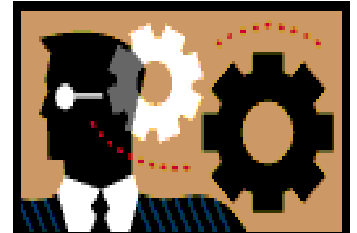




**Welcome to Transform**, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



## CFO + CPO Alliance:

*Collaboration between the CFO and CPO can steer you safely through the recovery as cost reduction & cash management remain priorities for 2010*

A guide for CEO's, CFO's and CPO's to support EBIT and Optimise Working Capital

What's in it for you? Superior Financial Performance

Reading time: 10 minutes

### Introduction:

The downturn has pushed the CFO and the CPO together to work more closely in finding solutions to business priorities, yet there are also “pull” forces at work bringing these executives closer together. Both parties have evolved from a historically transactional focus, and have been steadily transforming their roles to that of strategy formers. This common agenda has brought together two powerful allies no CEO should be without.



Collaboration between finance and procurement is essential to addressing the business priorities to cut cost, manage working capital and mitigate risk, and addressing these priorities is increasingly connecting finance and procurement under financial supply chain management (FSCM).



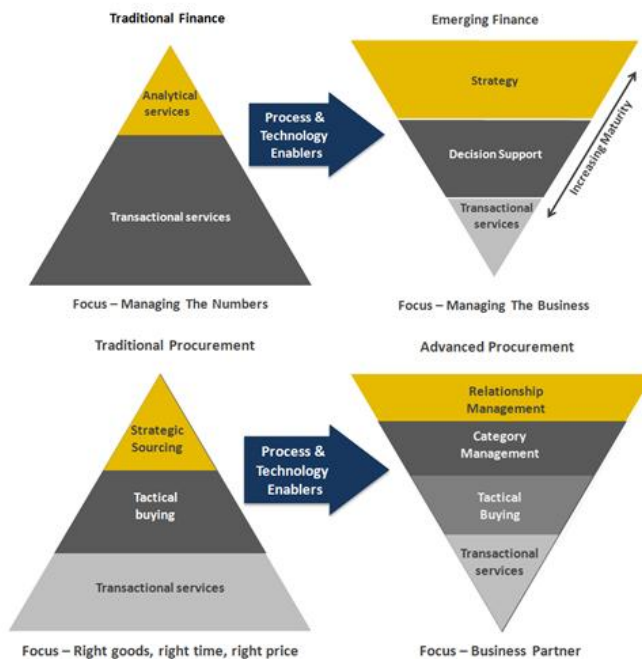
## Leveraging Finance & Procurement Collaboration

CPO's & CFO's have travelled similar roads in their efforts to transform their functions away from transactional service provider activities to provide real strategic value added activities. Fig 1. It is important that each executive evaluate where they are on this transformation journey to determine the most appropriate initiatives that will both take them to the next level of maturity and add further value for their organisations.

CPO's should take the initiative to collaborate more closely with finance, but the CPO must ensure their team understand the business strategy; its supply base, and the internal and external touch points that can be leveraged by closer collaboration with finance. FSCM begins with close scrutiny of relationships with suppliers, so the CPO must ensure this dialogue occurs when reviewing suitable strategies with the CFO. Similarly, the CPO must know how the CFO want to use cash and adopt strategies which align to this position.

*“The CPO must know how the CFO want to use cash and adopt strategies which align to this position”*

**Fig 1: Finance & Procurement are Transforming**



## Alignment

This mutual transformational path has “pulled” together closer alignment between them. In fact examining the priorities of both often reveals very little difference between the forces driving each executive. Fig 2.

Such alignment can have a dramatic effect on corporate performance in the areas of; profit improvement, improved return on capital employed, lower working capital requirements and improved cash flows. Common barriers to alignment which



impair a company's ability to deliver the desired outcomes is the lack of meaningful spend intelligence to support initiatives and the capability to define, monitor and capture the benefits realised.

### **Visibility of Corporate Spending & Savings achieved**

Intelligence is at the heart of successful business decisions and whilst [cost reduction projects](#) are driving real value, they're often hidden within divisional business numbers. This typically means that procurement's work isn't recognised as achieving results and breeds discontent as a result. Key initiatives to overcome these issues include:

- **Cost Centre Alignment to support meaningful procurement data:** Coding systems must capture all your spend data both by commodity and supplier within P2P, Procurement Card and T&E systems. The data must be accurate and sufficiently granular, to enable detailed spend analysis – the gateway to Strategic Sourcing.
- **Companywide Savings Definition & Tracking:** The overriding goal is to create a common understanding about savings and performance measurement between procurement and budget holders. This helps to reduce friction and provides a framework to manage the impact of procurement savings on budget holders.

Without these capabilities in place procurement organisations spend more time drilling down through incompatible data than on actual sourcing and also defending themselves on reported savings than improving their overall business performance. Similarly, finance can be forced into conducting unproductive audits to verify reported savings. CPO and CFO alignment adds credibility to procurements savings claims and can ensure procurement is accredited for its efforts.

