The Buyer is pleased to highlight such roles ... and who says there is no drama in a career in procurement?

Previous highlights have included key procurement roles for the EU, for CIPS and for MI6 & MI5 – as well as roles in Afghanistan, Nigeria and the Falkland Islands – see previous blog #75.

Also roles recently reported in the pponline news service included;

- the Clinton Foundation <http://www.pponline.com.au/html/adventurepo.cfm>
- the New Zealand public service  
<http://www.pponline.com.au/html/skillslist.cfm>
- the UN in Haiti <http://www.pponline.com.au/html/buyersinhaitipo.cfm>
- the World Bank in Lebanon  
<http://www.pponline.com.au/html/worldbankrj.cfm>

Today, 75 jobs are advertised on pponline  
<http://www.pponline.com.au/html/jobsearch.cfm>

Other current advertisements that captured The Buyer's imagination include;

- Head of Budget, Finance & Procurement Unit in The Hague for Eurojust – the EU led network of judicial authorities [www.eurojust.europa.eu](http://www.eurojust.europa.eu)
- ICT Category Manager in London for the UK Ministry of Justice <http://www.cips-gpa.com/jobs/64733/procurement-category-manager-ict.asp>
- Procurement Officer in Zimbabwe for The African Capacity Building Foundation [ACBF] – the UN/World Bank sponsored development programme  
[www.acbf-pact.org](http://www.acbf-pact.org)
- Contracts Officer roles with various UK Police forces – supporting the high-profile drive for the 44 UK police forces to capture a £545m savings target through better collaborative purchasing <http://www.supplymanagement.com/analysis/features/2010/uniform-approach-to-police-savings/>

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Kent, Essex and Sussex police forces are all proactively recruiting this week  
**[www.kent.police.uk](http://www.kent.police.uk)**

Purchasing Manager in Warwickshire, UK for Jaguar-Land Rover cars  
**[www.jaguarandrovercareers.com](http://www.jaguarandrovercareers.com)** ... and doubtless a great discount on the new Range Rover too!

Fill yer boots.

The Buyer – posted 3rd May 2010

## #142 - Is 'Commissioning' a new name for Procurement?

The Buyer is long familiar with the difference between the terms PROCUREMENT and PURCHASING as strategic v operational descriptors of our great discipline. Professor Guy Callender from Curtin Business School has even previously written on the subject in PP magazine [issue PP16 page 22 dated Nov/Dec 2007]:

**<http://www.cips.org/australasia/publications/ppmag/>**

And CIPSA has published a white-paper back in 2006 and again in 2007 offering definitions of both PROCUREMENT and SUPPLY CHAIN MANAGEMENT

**<http://www.cips.org/australasia/professionalresources/#whitepapers>**

And along the way others have suggested new terms to define our fine work – Sourcing, Strategic Sourcing, Commercial Management, Supply Chain Management, Vendor Management, etc, etc ....

But now, all the way from the UK civil service, a new term – COMMISSIONING.

Luckily the CIPS UK team has published a guide ..... **[www.cips.org](http://www.cips.org)** which is now reprinted by CIPSA

**<http://www.cips.org/australasia/professionalresources/#whitepapers>**

and even runs to a course as well, but in the UK naturally: **<http://www.cips.org/membership/faculties/eventsdetails.aspx?group=57&id=727>**

In a nutshell, COMMISSIONING includes more end to end focus in the UK public sector supply chain [like category management] and includes in-house alternative sources [like an old make v buy study]. It also encapsulates full life costs [total cost of ownership] and balances these against security of supply [risk management] and the true deliverables from the source of supply [cost-benefit analysis] as well as managing the delivery process itself [contract management & SRM]. It applies to services more than pure goods though it seems.

So, end to end service chain management from the UK public sector. Category management really.

Still sounds very 'procurementy' though doesn't it? Do we really need another new term?

The Buyer – posted 5th May 2010

## #143 - When, why and how to outsource procurement

Procurement teams are often involved in decisions on outsourcing. The 'make v buy' analysis in old language.

In fact, sometimes, the procurement team are quite instrumental whether initiating or deciding on a case for outsourcing or not.

So, as a profession, we would be shocking hypocrites not to consider outsourcing ourselves; outsourcing our own procurement efforts – in the right circumstances, of course.

The most high-profile example of outsourcing procurement is the Telstra decision to outsource their INDIRECT procurement effort to IBM. Telstra claim the project has worked well so far and is on track to achieve the agreed up-front nine-figure savings target over the initial four year deal. Also that it has taken advantage of IBMs technology, improved P2P processes and consolidation of everyday indirect categories and freed Team Telstra up to concentrate on strategic supply lines and building their end-to-end one-customer one-supply chain approach. In fact, that really is the textbook business case for any outsourcing of procurement, and can deliver a real and calculable RoI;

### THE BUSINESS CASE FOR OUTSOURCING PROCUREMENT:

1. Freeing up a stretched in-house procurement team to work more on strategic supply lines
2. Aggregation and better deals on low-volume needs – including one-time step changes in the cost base of targeted categories
3. Improved P2P processes and sharing other's investment in technology

But outsourcing procurement doesn't always have to be the big-bang approach: There are many forms of outsourcing to consider, each with pros and cons of their own.

Actually, you can almost plot a scale of outsourcing commitments for pesky procurement tasks, depending on the need: Imagine a staircase type model:

### **Tier One – Don't bother**

Many organisations have minimum spend thresholds for professional procurement involvement. \$75,000 is a common figure. Below this, expenditure on a single category/item is delegated [abdicated] to the relevant line manager in the user department, as it is unworthy of the time that would be spent by a professional procurement team as cost would outweigh benefits.

### **Tier Two – Hire a contractor**

Overstretched procurement teams can often hire in temporary resources to cover off ad hoc or one-time or low-spend projects thrown up by exhaustive spend analysis efforts. Throwing an opportunity-analysis at a contractor [sometimes with an 'at risk' element to their rewards] is a common solution, often with a calculable RoI too. Body shops specialising in procurement people are only too willing to help find people and are now more frequent [www.procurenet.com.au](http://www.procurenet.com.au) and [www.michaelpage.com.au](http://www.michaelpage.com.au) and [www.management-toolbox.co.nz](http://www.management-toolbox.co.nz) are just three examples. ([www.pponline.com.au](http://www.pponline.com.au) advertise also).

### **Tier Three – Hire a consultant**

The difference between a consultant [who designs a solution and specs a job] and a contractor [who does the work] and is supposed to be stark. It rarely is of course. Many such consultants can be found loitering at CIPSA conferences of course. They include [www.pmmgroup.com.au](http://www.pmmgroup.com.au) and [www.thefaculty.com.au](http://www.thefaculty.com.au) and [www.supplytransformation.com.au](http://www.supplytransformation.com.au) amongst others.

Others specialise in measuring procurement effectiveness [www.pibenchmark.com](http://www.pibenchmark.com) or say [www.thehackettgroup.com](http://www.thehackettgroup.com) to assess capability and allow pushed procurement teams to decide when to bring in help.

### **Tier Four – Join a buying club**

Buying clubs charge members an annual fee to join and make available an inventory of available deals [volume purchase agreements] with a wide range of suppliers off-the-shelf. [www.supplyclusters.com.au](http://www.supplyclusters.com.au) is one of the best known in Australia. They have over 100 corporate members and offer a vast range of deals on a surprising range of categories. Buying clubs are good for mid-range corporates with modest spend and small procurement teams that need quick solutions [often on emotive categories] to allow them concentrate on the strategic supply lines.

And not-for-profit groups have options too, like [www.churchresources.com.au](http://www.churchresources.com.au)

### **Tier Five – Implement a P cards scheme**

The card companies would tell you it is easy to hand out purchasing cards to client department users and control spend better, use their management info and haggle a better deal with vendors. But projects like P cards are rarely so simple. But in the right context they can deliver real savings and slash workload for everyone. Visa, Mastercard and AMEX are the usual players in Australia, like everywhere else. Other private card providers exists too. And the banks/card issuers want in too. CIPSA have just published a business case for P cards with VISA [www.visa.com](http://www.visa.com) at <http://www.cips.org/australasia/professionalresources/#whitepapers>

### **Tier Six – Contract an aggregator**

Aggregators are increasingly common, with several new entrants of late. They have established contracts with major suppliers in the main categories. You buy-in with your volume and take the benefits of their market knowledge, deals and terms – and pay a fee or commission on spend in return.

**www.procurementaustralia.com.au** (formally Strategic Purchasing and MAPS) and **www.portlandgroup.com.au** (formally Cyberlynx) are two of the best known in Australia

### **Tier Seven – Outsource your business process en masse**

Most of the big consulting firms would claim to be able to offer a BPO solution – onshore or offshore. But several are proven in the procurement and supply chain space locally it seems and have defined working schemes to offer

**www.accenture.com.au** plus **www.atkearney.com** or **www.capgemini.com.au** and **www.xchanging.com**

### **Tier Eight – Outsource to computers**

Procurement is not exempt from computers taking over. Old stock control or EDI computers have been ‘automatic-ordering’ for over 40 years. But modern ERP systems have evolved to complex and advanced ordering solutions. Everyone knows the key players are **www.sap.com.au** and **www.oracle.com.au** and **www.ibm.com.au** and **www.microsoft.com** ... plus **www.siemens.com**

A more modest investment in technology might utilise technologically minded consulting vendors like **www.quadrem.com.au** or **www.ariba.com.au** in designing the right solution for you, maybe including e catalogues or simple protected websites? E Procurement also has its specialists such as auctions specialist **www.tradeinterchange.com.au** or e tendering experts **www.evaluate.com.au**, amongst others.

In a service based economy with many organisations spending ‘lots of small amounts of money’ often on indirect, systemisation can increase and manage addressable spend through technology. Nowadays, one good category manager with a decent catalogue manager in support could do the work of many with the help of technology.

Alternatively, you could keep the work in-house of course and INSOURCE it. Call me old fashioned.....

PS: Rumour has it that CIPSA plan to run a one-day event on outsourcing procurement on 28th July 2010 – watch out for the line up at **www.cipsaconferences.com.au**

PPS: A significant number of the firms mentioned above are past or current CIPSA sponsors

The Buyer – posted 7th May 2010

## #144 - The definition of WoG

When is whole-of-government (WoG) really the whole of government then, wonders The Buyer?

Only the term gets used a lot in the public service, usually in the context of indicating teamwork and collaboration to share better outcomes. The term is just not used consistently, even within the same jurisdiction sometimes. Some jurisdictions even call it cross-government now – just to avoid the acronym.

But does WoG mean;

- A. All tiers of government federal, state, local?
- B. All jurisdictions?
- C. With or without SOE's and other public bodies?
- D. None
- E. All of the above

Well.... it depends, it seems.

After much detailed research by The Buyer, over some long lunches, WoG. seems to mean....

'WoG: Some departments within a state jurisdiction driven by a lead agency [often Treasury], which usually includes some other departments but never all of them, may include some other state bodies though not usually SOE's, but often not local government councils (if the law allows it at all), very rarely other state jurisdictions and never federal government.'

So, that's all clear then. WoG contracts are the perfect tool to drive greater public sector collaboration and therefore better value for all. Obviously.

The Buyer – posted 11th May 2010

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## #145 - A bigger role for UK public procurement now?

Rumours reach The Buyer already that the new Conservative led coalition government in the UK is keen to reinvigorate public procurement efforts, with a new stronger mandate to drive savings and efficiencies – perhaps through more collaborative purchasing.

They need to, of course. The UK budget deficit is at a record £163 billion, and the new coalition government have made its reduction their first priority. Unpopular cuts and 'austerity measures' are likely to be announced in the emergency budget to be delivered within 50 days of the new parliament [so by 8th July ish then].

This emergency budget by new Chancellor of the Exchequer, George Osborne MP, will outline \$6 billion savings to be made before the end of this UK financial year [by 5th April 2011]. But how? That's the BIG question. And what role will public procurement be expected to play?

The Buyer – posted 13th May 2010

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# #146 - The two most pressing constraints on Australia's supply side

Forget roads, 20/20 summits, population studies, GST revenues and republics .... there are now two clear and pressing constraints on Australia's ability to deliver in the long term. And, as time passes, they will only get worse until systemic solutions are adopted:

## **Problem #1 - WATER**

No water where we need it: too much water where we don't. (See previous blog # 14).

Australia is five cities on a drought stricken desert island, surrounded by [big] oceans. Regardless of the recycling debate, we will need two desalination plants in every city in the long run and should start building them now. Climate change is real, regardless of who caused it – man or god? Running low on water compromises our health, our food supply chain, our industry and our Australian lifestyle. A ten or twenty year plan would solve the problem and might even cost less than other things – like a national broadband for instance? Do the math.

## **Problem #2 - POWER**

Every time the temperature exceeds 40 degrees, the lights go out.

Hardly up to standard for several of the world's third most liveable city - Melbourne. Worse, electricity prices are set to rise substantially in future we are now warned – maybe by as much as 30%? Of course, professional buyers have their sources; they can buy from the grid, build their own generators or look to alternative energy sources. Neither retail punters nor SMEs can though. And we can hardly cover the whole of WA in windmills. Hydro-electric schemes are fast becoming mud-electric schemes, solar power rebates have been limited or canned, coal causes monster emission issues and oil is running out. Meanwhile there are 165 nuclear reactors in Europe with six more under construction. Even the UK have 19. The USA have recently ordered two new reactors to add to their 30 old ones. China have 26 under construction right now. We make uranium fairly well in Australia – but have no nuclear power sources. Maybe we could trade with someone? We even have a few ideal spots to bury the waste. Do the math.

Now, about the taxi's in Melbourne .....

The Buyer – posted 18th May 2010

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## #147 - Corporate Problems v Procurement Opportunities

The problem with problems is that they are so compelling. Everyone is focussed on them. Nature demands that people get better and better at articulating the problem. Admiring the problem even. Meanwhile, Rome burns whilst everyone fiddles. With such focus and anxiety bearing upon the Problem, everyone fixates on it. Dreamers see their chance, "if only I can solve the problem I will be the hero" they muse. Soon implied rewards offer themselves for the solving of the problem. The problem becomes everything. Corporate relief is audible when the problem is fixed, even patched. Goal hungry corporate warriors strive to solve the Problem. Success becomes solving the Problem. Failure is failing to solve the Problem. You get fired for not solving the Problem.

But problems are reactionary. They are a negative force. You cannot problem solve your way to greatness so easily. Problem solving stops threats, but does not grab opportunity so often. Problems need solving. Opportunities have to be grabbed.

Opportunities are proactive. They offer great value from little expectation. They are the maketh of men. They offer a true path to greatness. They offer no reward, save themselves. They go unseen. They need vision and perspective. They demand toil, blood, sweat and tears. They demand great reserve, tenacity and resilience. And they are offered no support, little resource, low priority and less patience. People do not see the end so easily. The problems get in the way, "if only I can solve the problem first."

Opportunities are not rewarded. Positive force is undervalued. Delivering great opportunity delivers greatness. Opportunity grabbing solves weakness, and can even obviate problems. But no one ever got fired for failing to grab an opportunity. In fact most don't even realise an opportunity has been missed. Not until it is way too late. No one ever got fired for missing an opportunity.

Procurement people need to grab the opportunity, subsequent success will take care of the problems.

The Buyer – posted 20th May 2010

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## #148 - What salesmen think they must do to win high stakes bids

That ubiquitous sales guru, the entertaining Elliot Epstein, recently published his latest analysis on how to be successful in pitching for high value contracts.

Elliot believes the buy-sell process is changing and evolving almost in real time. His new observations [below] were based upon his personal experience helping clients successfully pitch to professional buying teams for multi- million dollar contracts over just the last two years.

What did we do right, to win these bids? wondered Elliot. Upon reflection, the Top three reasons for high stakes success by him and his sales colleagues were;

1. "Boldness – bidders have become more open to ideas of being bold, left field, even dramatic to win and differentiate. Conservative, paint by numbers approaches have probably had their day and they pale against a dedicated team who is prepared to be creative in the document, the presentation and the sales interviews.
2. Flexibility in Pricing Value – many of my clients have been more prepared to price their bids for value – that is according to the perceived value of the client not their own head office. It's pretty simple 'Sell BMWs at the right price to BMW buyers and Daewoos to economic buyers' not the other way around or not because you think they should trade up just because you want them to.
3. Absolute bl\*%\$#y focus – winners have really stepped up here dedicating real time (not just in between other work) to preparation, planning, strategy, rehearsals and winning theme design – whatever it takes , till midnight and beyond. I have the late night pizza kilos to prove it."

