Procurement Notes

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Value-Oriented Procurement: Impairment Test in Procurement Processes

Building impairment test logic into purchasing decisions to prevent value losses and align Finance, Operations and Supply Chain on shared metrics.

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> *"The relevant question is not simply what shall we do tomorrow, but rather what shall we do today in order to get ready for tomorrow."*
>
> PETER DRUCKER (1909–2005)

In modern procurement, spending decisions directly impact the recoverable value of assets and the risk of impairment. Integrating impairment test logic into the purchasing process, starting from the supplier selection phase and business case, enables the prevention of value losses, directs capex/opex toward more resilient solutions in the medium and long term, and aligns Finance, Operations and Supply Chain on choices with common metrics and KPIs.

Procurement today

The corporate purchasing sector is currently undergoing a phase of profound transformation. On one hand, consolidated methodologies persist, developed over decades to obtain the best economic and contractual conditions; on the other, the need emerges strongly to completely redefine the strategic role of the purchasing function, moving beyond the purely operational logic based on requests for quotations, negotiations, and order management. Porter had already intuited this evolution when he stated that "competitive success arises from the ability to generate value superior to the costs sustained to create it."

This revolution, fueled by technological innovation as much as by organizational changes, requires a complete reconception of procurement itself. At the center of this renewal lies the systematic incorporation of impairment evaluation logic within purchasing decision-making processes. This necessarily implies the development of operational synergies between the different functional areas of the organization, with particular attention to constant dialogue between administration and finance on one hand and purchasing management on the other.

This transformation goes well beyond simple modification of operational procedures: it rather represents a profound cultural change that redefines corporate purchasing from a mere cost center to a strategic guardian of corporate assets in the medium-long term. The approach oriented toward value preservation rests on a fundamental principle: every procurement choice requires an evaluation that considers not only the immediate economic aspect, but also the repercussions on the recovery capacity of the value of corporate investments over time.

The evolution of procurement: best price, total cost of ownership, value defense

To fully understand the scope of this evolution toward procurement focused on value protection, we must first examine the characteristics of the traditional approach that has characterized the sector over the past thirty years. The predominant model has always concentrated on rather linear objectives: obtaining the lowest possible prices while maintaining acceptable quality standards, negotiating the most advantageous payment terms following the logic of "buying well and paying late."

The roots of this approach lie in the Taylorist philosophy of industrial efficiency: organizing processes to minimize operational costs. Following this logic, purchasing management has been structured predominantly as an auxiliary function, dedicating its energies to finding the most convenient price and systematically standardizing products and services. The objective was to consolidate spending volumes to strengthen contractual power with suppliers.

This approach has shaped a corporate mentality in which effectiveness was measured exclusively through savings achieved: discount on official price lists, containment of expenses compared to the previous budget year, targets established in advance by management. Van Weele effectively synthesized this perspective by observing how "the traditional approach to purchasing rested on the conviction that corporate value derived primarily from the containment of procurement expenses."

The advent of total cost of ownership

The introduction of Total Cost of Ownership marked a turning point compared to purely price-oriented strategies. This model brought a broader vision, embracing the entire operational life of goods and services, including not only the initial cost but also all expenses that manifest during use. Ferrin and Plank emphasized how "TCO allows building a more faithful understanding of the real economic impact of procurement choices."

TABLE 1. TOTAL COST OF OWNERSHIP COMPONENTS

COST CATEGORY	MAIN COMPONENTS	TIME HORIZON	ESTIMATION COMPLEXITY
Acquisition cost	Price, shipping, installation, initial training	0–12 months	Low
Operating costs	Maintenance, energy consumption, support, licenses	1–5 years	Medium
End-of-life cost	Decommissioning, disposal, replacement	5+ years	High

However, despite representing a clear improvement over previous methodologies, Total Cost of Ownership shows its limits when applied in articulated and complex organizational contexts. Research conducted by Hurkens, Van der Valk and Wynstra highlighted how "TCO often fails to capture the deeper strategic implications and the complex relationships that are created between different functional areas when procurement decisions are made."

From total cost of ownership to value based

The limitations of Total Cost of Ownership have pushed toward further methodological evolution, giving rise to the Value Based approach. This philosophy shifts attention toward optimization of the overall value generated by products and services, definitively moving beyond minimum price logic. The analysis focuses on qualitative elements such as operational reliability, technological innovation, and the ability to support the organization's strategic objectives through targeted investments.

