

# The Value of Strategic Purchasing to SME's within the Health Technology Industry

By Lee Robinson MCIPS  
**Purchasing** Consultant  
**Lime** Associates

Updated March 2013

"Lime Associates helped me to achieve a 30% price reduction on the first day of engagement."

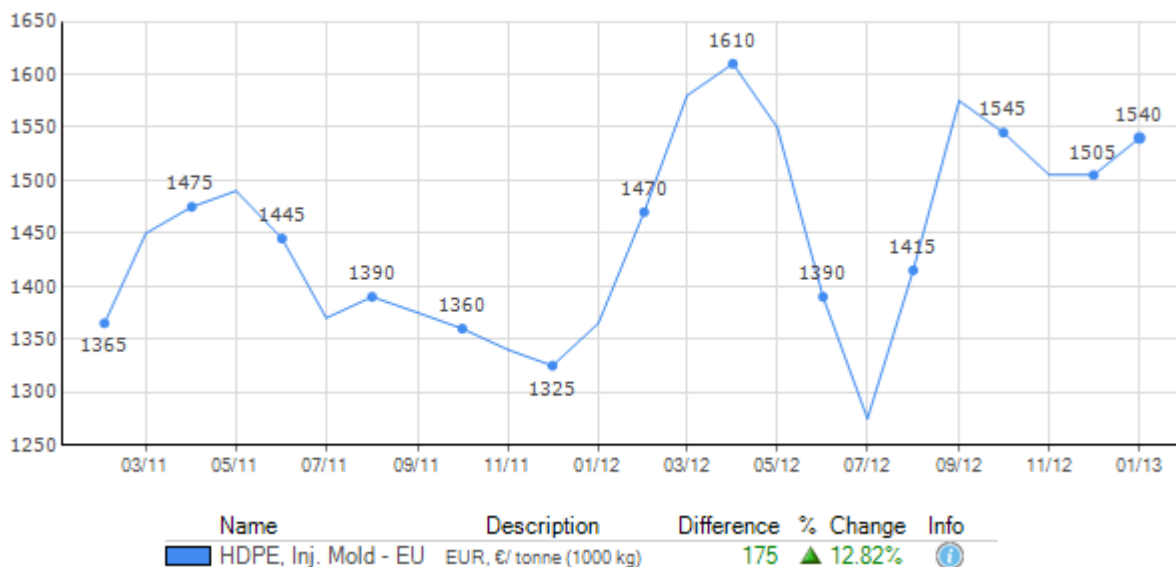
**Paul Currah**

Strategic Purchasing Manager, Owen Mumford, UK

Although the original version of this report was researched and written in 2010 and some of the people interviewed may have moved on, the principles of strategic purchasing remain the same.

The Health Technology industry is a heavily regulated, heavily burdened industry and this tends to put costs up. Large companies tend to a) accept this additional cost and b) afford to 'invest' in Strategic Purchasing (category management, low cost sourcing, Supply chain restructuring, Supplier Relationship Management (SRM) etc). This leaves a large gap for SME's where due to increasing pressure from low cost imports, and rising commodity prices they have a need to drive cost out of their businesses.

### An illustration of a key commodity item tracked over a two year period



Source: [www.propurchaser.com](http://www.propurchaser.com)

So what is 'Strategic Purchasing'? Text books will tell you something like:

*"Long-range plans for ensuring timely supply of goods and/or services that are critical to a firm's ability to meet its core business objectives."*<sup>1</sup>

But what does this really mean in practice? Yes, Strategic Purchasing *is* about the long-run. It's about planning for the future and having systems & processes set up to manage your future needs, but it's also about driving value. Not only driving *future* value, but also about driving value for *today*.

The question is 'how' do we do this? Our experience shows that most SME's within the industry are adopting a purely tactical approach but are not looking at the more strategic activities where true

<sup>1</sup> <http://www.businessdictionary.com/definition/strategic-procurement.html>

"Lime Associates helped me to achieve a 30% price reduction on the first day of engagement."

**Paul Currah**

Strategic Purchasing Manager, Owen Mumford, UK

value can be gained. This article intends to establish why Health Technology SME's are not adopting global best practice in Purchasing, or if the tools and techniques are simply not applicable.

I spent some time interviewing Health Technology companies around the UK and Europe and have established one thing that's common amongst all of the larger players. They invest. They invest in the right people, they invest in the right processes and they invest in their suppliers; I know that this sounds strange but they really do! Take Systagenix for example. Systagenix used to be owned by Johnson & Johnson until 2008 but are now an independent company. Against J&J of course they are a comparatively small company, but against the likes of Crest Medical (for example) they are giants. Systagenix has the benefit of having been part of a large company previously and so bring the 'thinking' of a large company with them. With a strategic spend profile of £30m they have five strategic buyers (or Purchasing Leads) focused on driving value for their Cost Improvement Programme (CIP). Compare this against Owen Mumford, a UK based Medical Device manufacturer and they have a similar spend and only one strategic buyer.