SOURCE: Elliott Epstein: Salient Communications e circular April 2010

<http://www.salientcommunication.com.au/>

Straight from the 'horses mouth' .... you won't find that in any text books folks.

The Buyer – posted 24th May 2010

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## #149 - Top 10 supply chain projects reveal the difference between Procurement and SCM

Capgemini recently published new global research identifying the top ten Supply Chain Projects in 2010.

1. Business process redesign programs
2. Operational excellence work [eg; Lean]
3. Improving long term demand planning & forecasting
4. Improving supply chain visibility
5. Network redesign
6. Contract renewals projects with Logistics provider
7. Centralising supply chain organisation [eg; Shared services]
8. Inventory optimisation programs
9. Sustainability programs
10. Sales and operating planning improvements

SOURCE: Capgemini consulting: "Customer back on top of the supply chain agenda in 2010"

There you have it then. The professional agenda of issues facing supply chain management professionals – and a useful working definition of what they do. Compare it to the procurement professional agenda 'Dartboard' published in the PP30 April 2010 issue of Procurement Professional magazine if you will.

In fact, a thought occurs – maybe SCM is more OUTBOUND supply orientated where as professionals procurement is simply more INBOUND supply focussed.

One customer focussed, one business focussed maybe?

The Buyer – posted 26th May 2010

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## #150 - BREAKING NEWS: Politician tells lies

The federal Leader of the Opposition's recent admission that he cannot always be believed is hardly a surprise for most voters – especially the cynical ones.

<http://www.dailytelegraph.com.au/news/opinion/liberal-leader-tony-abbotts-decision-to-admit-he-lies-shows-that-he-cannot-be-australias-prime-minister/story-e6frezz0-1225869968304>

But they are, perhaps, no saints themselves if current trailers for the popular TV detective show "Lie to me" are to be believed – they suggest that on average most people lie deliberately four times a day

[http://en.wikipedia.org/wiki/Lie\\_to\\_Me](http://en.wikipedia.org/wiki/Lie_to_Me)

So if lying is commonplace, when is it okay for professional buyers to tell a furphy? After all, the salespeople on the other side of the negotiating table aren't exactly known for avoiding the odd whopper, are they?

Well, thinks The Buyer, the answer is, NEVER. It is never okay for procurement professionals to lie. Because Procurement is a profession. A fledgling one for sure, but still a profession. And essential components of any profession include standards, ethics, continuous learning and a professional approach [see previous blogs #95 #32 and #7].

Lying is contrary to these professional standards. Never mind that sellers might lie, they are not aspiring to become a mainstream profession. And lying is often counter-productive anyway – especially if found out. It is not easy to recover a bust reputation in any business, certainly not one founded on deal-making where *'thy word is thy bond'*. Or in a place where probity standards make many other countries blush. And if you are continuously learning – maybe you won't have the need to lie in the first place anyway. Professionals don't lie because they don't need to.

Bluffing is quite different of course; defined as "To mislead. To impress, deter, or intimidate by a false display of confidence" ... that's fine, and a valid negotiation ploy.

Just no fibs then.

The Buyer – posted 27th May 2010

## #151 - What CPOs get paid

The perpetual debate about fat cat CEO salaries asks the question [eventually] of what CEOs actually should be paid? A limit of 20 or 25 times the lowest paid worker in the organisation many suggest is a reasonable benchmark. So, about \$1m base salary compared to a “lower quartile” employee on \$40k a year then. But most CEO’s of “mid-size” corporate businesses are on more than that. And, at a guess, almost all ASX200 CEO’s would be. With bonuses and share options too usually.

But this misses the point to a large degree, the real issue is not paying a market competitive base salary with large incentives to successful CEO’s – the issue is paying them obscene sums for failure. Strangely, most people accept obscene sums for success. Especially shareholders.

Anyway, about CPOs....

They usually get a decent base salary, in Australia anything from A\$180k up to A\$400k or more plus benefits is typical for genuine CPOs with large spend responsibility across strategic supply lines with significant staff numbers reporting to them. Although the \$400k salaries are rare (think \$250k + really) increasingly CPOs are being recognised for their professional worth and business contribution as much as their grade level within their own big organisation.

Several recruitment firms here in Australia publish salary tables and some include procurement and supply chain roles specifically; like Michael Page, Hays, Jigsaw and Robert Walters. Most suggest that CPO salaries are rising relative to other professions. A function of demand ultimately.

But the CIPS UK salary survey over there, though, done in partnership with Croner Reward during 2008 says CPOs are getting paid more and more – up 13% during that year, when inflation was historically very low.

In fact some of the survey findings from a surprisingly large sample size of respondents [over 1,800] are worth highlighting:

- Pay increases for procurement people in the UK during 2008 averaged 3.2% for all procurement jobs - - but 13% for CPOs and 6.7% for middle-managers in procurement: The reported median base salaries and increase during 2008 were:
  - Procurement director/CPO - £85k base – up 13.3% during 2008
  - Head of procurement function - £65k +3.2%
  - Senior procurement manager - £50k +4.2%
  - Middle procurement mgr - £38k +6.7%
  - Junior procurement mgr - £30k +6.6%
  - Ass procurement mgr - £24k +2.3%
  - Senior clerical procurement role - £20k +5.3%
- Senior and middle managers in UK procurement are paid more than equivalent ranks in sales, marketing, HR, IT and finance

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- Full Members of CIPS on average earn around £2,000 pa more than non-members
  - The gap in pay between male and female procurement professionals is closing
  - Procurement professionals are working longer hours
  - 57% report they had good or excellent job satisfaction

SOURCE: CIPS Croner Salary Survey 2008

Specifically on salaries, the 2009 CIPS UK Salary Survey suggests that upper quartile paid CPOs in the UK earn around £100,000 base, but the top 10% of CPOs earned an average of £138,000 pa plus benefits and bonuses during 2008 – so about A\$238,000 pa at today's iffy exchange rates [A\$1.73 = £1 ish] .... but interestingly around A\$330,000 base against the old, historical exchange rate of around \$2.40 to the pound.

Sounds like a lot doesn't it? But, perhaps not compared to the potential savings when leveraging a spend responsibility likely to be in the hundreds of millions, maybe even billions, of pounds.

Suddenly local pay rates here look very attractive – especially at \$1.60 or so to the British pound: Does this explain why so many CPOs in Australia seem to be poms?

The Buyer – posted 1st June 2010

## #152 - Is AoG the new WoG?

The Buyer is long familiar with the airline use of the acronym AoG as “aircraft on the ground” [meaning aircraft awaiting departure and unable to leave due to supply shortage and all the buyer’s fault; not aircraft-has-crashed, by the way].

But several presenters, especially the federal Department of Finance & Deregulation [the old DoFA of course], introduced this ‘new’ acronym of AoG at the 5th CIPSA Public Sector Procurement Forum in Canberra last week with a new meaning – “all of government” - instead of the occasionally inappropriate ‘WoG’ [whole of government] which some others still used on the day ..... see previous blog #144, for the definition... Someone else even used ‘WoAG’ [Whole of Australian government].

Anyway, even the minister, Lindsay Tanner, used AoG during his speech too – he even offered a sort of definition of AoG to rival the one so assiduously compiled after much research by The Buyer for ‘WoG’ and revealed in a previous blog #144. The minister’s fine effort was roughly:

‘AOG: all federal agencies that want to be included, if not exempt, and, maybe, in future, some state governments; but not local government’.

Even clearer then. And I bet he didn’t need as many research lunches as The Buyer did to work it out.

The Buyer – posted 3rd June 2010

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## **#153 - Is 'Crisis Management' a new name for procurement?**

The Buyer's colleague at CPO Agenda magazine, Jim Frankley, has a novel suggestion for a new name for the procurement profession – Crisis Management

**<http://www.cpoagenda.com/current-issue/frankley-speaking/>**

It could catch on – and there's no shortage of crises nowadays...

The Buyer – posted 8th June 2010

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## #154 - Why is there so much process in public procurement?

The Buyer was in the audience for the recent CIPSA public sector procurement forum conference in Canberra <http://www.cipsaconferences.com.au> on 27th May 2010 to hear federal Minister of Finance, Lindsay Tanner's introductory speech [http://www.financeminister.gov.au/speeches/2010/sp\\_20100526.html](http://www.financeminister.gov.au/speeches/2010/sp_20100526.html)

It launched the DoFD department's transparent pre-election rating of the 'Rudd Government's total savings achieved so far this year haven't we done a great job scorecard.' It rated total savings achieved at an improbable \$8.5bn on a declared contracts spend of \$33bn – a lofty 25%. And during a stimulus too. The cynical editor of Procurement Professional magazine, Allan Leibowitz, lanced the minister's pride with his first question – comparing the Scorecard to children bringing home a self-rated report card of their own schoolwork. "Wouldn't we all be proud of their achievements?" he asked.

Later, our humble host for the event asked the minister in the Q&A;

"Is there too much process and not enough room for professional judgement in public procurement?"

"You know, there probably is" responded the minister, surprisingly.

"Why" queried our fearless host.

"It's the media's fault" exclaimed the minister.

You heard it there first, at PSPF5, the media hold the government to account too well, so they need lots of process to defend themselves from scurrilous journos intrepidly asking unreasonable questions on public procurement matters. A bit like Allan then.

The Buyer – posted 11th June 2010

## #155 - A year of bold predictions & possibilities

Back on 17th January 2010, The Buyer foolishly predicted a series of bold possibilities.

As the year reaches the half way point, it is interesting to check how The Buyer's predictions are going almost exactly six months on [see previous blog #101]:

The ten bold possibilities for 2010, with progress reports underneath in italics;

1. The Aussie dollar to hit parity with the US dollar during the year; and 60p against the Pound ..... *the Aussie dollar got up to 93c before the current slide to 83c, and went sailing past 60p to the pound- before slumping to a lowly 57p or thereabouts*
2. Oil to exceed \$100 per barrel once again .... *well, up to \$76 at present and rising again. Peaked at \$86 since Xmas!*
3. GOLD to exceed \$1,500 per ounce .... *\$1246 last week, but softening to only \$1219 now*
4. Interest rates to reach 5.75% as a base rate by Christmas 2010 ..... *4.5% after six rises in seven months and more rises to come*
5. GDP growth exceeds 3%, with inflation a similar figure .... *2.7% today for growth, with inflation at 2.9%*
6. Unemployment stabilises around 6% .... *fallen to 5.2% after hitting 5.4% recently*
7. USA and China start introducing tariffs .... *not yet, not officially anyway*
8. The ALP to win a general election and secure a majority in both houses – and an ETS scheme .... *both looking well dodgy now*
9. The ASX to surge past 6,000 pts before Christmas .... *up and down like a YoYo currently. 4430 today – was over 5,000 after the Easter rally .... we'll see by year end?*
10. The mighty Saints will win the flag in September ... *Losing Nick was a blow [see blog#136], but still in the top 4 with the captain due back soon and certain to make the finals*

.... so far so good then. Maybe.

The Buyer – posted 15th June 2010

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## #156 - The limitations of tenders

“Tenders should not be a default procurement strategy; procurement is more complex than that,” said one of the respected key note speakers from the podium at the CIPSA public sector procurement forum in Canberra recently - whilst discussing the planning and deliberative process in any public sourcing exercise.

They were quite right of course. Confirmation perhaps of The Buyer’s viewpoint that tenders “are not in the slightest bit strategic” - see previous blog #134. They are at best a tool, at worst an administrative hurdle and they are not a strategy. We are all agreed then.

So why does it feel like public procurement professionals always go to tender for stuff?

The viewpoint that tenders should not be a default option certainly doesn’t really seem to be catching on yet if the record attendance at the PSPF5 conference day two “Evaluating Tenders” workshop is anything to go by?

The Buyer – posted 16th June 2010

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## #157 - Marketing is back with a bang

The Marketing Update circular from 'Michael Page MARKETING' this week illustrated again Australia's rise from the GFC – in this example, a rise in the number of marketing profession vacancies and recruitment briefs during H1 2010 [http://www.michaelpage.com.au/marketing/8994\\_b.html](http://www.michaelpage.com.au/marketing/8994_b.html) and "Our clients are now all talking about how quickly they can re-invest in their marketing functions."

Anecdotally, it seemed to The Buyer and his friends that 'things' clearly kicked off the day after Australia Day. Business activity was suddenly and notably buoyant. As if someone had blown a whistle, and "businesses marketing" had kicked off again.

Even last year, in early 2009, it seemed few organisations were really suffering from the GFC in Australia – though many seemed to be "working much harder to achieve the same" as one harassed MD of a humble supplier explained to The Buyer at the time.

Subsequently in H2 2009, most firms seemed to be 'sitting on the bench' to continue the World Cup analogy. Waiting for something to happen.... seeing how things turn out, before running on to the pitch and making hard commitments.

But there comes a point where business has to start 'marketing' again. Businesses without marketing are engines without fuel – or players without a crowd in World Cup terms. Today, many complacently feel business is 'back to normal' in Australia – and The Buyer wonders if we learnt anything from the GFC at all down here?

But Marketing is back to normal it seems;

..... strewth, even CIPSA has a radio advert now!  
<http://www.procurement.org.au/>

The Buyer – posted 21st June 2010

## #158 - New UK Government champions procurement and openness

Now the new UK coalition government is in place, what will it mean for business in Britain and, specifically, for procurement?

Well, the new Coalition government's Programme for Government has just been published and has BANKING and BUSINESS right at the top of the contents page [http://www.cabinetoffice.gov.uk/media/409088/pfg\\_coalition.pdf](http://www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf)

Early in the 36 page list of things to do, it champions both professional standards and targets 25% of government contracts to go to SMEs. It says:

- We will end the culture of 'tick-box' regulation, and instead target inspections on high-risk organisations through co-regulation and improving professional standards.
- We will promote small business procurement, in particular by introducing an aspiration that 25% of government contracts should be awarded to small and medium-sized businesses and by publishing government tenders in full online and free of charge.

Further on it pledges to follow through on previous promises [see previous blogs #124, 140 and 145] with widespread spending reviews, online disclosure of all central govt contracts over £25,000 and all local council spend over £500 – imagine that?;

- We will hold a full Spending Review reporting this autumn, following a fully consultative process involving all tiers of government and the private sector.
- We will take steps to open up government procurement and reduce costs; and we will publish government ICT contracts online
- We will create a level playing field for open source software and will enable large ICT projects to be split into smaller components
- We will require full, online disclosure of all central government spending and contracts over £25,000
- We will require all councils to publish items of spending above £500, and to publish contracts and tender documents in full

It is quite a list really. 31 key result areas for the new Coalition – each with a daunting list of KPIs which mostly are measurable and controllable. It will be more than interesting how they get on.

The central question is will more government openness and transparency actually deliver better value for money?

Despite all the obvious downsides to such moves, surely they at least deserve some credit for trying?

The Buyer – posted 22nd June 2010

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## #159 - Is it possible for buyers to get too good a deal?

Yes.

Suppliers can be stupid, or so desperate that they'll undercut themselves to get a deal sometimes. An unsustainable one that falls apart in the longer run. Perhaps even driven by commission hungry salesmen maybe?

Equally, buyers can be brazen; a bit too sharp for their own good, and take advantage to screw a supplier down too far in getting an unsustainable deal. For example, as it indicates in *wikipedia* the British Airways – Gate Gourmet deal in 2005 when BA stood accused of getting too good a deal with GG as a new outsource of in-flight catering, a deal GG could not sustain. The subsequent desperate action of the outsource to cut costs led to the labour dispute and strikes which cost BA millions and ultimately drove them into the arms of the market-leading supplier they had avoided in the first place to reduce costs.

Also, other factors can come into play when sourcing – meaning some deals can be counter-productive in a wider strategic or public sense, eg; buying from an inappropriate supplier [see blog #103]. .... Or, for example, at BHP Billiton who have come under public pressure in South Africa for their great deal on the supply of electricity from local SOE, Eskom it is reported in the press in Johannesburg. The poor general public there face up to 25% per annum price rises for electricity to finance the modernisation of their grid. But BHP pay much less than retail rates for their smelters' power. And, add the protestors, pay negligible local tax too. BHP are facing real public criticism and pressure from the press as a consequence.