Nevertheless, as Chaudhuri, Boer and Taran have well documented, "effective coordination between production, purchasing and sales proves fundamental for effective risk management along the entire supply chain." In operational reality, however, most companies continue to function through isolated compartments that rarely communicate with each other. This organizational fragmentation generates what we could call "blind value": the impossibility of perceiving and quantifying the consequences of procurement decisions on the company's overall assets.

Active value defense

The shift toward procurement focused on protecting corporate value represents a true conceptual revolution. It is no longer simply about refining cost containment techniques or perfecting the application of Total Cost of Ownership. The objective rather becomes to safeguard and increase the recovery capacity of the value of corporate investments, through procurement strategies designed and calibrated specifically for this purpose.

This new operational philosophy requires coordination of three areas that traditionally operated independently:

- **Administrative-financial coordination:** harmonization of procurement choices with asset valuation criteria and impairment verification, from the earliest phases of supplier research and contract negotiation
- **Operational coordination:** systematic evaluation of the repercussions that sourcing decisions generate on asset performance at the organization level
- **Strategic coordination:** analysis of competitive consequences and interactions between different functional areas arising from procurement choices

Total value contribution and risk adjusted total cost of ownership model

Total Cost of Ownership, not incorporating impairment verification throughout the entire life cycle of goods and services being purchased, is therefore inadequate for a complete evaluation of the economic and financial consequences of procurement decisions.

Gray, Helper and Osborn presented in the *Journal of Operations Management* the concept of Total Value Contribution, which significantly expands the traditional TCO perspective through inclusion of the impact that sourcing decisions have on value generation along the entire operational chain. According to these researchers, "companies must abandon the absolute priority of cost containment to instead embrace the logic of value as a central element for building lasting competitive advantages."

Simultaneously, Sharma developed a "Risk-Adjusted Total Cost of Ownership Model" that organically integrates operational risks, opportunity costs and effects on the useful life of investments. Sharma's work demonstrates how "the systematic incorporation of risk factors within sourcing evaluations allows for considerable attenuation of operational cost instability over extended time horizons."

The cost of value erosion

The central element of value-oriented procurement is identified in the introduction of Cost of Value Erosion, which allows quantifying the portion of economic wealth that progressively dissolves due to non-optimal procurement decisions. Johnson and Kaplan had already highlighted this issue by observing how "traditional cost calculation systems prove inadequate in capturing the true drivers of value within contemporary organizations."

Cost of Value Erosion is articulated through three essential components:

- Avoidable negative consequences on operational cash flows, generated by below-expectation performance of acquired goods and services
- Deterioration of residual value throughout the entire investment life cycle
- Probability of exceptional impairments when procurement strategies increase the risk of needing to proceed with impairment

Practical case: value erosion in a software license purchase

The following example examines the concrete experience of a manufacturing company dealing with a strategic decision regarding the acquisition of ERP software licenses. This choice proved to be a source of considerable value deterioration throughout the entire period of use of the IT system.

TABLE 2. SUPPLIER CATEGORIES COMPARISON

SUPPLIER CATEGORY	MARKET POSITIONING	VALUE PROPOSITION	COMMERCIAL APPROACH
Enterprise supplier	Consolidated market leader	Complete and proven solution	Premium price with solid guarantees
Corporate supplier	Established competitor	Cost-functionality balance	Competitive price with good references
Emerging supplier	Growing player	Aggressive price offering	Strong discount to acquire clientele

TABLE 3. COST OVERRUNS ANALYSIS

COST	BUDGET	OVER BUDGET	DRIVER
Software licenses	Fixed cost expected	Increase for additional users	User perimeter underestimation
Base implementation	Standard budget estimated	Significant overrun	Technical complexity underestimated
Additional customizations	Not foreseen	Necessary for operations	Functional gap of standard product
Legacy systems integration	Simple integration expected	High complexity realized	Existing incompatible architecture

Impairment test and procurement

International accounting standard IAS 36 establishes the obligation for companies to regularly verify that assets recorded on the balance sheet maintain a value recovery capacity at least equivalent to their current accounting entry.

Recovery capacity is determined by choosing the higher value between two parameters: value in use (Value in Use) and fair value net of disposal costs (Fair Value Less Costs of Disposal). IFRS guidelines specify that value in use corresponds to the present value of financial flows expected to be generated from the asset or cash-generating unit, while net fair value represents the price obtainable in an ordinary transaction between market operators, decreased by costs directly linked to the sale of the asset.

Any decision in the procurement area, whether choosing a commercial partner or defining contractual structure, directly influences those elements that condition the recovery capacity of the value of corporate investments.

The operating model: processes and governance

Putting value-focused procurement into practice involves a radical organizational restructuring that extends far beyond mere revision of operational procedures. Kotter had already highlighted how "organizational changes inevitably stall when there is a lack of perception of an urgent and compelling need for transformation."

