

Could good procurement save millions?

Bernie van Niekerk, editor of SmartProcurement and founder of Procurementtips.com, says many South African companies, simply by managing their procurement correctly, could double their net profits.

Poor procurement policies, strategies and systems are costing both the South African private sector and the government losses amounting to more than R25-billion each year. Add to this corruption and fraud and the losses snowball, just as everyone is trying to survive and emerge intact from the recession.

While this is a global problem, the South African situation is often compounded further by misunderstanding or ignorance concerning broad-based black economic empowerment (B-BBEE) and its requirements relating to preferential procurement.

Finance Minister Pravin Gordhan revealed in Parliament that government pays more than private business for everything it purchases, some estimates indicate as much as 10-30%, despite its size and resources and its potential bargaining power. Gordhan gave the example of a loaf of bread costing government R26 instead of about R7. Of the annual government procurement bill of R100-billion, as much as R10-billion or more is lost or wasted each year.

Van Niekerk says that on average 6% of total procurement spend in South Africa is lost through ineffective practices. Therefore, if the total spend of a large company is R1-billion per annum that would amount to R60-million off the bottom-line per year. If the top 100 companies in South Africa all lost a similar amount, it would amount to a staggering figure.

In addition, in South Africa many fail to grasp all the intricacies of B-BBEE and embrace to correctly the opportunities it presents. This has not been made any easier by legislative confusion, which has now led to new draft preferential procurement regulations being proposed.

According to Treasury chief director Henry Malinga, the regulations are an interim measure until the Preferential Procurement Policy Framework Act has been repealed at the same time that amendments to the Public Finance Management Act have been promulgated. The Act is not aligned with the Broad-Based Black Economic Empowerment Act and the codes of good practice. This, Malinga told a parliamentary committee last month, resulted in confusion and haphazard application of preferential procurement within the government. The detrimental consequences for private suppliers are enormous.

International study factors

Van Niekerk says his company does an update analysis once a year to establish what the latest global trends in world-class procurement and supply chain management are. This year they have singled out a US study called 'Succeeding in a

dynamic world - supply management in the decade ahead,' in which more than 260 companies from North America, Europe, Latin America and Asia Pacific participated in the research.

The research focused on which external factors will have the greatest effect on business over the next ten years; how business models will change as a result of these forces; and how the mission, goals and performance expectations and strategies for supply management will change to support these new business models.

Van Niekerk and his team have adapted the findings of the research to suit African and especially South African conditions, placing them within the context also of black economic empowerment.

The research found that “multitude of external forces that will reshape markets, industries and products” over the next decade that concern supply and procurement managers, including the impact of developing nations such as China and India, forced mergers and consolidations, increasing government legislation and regulation, technology breakthroughs, changing downstream supply chains, the impact of private equity firms and more.

In response, companies will shift and change their business models and strategies and the need for rapid innovation will increase. There will be a need to more aggressively manage supply issues such as liability, continuity, reputational and intellectual property risks, supply chain disruption and other issues against a backdrop of raised expectations of performance and a new focus on cost-saving.

SmartProcurement will be hosting the third annual SmartSourcing procurement and supply chain management conference in November. For more details, see <https://www.bizcommunity.com/Article/196/186/40626.html> or www.smartprocurement.co.za.

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