At the end of the day, three facts are ever present for buyers to bear in mind;

1. You cannot outsource risk – ultimately it comes home to roost
2. You should only do deals that are sustainable – a deal that unravels is no good to anyone
3. You should include possible reaction to any deal in your full life time total costs equation at the outset – with probabilities if necessary, however unforeseen.

Easier said than done of course.

The Buyer – posted 23th June 2010

## #160 - No Commonwealth buy-local policy, except when they buy local

Another thing the federal Minister of Finance, Lindsay Tanner, said at the recent CIPSA public sector procurement forum in Canberra, was a diligent catch up on last year's big unresolved issue – the ugly spectre of protectionism and the NSW jurisdiction's 'buy local' policy to create local jobs publically at odds with the federal government's 'free market' response to the GFC – see previous blogs #65, 56, 22 and 3:

The minister said, at the CIPSA event 27th May;

"I stood before this conference [last year] and made it clear that the Government had absolutely no intention of introducing local price discrimination into our procurement policy. Predictions were made that a number of local industries would rapidly die due to increasing international competition.

Today I am pleased to announce that our latest research shows that Australian industry continues to be a very competitive supplier to the Australian Government. This year, we refined our methodology to better reflect the balance in some sectors between imports and local production, for example in coal and petroleum products.

With these improvements, our research now shows more clearly that Australian businesses supply almost 80 per cent of what the Australian Government buys. This is significant particularly when considering the fact that much of what the Government imports from overseas simply can't be readily produced here. Items like office machinery and major military hardware are essential, but mostly not produced in Australia"

So, roughly translated then; 'we're good buyers because we don't buy local as a policy and distort markets with protectionism; but happily we have bought 80% of our stuff locally' - to support the local economy and keep local jobs.

Now, this wouldn't be one of those examples of politician's wanting it both ways for two different audiences just before an election, would it?

The Buyer – posted 25th June 2010

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## **#161 - The last word on the federal Government's ban on frequent flyer points for public servants**

Churlish.

[... See blog #21 again for the full explanation.]

The Buyer – posted 28th June 2010

## #162 - Procurement pay still rises in the UK

The CIPS UK salary survey 2010 completed in conjunction with Croner has been published over there, and offers a timely update on the 2009 survey – see previous blog # 151. And it reveals some surprising results on the face of it....

Despite the severity of the GFC and the recession in the UK during 2009, the key findings were:

1. Average pay in procurement during 2009 rose 2.5% = higher than the 2% average for 'all functions'
2. 1 in 4 suffered pay freezes in the private sector, only 8% did in the UK public sector
3. ... meaning actual pay rises averaged 3% for those that got any pay award at all
4. Nonetheless, CPO pay rose 5.9% in the UK during 2009
5. Senior & middle ranking procurement managers got 5% rise on average
6. Basic pay for all procurement directors & heads of function rose more than other professions' top managers;
7. The equal pay gap between male and female senior practitioners has virtually disappeared
8. Members of CIPS earn up to £1,500 more than the average salary for similar roles by non-members
9. 31% of procurement professionals surveyed earned a bonus last year – averaging £2,500 against an average potential bonus target of \$4,800 [52% average achievement]
10. Forecasts for 2010 pay awards in UK Procurement average 2.5%; 13% people expect a pay freeze in 2010
11. 54% respondents reported good or excellent job satisfaction;
12. 56% said job security was good/excellent with 35% rating it fair. 22% were actively looking to move jobs, down from 34% in 2008.

The Buyer feels that perhaps it is high time a meaningful salary survey for the procurement profession was completed just in Australia [and New Zealand]. Especially if it includes [in]famous procurement bloggers.

The Buyer – posted 30th June 2010

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## #163 - Lindsay Tanner a loss to procurement

Minister Lindsay Tanner's announcement, immediately after Julia's coup last week, that he is to leave politics came as a shock to most.

**<http://www.theage.com.au/national/tanner-wont-recontest-seat-20100624-z2ch.html>** He will stand down from his ministerial role at the imminent general election and not recontest his seat in the Melbourne CBD constituency – which includes the CIPSA national office, by the way, and is targeted by the Greens.

During nearly three years as federal Minister for Finance & Deregulation, Lindsay Tanner held a torch for procurement and a brief for widespread cost cutting in federal government – perhaps demonstrating the Rudd Government's election commitment to fiscal responsibility if you like. He was instrumental in asking pom Sir Peter Gershon to mimic his UK work on public procurement in reviewing federal IT expenditure here. He also commissioned the whole of federal government travel tender, addressed other categories and appointed John Grant as the new federal procurement co-ordinator.

But, more than that, he influenced the public culture. His self-styled "Razor gang" approach to government cuts communicated the idea that money could and should and would be saved, that waste was unacceptable and that [much] more must be done by everyone to save.

Oddly, the razor-gang persona couldn't seem more ill-fitting than on Mr Tanner. At his two appearances at the CIPSA Public Sector Procurement Forum [PSPF] events in Sydney, July 2009 and again in Canberra in May 2010, he came across as a decent and reasonable bloke. He sportingly answered many [quite tricky] questions at both events and seemed experienced, reasonable and genuine. He did not shirk from tough questions and tried to do his best in navigating the competing streams of political policy, business essentials and plain common sense. As a pragmatist he saw not black and white but shades of grey, a view-point quite conducive to business.

In person, many polities come over as vacuous, ill-genuine and self-serving. Lindsay Tanner wasn't one of them and will be a loss to the profession. The tribute editorial in the Sydney Morning Herald/The Sunday Age on 27-28th June 2010 seemed quite right **<http://www.theage.com.au/opinion/editorial/tanner-not-just-labors-loss-20100627-zbvn.html>**

The Buyer – posted 1st July 2010

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## #164 - If it's JULY, it must be pay rise time

July is the start of the new financial year for most and, therefore, time for discussing pay rises perhaps. This time last year was hardly the right time for suggesting pay rises due to the turgid economic conditions. Many people went without rises or, at least, had very modest increments.

Salary tables are put forward by several recruitment agencies of varying degrees of range and accuracy [see previous blog # 151]. But one firm that has completed some recent research into employee expectations in the sector is HAYS – who revealed their findings at the annual CIPSA public procurement forum in Canberra last May.

The very professional Kathy Kostyrko, a director of HAYS, the national recruitment firm firstly offered an exhaustive list of innovative tools to attract and retain valued procurement people during a skills shortage. Many of which are deployed regularly in The Buyer's office, naturally.

HAYS completed their research into pay rate expectations earlier this year, off the back of the current economic growth rate of 2.7% and current inflation rate of 2.9% - an improving trend on last year's economically depressed market. Along with the chastening six interest rate rises in the seven months up to June 2010.

Kathy revealed that pay expectations were around 3% for most white-collar middle management staff in procurement. Except GENY of course. They expect >10%. The scale on the questionnaire didn't go any higher.

So, if you are under 30 years old, you know where to pitch to now. Why not let The Buyer know just how you get on eh?

The Buyer – posted 2nd July 2010

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## #165 - When buyers fall into denial

An old copy of BUSINESSWEEK magazine fell into The Buyer's lap at the dentist the other day – from way back in April 2010. It offered an article with the definitive view on the Toyota supply chain failure by Professor Richard Tedlow at Harvard Business School - with the benefit of 20/20 hindsight of course. But that is how we learn.

[http://www.businessweek.com/magazine/content/10\\_16/b4174076731775.htm?chan=magazine+channel\\_business+views](http://www.businessweek.com/magazine/content/10_16/b4174076731775.htm?chan=magazine+channel_business+views)

His point was that, "Toyota's top people were in denial, just as the public was. By denial, I mean that they stopped being honest with one another. And they stopped being honest with themselves. If Toyota's products were as fatally flawed as they were, that would be too awful to be true. Therefore, the awful truth was brushed away."

The Buyer thinks he has a point. All buyers think they do the best deals – just like all men think they are the world's best drivers or greatest lovers. When a deal starts to unravel, or security of supply is threatened the buyer needs to intervene. To go back. To fix the problem. Not hide from the awful truth. The Australian culture of "she'll be right mate" doesn't work in procurement [see previous blog #131] It is the worst hubris. What works is recognising the signs, thinking through solutions and working as a team to fix them quickly.

Unfortunately, it doesn't always help if contract managers are too stretched, managing too many contracts. When early-warning-signs are missed and measures too wide. Nor necessarily when 'Strat Sourcing' specialists "hand over" to vendor managers, and maybe, just maybe, some market understanding may be lost along the way?

But at the end of the day, The Buyer who secures their supply line gets greater rewards than the buyer-in-denial. Every time. And that also demands objectivity and maturity in attitude and approach. Professionalism in a word.

The Buyer – posted 5th July 2010

## #166 - The birth of procurement - a purchasing fable

During a particularly dull materials handling conference recently, The Buyer escaped the sessions to a quiet bar nearby, tended by a barman called Henry, who told The Buyer he knew the origin of professional procurement, and he told this tale;

*Once upon a time, an old man also called Henry made and sold the first mass production motorcar. The model T Ford. "You can have any colour as long as it's black." He charged around US\$850 for the car – as price was relatively inelastic in those days. If you could afford \$500, you could afford \$850 really or \$1000, or more. Whatever. You were relatively rich, it didn't matter.*

*But after a while – all the rich folks had cars. How to sell more?*

*The laws of supply and demand took hold – Henry had to reduce price to attract more humble customer segments.*

*Except he couldn't. Price was fixed, because margin has to remain stable and cost was defined. He had to get the cost down. But how? "I know," he said, "we'll pay the suppliers less." Genius. All went well for a while, the suppliers didn't want to lose high sales volume and played along.*

*Then, one day, the supplier of widgets squealed "NO!" No price reduction. Henry was indignant, told the widget supplier to go. "Get out of here," he yelled, "Never darken our doorway again." Genius. Except, soon after, the widgets ran out. Special widgets, apparently. Henry scoured the yellow pages, rang everyone he knew, asked the know-alls in his local pub 'The Google Arms' and even tried Harrods and Saks. Nobody had any widgets.*

*Meanwhile the production line had stopped. Dead. Men and machines lay idle. No model T's were sold, perishable stock was wasted, surplus stocks piled up, bottlenecks started, waste generated, log-jams everywhere. They needed the special widgets. Fast. And, just then, success. He found a new supplier of widgets. "Any colour as long as it's black mate" said the supplier. Fine. "You can have them in six weeks." Not fine.*

*Henry went back to the first supplier. He grovelled. He bit the bullet. He showed humility, negotiated and built a relationship. He won back the widget supply. Immediately. He succeeded. The production line re-started, and never stopped again. And they all lived happily ever after [well, almost].*

*And that's how Ford invented professional procurement, balancing lower costs with security of supply and developing supplier relationship management to build momentum to the supply chain and reduce price to consumers whilst maintaining margins.*

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*All the while streamlining the production process – making it better faster and cheaper so Ford could build a complete car in 93 minutes and sell over 15 million in the 19 years it was available, finally retailing for 65% less [\$290] and mostly to the new middle-classes and lower worth consumer base resulting in a better life for many and handsome profits for Ford.*

Anyway, that was Henry's story .... The Buyer thinks he made it up.

But you can read others' history too – including, amongst others, Guy Callender's 'A short history of procurement' at <http://www.cips.org/australasia/professionalresources/whitepapers/>

Some even credit the Romans. Decide for yourself where it all started.

The Buyer – posted 9th July 2010

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## #167 - Clever buyers let suppliers educate them

Long ago, when The Buyer was a 'baby-buyer' and actually bought stuff for a living, he learnt a valuable lesson = That suppliers know more about their product than buyers do.

Buying modems in the 1980's was pioneering stuff. They were the size of filing cabinets in those days, and nobody knew what they were – at all. The Buyer was sent to do the deal for the company's annual growing supply of these boxes with flashing lights. As he made his way from meeting room to meeting room he learnt more and more about modems – until he almost knew what they were. And the sales guys taught him everything he knew. A better deal was subsequently done. It helps to know what you're actually buying.

Professional knowledge and bluffing will only get you so far. To achieve excellence, you have to add market knowledge. After all, professional buyer's exist to exploit markets.

**Professional skills + Market knowledge = Purchasing excellence**

The Buyer – posted 13th July 2010

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## #168 - Why the procurement profession needs exacting standards

Tardily reading an old copy of PP the other day [issue PP30 April 2010], The Buyer was struck by the idea that the procurement profession collectively exercises direct influence on fully 63% of Australian GDP – as estimated in the article by the entertaining Professor Guy Callender at Curtin Business School [pages 10-14] <http://www.pponline.com.au/html/archiveofbackissues.cfm>

Australian GDP is rated at around US\$1trillion = a million million US dollars [twelve zeros to the left of the decimal point]; making Australia the 13th largest national economy in the world.

So GDP is about Aud\$1.23trillion dollars in local money. 63% is therefore A\$774billion.

The Australian procurement profession as a whole, therefore, of very roughly 35,000 procurement professionals across all sectors pump out in aggregate around A\$774bn into the market. A\$22million each, on average.

That's a lot of money. An important amount of money. No wonder procurement is a profession of increasingly exacting profession standards. It needs to be.

The Buyer – posted 15th July 2010

## #169 - We are all responsible for Foxconn suicides

The news reports of the tenth Foxconn employee to commit suicide this year is quite distressing on the face of it

[http://news.yahoo.com/s/time/20100526/wl\\_time/08599199162000](http://news.yahoo.com/s/time/20100526/wl_time/08599199162000)

Foxconn make i phones and the like at an enormous factory in Shenzhen in southern China. Some blame the deaths on pressures to perform faced by Foxconn immigrant employees, exacerbated by poor working conditions and low pay. The media have widely reported the story <http://www.smh.com.au/technology/technology-news/i-promise-not-to-kill-myself-apple-factory-workers-asked-to-sign-pledge-20100526-wddd.html?autostart=1> and, for the record, the usually circumspect Foxconn have gone into management overdrive to prevent instances in future. And key customers Apple, Dell and HP have announced inquiries, reported The Economist on 29th May 2010.

But Foxconn employ over 420,000 workers at this one site alone [Foxconn City], and more than 900,000 worldwide in their Taiwanese owned group. Which is the salient fact, as this pins their "suicide rate" at around 2.4 per 100,000 people .... less than China's declared national average suicide rate for men of 13 per 100,000 [and female rate of nearly 14]. And massively less than other male suicide rates such as Russia at 54 people per 100,000 population, Japan at 36, Finland at 29, New Zealand at 20, USA at 18 and even Australia's suicide rates of 17 [men] and 5 [women]...

[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_suicide\\_rate](http://en.wikipedia.org/wiki/List_of_countries_by_suicide_rate)

However, there is a moral. For both fickle consumers and, especially, for professional buyers. Putting more and more pressure on suppliers (and their suppliers) to perform heroically to increasingly demanding schedules has, ultimately, a moral price to pay as well as a total dollar cost – particularly when driven by dogmatic KPIs.

So it always pays in a business sense, and for peace of mind, for a professional buyer to know exactly what they are asking a supplier to actually do to fulfil their demanding orders. Going to see for yourself is always a good idea.

In the end, though, perhaps all customers [amateur consumers and professional buyers alike] are ultimately to blame for anyone committing suicide on a supplier's premises?

The Buyer – posted 19th July 2010

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## #170 - Child labour still a reality in some supply chains

The news that a seven year old boy was unearthed in Delhi working a 98 hour week for wages of 10 cents per hour is a salutatory reminder that child labour still exists far down many supply chains.

Britain's 'The SundayTimes' newspaper [www.thesundaytimes.co.uk](http://www.thesundaytimes.co.uk) completed an 'undercover' operation in Delhi to find the child in question, Ravi, who was making Christmas decorations for his employer who then exported to the UK specifically to fulfil purchase orders for Poundland [a chain of UK \$2 shops] in time for the festive season. Ravi was forced to work seven days per week 9am-11pm allegedly.