The fulcrum of this organizational metamorphosis lies in the development of a shared communication code between Administration and Finance, Purchasing and Operations areas. Hammer and Champy had emphasized how "operational flows that overcome barriers between departments represent those capable of generating the greatest benefit for customers."

KPIs and success measurement

To effectively measure a value-focused purchasing system, thus moving beyond control mechanisms focused exclusively on expense containment, it becomes essential to develop clear and understandable performance indicators that embrace the entire operational cycle:

- Calculate what portion of capital investments undergoes preventive impairment verification to prevent future impairments
- Determine the share of strategic agreements that incorporate provisions specifically designed to protect corporate assets
- Systematic and continuous monitoring of the risk profile of strategic suppliers
- Quantification of impairments avoided through optimized procurement decisions

Three concrete examples: IT and software, manufacturing, professional services

IT and software: migration and vendor lock-in

In the IT field, platform switching costs are frequently underestimated: data transfer, system interconnection rework, personnel training, transition period management. When product evolution and maintenance depend exclusively on the developer, this dependency transforms into a systemic vulnerability for the organization.

EXAMPLE CLAUSES IN SIMPLE LANGUAGE

Data portability: "The client may request at any time complete export of data in formats readable by other programs. The supplier delivers within fifteen days with reading guide."

Exit assistance: "In case of relationship termination, the supplier supports the transition to another solution for a period up to sixty days, at pre-established rates."

Market-aligned prices: "Once a year the client can request a comparison with market prices; if significant discrepancy emerges, the price list is adjusted."

ESSENTIAL CHECKLIST (BEFORE SIGNING)

- [ ] Is there a detailed exit plan?
- [ ] Is data truly exportable in common formats?
- [ ] Has a pilot test with clear evaluation criteria been done?
- [ ] Do annual increases have a defined ceiling?
- [ ] Are continuity tools provided in case of supplier crisis?

Manufacturing: machinery and critical components

When dealing with investments in manufacturing, selecting the wrong partner can jeopardize production activity for several years. Main threats include: costly operational interruptions, onerous supply of spare parts components, premature technological aging, unforeseen maintenance expenses and subordination to a single entity for specialized technical support.

PROTECTIVE CLAUSE EXAMPLES

Spare parts availability: "The supplier guarantees availability of spare parts components for at least 12 years from delivery, with defined maximum supply times for critical components."

Technical training: "Included complete training for 2 internal technicians on ordinary maintenance and fault diagnosis, with training material and access to telephone support."

Technical documentation: "Delivery of all technical documentation necessary for maintenance and repair, including electrical diagrams and diagnostic procedures."

CHECKLIST FOR INDUSTRIAL INVESTMENTS

- [ ] Does the supplier have a consolidated local service network?
- [ ] Are alternative suppliers available for maintenance?
- [ ] Are critical components industry standard or proprietary?
- [ ] Is spare parts availability guaranteed for the entire expected useful life?
- [ ] Can internal personnel be trained on basic maintenance?
- [ ] Do technological upgrade plans compatible with current investment exist?

Professional services: consulting and outsourcing

In professional services, the main risk is loss of control over critical processes and dependence on external competencies. When externalizing an important function, one must ensure maintaining the ability to govern it and, if necessary, bring it back internally without operational trauma.

CLAUSES FOR CRITICAL SERVICES

Operational continuity: "In case of contract termination, the supplier guarantees transitional support of 90 days to ensure activity continuity and orderly transfer of responsibilities."

Process documentation: "All operational procedures must be documented and updated, with quarterly delivery of documentation to the client to guarantee transparency and control."

Guaranteed performance: "Achievement of defined objectives is a condition for complete payment. Deviations exceeding 10% result in proportional reductions of consideration."

CHECKLIST FOR PROFESSIONAL SERVICES

- [ ] Are expected service levels (SLA) clearly defined?
- [ ] Does the supplier regularly document processes used?
- [ ] Is training provided for internal personnel on outsourced processes?
- [ ] Are operational continuity clauses in case of termination present?
- [ ] Are payments linked to achievement of measurable results?
- [ ] Is it possible to bring activities back internally without operational losses?

Implementation roadmap: procurement process for value protection

Vision and process objectives

Implementation of a value-oriented procurement process requires a structured roadmap that systematically integrates all corporate silos in preventive evaluation of impacts on assets. The objective is to create a decision-making framework that anticipates and prevents value erosion through cross-functional governance and shared metrics.