**Having a well-defined Supplier  
Relationship Management  
process is fundamental to success**

In 2010 spoke with Mark Kirkup, VP Operations and Carol Brewster, Purchasing Lead at Systagenix and they have a strong belief that due to the complexities of the industry (which we all know too well), having a well defined Supplier Relationship Management process is fundamental to success. Not only does it drive win-win cost down, but it also steadies supply, reduces risk and can drive innovation through New Product Development. Mark's advice to Health Technology SME's is "If you do nothing else, split out tactical and strategic, identify your key strategic partners and place your focus on them." This is the way to drive true value.

But splitting your time between tactical and strategic is easier said than done when you're a one-person Purchasing show. What about all the daily Purchase Orders? What about chasing that late order in? What about battling price increases? Using the old pareto adage, it's most likely that 80% of your spend is with 20% of your suppliers so let's focus on them. Challenge everything. Do you really need to raise a PO every day for your gauze requirements? Do you really need to 'negotiate' pricing every time you buy fibres? Imagine a world where you have Long Term Agreements in place, you have Service Level Agreements with key suppliers and you're tracking their metrics through KPI monitoring. Isn't this a more productive use of your time?

Aspen Medical Europe, who are based in Redditch UK, is an example of a 'small' team that tries to make excellent use of strategic purchasing tools. Mike Narey, Strategic Purchasing Manager, is responsible for the procurement strategy within the company. He acknowledges that previously the company was part of a much larger business (Unomedical) and enjoyed all the trappings of a large purchase spend, with a centralised Group Procurement department and good leverage opportunities. With the advent of divestment, Mike now looks after a much smaller purchasing spend. This has diluted some of the effects he once enjoyed with a Group Purchasing function. One remaining major factor is that Mike is able to use 6 Sigma improvements with his key suppliers by utilising the Black Belts which Aspen have available to them. "We can only wring so much water out of the blanket" when looking for cost reductions from suppliers, so Lean is a good tool which can be used with key suppliers to identify where cost can be taken out.

"Lime Associates helped me to achieve a 30% price reduction on the first day of engagement."

**Paul Currah**

Strategic Purchasing Manager, Owen Mumford, UK

Mike states that he tries to use most if not all of the strategies available to him, but a lot depends on the overall relationship with the supplier that matters. The focus on SRM is not as in depth compared to other larger Health Technology companies where there is more resource available, but a focus is maintained on key suppliers and critical products are identified and regularly reviewed. On the less strategic suppliers a management by exception approach is adopted due to constraints on resource. But as a company, Aspen is constantly looking for opportunities which will help with cost down projects. Aspen Medical Europe is unable to implement Category Management in the true sense as its range of products and the raw materials purchased are very dissimilar from one division to another. So a hybrid version of Category Management has been found to be the best solution. Where there are common themes between the Aspen business units, these will be grouped together.

However the standardisation of any product specifications can prove difficult due to the different sterilization methods (ETO/Gamma) and any possible regulatory issues or even the customer's specific requirements. The cost of change versus savings has to be carefully calculated beforehand. This is why it is key that procurement is involved at an early stage of New Product Development (NPD) or Existing Product Development (EPD).

As a business Aspen are frequently looking at lower cost solutions due to measurements on COGS (Cost of Goods Sold) including the effects of any currency fluctuation. As part of this solution they are actively sourcing some key raw materials from outside the EU.

To draw a comparison, Paul Currah Strategic Purchasing Manager of Owen Mumford has to 'build' the strategic purchasing function from grass roots, despite having a much larger spend. One of Paul's initiatives is to drive cost improvements through SRM or Supplier Development with a few key suppliers. Paul explained that to call it SRM here may be the wrong expression. It might be better to call it 'Supplier Development' as there is a desire to drive and improve quality and service whilst reducing cost at the same time. Because he is constrained by regulatory filings, changing suppliers is not impossible

**“There is a desire to drive and improve quality and service whilst reducing cost at the same time”**

**Paul Currah**

but can be difficult and time consuming. The overall cost of revalidation becomes expensive, so there is a trade off in cost i.e. the cost of developing the current supplier to perform better may be lower than the cost of changing to somebody else and the associated revalidation. The Supplier Development process (SRM) is largely controlled by Paul but affects all areas of his business that come into contact with his key Suppliers. Paul states that “within the Medical and Pharmaceutical industry Supplier Development (or SRM) is very important due primarily to the costs of change and revalidation, but more specifically to improve the costs of quality”.