Despite the bitter PR damage suffered by Nike [and others] all those years ago for unwittingly using child labour far down their supply chain in Vietnam, it seems other companies have not learnt that painful lesson yet. Ignorance is a poor defence. Consumers can be quite unforgiving, even thrifty shoppers in Britain who are now considering their patronage of Poundland – whose management are at least taking the issue quite seriously it seems.

How many examples of unpalatable and embarrassing practices deep along the supply chain do firms need to hear about before they start taking a more proactive approach to managing their vicarious responsibilities down the supply chain – the ones consumers demand now that they accept accountability for. [See also previous blogs #104, then #102, #89, #28].

Do you truly know what is going on far down your supply line? Especially overseas?

The Buyer – posted 21st July 2010

## #171 - How to speak at a conference .... and how not to

As a professional conference attender, over the years, The Buyer has witnessed all manner of papers, speeches, presentations, key notes, seminars, workshops, contributions and lectures.

Some were inspirational, some absolutely deathly.

Often with amateur presenters, the audience has to do most of the work to look past horrid presentation skills to find good content. Or more often nowadays, look past decent presentation skills to find any content.

But the good sessions now often outweigh the bad, and with the excellent networking and conversations at most conferences, they are always worthwhile.

And the GOOD presentations clearly have a number of things in common from which less experienced speakers can learn directly.

The very best speeches offer three things;

1. Content
2. Passion
3. Humour

- Not encyclopaedic *content* of great academic weight and peer reviewed - just three or four simple takeaway learning points is good
- Not mouth-foaming Hitlerian ranting *passion* – just an idea that the presenter cares about their topic and shows real interest in it
- Not rolling around the aisle's laughing *humour* – just good humour, a gentle wit and some self-deprecating corporate mirth

And a few DON'Ts might help you too.....

- Never read a paper to an audience
- Never read the slides to them either
- Don't use too many slides or too busy slides – and use the template provided
- Don't stand in front of the slides, or the projector beam
- Don't speak in a monotone, be natural and conversational
- Avoid cue cards, but you can use an autocue IF you are practiced
- Don't shout into microphones – they will find your sound level
- Podium mics are better than lapel mics – which are much better than hand-held mics
- Don't pick on a single audience member and ask them a question
- Don't use case studies unless the source pre-agrees them
- Never, ever, turn up late

- Never self-promote yourself, don't boast and stay humble
- No selling – of anything – and no politics
- Keep personal opinions, personal bias and personal preferences out of it
- Never swear or curse
- Never slag others off – say nothing in public you wouldn't say to their face
- Don't pick arguments with other speakers
- Avoid jokes unless you know what you're doing
- Have a glass of water and tissues handy – just in case; colds and flu often rear up when public speaking

And a few DO's as well.....

- Be natural and be yourself
- Keep a hard-copy of your slides in your pocket in case the projector goes down
- Imagine the worst thing that can happen when you're on stage – it won't happen so relax
- Always offer the slides to be circulated afterwards (not beforehand, they change)
- It is polite to accept a few questions
- Speak directly into mics - not to the side of them whilst twisting to see your own slides
- It is okay to interact, and ask questions of the audience, but don't digress off the subject
- Stick to the question posed and topic advertised – do what it says "on the tin"
- Assume you are being taped, and say nothing you wouldn't say to a journalist
- Stay as politically correct as you can, whilst keeping your credibility
- Always recognise source material and acknowledge others work & copyright
- Prepare well in advance, not the day before – or on the journey to the venue!
- Explain the context of what you're talking about
- Summarise your key points and learning points at the end
- Handouts can help
- Practice your delivery if you are inexperienced – the mirror is a harsh judge
- Always respect the MC, host or Chair – and most of all the audience
- **STICKTOTIME**

There – that should help.

The Buyer – posted 26th July 2010

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## #172 - UK Government budget sets the challenge for procurement

The first UK budget from the new Coalition government in the UK on 22nd June, promised widespread public spending cuts as expected. Headlines trumpeted annual cuts in public expenditure of 25%, with only international aid [of course] and health being exempt [an election promise].

It seems the enlarged role for procurement envisaged in the previous blog #158 is becoming a reality - and fairly quickly too, as UK CIPS mag Supply Management reports; <http://www.supplymanagement.com/news/2010/whitehall-department-chiefs-gear-up-for-cuts-challenge/>

Maybe all those suppliers who chased the public shilling during the heady days of ever increasing Blair-Brown Government expenditure on public services since 1997, will be asked for the favour to be returned - if not the cash.

Busy days ahead. For some.

The Buyer – posted 29th July 2010

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## #173 - How to handle price increases 101

The Buyer took a call from an earnest GenY the other day, asking advice on just how to handle a 'new financial year' price increase request from her #1 supplier. She reasoned that she would ask them to "justify it"

No, no, no.

Remember, suppliers know much more about their products & services than buyers – see blog #167. They know the features & benefits and the business benefits and Rol of each aspect of their offering. And the component costs in detail. If you ask them to justify it - they will. Salespeople live for the chance to justify the purchase. They love that. They usually start with, "...how long do you have?" as they roll their sleeves up.

Instead, try just saying 'no'.

Even if they then launch into justification mode, you haven't lost anything as the buyer; and you've established your negotiating position at the outset. Yep – just say NO. It's the best start you can make to a conversation you don't want to have.

Just say no.

The Buyer – posted 31st July 2010

## #174 - National Broadband: Telstra back in

The confirmation of the inevitable – that Telstra and the federal government have struck a deal for Telstra to be part of the distribution network for the planned national broadband <http://www.news.com.au/business/breaking-news/telstra-agrees-to-national-broadband-network-deal/story-e6frkur-1225881922860>, means that we can now take a convenient look back (with the benefit of 20/20 hindsight) at the Rudd Government decision to not select any of the original tenders submitted in the official selection process for a national broadband process – and to take the ‘make’ option in their contrived instant ‘make v buy’ process – as a case study. [See previous blog #29 and previous blogs #109, #112, #48, and #38].

Simply, the idea that tenders are a means to end and not an end in their own right surely prevails? If a tender is not serving its purpose it must be okay for a buyer to scrap it. To change the process, to get the right result. At the end of the day it is common sense. Buyers’ simply need a line in every RFP saying that they do not guarantee to buy any solution in whole or in part, but to do what’s best for them at the time of decision. Including going in-house or abstaining altogether.

Stakeholders are generally much keener on the right end result, than fastidiously sticking to some sanctimonious sense of fair play or uber strict process defined at a project’s outset with imperfect knowledge. And this is just as true for fleeced taxpayers as stakeholders as it is for fat shareholders ....(they are often the same person by the way). Things change all the time, even during tender processes. Buyers have to respond to changes in market forces alone. That is the real world. Tenders have to be flexible. It is common sense.

Whether the national broadband plan itself turns out to be common sense or not remains to be seen. But the smart money is against the idea. As are the Coalition in the forthcoming general election, of course. They may feel the \$43bn saving is worth capturing as the private sector may well be able to provide handsomely without state help, maybe?

The Buyer – posted 2nd August 2010

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## #175 - Election manifestos scant on procurement intentions

With the general election upon us early, The Buyer has been enthusiastically scouring the rival parties election manifesto's for their intentions on matters procurement. Not much it seems, disappointingly.

Coalition leader Tony Abbott has committed to scrapping the National Broadband purchase of course [see blog #174] and has also launched his small business initiative on 28th July with the aim, presumably, of capturing the "SMEs wanting business off government" vote.

<http://www.tonyabbott.com.au/News/tabid/94/articleType/ArticleView/articleId/7523/Real-action-to-support-small-business.aspx> and <http://www.pponline.com.au/html/abbot.cfm>

But it doesn't add up to much – extending unfair contract protections for SMEs (like individuals have), improved access to government contracts (how?), progress reports on SMEs by agencies (more scorecards?) and pay on time stuff (or else).

Procurement can offer much more though, as an instrument of policy as well as a device for improving value for taxpayers' money in its own right. You'd think the federal government would be interested in such potential given the fiscal deficit and the fast growing spending commitments of the candidates.

The Labour Party have said even less publically at present. But they would doubtless point to the contribution of retiring Minister of Finance & Deregulation, Lindsay Tanner [see blog #163] on his 'razor-gang' approach to cutting expenditure, Gershon's IT review, the federal travel tender, appointing John Grant as federal procurement co-ordinator, outlawing frequent flyer miles for public servants [blog #161] and speaking at two CIPSA conferences.

But then they'd doubtless gloss over the 'non-local buy-local' policy [see blog #160], tip-toeing towards the complex legal services category <http://www.alp.org.au/federal-government/news/legal-services-procurement-report>, self certified unbalanced scorecards [see blog #154] and the ongoing triumph of red tape & process over professional judgement [blog #154 again].

For once, the poms had it more right than wrong – their new Coalition government at least saw the potential of procurement to drive value for money .... in their case through increased openness and transparency [see blogs #172 and 158]. An experiment whose boldness deserves some success perhaps; maybe our pollies will be watching too?

The Buyer – posted 2nd August 2010

## #176 - Is Africa the new China?

The recently deposed British Prime Minister, grumpy Gordon Brown, resurfaced in Africa last month making a speech about his sustained dedication to the theme of poverty relief in the developing world, reported the news agency Reuters on 24th July: <http://blogs.reuters.com/africanews/2010/07/24/gordon-brown-resurfaces-in-africa/>

He has in the past outlined the limits of aid as a solution to third world development in favour of trade – a recurring theme expressed also by B4MD [www.b4md.com.au](http://www.b4md.com.au) of which he was a joint patron – as was Kevin Rudd actually. They have both been replaced latterly by someone in a safer job – Mike Moore is the CEO of the WTO [www.wto.org](http://www.wto.org) and the new patron of b4md. Of course, World Vision has peddled a similar theme based on 'trade not aid' as a complimentary organisation to b4md [www.worldvision.com.au](http://www.worldvision.com.au) [see also blog #128].

Gordon pointed to the potential of Africa to meet the needs of business as a new low-cost country sourcing destination. As China has already spotted it seems, given the scale of its investments on the continent and its hosting of African leaders' conferences.

Africa has abundant resources, a hard working [and cheap] labour force which is young, predominantly English-speaking and around 30% of whom now have mobile 'phones. In the end, Gordon wondered aloud if the 21st Century could become "Africa's century", and therefore not Asia's? He has a point. Africa is now only really short of infrastructure investment and reliable and widespread internet access – which will come with the mobile 'phones.

But he did rather gloss over the war, famine and disease ravaged nature of Africa and that it is largely run by despotic, corrupt and incompetent leaders and officials. Still, that's fundamentally the wider point surely – that trade stands a better chance of fixing these problems more than aid can.

Maybe the fair trade commodity initiative can go all the way [see blog #80], and kick-start the idea of Africa as the new LCCS destination for procurement professionals the world over? Africa as the new China?

The demands upon our profession grow by the day; solving Africa's problems eh? Whatever next, solving climate change?

The Buyer – posted 4th August 2010

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## #177 - Green Loans scheme falls to an old buyer's trick

The news reported in The Australian recently that “contract splitting” was widespread in the now abolished Green Loans scheme following cost blow-outs, is hardly surprising to any work-a-day buyer. Splitting one contract into multiple orders to circumvent signing limits or [often arbitrary] tender limits has been ‘worst’ practice for many years – even if it has a certain pragmatic charm.

<http://www.theaustralian.com.au/politics/green-loans-scheme-to-be-replaced-by-green-start-program/story-e6frgczf-1225889424311>

When The Buyer was a lad, he had a parsimonious signing limit – around 20k he recalls. The problem was he often got urgent requisitions from impassioned engineers for more like 50-70k expenditure. Going to the boss or, worse, the boss's boss, to get an order signed was a painful process. They wanted T's crossed and i's dotted. They wanted to know it was the bestest possible deal. They wanted to know why? They wanted to know options. They wanted to second-guess standard practice of the day.

But the real problem was that they just weren't around. You could wait days to get an appointment, then get asked awkward questions, which demanded more work and then days more before a second appointment. Procurement bosses NEVER sign first time. Then you got dogma, not policy or leadership – rarely pragmatism. The Buyer's old GM used to believe in delays to force what he called “the GM's extra -2% off the bottom.” None of which met the operational need on the day, nor built workable relationships with the engineers – or got the job done when it needed doing. Or saved money either, really.

The Buyer's solution? Split the orders = raise three or four orders to add up to the total value. Easy. Except that defeated the whole point of signing limits – which is that the buyer never signs off their own work [see blog #33].

The real answer for fussy hands-on bosses is two-fold;

1. They should set realistic signing limits or tender bars – in order to instil an ‘objective business assessment’ into the process; and not just an arbitrary figure that prevents most day-to-day work getting done on time and undermines professional trust....
2. They should trust the buyer to do a professional job – check the work fastidiously in the first place, or at least AFTER the first order is signed; and do not hold up a vital order to second guess a job that should have been done already through good line management.

It's the procurement professional's job to manage UP and get the bosses to do their job properly too.

The Buyer – posted 9th August 2010

## #178 - The 7 critical success factors for LCCS

The recent CIPSA special Interest Forum [SIF] event on Low Cost Country Sourcing [LCCS] [www.cipsaconferences.com.au](http://www.cipsaconferences.com.au) offered much useful content and practical advice for professional importers to chew over. Vital since, apparently, over 80% of Australian imports now come from LCCS destinations according to analysis of ABS stats by Clive Nielsen - one of the guest speakers on the day.

But the most salient message seemed to The Buyer to be a simple set of hard-earned lessons on what makes LCCS a success – or, more particularly, what things are guaranteed to derail any significant LCCS effort if not core in the management of any important LCCS process.

The Buyer amalgamated this useful list by skulking in the audience and stealing the points made from several of the speakers on the day including Portland Group, the Xerox LCCS team from Singapore, Fosters & Vic Uni, Achilles, Bluescope Steel, China Direct Sourcing and the additional panellists from Pac Brands and China Blueprint:

Thus a clear list of seven critical success factors for any significant LCCS effort;

1. Get senior management commitment up front - [and in writing] and make sure that they are honest with themselves about how badly they want or need a LCCS solution
2. Build real relationships with your new LCC supplier – invest in the relationship itself, take an interest in them and their lives, respect their customs, ways and culture and be patient doing it
3. Be flexible - stuff is going to happen so expect the unexpected. In fact plan for the worst and hope for the best
4. Accordingly, build buffers into your business case – gross savings from LCCS can be between 10-70% ... they often start over 50% but, usually, end up much less
5. Engage local help – don't even think of driving everything yourselves remotely from here
6. Ensure teamwork – on your own side that is between the procurement team, engineers and local help
7. Spread your risk – maybe start with a multiple sourcing strategy, all your eggs in one basket may be too much risk at first?

The Buyer – posted 11th August 2010

## #179 - Top 20 websites demonstrably useful

Gerhard Gschwandtner, a US based sales guru apparently, recently published his personal summary of a discussion group at a Sales Leadership Conference in Las Vegas last April, based around defining the salesperson's view of what makes a successful relationship with a buyer actually work. Their view of SRM if you like.

It is interesting reading – for buyers: Salespeople are taught that organisations do not buy – people do. They often believe building a relationship with a buyer will woo them a sale.

Here then, is Gerard G's list of twelve factors that make such seller-buyer relationships work ..... as defined by the sellers' themselves.....it's what they truly think:

1. *Good salespeople bring positive energy to a relationship. We can choose to be energy givers or energy takers.*
2. *Trust hinges on the willingness to deliver on promises. Once trust is lost, relationships cannot survive.*
3. *A relationship's value depends on the customer's perception of value, not on the salesperson's definition of value.*
4. *To the customer, the top value drivers are integrity, authenticity, and consistency.*
5. *Effective relationship builders are willing to listen to better understand customer challenges. They ask questions that lead to consultative conversations, which open doors to greater opportunities.*
6. *The salesperson's courage to resolve the difficult situations customers face enhances relationships. One speaker called this "the ability to put oneself in harm's way."*
7. *The quality of the relationship with the customer is determined by the quality of the relationship between the sales manager and salesperson. Sales managers exemplify a company's corporate culture.*
8. *Relationships are enhanced by the salesperson's ability to communicate in compelling and creative ways. One sales leader explained how he uses video email prior to a customer visit and follows up with a video email immediately after the call. Video email is six times more effective than standard email.*
9. *Relationships demand a long-term investment. Without it, there is no ROI. One of the speakers shared that "there is no return on ignoring [the customer]."*
10. *There is a difference between a transaction and a relationship. Transactions create one-time value; relationships create long-term value and a stable business foundation.*
11. *Relationships grow through differentiation and the willingness to contribute beyond what is expected. "There is no traffic jam on the extra mile," commented another speaker.*
12. *Good salespeople use smart social-media strategies to enhance customer relationships. They make it their business to stay connected to their customers through Twitter, Facebook, and LinkedIn*

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Sure, it is American, and cheesy. It also includes no little 'apple-pie' and plenty of 'motherhood' statements. But the sentiment and viewpoint is interesting nonetheless.