Phase 1: Assessment and foundation setting (months 1–3)

Current situation analysis. Main activities:

- Complete mapping of corporate assets by category and book value
- Historical analysis of impairments from the last 3–5 years to identify recurring patterns
- Assessment of current procurement processes and gap identification
- Evaluation of organizational maturity in different corporate silos

Governance definition.

TABLE 4. GOVERNANCE STRUCTURE AND RESPONSIBILITIES

ROLE / FUNCTION	PRIMARY RESPONSIBILITIES	PROCESS INVOLVEMENT	REFERENCE KPIS
Steering Committee	Strategic direction and conflict resolution	Approval of investments >€500K	Project ROI, % impairments avoided
Finance	Valuation models and impairment monitoring	All critical procurement decisions	VIU/FVLCD forecast accuracy
Procurement	Value-based sourcing strategy execution	End-to-end process owner	% contracts with value clauses
Operations/IT	Operational and technical impact evaluation	Performance assessment and integration	Performance vs baseline, uptime
Risk Management	Supplier and market risk quantification	Stress scenarios and contingency planning	Supplier risk score, scenario coverage
Legal	Protective clause structuring	Strategic contract review	% clauses implemented, dispute rate

Phase 2: Process design and tool development (months 4–6)

Integrated decision-making process. The value-based procurement decision-making process articulates through a structured decision-making sequence that begins with the procurement trigger, whether a purchase request or contract renewal, and proceeds toward systematic evaluation of strategic and economic impact. The first crucial phase involves criticality classification of the investment through coordination between Finance and Risk Management, jointly analyzing economic impact and time duration to define three priority levels: high-impact investments (over €500,000 with duration beyond 5 years), medium-impact (between €100,000 and €500,000 for 3–5 years) and low-impact (under €100,000 with duration under 3 years).

Based on this classification, the process branches into differentiated paths: high-impact investments require complete evaluation involving all corporate functions in a multi-functional assessment. Finance develops DCF analyses with multiple scenarios and impairment stress tests, Operations evaluates performance benchmarks and operational continuity, Procurement conducts extended TCO analyses and market intelligence, Risk Management quantifies risk scenarios and supplier health, Legal structures compliance review and contractual architectures, while Strategy verifies competitive alignment and innovative impact. Medium-impact investments follow a simplified assessment fo-

cused on most critical parameters, while low-impact ones proceed through optimized standard procurement process.

Value impact quantification represents the analytical heart of the process, where expected cost of value erosion, weighted probability of impairment, risk-adjusted NPV comparison, impact on asset performance and contribution to strategic value are calculated. These elements converge in the go/no-go decision by the Steering Committee, which evaluates specific criteria: positive risk-adjusted NPV, impairment probability below pre-established threshold, financial sustainability, confirmed strategic fit, sustainable competitive advantage and compliance with regulatory requirements.

Upon approval, sourcing execution integrates value-based criteria in RFQs, multidimensional supplier evaluations, negotiates specific protective clauses, structures contracts with calibrated KPIs and penalties and develops risk mitigation and contingency plans. The cycle implements continuous monitoring through quarterly performance reviews, early warning indicators, impairment trigger evaluation, proactive supplier relationship management and systematic contractual compliance tracking. The process constantly evolves through continuous improvement that includes process optimization, methodological framework evolution, acquired knowledge management, innovation integration and strategic supplier ecosystem development.

Value impact assessment framework. The methodological structure rests on four coordinated analysis pillars:

TABLE 5. VALUE IMPACT ASSESSMENT FRAMEWORK

PILLAR	KEY METRICS	RESPONSIBLE	MONITORING FREQUENCY
Financial Impact	Risk-Adjusted NPV, Impairment Probability, ROIC Impact	Finance	Quarterly
Operational Excellence	Performance vs SLA, Integration Score, Uptime %	Operations/IT	Monthly
Supply Chain Resilience	Supplier Risk Score, Market Concentration, Exit Cost	Procurement + Risk	Quarterly
Strategic Alignment	Technology Roadmap Fit, Competitive Advantage, Innovation Index	Strategy/Business Units	Semi-annually

Phase 3: Pilot implementation (months 7–12)

Pilot project selection. Identification of 3–5 representative projects by asset type:

- **IT Infrastructure:** data center renewal or cloud migration (€2–5M)
- **Manufacturing Equipment:** investment in new production line (€3–8M)

- **Professional Services:** non-core function outsourcing (€1–3M annually)
- **Real Estate:** strategic office lease renewal
- **R&D Partnership:** joint technology development agreements

Process and tool implementation. Operational tool suite:

- **Value Assessment Calculator:** Excel/PowerBI model for automatic Cost of Value Erosion calculation
- **Supplier Risk Dashboard:** real-time monitoring of critical supplier financial health
- **Contract Clause Library:** protective clause database by purchase type
- **Early Warning System:** automatic alerts on impairment triggers

Phase 4: Scale-up and standardization (months 13–18)

Organizational extension.