Mark Thompson, Supply & Operations Manager for Antiseptics at Mölnlycke Healthcare, believe its biggest opportunity lies in “getting a much better, critical understanding of [its] supply base”. With a turnover of €858m, Mölnlycke's Surgical procurement function operates within three separate business units; Antiseptics, Operating Room Efficiency and Gloves. In addition to this, they have an internal department called NoMed (abbreviated from 'Non-Medical') where many of the indirect

**“Lime Associates helped me to achieve a 30% price reduction on the first day of engagement.”**

**Paul Currah**

Strategic Purchasing Manager, Owen Mumford, UK

categories are managed from a group perspective. Mark has worked on a number of strategic projects and again reiterates the importance of working closely with your suppliers (SRM) “whilst the role of SRM doesn’t formally exist today, the people that interface with key suppliers are moving more and more toward that type of role. Do I see within the coming years people with the specific role of Supplier Relationship Manager? I would say yes.” Mark regularly undertakes strategic meetings with key Contract Manufacturers to discuss improvement programmes, looking at driving cost down. Marks top tips for Health Technology SME’s? “Cut out the bureaucracy, prioritise your opportunities and have a structured process, just don’t tie yourself up in it!”

Crest Medical’s Purchasing function is headed by Chris Scott, Business Development Manager. With a 2010 spend of £6m, Crest had 3 people focused on Purchasing and regularly source from low cost countries such as China. Although there are significant benefits from buying from China, Chris tells of the downside too. Regularly Chris has

been at international trade fairs and found Crest designs copied and being marketed by low cost competitors. Chris’ advice to anyone going low cost is to “try to invest in manufacturing or establish a joint venture to protect your IP”. Crest has to innovate to stay ahead of the market, regularly launching new products and new designs and as such boast of an example where a new supplier has been approved in only 10 weeks. We all know of examples where vendor approval has taken 18 months or longer, so how does Crest do it? Chris recommends that larger Health Technology companies cut the bureaucracy of stage gate methodology, large decision making boards and internal inefficiencies and drive the speed of change; this is where being a smaller company gains competitive advantage.

Crest has a good understanding of Category Management, but it is not adopted as a strategic tool. In Chris’ words, it’s more “Category Management by accident” than anything else. He states that “different suppliers have different competencies, so if you’re driven by price you tend to find that different products end up being categorised together.”

So, as Health Technology SME’s, what can we learn from the Medical giants? Here are my 5 top tips to better buying:

- 1) Create a division between Strategic and Tactical Purchasing
- 2) Conduct a strategic analysis to identify ways of working
- 3) Make SRM part of everyday activities
- 4) Link SRM to Process Improvement to drive cost benefits
- 5) Make being small work for you. Be agile and be fast.

“Cut the bureaucracy, large decision making boards and internal inefficiencies and drive the speed of change”

Chris Scott

“Lime Associates helped me to achieve a 30% price reduction on the first day of engagement.”

**Paul Currah**

Strategic Purchasing Manager, Owen Mumford, UK

I cannot emphasise strongly enough the need to create a division between strategic and tactical. You *have* to find a way to move outside of your day job and really focus on driving improvements; not simply maintaining the status quo. A really effective way to do this is to conduct a strategic analysis of your supply base or products. You can either do this yourself or bring in experts to help. This will really help you to focus on where true value can be added within your purchasing function. Try populating a strategy matrix (Left is Lime Associates' own version) to drill down into those areas you should be adopting SRM or those suppliers where you need to tactically reduce the cost of conducting business.

What's interesting is that, whilst not all Health Technology companies adopt a formalised approach to Strategic Purchasing, they do at least have an understanding of the principles and aim to adopt techniques where they feel appropriate. Certainly where there is not the ability (due to varying constrictions) there is definitely the desire. Intriguingly, there appears to be a general lack of framework for strategic analysis identifying those areas to implement SRM, or Low Cost Sourcing for example. This undoubtedly enables companies to make most efficient use of their resources; time, people, money and really helps to drill down to where you're most likely to get the 'biggest bang for your buck'.

Author: Lee Robinson MCIPS BA (Hons) PGC PGD SCM



Lee Robinson, Purchasing Consultant, Lime Associates

Lime Associates is a fast growing Purchasing and Supply Chain consultancy adding value to some of the biggest names in the Medical industry.

Having worked for Rolls-Royce, JCB and Smith & Nephew Wound Management, Lee is a seasoned Purchasing Professional. With Post-Graduate Qualifications in Supply Chain Management as well as being a full member of the Chartered Institute of Purchasing and Supply Lee has chosen to focus, for much of his career, on Supplier Relationship Management. Lee is an expert within his field and advocates linking Lean/Process Improvement with Supplier Relationship Management to drive real performance improvements.

"Lime Associates helped me to achieve a 30% price reduction on the first day of engagement."

**Paul Currah**

Strategic Purchasing Manager, Owen Mumford, UK

Lee welcomes any comments, feedback or questions and can be contacted using the details below:

Mobile: +44 (0)7887 855447

Email: [lee.robinson@lime-associates.com](mailto:lee.robinson@lime-associates.com)

Web: [www.lime-associates.com](http://www.lime-associates.com)

*"Lime Associates helped me to achieve a 30% price reduction on the first day of engagement."*

**Paul Currah**

Strategic Purchasing Manager, Owen Mumford, UK