And, at the end of the day, it's what they think and informing how they act: and what starts in America ....

The Buyer – posted 13th August 2010

## #180 - UK Govt scraps Audit Commission and centralises spend

The news from the UK dated 14th August that the new Coalition government there have scrapped the 27 year old Audit Commission seems odd on the face of it. The work is to be outsourced to private accounting firms in future. The Labour opposition spokesman argues it will not actually be cheaper to go private, as the government seem to intend.

<http://www.bbc.co.uk/news/uk-politics-10973323> Around 2,000 audit staff are set to lose their jobs apparently. Even the Audit Commission chief argues they have fulfilled their goals and should not be abolished. Naturally he would.

With a budget deficit close on GBP£200 billion pounds, the new UK Cameron Government has to be serious about cutting cost [as they indicated in their recent budget - see blogs #172, 158, 145] as well as raising extra revenues through more taxation. So abolishing the body that oversees exactly HOW agencies spend government cash seems bizarre - surely this is the time that such a body should be in greatest demand?

But, perhaps the UK Cameron Government know something we don't? Perhaps they have seen that, like in Australia, many public audits seem to focus on process and probity more than on actual value-for-money results or outcomes for the benefit of taxpayers? [see previous blogs #134 and 69].

There is a counter balance to the Audit Commission announcement though; a few days earlier, 11th August, the Cameron Government established a new body under Minister Frances Maud to drive better government procurement - the Efficiency Reform Group [ERG].

This new group is to be headed from 1st September 2010 by John Collington, who is to move from the UK Home Office after nearly four years there to fulfil this new role as head of procurement in ERG - which has been set up to, "... spearhead a new cross-Government approach to procurement, allowing Government to use its scale to ensure it always gets the best value for money.... which has been set up to mobilise expertise from across Government to drive fundamental reform and improve efficiency across Whitehall," trumpets the press release.

<http://www.supplymanagement.com/news/2010/john-collington-to-head-up-central-government-procurement/>

However, deep in the same release a quotation from UK Minister Maude says much more than the obvious; "... there are some things that Government must mandate centrally. By giving a really big push to the centralisation of its procurement mandate we can make sure we take advantage of Government's buying power to drive down the costs of goods and services."

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Certainly, as part of the Cabinet Office, the ERG seems set to deliver a new, even higher, profile for UK public sector procurement. With a mandate for centralisation too, it seems some stiff expectations [and savings targets] are just as likely.

The Buyer laments that Mr Collington will now be unlikely to have quite as much time to star in any more CIPS videos - like the excellent 'Procurement Transformation' DVD distributed free with the recent issue of Procurement Professional magazine [June 2010] [www.pponline.com.au](http://www.pponline.com.au) of course.

The Buyer – posted 17th August 2010

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## #181 - New Zealand 'buy local' members' bill is naive

The new member's bill presented to the New Zealand parliament by opposition backbench Labour MP Clare Curran last month, calls for local suppliers in NZ to be given preference when bidding for big public procurement contracts, reports Supply Management magazine

<http://www.supplymanagement.com/news/2010/local-supplier-preference-bill-debated-in-new-zealand/?locale=en>

Of course, local firms that stand to benefit from the bill, say they simply want a fair go and can offer better value than overseas suppliers; and local unions just want to create or protect local jobs – but they would both say that wouldn't they?

But most free minds contend that protectionism is a bad thing [see blogs #10 and 65] and that buying and selling for the wrong reasons is a slippery slope indeed [see blog #3]. The Economist newspaper [www.economist.com](http://www.economist.com) warns continually and firmly against the "ugly spectre of protectionism"; even lecturing President Obama to resist the temptation to protect US markets as it scrambles out of recession.

Clare contends 'buy local' can work without breaching international trade obligations. But how, wonders the Buyer? NSW government certainly couldn't find the answer nor convince the federal Australian government of their case [see blog #56 and 40] recently. Moreover, any reciprocity of protectionism by NZ's major trading partners may prove more than a little counter-productive for the country.

At the end of the day, it is hard to meet two such competing objectives with one laden policy – creating jobs at home, and buying the best internationally competitive products and services. Ultimately it is naive to think you won't have to decide on local jobs or world class quality & value in the long run – you can't have both if the market says otherwise. Life rarely lets you have the cake and eat it as well. [See blog # 160].

Kiwi's will have to stick to what they do well, like the rest of us, and import global value & quality for things they don't do so well. Just like the rest of us.

The Buyer – posted 18th August 2010

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## #182 - Which is harder – public or private sector procurement?

Which indeed? Both have the difficulties and both have their strengths. In fact, The Buyer often feels each could learn much from the other.

In the past it has been easy to quip that the public sector is all about process regardless of results; and that the private sector all about results, never mind the process.

But someone who has worked in both sectors recently offered a view in Supply Management magazine

<http://www.supplymanagement.com/news/2010/home-office-steps-to-change/?locale=en> 20 July 2010 that may be a new insight. John Collington FCIPS is Group Commercial Director at the UK Home Office and star of the recent free CIPSA DVD on 'Procurement Transformation' inserted in the recent PP31 issue of Procurement Professional magazine. He used to work at Accenture, before taking the helm at the UK Home Office .... and soon to be new UK cabinet office Efficiency Reform Group (ERG) group supremo [see blog #180].

John offered an idea; that private sector practitioners often seemed to him to be more confident than capable, and public sector officers often seemed more capable than confident.

He might well be on to something there.

The Buyer – posted 23rd August 2010

## #183 - A void in the Australian boardroom

In Australia, there is a severe leadership deficit of supply chain expertise within the leading companies' board rooms, according to some quick research by a friend of The Buyer at leading search firm RUSSELL REYNOLDS [www.russellreynolds.com](http://www.russellreynolds.com), which found that there are no chief procurement officers represented as direct CEO reports among Australia's top listed companies in the ASX200.

Furthermore, examining the work experience of a sample of 1,000 directors and executives that make up the current ASX200 boards, RR found that around only 27 have obvious direct experience working in the areas of supply chain management, professional procurement or logistics. So very few board directors working on ASX200 boards have direct experience in supply chain management.

Those at the coalface of supply chain management understand that the modern supply chain is integral to every aspect of an organisation and yet it is still perceived to be a separate operational function, usually managed at junior levels within most organisations across Australia and New Zealand.

For Australia, a geographically isolated country that has experienced economic hyper-growth over the past decade, supply chain management is absolutely crucial. The importance of accessing commodities quickly and efficiently is one of the lynchpins of the national service-based economy. In addition, to effectively fulfil the nation-building projects that have been set out by the federal government to support a fast-growing population, effective supply chain management is imperative and underpins economic delivery at every level. The projects which are part of the original government economic stimulus plan, which includes major infrastructure initiatives, also demand better recognition of supply chain management and procurement as a discipline given recent confessions over some speedy but clumsy implementations. But there is still a clear lack of understanding of supply chain management and its implications at the board level within corporate Australia.

If supply chain management today is actually the fulfilment of the marketing proposition (from concept to consumption) it is full of complexities, inherent risks and changing demands, all with real cost implications. These business challenges demand a wide range of capabilities from modern supply chain managers and procurement professionals. Such a severe supply chain leadership deficit threatens Australian business competitiveness. Having no specialised supply chain leadership positions in the top ASX200 companies at a board or executive level, combined with an executive level lack of hands-on experience in supply chain management and a real exposure to international supply chain management issues presents a severe handicap for Australian businesses trying to compete effectively in a globalised economic environment.

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Many companies in Australia could benefit from appointing a top-level 'C' grade executive that can manage the risks on the end-to-end supply, addressing both internal and external factors. Particularly, companies that are looking to expand into foreign markets need to clearly understand the nature of the complex supply chains with which they are trading.

Australia relies heavily on its supply chains as a geographically remote service-based economy. It needs robust and well-managed supply chains. The cost of failure and supply chain disruptions is high. Therefore, firms need to proactively manage their supply chain much better for their own sake, and their consumers' sake, as well as the country's sake.

The Buyer – posted 26th August 2010

# #184 - How to negotiate in China

The recent CIPSA Low Cost Country Sourcing [LCCS] event, included several perspectives amongst the contributors on HOW exactly to go about negotiation in China – when no can mean no, or yes, or maybe, or not now.

Amongst the most notable specialists offering help were Lindy Chen from 'China Direct Sourcing' [www.chinadirectsourcing.com.au](http://www.chinadirectsourcing.com.au) and Lisa Goodhand from 'China Blueprint' [www.chinablueprint.com.au](http://www.chinablueprint.com.au) as well as Portland Group and several of the practitioner presenters too. All stressed the importance of respecting the different business culture in China and their different approach to business.

From it all came a great comparison on the Chinese approach to negotiation compared to a typical 'western' mindset approach:

TYPICAL CHINESE APPROACH TO NEG	TYPICAL WESTERN APPROACH TO NEG
1. Preparation	1. Preparation
2. Build the relationship	2. Identify and package
3. Exchange info & present 'first' offer	3. Bargain
4. Persuasion	4. Compromise
5. Concessions	5. Close
6. Agreement	

It isn't so much the descriptors that are important in this table, but the mindset's that are revealed by the stages, terminology and priorities of the respective parties.

These differences cannot be ignored of course, as Lindy made the point that much can be achieved in negotiation – particularly in China, as Chinese businesses often quote three descending levels of price;

1. International price
2. Good International price
3. Local price

It's not just gullible tourists which need to keep that in mind. Caveat emptor.

The Buyer – posted 27th August 2010

## #185 - The three BIG problems with business books

The Buyer has been casting an eye down the recent bestsellers list for business books – several groups publish them including AIM <http://www.aim.com.au/resources/bestbusinessbooks.html> and the Co Op bookshop <http://www.coop-bookshop.com.au/bookshop/home/homepage.html> and many others.

With a vast library of business books collected at airports all over the world over the last 25 years or so, at even vaster cumulative expense, The Buyer is well qualified to pass comment .... an aggregated review of all business books if you like:

There are three common problems with business books in general:

### 1. They are too BIG...

With daily web news & feeds and weekly/monthly media to catch up with just to know what the hell is going on nowadays, never mind all one's work-reading, who has time to read 250+ page theories? Especially because:

### 2. They are only based upon ONE core idea...

Which gets examined and replayed from multiple different angles with many examples and anecdotes [but little research] and includes every possible tangent. All of which could have been done in essay length, not book length – but that wouldn't justify a retail price of \$34.99 [or more].

### 3. They are TEMPORARY...

Most of these business books, with their one big idea, are of their time. Rarely ahead of their time. So their moment of relevance is temporary – even fleeting. Read a year or two later many are clearly passé and were observations for the THEN not the NOW and very rarely the future.

So, many business books have been written by people with the urge, commitment and time to write a book – albeit with some singular insight [not incisiveness by the way]. They also have enough imagination to capture attention with obscure metaphors, you know the sort of thing: “Who moved my strategic purple cow off the see-saw using the 7 highly deadly sins of power networking in a blue ocean on a flat earth in one minute of your first 100 days.”

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Sadly business books seem to be all too rarely written by people with practical advice based upon long and hard-earned experience. They don't have the time.

Of course, there is a way to get the best of both worlds – to skip the expense and storage problems of an airport-inspired business books collection:

Simply browse the books in the bookshop and devour the fly-jacket executive summaries of the one big idea.

Or just read the one-paragraph summaries in the business best seller lists to get the idea ....

Or, call The Buyer old-fashioned, go to the library. Even CIPSA has one of those now – with over 500 procurement specific books in their office in Melbourne  
**[www.cipsa.com.au](http://www.cipsa.com.au)**

The Buyer – posted 30th August 2010

## #186 - Buying without brand strength is the real test

By definition most procurement professionals work for large organisations; and, in the private sector, usually in one of the ASX200 type companies. Often they are big well known brands. Household names.

For a humble vendor in a normal supply company, like a large SME, the prestige alone (never mind the volume potential) of working for such brands, or for a major government department, is enough for them to chase an order like a dog chases a car. They just want the bragging rights of a major brand name on their client list. And they clearly expect it will attract more business.

Within this emotional context, buyers can twist the knife in during negotiations to wring every penny; and watch the seller squirm to try and get the deal. Leveraging the brand for every gram of its worth, immature buyers can deliver savage one-liners to patronise desperate suppliers, “this is brand ZZZ you’re dealing with here, not the corner shop – we need a better deal than that.” Even if they don’t actually say that, it is implied. Big brands intimidate humble suppliers, and the leverage it creates can be put to endless use by a productive professional buyer. There is much anecdotal evidence to show major brands get better deals than true volume from humble customers.

But, long ago, in the pub after work, when congratulating each other for yet another great deal, The Buyer and his indolent colleagues realised the value of their brand. And began to wonder. What if they didn’t buy for a great business brand? What if they bought for a humble and unknown company, even with the same requirements and volumes? Would they get the same deal? How much harder would we have to work for it? Was it our technique getting results – or the power of our brand name? Were we really just over-promoted table thumpers? Were we brand-bullies?

And there lies the challenge for buyers’ working for big brands. Imagine doing it without the brand strength, without the instant leverage it offers. What would you do differently? How much more preparation, professionalism and sheer work would have to be brought to bear?

So, why not do it anyway?

The Buyer – posted 31st August 2010

## #187 - The great hidden cost in all supply chains

The recent e circular from the Australian Institute of Management [AIM] [www.aimvic.com.au](http://www.aimvic.com.au) introducing “5 tips for great PowerPoint presentations” from the relaunched Bloomberg Businessweek magazine recently, and written by John Baldoni, spurred The Buyer into action on the subject of presentations again [see previous blog #171]

[http://www.businessweek.com/managing/content/aug2010/ca2010083\\_314465.htm](http://www.businessweek.com/managing/content/aug2010/ca2010083_314465.htm)

PowerPoint is a powerful tool which, generally speaking, people do not use to anywhere near its capacity. A few slides to make some dot points hardly does justice to such a powerful and dynamic tool – and is using barely 5% of its true capability. At its best, PowerPoint [or similar presentation aids like Keynote maybe] can enhance the communication power of even skilled communicators dramatically.

The AIM nominated expert in the Businessweek article is leadership guru and author John Baldoni [www.johnbaldoni.com](http://www.johnbaldoni.com). His top five tips for a great PowerPoint presentation [abridged by The Buyer] are;

1. Context – always keep the big picture in mind to sharpen the message
2. Segue [he means flow] – make your presentation flow smoothly from slide to slide with clear links
3. Headlines – use slide-headlines to get the key point across; pictures are good too
4. Specifics – balance facts with tempo, avoid too much detail, aim for one key point per slide
5. Delivery – don’t read the slides to the audience, just explain the point behind the headline

The Buyer, of course, added one great tip of his own too – a sixth tip –

6. Abstinence - try not using PowerPoint at all sometimes; it is becoming ubiquitous.

The phrase “death by PowerPoint” wasn’t invented without good reason.

The Buyer – posted 3rd September 2010

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## #188 - The best source of intell on your supplier

... is the company notice board of course.

You can learn more from the notice-board than any press release, annual report, D&B print out, industry gossip, google selection or background briefing from your tame analyst in the office.

From the notice board you can often learn;

- Staff shift changes & leave plans – and therefore incoming work flows
- HR policies – *illustrating corporate culture & style*
- New supplier arrangements – *revealing cost pressures*
- QA targets and rework processes – *describing quality issues*
- Packing & delivery arrangements – *showing customer care*
- Team targets & KPIs – *establishing management ability*
- OH&S processes – *setting company standards*
- Office social functions – *demonstrating firm morale*

.....quite a bit actually, from just a humble notice board.