TABLE 6. SCALE-UP MILESTONES

MILESTONE	SCOPE	SUCCESS CRITERIA	TIMELINE
Regional Rollout	Extension to all local business units	80% strategic procurement under new process	Months 13–15
Supplier Integration	Strategic supplier involvement in framework	Top 20 suppliers aligned on value KPIs	Months 15–16
System Integration	Integration with ERP and management systems	70% workflow approval automation	Months 16–18
Performance Optimization	Fine-tuning based on real data	30% reduction in alert false positives	Months 17–18

Value-based procurement center of excellence. Establishment of a dedicated competence center with the following responsibilities:

- **Methodology Development:** continuous framework and best practice evolution
- **Training & Competence:** training programs for procurement teams and stakeholders
- **Performance Analytics:** ROI analysis and new approach impact
- **Innovation Scouting:** identification of new opportunities and technologies

Phase 5: Continuous improvement and innovation (months 19+)

Advanced analytics and AI integration. Evolution toward advanced predictive capabilities:

- **Predictive Impairment Models:** machine learning to anticipate impairment triggers
- **Dynamic Supplier Scoring:** real-time evaluation based on external big data
- **Market Intelligence:** automatic monitoring of technological trends and competitive dynamics
- **Scenario Planning Automation:** automatic stress scenario generation

Evolutionary KPIs and measurement framework.

TABLE 7. EVOLUTIONARY KPI FRAMEWORK

KPI CATEGORY	INITIAL PHASE METRICS	ADVANCED METRICS	YEAR 2 TARGET
Value Protection	% Impairments avoided, Risk-Adjusted ROI	Predictive Value Score, Dynamic Risk Assessment	95% prediction accuracy
Process Efficiency	Time-to-decision, Stakeholder satisfaction	AI-assisted decision speed, Process automation rate	50% cycle time reduction
Strategic Impact	EBITDA impact, Competitive advantage score	Market share correlation, Innovation pipeline value	15% ROIC improvement
Organizational Maturity	Training completion, Cross-function collaboration	Competency index, Cultural transformation score	Level 4 maturity model

Critical success factors and risk mitigation

Critical success factors:

- **Executive Sponsorship:** visible and consistent commitment from top management
- **Change Management:** structured cultural change management program
- **Data Quality:** investment in asset and supplier data quality and completeness
- **Cross-Functional Integration:** overcoming silos through shared objectives
- **Technology Enablement:** scalable and user-friendly technological platform

Main risks and mitigations:

TABLE 8. RISK MITIGATION STRATEGY

RISK	PROBABILITY	IMPACT	MITIGATION STRATEGY
Organizational resistance	High	High	Quick wins, intensive training, aligned incentives
Excessive process complexity	Medium	High	Agile approach, iterative simplification
Insufficient data quality	Medium	Medium	Data governance, automatic validation
ROI not achieved	Low	High	Rigorous pilots, continuous monitoring, rapid adjustments

Conclusions

Shifting from price logic to value logic means changing the perspective on the purchasing profession. It's no longer just about obtaining the lowest cost, but about driving results that truly matter for the company: stronger margins, lower risks, consistent quality, supply continuity and a positive impact on people and the environment. It's a role change: from purchasing as "negotiator" to a function that connects strategy with operations and brings measurable effects on the income statement.

This revolution becomes achievable when addressed following a well-defined path. During the first three months, solid foundations are laid: management agrees on the definition of "value," spending distribution is analyzed, and some high-potential experimental initiatives are identified. Cross-disciplinary working groups focus on concrete short-term goals, checking progress with consistent frequency and communicating both successes and failures with transparency.

The concept of value extends far beyond simple cost minimization. Incorporating elements of environmental sustainability and social responsibility into procurement strategies, along with qualitative aspects and operational continuity, means shifting focus from "saving in the immediate term" to "building resilience and credibility for the future." A supplier network designed with this philosophy proves more robust and, progressively, more advantageous from a competitive standpoint.

The determining elements for success appear evident: authentic commitment from corporate management, effective cooperation between different organizational areas, continuous support during the transition phase, useful but non-invasive technologies, constant growth of competencies. These foundations pave the way for a future where the purchasing function operates as "conductor of value": connecting today's decisions with future results, harmonizing strategic vision and operational execution, generating measurable advantages for the company, customers and the entire community.

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