## **Collaboration**

FSCM has not yet established itself on the organisation charts of most companies, remaining something of a blur, on the fringes between finance and procurement departments. As a result, procurement staff have had little exposure to the financial aspects of their activities while finance staff lack the supply chain know-how to manage the issue effectively. Effective collaboration between finance and procurement is a natural step for the CFO & CPO to build FSCM capability which can leverage

***“FSCM has not yet established itself on the organisation charts of most companies, remaining something of a blur, somewhere on the fringes between finance and procurement”***



**Procurement Priorities:**

1. Reduce Expenses
2. Support EBIT
3. Reduce Capital  
Employed *free up cash*
4. Manage SC Risk

**Barriers:**

- Capabilities
- Spend Visibility
- Poor Processes
- Compliance

**Enablers:**

- Leadership
- Processes
- Technology
- Metrics

**Strategic Actions:**

- Increase sourcing activity
- Develop strategies to increase cash flow
- Develop risk mitigation strategies
- Increase collaboration with finance

considerable value in terms of the financial stability of the supplier, the transparency of the value creation chain and also cost savings through:

- Optimisation of Working Capital
- Risk Management
- Financing within the Value Chain
- Tax Effective Procurement

**Finance Priorities:**

1. Reduce Expenses
2. Forecast Performance
3. Optimise W' Capital
4. Earnings Risk

**Barriers:**

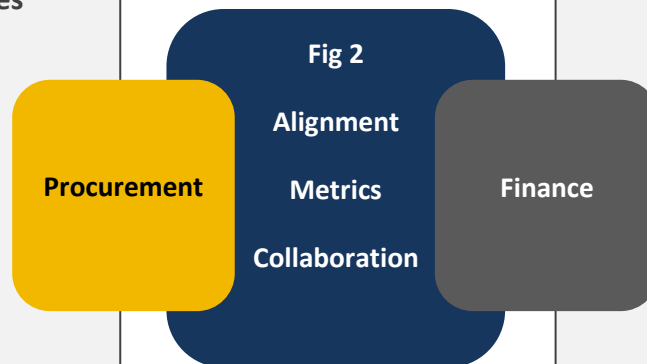
- Capabilities
- Outdated control systems
- Org' Culture

**Enablers:**

- Leadership
- Processes
- Technology
- Metrics

**Strategic Actions:**

- AP management automation
- Develop company-wide savings definition & tracking
- Define risk tolerance
  - Increase Collaboration with Procurement

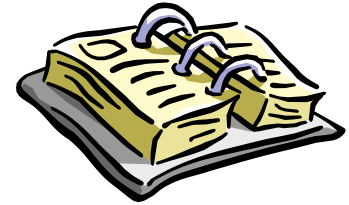


- Optimise P2P processes
- Control & Performance Management

Finance & Procurement collaboration can help companies reach new heights of cost reduction, improved WCM, and better risk management. This requires aligned metrics prioritisation of initiatives, and strong governance structures.



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## Metrics

By adoption of a single set of operating principles and shared incentives when aligning procurement and finance, it is essential to consider the right metrics to support collaboration. Total Cost of Ownership or TCO (the cost to operate a purchase) needs to be supplemented by KPI's that leverage earnings. Such measures typically include:

- Impact on Earnings per Share (EPS)
- Impact on Earnings Before Interest and Taxes (EBIT)
- Return on Investment (ROI)
- Return on Capital/Investment Employed (ROCE)/(ROIC)

By linking to such metrics which demonstrate “value delivered” as recognised by the CFO and CEO, the CPO is facilitating closer collaboration with finance.

## Conclusion

The CFO and CPO are potentially natural allies travelling similar roads – but increasingly any potential rivalry must be managed.

For the CPO the good news is that the path to procurement excellence - greater automation, visibility, and functional coordination—is also the path to relieving key CFO pressures.

For the CFO regardless of whether or not their company has a balance sheet that could see them through the deepest downturn or are dependent on credit lines and other debt capital to finance month-to-month requirements, the CPO can add value and help them sleep at night.

For the CEO, the message is equally clear, make sure you task these two key positions to collaborate. Such an alliance between two executives seemingly motivated by the same challenges and opportunities can steer you safely through the recovery by implementing more effective cost reduction, cash and risk management strategies. Finally, just in case you don't have a CPO – **get one**.

## For More Information

Purchasing Practice Inc can work with your organisation to develop a strategic procurement capability that will add value and positively affect your top and bottom line. [www.purchasingpractice.com](http://www.purchasingpractice.com)



**purchasingpractice**  
Corporate procurement made simple

## **Purchasing Practice –Corporate Procurement made Simple**



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

**We can help your organization “make change happen” in procurement. Our services include:**

**Transformation Management:** We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

**Spend Analysis:** We provide spend transparency to our customers as part of our broader service offering, and this data can then be utilized to perform an opportunity assessment on the mapped data, pointing out potential areas for savings.

**Opportunity Assessment:** By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

**Sourcing Management:** Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

**Category Management:** We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

**Supplier Relationship Management:** We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

**Mergers & Acquisitions:** We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

**Private Equity:** Working across your portfolio of companies we will drive value from procurement across business units

**Interim Procurement Solutions:** We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

Call us on 001 778 988 1052 (North America) or on +44(0) 1525 403862 (UK) or alternatively email us at [info@purchasingpractice.com](mailto:info@purchasingpractice.com) to schedule a consultation.

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