The only snag is you have to turn up at the supplier's premises to read all about it.

The Buyer – posted 6th September 2010

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## #189 - Why sellers' always want more info during tenders

The news reported in The Age newspaper on 2nd September 2010 that defence contractors seek help and information from the buyer's side during negotiations is hardly really news. It is standard practice for large account sales teams in all industries, and is certainly not unique to the defence industry.

<http://www.theage.com.au/national/defence-bidders-had-inside-help-20100901-14njz.html>

The best ever textbook on corporate account sales techniques - "Strategic Selling" by Miller & Heiman 1973 - explains it all [see previous blog #34]. It encourages salespeople to "cover their bases"; reach the "economic decision maker" and persuade "decision influencers" to lobby in their favour.

But there are always two compelling questions in the end:

1. Where does routine strategic selling stop, and unfair practices start?
2. Why do sellers have to work so hard to determine the seller's true needs and differing requirements?

The answer to the first question is tricky. Engineers and users often reveal more than they should in their normal working day; their heart is in the right place, and if they favour a supply option is most often for the right reasons in their own mind and for the greater good of their team they feel. But, clearly, revealing anything that is commercial confidential is not acceptable. And coaching supplier's to win a bid is not either [...and it goes without saying that the buyer's staff accepting jobs with vendors soon after winning a tender is transparently unacceptable].

<http://www.theage.com.au/national/probes-on-deal-to-fly-troops-20100912-15701.html>

But exchanging information on buyers needs & product features is a normal and useful process, even essential really. So, where is the line? A useful work-a-day test is this:

Do not reveal or say anything to any vendor, that you think other competing vendors might want to hear also.

That's as clear as it gets really .... professional judgement takes care of the rest. At the end of the day, all suppliers deserve a level playing field – especially considering the substantial and real costs of tendering nowadays.

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The second question is easier to answer. Sellers' seek more information on client needs because buyer's rarely offer enough information, obscure key decision criteria and too often send out generic RFP documents with sloppy specs that together raise more questions than they offer answers. Then, to compound this folly, buyer's too often discourage requests for more info, avoid vendor's legitimate questions and refuse dialogue – even negotiations sometimes. No wonder sellers try to nip in the back door so often.

The Buyer – posted 13th September 2010

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## #190 - New CPO at Qantas is good news on three levels

The appointment of the ebullient Kevin McCafferty, currently procurement GM for NSW Railcorp, as the new CPO at Qantas is good news on many levels. Primarily, for Kevin, Mrs McCafferty and their family of course – who are probably looking forward to staff travel benefits

<http://www.pponline.com.au/html/qantascpo.cfm>

But, secondly, Qantas is a business readily exposed to its cost base and new CEO Alan Joyce sensibly seems to have decided that he wants to see that side of the Qantas business tightly managed by an experienced CPO – a move away perhaps from their recent and temporary shared services model and, surely, a good move for the airline.

McCafferty, who starts on 27th September, is a proven procurement manager with MCIPS and many years experience not just at Railcorp since early 2007, but also previously with Accenture and before that back in Scotland with Scottish Energy & the Dept of Education.

At Railcorp he has moved forward their procurement effort from the dark days of the ICAC anti-corruption hearings, union issues and poor procurement processes to a department that has grown threefold, has almost 100% addressable spend under control, has implemented new corporate processes built around an Ariba platform, achieved the CIPS Certification standard and has won an enthusiastic & dedicated supporter in CEO Rob Mason. A procurement track record that is helping Railcorp win back its reputation, and one that doubtless attracted Qantas – also in the transportation business – who are rumoured to be planning a substantial ERP system implementation with a major systems provider.

But, in the past, CEOs generally have often been reluctant to appoint experienced procurement managers into CPO roles – fearing their purism, dedication to process and lack of business wide perspective .... see blog #18. In short, our profession generally is yet to win the CEO's trust.

At this third level then, it is good to see that several recent appointments to senior and high profile CPO roles seem to be correcting that past trend. New CPOs with proven procurement credentials at NBN, Coles and Nab support this. Also the appointment of proven procurement people into virgin spend territories like infrastructure and construction is encouraging. New procurement trained CPOs at Leighton's, Thiess and McConnell Dowell certainly have their hands full.

So, the Qantas appointment seems to be good news for everyone – except Rob Mason at NSW Railcorp of course, who suddenly has a CPO vacancy to fill. A trusting CEO deserves a good one.

The Buyer – posted 14th September 2010

## #191 - The five C's of sustainability

Sustainability and CSR in general has been a tad off the agenda for many – given the GFC and the pathetic failures of the carbon trading bill last November 2009 and COP.15 in December 2009 [see previous blog #102].

But, now we have an Australian federal government again [at least for a little while] maybe the new Labour-Greens alliance will force sustainability and carbon trading in particular back to the fore? Maybe the ASX250 will be dusting off their files ready for a new look at how exactly business must address emissions? Perhaps Procurement should be ready.

Conveniently, BusinessWeek magazine has recently listed the “5 C's of sustainability” to help everyone get back on the green agenda [http://www.businessweek.com/managing/content/aug2010/ca2010089\\_664415.htm](http://www.businessweek.com/managing/content/aug2010/ca2010089_664415.htm)

... as introduced in the e circular by the redoubtable AIM [www.aimvic.com.au](http://www.aimvic.com.au)

In a nutshell, the unlikely named authors of this article – G. Michael Maddock and Raphael Louis Vitori - offer five central themes for success for incorporating sustainability into your business:

1. **COMPETITIVE.** To thrive in the marketplace, brands must innovate, and the best new innovations tend to be sustainable.
2. **CONSUMER FACING.** You want to get the greatest benefit out of your new sustainability initiatives by making them something the consumer will see (on your stationery, packaging materials, website, and the product itself).
3. **CORE.** If your brand sells hamburgers, its sustainability has to be about hamburgers (e.g., organic beef, recycled wrapper).
4. **CONVERSATIONAL.** Sustainability branding is more effective as two-way conversation rather than one-way communication. Honesty and transparency will go a long way with consumers.
5. **CREDIBLE.** Sustainability strengthens brands. But "green-washing" – putting more effort into talking about how "green" an initiative is than into actually being green – damages a company.

These five generic business concepts for success in sustainability can be applied just as readily in a procurement context, as in a consumer marketing context, feels The Buyer.

Certainly if supply chain management is the fulfilment of the marketing proposition – from conception to consumption – then these principles for success cannot be ignored and, ideally, should be fully incorporated into any supply solution. Try and give it a go; and see if it works for you. You might be surprised.

The Buyer – posted 15th September 2010

## #192 - The network we really need is ....

A rail network. A real one. With fast trains. Even big ones – that are very long and carry lots of stuff. We are the only civilised country in the world without one.

Of course, people will tell you we do have trains. But they travel at 30kph, take days to reach other cities, operate on single track lines [so wait in sidings for hours at a time to let others pass] and have different gauge tracks on differently routes meaning non-standard rolling stock. And they generally bypass cities completely or truck right through the middle of them – neither being ideal. A shambles basically.

That is why road transport is so vital in Australia. Why the supply chain industry is consumed with the trivia of micro-managing road transport policy. It matters, if that's the only real way of moving freight around.

Some companies use sea freight though. Container ships moving stock around the continent by sea from port to port around the coast of Australia. Especially the resources sector seem to deploy them. But they are often inefficient and slow. Others use expensive air freight solutions, with road transport to/from the airports. Not sustainable in the long run really.

But that is how we move people around too – in airborne 'cattle-trucks'. The economy class dash to Sydney on one of two core carriers, squashed in 54E between two big hairy blokes and unable to even read a book comfortably or hold a cup of coffee without spilling it – let alone work.

Maybe there is a market for a good, fast ride interstate on trains? With enough room to move around, laptop power, liveTV, dining cars, even beds or cabins? Space and time to work productively. Even have on-board meetings. 260kph trains exist in other countries. Door-to-door travel times could compete with 'planes between most city centres – just like London-Paris trips do. And they should be more reliable. And possibly cheaper: eg; MEL-SYD trips (taxi + plane tickets) can easily cost \$550 per trip and take over four hours or more from home-to-destination.

A dual track train line from Cairns or Rockhampton to Perth or Broome around the coast of Australia – and through Brissy, Sydney, Canberra, Melbourne and Adelaide, could feed the nation. It would give a real freight option and maybe even force airlines to offer better products for people with more room. Finishing the circle between Broome to Cairns across country would offer real freight options from point to point. They did it across America 150 years ago. And the Trans-Siberian rail line was finished by 1913 – Russia is spending US\$11bn today to upgrade the line so freight trains can cover the 9,000km in less than 7 days. Australia is only 4,000km or so across. Tiny really.

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Unfortunately, it would be very expensive to build such a rail network. And very old fashioned thinking – 19th century thinking even. The press bawled with laughter during the election campaign when the ALP desperately mentioned a new fast rail network as a new policy initiative. The idea has been kicked around Australian federal politics for twenty years and got nowhere – just like the “Yes Minister” integrated transport policy. Too expensive.

But, in fact, The Buyer did some very rough sums on the back of a napkin and estimates that it would cost only around \$43billion to build such a network. But no one has that sort of money to spend on a new network do they? Not even a new ‘Labour-Green-Three blokes’ rainbow alliance federal Government. The banks do though; so do the resources sector actually.

Just a thought.

The Buyer – posted 17th September 2010

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## #193 - BREAKING NEWS: Minister has meeting

The news that Ruddy is having a great time in meetings at the UN [it's his favourite thing], is a timely reminder of what good meeting etiquette should look like.

There are clear rules for how to behave in practice at meetings – however formal or informal.

Big companies or small, the rules for good meetings are the same – and they don't vary.

1. Be on time – no excuses
2. Dress appropriately – no excuses
3. Have an agenda or objective – always
4. Set a time limit – always
5. Keep a record of the actions, not the discussion – after every meeting
6. Leave the room tidy when finished – after every meeting
7. Never play the fool – ever
8. Never patronise others in a meeting – ever
9. Ask questions, even dumb ones – it's okay
10. Offer ideas, even dumb ones – it's okay

There yer go – ten golden rules for effective meetings .....

Try also - <http://www.mftrou.com/tips-on-business-meeting-groundrule.html>  
by Lyndsay Swinton

The Buyer – posted 21st September 2010

## #194 - National Broadband: The final word?

The people have spoken [just] and the new 'Labour-Greens-three other blokes' rainbow alliance is now to sustain the federal commitment to the new national broadband network to offer zillion gigabite fibre-optic cables to every kitchen bench top in Australia. The price will be \$43billion plus blow-outs. Fair enough then.

The coalition option was not convincing in the end and the ALP plan won the day by the narrowest of margins; The Buyer thinks Adele Ferguson's article in The Age during the election campaign was the best articulation of the ALP argument ..... <http://www.theage.com.au/business/telco-policies-are-night-and-day-but-just-one-has-a-bright-future-20100810-11y8m.html> Also, some bright spark did recently call the NBN the " ...rail network of the 21st century." And they might be correct.

Which leaves only two real questions to address now for the whole thing;

1. It is truly worth an expensive \$43bn - and might it well cost [much] more in the end?
2. Will other providers in the fast growing technology sector be able to provide something that is better/faster/cheaper by then - meaning the federal Government will have wasted our precious 43 billion bucks?

The first question presents the real challenge for the procurement effort on NBN - bringing it in on time for less than \$43bn. If the profession can do that - it will have served the public well.

The second question demands real supply market intelligence from NBN. Staying in-touch with developing technology sufficiently to be ahead of the curve of technological progress by knowing their market; even using suppliers to drive product development and innovation maybe - quite a challenge.

So, good luck to their procurement team and their able CPO, Alasdair Fuller MCIPS.

Meanwhile, that renowned prosecutor, Mr Malcolm Turnbull, has been appointed the new federal Shadow Minister of Communications and has declared the Opposition's intent to "demolish" ALP policy on the new NBN <http://www.theage.com.au/business/conroy-warns-of-delay-on-nbn-20100915-15cnk.html> citing issues such as, inter alia, senate blockages, use of Telstra infrastructure, cheaper alternative technological solutions and that NBN is a waste of public money and will lead to an asset worth massively less than its price.

Maybe, it isn't over just yet?

The Buyer - posted 24th September 2010

PS: The whole National Broadband soap opera has been covered by your diligent newshound The Buyer in previous blogs 29, 38, 48, 109, 112, 118, 174 - all from the procurement angle .... looks like The Buyer will have to find a new subject to blog about now .... until the first report of a cost blow-out that is.

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## #195 - The hidden killer of corporate reputation

Many buyers are nowadays tuned in to risk in their supply chain. Even the PR risk they carry – right down to vicarious liability for their suppliers' suppliers. High profile examples of poor supplier choice, dodgy sub-contractors and massive reputational damage are salient reminders of a new responsibility for procurement professionals to manage. [See previous blogs # 28, 104, 115, 128, 169, 170 amongst others].

But the BP oil spill has triggered a new thought from Peter Firestein on Businessweek.com on 7th September 2010

**[http://www.businessweek.com/managing/content/sep2010/ca2010092\\_593603.htm](http://www.businessweek.com/managing/content/sep2010/ca2010092_593603.htm)**

He argues that insularity by BP and their failure to recognise the impact they were having on the environment and others around them led to a nonchalance which prompted the capacity for such a man-made disaster.

The Buyer wonders if, added to the denial felt at places like Toyota [see previous blogs 115, 117 and 165], a perfect storm of insularity and, to the outside world, callousness, is a real risk to modern supply chain management?

But risks don't just have to come just in the shape of the largest ever oil spill or the recall of 11 million cars. Simple things can matter in local communities. Being aware of your impact on those around you and taking simple steps to minimise any negative impact can pay real dividends in PR terms. Major resources companies like Rio Tinto and BHP Billiton have led the way for their sector in 'caring' for the local community near mine sites – both domestically and overseas, especially in developing countries.

Consideration for those around you costs little, and can mean a lot. And this is an approach easily adopted by most buyers of goods and services by thinking through inevitable impacts of new supply lines – both domestically and internationally.

Even little things count, for example;

- Considering neighbours around construction sites
- Optimising delivery trucks in set hours to minimise fuss
- Avoiding smelly products or pollution
- Disposing of waste properly
- Inviting neighbours in to discuss new deal implications
- Offering them product samples or discounts
- Using them as extras – for casual labour or offering contracts locally
- Funding community benefits
- Supporting the local school and explaining change to students

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Just because many of these issues might be “the supplier’s problem” doesn’t always absolve the buyer from vicarious responsibility – both onsite and offsite. Using your imagination can go a long way.

It is not just large oil spills and monstrous supply chain failures that kill corporate reputation. Little things count too; especially locally. The hidden killer of corporate reputation is an obvious lack of consideration for neighbours. The BP oil spill just showed us why corporate reputation is important to the value of a brand and therefore its business.

The Buyer – posted 29th September 2010

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## #196 - National Broadband: ... One more thing

A deeply incisive comment on the federal government's national broadband plan in Sydney yesterday from someone who should know - visiting Mexican telecommunications tycoon and the world's richest man, Carlos Slim Helu:

"It's too expensive"

<http://www.theage.com.au/business/too-expensive--slim-slams-broadband-plans-20100929-15x6e.html>

No pressure there then.

The Buyer – posted 30th September 2010

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## #197 - The 7 deadly sins of sales people

A past e circular from Saxton, the motivational speaker bureau, introduced "The 7 Deadly Sins of Sales People" written by Ian Stephens [http://www.saxton.com.au/saxton\\_db\\_data/files/Stephenslan\\_7DeadlySins.pdf](http://www.saxton.com.au/saxton_db_data/files/Stephenslan_7DeadlySins.pdf)

He listed the 7 deadly sins of salespeople as .....

1. Missing rapport building opportunities;
2. Assuming you know what the potential customer wants versus uncovering their key needs, wants or desires;
3. Habitually asking closed questions instead of open ended questions which get the customer talking
4. Talking twice as much as listening, versus listening twice as much as you speak;
5. Talking to all the features of the product instead of spending time on the 3 main features which meet their needs!;
6. Failing to make people feel special and valued; and
7. Over promising, and under-delivering in respect to delivery times (if applicable)

Of course, any experienced professional buyer can usually offer a neat list of their own. So could any experienced sales manager for that matter!

The Buyer feels this list is as good as any really. But, can't resist the temptation to add one extra deadly sin seen much over the last 25 years or so – that is, saying YES before thinking. Not lying so much, as ultra-enthusiasm. Just not thinking through the answer before answering. Almost a case of "the answer is YES, what's the question". Just anything to get the sale. In fact, that might really be item 2 above. Or item 4 too.

The Buyer – posted 15th October 2010

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## #198 - Low cost country sourcing – in the USA this time

With the Aussie dollar reaching parity with the US dollar, people all over the country are doing hasty sums to work out the benefit of pre-paying USA holiday deposits or hunting for last-minute bargain holidays to visit Uncle Sam. In the past, happy buyers have done the same to the UK when the British pound dropped over 30% compared to the long term average [see previous blog #73]. It's hardly any better today [a dollar bought 62p in the UK last week].

Online shoppers are also working search engines overtime to find retail bargains over in the USA – better brands, cheaper prices, a stonking exchange rate and, often, free postage too. Even Channel 9TV show "ACA" ran a special feature recently [29 Sept] to highlight bargains galore – with their fearless journo shopping online from the USA to beat a hapless viewer on a Bridge Road spree to the brand name bargains.

Of course, professional buyers are not immune. They can join the fun too. Low cost sourcing from the U.S.A. [there's a song there somewhere].

Anyway, who'd have thought eh? ....

.... Well, The Buyer actually – as predicted in blog #101 way back in the distant past of 17th January 2010.

The Buyer – posted 16th October 2010

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## #199 - The best thing at the annual CIPSA conference

No, it wasn't the free booze, the shoe shine or even the MC at the PP Awards dinner.

Nor was it the free capability study, the CIPSA coffee cups or even the reputational risk seminar.

It was Nico Reinecke from McKinseys – the guy's a genius. And a bracing wind of common sense too.

Both at the same time. To view the slides and get feel for what you missed, please visit

**[www.pponline.com.au/html/blog\\_listing.cfm?P=BlogReplies&topicId=6842&blogType=6800](http://www.pponline.com.au/html/blog_listing.cfm?P=BlogReplies&topicId=6842&blogType=6800)** for his presentation on "Managing Volatility".

The Buyer – posted 17th October 2010

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## **#200 - The best joke heard at the CIPSA annual conference**

Overheard in JJs bar at Crown, just after the successful PP Awards dinner:

Humble procurement person to TV celebrity:

"I hear you host a TV game show or something, what's it called again?"

TV star, Andrew O'Keefe:

"It's called 'Deal or No Deal' but we're changing its name now – to 'Deal or No Deal or shall we go to tender?'"

The Buyer – posted 18th October 2010

## #201 - Why IT is critical to the development of the procurement discipline

Increasingly, nowadays, it seems that best practice professional procurement process is inextricably linked to using good software.

When The Buyer was a lad, spend analysis was done with a pencil & rubber, a Texas Instruments calculator and reams of computer printouts on what looked like green lined wallpaper.

Today Excel is ubiquitous and proprietary spend analysis software can take data from multiple sources, tidy it, colour it in, delete duplicates, add SIC codes, list spend in every conceivable format and then pop out to fetch the coffee.

Completing essential procurement tasks like spend mapping, opportunity analysis, tender comparisons, TCO computations, project & contract management and, even, scorecard reporting is almost unthinkable nowadays without decent software tools in place. The procurement professional's skill will be more technical and scientific in nature in the long run. Procurement is not exempt from the relentless advance of IT – far from it.

One recent publication – The Hewlett Packard Top 10 Trends in Business Intelligence 2010 – outlines the future to some degree and predicates that IT will be a lever for efficiency and transformation as firms drive out of recessionary thinking to capture new opportunity with greater focus. It predicts a real 3.2% increase in IT investment for 2010 on this basis, with BRIC countries racing to 8-13% increases in IT spend:

**<http://www.focus.com/research/toolkits/finance/top-10-trends-business-intelligence-2010/?tfs=6832>**

Naturally, HP would say that wouldn't they?

But the ten trends in the paper resonate. For business at large, as well as procurement. Uncaptured efficiencies, transformational tools, better governance, data integration, cloud computing, advanced analytics, combined ops systems & data warehouses, using unstructured data, A.I. and social computing are trends all clear enough already to anyone following business automation technology. These trends are also clear enough on the supply side, and extend beyond multiuse ERP systems.

CIPSA is fond of describing three levers to improve procurement capability - people, process and technology. CIPS are well known globally for their people development work and have an underrated process improvement tool in organisational Certification, but they are the first to admit they offer little to support technological advancement beyond research -

**<http://www.cips.org/en-au/Resources/>**

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They leave the space for the large and well resourced technology suppliers and their sporadic business development efforts – just like HP's ten trends paper. But that doesn't mean that such vendor contributions are not valid.

Procurement needs technology to improve data gathering & integrity, analysis, process to drive greater addressable spend, more accountable results, stronger reporting and better business outcomes.

Hopefully the new CIPSA Technology in Procurement special interest forums will illuminate solutions to these conundrums **[www.cipsaconferences.com.au](http://www.cipsaconferences.com.au)**.

Also, like so many other professions, procurement still has much to prove to its doubters – and more credit to win for its contributions. Technology can be instrumental in achieving this and so is critical to the development of the profession because of it.

The Buyer – posted 26th October 2010

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## #202 - Virgin Blue computer woes show the fragility of perfection

Long ago [around 1st May 2008], The Economist coined the phrase “The Fragility of perfection” to describe lean and mean supply chains that had become so efficient, so finely-tuned and so balanced that when one tiny thing went wrong chaos ensued.

Nowadays, they argued, there is too little robustness in the supply chain. In such riskier times, customers would be better served with chumpier supply lines with more buffer stocks and a greater certainty of supply:

[The Buyer touched on the subject once before – see previous blog #136 and the article in The Economist] [http://www.economist.com/business-finance/displaystory.cfm?story\\_id=E1\\_TTNJQVGR](http://www.economist.com/business-finance/displaystory.cfm?story_id=E1_TTNJQVGR)

The meltdown of the Virgin Blue check-in computer in late September [Sunday 26th actually – and for the following few days] created chaos for thousands of hapless travellers. Virgin Blue looked helpless.

A subsequent article in The Age newspaper blamed commercialism – effectively the fragility of the perfect streamlined process they had built – like many other airlines have:

<http://www.theage.com.au/travel/travel-news/the-secret-life-of-airlines-20100929-15xh2.html>

The leaner the commercial process, the greater the cost when it goes wrong.

David Henchcliffe, the urbane CPO at Santos, described at the CIPSA Adelaide conference on 18th May 2010, his vision for how supply chains were no longer linear but had evolved into networks – more like a spiders web. Just like the “bundles” that the Andrew Heasley in The Age describes in his article. Except that David envisaged more team work in network so that when one supplier fell down others would take up the slack ... doubtless Qantas benefited handsomely from the meltdown, though that wouldn't have been the Virgin Blue business continuity plan exactly.

But supply can be interrupted for many reasons. As Craig Lardner pointed out at the 6th annual CIPSA conference on 14th October in Melbourne, the key to managing volatility is to prepare for supply interruption (for whatever reason) and have a back up plan – regardless of the cause.

The Buyer – posted 2nd November 2010

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## #203 - “The Australian” is barking up the wrong tree on federal procurement

Recent articles in “The Australian” newspaper have questioned the federal government’s track record on procurement with a vast array of statistics, largely quoting the recent Australian National Audit Office [ANAO] report. So the fearless newshounds holding the government to account on our behalf? Or a Murdoch newspaper with a political agenda after an unsatisfactory election result? You can decide.

<http://www.theaustralian.com.au/national-affairs/agencies-dodged-tender-process/story-fn59niix-1225933590185>

<http://www.theaustralian.com.au/news/opinion/give-taxpayers-value-for-money/story-e6frg71x-1225933529668>

<http://www.theaustralian.com.au/national-affairs/taxpayer-rip-off-on-contracts-auditor-general/story-fn59niix-1225932580677>

But, on the face of it, the stats present a case of federal government incompetence in dishing out lucrative Canberra contracts – sometimes not a difficult case to prosecute, some would say.

The ‘paper\* also diligently scoured the AusTender database

<https://www.tenders.gov.au/> to collect damning facts n figures to question federal procurement process, such as:

- Only 30% of almost 90,000 federal contracts went to open tender in 2008-09
- 62% of Defence Dept contracts were sourced directly, accounting for 43% of the total spend
- The Tax Office only put 32% of contracts out to tender
- ‘Corporatised’ agencies [SOEs] have a threshold of \$400,000 before they have to use open tenders

Unfortunately for our intrepid newshounds, all this rather misses the point.

Like the typical VIC Auditor General’s report in to local government procurement not long ago [see previous blog #134], they are focusing only on the application of proper process, probity questions and due fulfillment of all required red tape. Everything in fact, except the most important thing – the results actually achieved. How humble citizens are better off in the end through the achievement of better value for taxpayers’ money, improved federal services, less risk in delivery, more choice and, even, more sustainable options being offered.

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That is the point of professional procurement of course. To get better outcomes - better/faster/cheaper goods or services delivered to consumers. Not to run firmer and firmer process until the machine makes the purchase decision. There must be room for professional judgment; especially in a world growing more capricious and more complex. And, even, room for the benefits of a genuinely strategic approach to spend management mapping risks against total costs and delivery terms. There is little that is strategic in a tender processes.

Our erstwhile federal Minister for Finance & Deregulation, Lindsay Tanner (remember him?), made the point at the CIPSA public sector conference in Canberra last May 2010 [see previous blog #154]. He thought the press was fundamentally to blame for this excessive red tape by promoting paranoia about fairness, probity, due diligence and purchasing governance to the point that they inhibited good business judgment in the public sector. Of course, this in turn, drives the creation of yet more red tape, entrenches long winded processes, enforces a status quo in the supplier base and forces delays in output. The minister had a point.

Of course, good governance over procurement is important. Nobody wants an incompetent, corrupt or overly secretive procurement process doling out \$45.5 billion\* of federal expenditure each year. But it is not the be all and end all. The private sector manages to deliver the right results more often, but without such myopia on the process deployed. Where are the results in this analysis? That is what we should be judging, not the process.

Tenders are often at the heart of it. As one senior procurement official at a leading state government said at the same CIPSA public sector conference in May [see blog #156], "tenders should not be the default option...[for public expenditure]". Absolutely right. They are tool to be used in the right circumstances. Other tools can be used far more effectively to get better RESULTS in the other situations. The process selected should be designed to match the desired outcome.

So, it isn't really the process that is at fault at all. "The Australian" is barking up the wrong tree. The real problem is a lack of confidence within these departments' procurement teams. A sanctimonious and questioning public sector culture of scrutiny creates their defensive mindset. This is exacerbated in commonwealth procurement teams by a lack of training and professional development to the accepted international quality professional standards.

A failure to invest in its people and in international standards is costing federal procurement dear, not the process.

The Buyer – posted 5th November 2010

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## #204 - The 9 immutable rules of customer service can help buyers twice

Professional procurement types are keen to label their constituents as 'internal clients' or 'internal customers'. The humble specialists who want the stuff that they buy. Usually urgently, of course.

But such stakeholders often criticise procurement for failing to deliver to a genuine customer standard. If they had a choice, these internal clients, would they truly buy from you - do you think? It is often dangerous to wonder.

The NINE definitive laws of customer service excellence were recently published in "Australia's BEST" magazine – a free bean media magazine with a lofty circulation of free mail-outs financed by ads.

**[www.media.net.au](http://www.media.net.au)**

But, nonetheless, it contains the odd worthy article. These nine laws were written by Charles Marcus, a self-described "success strategist" no less

**[www.cmarcus.com](http://www.cmarcus.com)**

The laws are fairly universal though, and hardly rocket-science:

1. Be in business for your customers first, you second
2. Exceed their expectations, not yours
3. Show one face to the customer by being consistent
4. Build good relationships, it is good business
5. Be a great listener – to meet their true needs
6. Respect and appreciate your customer, and their business
7. Understand your target market, not all customers' needs
8. Prioritise complaint handling, put them right to build loyalty
9. Create a culture of excellence in your team

All sound rules of good customer service – and fairly easy to apply to the service that procurement professionals 'sell' to their clients; internal or not.

Surprisingly maybe, these rules also work well with suppliers actually. As a sound basis for good SRM. It pays back too, you know, as CPO Agenda **<http://www.cpoagenda.com/current-issue/features/when-do-we-get-to-srm/>** magazine has addressed lately in their respective recent issues: The business benefits and RoI on SRM.

The Buyer – posted 8th November 2010

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## #205 - How procurement can help the banks avoid raising interest rates beyond RBA rates

Last week's surprise interest rate hike of 25 basis points [www.rba.gov.au](http://www.rba.gov.au) and the indecently hasty CBA follow-up of a 45 basis points rise following a record profits announcement in the \$billions, <http://www.theage.com.au/business/im-where-the-buck-stops-cba-chief-defends-rate-rise-20101105-17h11.html> highlighted the banks-are-too-rich debate again. Led, naturally, by the hapless Coalition shadow Treasurer Joe Hockey with his forlorn 9 point plan to regulate banks, and by the real Treasurer – the impotent Swanny.

The banks, meanwhile, argue that rising costs force them to raise rates higher than RBA raises... and rort the protesting and over-leveraged middle classes. All four banks seem to operate pretty much in unison – almost like a cartel would. So bank bashing is all the rage again – internationally Australia has been underrated at this sport it seems.

But procurement could play a real role in helping the big four banks avoid having to raise rates beyond RBA, erm, "guidelines". Banks make lots of money, as everyone knows; but they also spend a great deal of money, and it often seems no one cares. Procurement within the four major clearing banks in Australia often seems low-profile, compared to their spend. CPOs are too junior in the banks.

Perhaps that is because there are so few direct supply lines. ATM machines are about as strategic as it gets on the banks' supply side. IT is felt important – but in a data security & continuity of service sort of way, (...and why the banks often separate the IT category out – to be run by the IT department directly – with indirect lines managed under a varying form of corporate services function usually).

All of which makes it difficult for procurement to be 'strategic' in any sense really. Doubly difficult, given the low sensitivity of most supply lines. Just saving money hardly impresses anyone in bank – they have so much of it anyway.

So, what to do?

Simple – go back to goal alignment. Argue that procurement can be strategic by creating competitive advantage. Saving money adds to the bottom-line, reducing pressure on the need to create top-line revenue increments to fuel bottom-line growth. Which, in turn, could help a bank to NOT have to raise interest rates beyond RBA movements in the first place. There – cost can be a strategy after all.

Time for procurement in the banks to make their case perhaps?

The Buyer – posted 15th November 2010

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## #206 - Why Procurement should invest in talent

Investing in talented people is the best investment procurement can make, according to the supply chain sage of McKinsey & Co, Dr Nicolas Reinecke, who was holding court at the 6th annual CIPSA conference in Melbourne recently whilst on his very brief visit from his Hamburg consulting base and his part-time role as professor of procurement & supply chain at Wharton Business School in Philadelphia [see blog #199].

He was referring back to his recent work with co-authors, Peter Spiller and Drew Ungerman, on the 'Talent Driven Organisation' which was published on the McKinsey extranet in March 2010 and is attached/click here. They have researched in detail the true value of hiring talented people into the procurement profession versus ordinary workers. And concluded that the investment pays back handsomely.

Procurement can too often be viewed by CEOs and the like as largely process driven activity with marginal returns. And procurement professionals as mere process-jockey's. Reinecke's research proves otherwise.

The hard data from this profound study says that an investment in hiring talented people will pay back TWICE as much as investing in the right process or the right organisation structure – often incorrectly viewed by new managers as the holy grail. But it adds that investing in talent is FOUR times more rewarding than investing in goal alignment!

"Surely some mistake?" bellowed a nearby CPO when this point was revealed to an audience of followers at the CIPSA annual assembly. No. No mistake. The data was unequivocal asserted Dr Nico. Very clear.

"Why then?" begged the abashed CPO.

"Because you never get there," said Nico. "CPOs very rarely get to the point where enough of the basics have been done, enough saving & efficiency captured for you to have the resources and the time to focus on the higher strategic goals of your organisation."

A sobering thought folks. Perhaps we have some knitting to stick to – for a while at least. Especially when climbing out of difficult times with cost back on the corporate agenda. We have to win simple credibility first, before being allowed to get strategic with major stakeholders.

The Buyer – posted 17th November 2010

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## #207 - Rare praise for Procurement – from the Sales side

More good news from the CIPSA annual conference. Professional sales coach, Sue Barrett, is press-ganged annually by CIPSA to present a sales manager's viewpoint on the theme of the day. On this occasion – understanding your suppliers' sales techniques. Her recent blog describing her perceptions of the event and its attendees makes interesting reading:

**<http://www.smartcompany.com.au/sell-like-a-woman/20101101-price-is-what-you-pay-value-is-what-you-get.html>**

She cites her impressions of the audience at the event and describes them, shockingly, as not just interested in price reduction but total cost management, risk reduction and, wonder of wonders – VALUE. She presents her views with enthusiasm, passion and even a certain incredulity. Almost as if sales people everywhere wouldn't believe her. Can't imagine why?

It would be nice to hear of more instances of praise for procurement professionals from the other side of the negotiating table. The Buyer wonders why they are so rare exactly? Answers welcome below .....

The Buyer – posted 22nd November 2010

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## #208 - An all-new reason for the public sector to buy local?

Whilst visiting the 6th annual CIPSA conference, oh so briefly in October, Dr Nico Reinecke – the McKinsey & Co. global lead on procurement & supply chain work, [see blogs #199 and #206] volunteered a new theory on public expenditure. A radical one, perhaps.

It concerned the base criteria upon which sourcing decisions are finalised. The idea is so old-fashioned it is new. And it stole the breath from one hapless public sector CPO enraptured with Reinecke thinking. “He made me view things entirely differently in just a few minutes,” complained our bewildered CPO.

Simply, claimed Nico, the job is public expenditure is to maximise value for their public. Sourcing overseas limits that value to the mere value purchased and imported. A dollar spent overseas is thus lost to Australia; it might realise just 80c in value to the purchaser without margins or, even, much less. However, a dollar spent locally might realise more value if invested in a local supply chain. With a multiplier effect from this humble dollar if ploughed into the local economy. Such a local dollar might even realise \$1.40 in value locally maybe.

The multiplier effect is most often seen in basic economic textbooks of course. Or in Victorian Government business cases. They quote, funnily, a multiplier of 1.4 on the money expended on the Grand Prix in Victoria as the ‘payback’ on the incentives paid to get the race to chose Melbourne over Adelaide or, now, Sydney or the Gold Coast. Or to get Tiger Woods to play three rounds of golf at the Victoria Golf Club last week.

But doesn’t this all just sound like the old “Buy Local” policy. Like the NSW Government policy espoused against federal government policy at the 4th CIPSA Public Sector Procurement Forum way back in May 2009? [see previous blogs #181, 160, 65, 56, 40, 10, 3 and a few others]

And, really, isn’t ‘buy local’ just nasty protectionism in disguise? [see same strand of blogs].

Well, maybe, thinks The Buyer – but then not necessarily if you have, say, a whole industry to buy – like the NBN do. In that case sourcing locally could make just make strategic common sense; and never mind protectionism. If you have \$43b to spend, or even just \$8bn on fibre optics, you can buy a new industry locally rather than overseas. And achieve a local multiplier of 1.4 – or more. And build local strategic economic capability and, hopefully, even competitiveness.

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Of course, Defence have been doing this for years really. Acquisition strategy has often sourced locally for reasons other than commercial merit. Most obviously, buying stuff locally so we don't have to rely on an enemy to supply us. Or for other reasons like creating jobs or securing marginal constituencies. Or, even, sourcing overseas to buy when defence compatibility is needed, or the cheapest or best quality needs to be sourced. [See previous blog #111].

Interestingly, rumour has it that the strategic defence review demands another 12 submarines for Australia. And that the Department of Defence is leaning towards the "in-house" option again and is likely to source locally, like the Collins class submarines a few years ago. Despite Australia's lack of credentials and history in submarine building. There must be other reasons to source locally then? Such as creating jobs in marginal constituencies maybe?

The Buyer – posted 24th November 2010

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## #209 - Chevron take procurement above the line

It is not often that you see a major company [or any company for that matter] using their procurement credentials to sell their brand. But the recent “Human Energy” ad campaign from global oil titan Chevron features a range of their senior executives publicly signing off on their Corporate Social Responsibility [CSR] policies [www.chevron.com](http://www.chevron.com)

The campaign also featured in recent issues of *The Economist*, [www.economist.com](http://www.economist.com), amongst other places (including BBC WORLD TV). A particular issue of *The Economist* newspaper dated 30th October 2010 featured no less than four sequential pages of expensive full page full colour off the page advertisements [FPFC in the marketing lingo]. Each ad proclaimed a key Chevron CSR policy assertion in self-flagellating terms such as;  
*‘Oil Companies need to get real’*  
*‘Oil Companies should support the communities they’re a part of’*  
*‘Big Oil Should support Small Business’*

There on the penultimate advertisement page of this particular issue was a FPFC ad with one key claim: *“Chevron need to look after small business suppliers”*. The advert was bearing the signature of one Leo Lonergan, Chief Procurement Officer at Chevron.  
What splendid recognition for procurement and its role in major organisations.

Doubtless SME suppliers throughout WA will now be forming an orderly queue in Perth at the desk of local Chevron CPO, Piers Robinson, hoping for their share of the billions of dollars in the oil company’s corporate war chest to bring the new Gorgon LNG field on stream in the next year or two. Considering the Gorgon Project alone is expected to run for around 40 years, this early ad campaign makes a lot of sense.

The Buyer – posted 26th November 2010

## #210 - Cost can be a strategy

You cannot 'cost cut your way to greatness' goes a saying in the business leadership world. It works in year one, maybe longer, but in the end you have to do more than cut cost to succeed.

So, the refrain "cost isn't a strategy" is often used to drown out boastful buyers. But is it correct? Can COST be a business strategy after all?

Why not ask K.Mart or Aldi? Or Virgin Blue or Tiger Airways? Even enquire at your local \$2 shop? They all think cost can be a strategy. They sell on a low price basis. And, therefore, need lo-cost strategies to drive their lo-price market proposition.

The management guru, Michael Porter, banged on about cost leadership strategy rather interestingly, initially by stating the obvious – that firms competing on low price must seek to reduce cost. But he went on to describe three direct and indirect ways to achieve this cost leadership – in operating unit terms;

1. High asset turnover
2. Low operating costs
3. Low supply costs through procurement

[http://en.wikipedia.org/wiki/Porter\\_generic\\_strategies](http://en.wikipedia.org/wiki/Porter_generic_strategies)

Of course, others can market high-cost offerings to differentiate – think of ad campaigns you have seen with taglines like ... "things those rich people don't want you to know." Or marketing campaigns that promote 'luxury' positioned products like Stella Artois lager which is "reassuringly expensive".

Not that price and value are always related. Nor are cost and price as closely related as people might expect. There are two principal ways to price a product, says The Buyer's marketing textbook –

1. Pricing at cost plus OR
2. Pricing at what the market will bear.

One sector testing what the market will bear is, of course, the banks. What we all really need, therefore, is for the banks with all their money to still recognise that cost can be a strategy – one that can create competitive advantage [see previous blog #205]. And then maybe they won't have to keep hiking up interest rates by more than the RBA cash rate? [www.rba.gov.au](http://www.rba.gov.au)

The Buyer – posted 29th November 2010

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## #211 - Shared Services not an ideal home for Procurement

As a general rule of thumb, roughly one third of procurement teams seem to report through a shared services model. A further third through Finance to the CFO, a final third through the line – whether it be a business unit, brand, subsidiary, SBU, engineering dept, operations or just through to the CEO.

There are pros and cons for each option of course. The important thing is that the solution chosen is just the right one for your organisation – at that point in time. Needs change and need grow.

But being one of the humble “Shared Services” rarely seems to do full justice to the potential of procurement – the fastest growing profession in business, claim CIPSA.

By definition it paints Procurement as a service function, not a strategic one. Often alongside HR, or IT, Property, Security, Travel, even Legal. More “good housekeeper” than strategic enabler then.

Worse, heads of shared services often semi-ignore procurement. One such Executive Director of a shared services team once boasted to The Buyer of spending just “15 minutes a week on procurement.” But he did go on to explain it was the “least of my problems”. Procurement usually holds good process, strong governance and clear controls like firm signing limits. In a nutshell – Procurement is less likely to stuff-up. Certainly compared to HR or IT or the latest politics around the office move. Often high-profile disabling projects within large corporate environments; often surrounded with much corporate emotion and organisational noise too.

So, a back-handed complement for the profession is fine, but hardly helps enable position procurement as strategic, or as an opportunity – far more a problem, just a solved one maybe [see previous blog #147].

But, ultimately, the onus comes back upon the profession itself. It is we that have to ‘sell upwards’ what procurement can do. We have to define our role better, build standards in to it, improve our measures of performance and better define the real Rol investors can expect. So CEOs can invest with confidence in their procurement effort.

Sure, ‘Shared Services’ is not an ideal home for procurement, but if we want to be more than a service, we have to sell up – and that is best done with substance not hubris.

The Buyer – posted 30th November 2010

## #212 - Solving the skills shortage – by importing MCIPS

Rumour has it that the interest of pommie MCIPS's in moving 'down-under' has grown since well known Australian and New Zealand organisations started proactively advertising in the UK for procurement migrants. It is no secret that the UK economy still struggles to climb from recession. The recent announcement of their UK budget cuts and 'austerity measures' included 500,000 civil servants losing their jobs in the near term, suggesting vulnerable buyers are likely to be considering their options. New markets doubtless becoming one increasingly attractive one.

The NZ government reform programme includes local capability improvement as a core goal. That included importing talent, and the move to offer points towards NZ permanent residency visa's to those holding full membership of CIPS [MCIPS] therefore makes perfect sense [see blog #74].

A source tells The Buyer that over 250 applications were received from overseas, and a long list of around 80 tertiary qualified candidates have already been considered for a number of opportunities in the NZ public sector. Sneakily they also advertised in Australia, "reversing the brain drain" chortled one cheerful NZ official.

But they have been beaten to the tape by South Australia WATER, who advertised some months ago in the UK CIPS mag Supply Management [www.supplymanagement.com](http://www.supplymanagement.com) for procurement professions to move to Adelaide [see previous blog #113]. They also are reputed to have had upwards of 300 expressions of interest. With help from their recruitment agency and frequent CIPSA sponsor, Vertical Talent, they now have nine people starting over the coming weeks – six of which apparently hold MCIPS.

A bold plan to source the right talent [see blog #206] thoroughly deserves to succeed thinks The Buyer. Let's hope they settle in Adelaide and the nice life it can offer; they don't deserve boomerang-poms after such a proactive and weighed investment. Importing MCIPS is a sound solution to the skills shortage, if not the only one [see previous blog #126].

The Buyer – posted 13th December 2010

## #213 - Bold predictions & possibilities: One year on...

Way back on 17th January 2010, The Buyer foolishly predicted a series of bold possibilities [see previous blog #101]:

In June 2010, The Buyer diligently reported on encouraging progress at the half-year point [see previous blog #155].

So, just how did we finish up in the end > What was the year-end score?

The ten bold possibilities for 2010, with result reports underneath in italics;

1. The Aussie dollar to hit parity with the US dollar during the year; and 60p against the Pound ..... *the Aussie dollar shot past parity with the \$US Dollar in October 2010 and beyond to a peak of just over 1.01 – likewise with the British Pound which went past 62p around the same time*
2. Oil to exceed \$100 per barrel once again .... *well, up to \$88 was the brief peak so far this year – at the time of writing – so good news really; but they are clearly trending UP again..*
3. GOLD to exceed \$1,500 per ounce .... *over \$1,376 per ounce just, there is still time though; not too late to BUY*
4. Interest rates to reach 5.75% as a base rate by Christmas 2010 ..... *4.75% is the official rate in November after seven rises in a year – but the nasty banks went much further of course: three points further in some cases!*
5. GDP growth exceeds 3%, with inflation a similar figure .... *3.5% forecast for the coming six months rising to 3.75% for growth to end 2011, with inflation over 3% going into next year and expected to ease back to 2.5% quickly*
6. Unemployment stabilises around 6% .... *fortunately never really got up to 6%, now down to 5.6% and falling [we hope] into 2011*
7. USA and China start introducing tariffs .... *not yet, not officially anyway; but China won't devalue the Yuan, which may become an issue?*
8. The ALP to win a general election and secure a majority in both houses – and an ETS scheme ... *well they won ish but are not exactly in the majority by any measure really; but the GREENS balance of power in the senate may just drive along a new carbon scheme quite quickly.*
9. The ASX to surge past 6,000 pts before Christmas .... *not yet – still scrambling around 4,600 sadly – but we can hope*
10. The mighty Saints will win the flag in September ..... *Lost in a Grand Final replay ..... only the third since the War,*

Three out of ten ain't bad – is it? At least that veers towards GOOD news – seven out of ten would have been BAD news for us all.

By the way, the RBA website is a useful source for all buyers.....

**<http://www.rba.gov.au/publications/smp/2010/nov/html/eco-outlook.html>**

The Buyer – posted 14th December 2010

## #214 - The top ten buyer jokes ...

1. What do you get if you play a supply chain country song backwards? *You get your revenue back, you get your margin back, you get your on-time delivery back...*
2. How many supply chain planners does it take to change a light bulb? *None, the light bulbs are late.*
3. What's the difference between big foot and an accurate cost forecast? *Big foot has been sighted.*
4. Why is it better to have a woman as the buyer? *Because a male buyer will pay \$2 for a \$1 item he needs.*
5. Why is it better to have a man as the buyer? *Because a female buyer will pay \$1 for a \$2 item she doesn't need but is on sale.*
6. The easiest way to find that missing inventory - *is to place a new PO.*
7. Demand forecasters are like Slinkies. *Not really good for anything, but you still can't help but smile when you see one tumble down the stairs.*
8. Employer: "For this buyer's job, we need someone who is responsible."  
Applicant: *"I'm the one you want. In my last procurement job, every time there was a problem, they said I was responsible."*
9. What are the two main categories of expenditure? – *major and minor.*
10. There are two theories for getting an accurate forecast. *But neither one works.*

The Buyer is looking forward to the Christmas cracker jokes after reading this ten – surely the profession can do better eh? Post your answers below ...

The Buyer – posted a5th December 2010

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## #215 - What to buy a buyer for Christmas?

A few suggestions to fill your friendly buyer's Christmas stocking this year ....

1. CIPSA merchandise **[www.cipsa.com.au/shopping](http://www.cipsa.com.au/shopping)**
2. A new wallet or a piggy bank [with cash in it of course]
3. The Buyer's Blog: field Guide book – 2009 and 2010 editions available from **[www.pponline.com.au](http://www.pponline.com.au)** \$12.95
4. A calculator that prints out hard sums – like exchange rate variances
5. A ticket to one of the 21 CIPSA Conferences in 2011  
**[www.cipsaconferences.com.au](http://www.cipsaconferences.com.au)**
6. Some \$ US Dollars – whilst the exchange rate is above parity
7. A tame intern from the CIPSA work experience scheme in VIC next Jan-Feb
8. A Mont Blanc pen to sign contracts with **[www.montblanc.com](http://www.montblanc.com)**
9. A CIPSA training course in 2011 **[www.cipsa.com.au](http://www.cipsa.com.au)**
10. The 'Deal or No Deal' board game – perfect to prepare for the next CIPSA annual conference

The Buyer – posted 17th December 2010

**PS: The Buyer will be taking a well earned break over the Christmas holidays and will return to The Buyer's Blog after Australia Day 2011**

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CIPS AUSTRALIA, LEVEL 10, 520 COLLINS STREET, MELBOURNE VICTORIA 3000 AUSTRALIA

TEL 1300 765 142 OR +61 3 9629 6000 FAX 1300 765 143 OR +61 3 9620 5488

EMAIL [info@cipsa.com.au](mailto:info@cipsa.com.au) WEB [www.cipsa.com.au](http://www.cipsa.com.au)