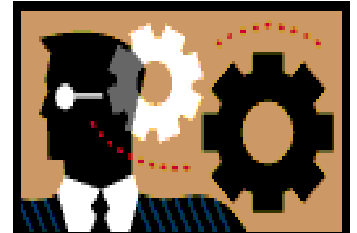




Welcome to Transform, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



Gaining Good Grades in Procurement:

CXO's can discover how to build a strategic procurement capability to improve competitiveness against the competition

A guide for CEO's, CFO's and CPO's on how a strategic procurement capability is attained to drive sustainably better business performance

What's in it for you? Superior Business Performance and Resilience

Reading time: 15 minutes

Introduction:



There is a mountain of authoritative information and statistics these days showing how companies who excel at procurement outperform their competitors. But if you want good grades in procurement, and there are many reasons why you should, a structured road map to excellence is the best way to ensure your company succeeds.

A strategic approach to procurement adds value by making a direct contribution to the core business goals of generating growth, increasing margins and by doing this sustainably. Procurements link to these business goals are mirrored through its objectives to maximize opportunities, optimize cost and manage risks. How then can organizations capitalize on the power of procurement? To explore this question I'll share how the objectives for procurement have evolved, how to build capability in procurement, as well as my experience in the field in large blue chips and consulting.



Maturity Evolution

In order to progress through the stages of maturity it is necessary to create the conditions for success. This is achieved by focusing on two key contributors:

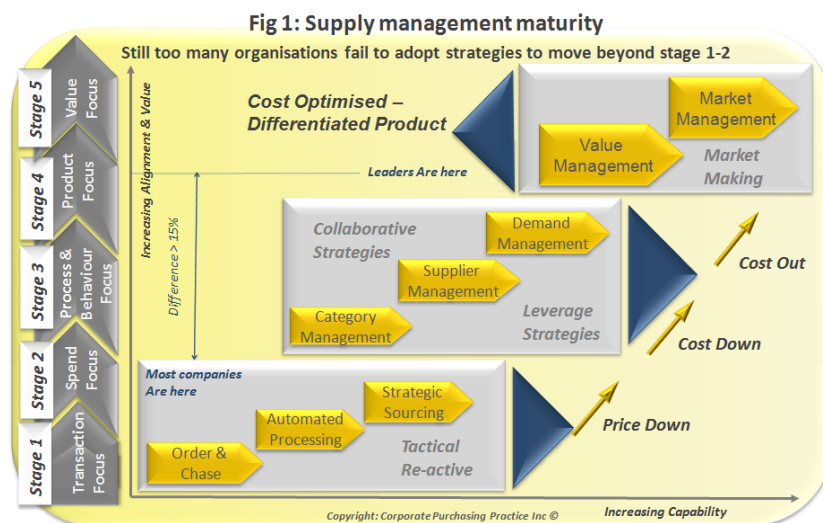
- Procurement maturity or capability
- Organisational Alignment

Figure 1 shows the typical maturity stages through which procurement organisations move as they advance capabilities and value to the organisation. Increasing value contribution is inextricably tied to increasing organisational alignment and building procurement capability.

Capability Dimensions

Procurement capability is built around five key dimensions:

1. strategy & policy
2. people & culture
3. organization & processes
4. performance management
5. systems and tools



In addition to developing maturity in these five capabilities, their alignment to overall business strategy is critical to optimising the value from procurement.

Alignment:

Business strategy, procurement strategy, organisational structure, resources and processes, must be in harmony through organisational alignment, and functional integration. To achieve this the five procurement capability dimensions must be integrated into business level strategy through strong governance clearly defining decision rights.



Governance

Without effective governance procurement staff will always operate in a climate of confusion and conflict, which stakeholders will exploit to the detriment of overall company performance. The governance model must therefore be designed to achieve alignment on the roles and responsibilities of corporate procurement and how it will interface with the rest of the organization. The alignment process must incorporate all legitimate stakeholders which typically includes:

- Corporate Procurement
- Local and Regional Business Unit Procurement
- Business Unit Budget Holders
- Specification owners
- Finance
- Legal
- Strategic Suppliers

Once achieved alignment is a continuous process of development. To sustain alignment, it is critical that corporate procurement, should be highly skilled in core procurement competencies and given objectives that are fully supportive of the business unit objectives. The organisational challenge is to put in place a set of metrics for both the procurement team and their stakeholders that reward behaviour that is linked to real business value for the business units. If such behaviour changing metrics are not in place then the likely outcome will be to create a culture where business unit teams spend time and effort devising ways of hiding procurement initiatives from the corporate procurement team, who are seen as obstructive, negative and not value adding.

Building procurement capability

The following benefits occur when organisations effectively manage the procurement function:

- Top line growth
- Improved margins
- Reduced risk
- Improved operational efficiency and quality
- competitive advantage

“Whilst the benefits are achievable for every organisation, they will not be secured without building the capabilities to deliver them”





Whilst the benefits are achievable for every organisation, they will not be secured without building the capabilities to deliver them.

These capabilities are built through investment in advancing organisational maturity in the five procurement capability dimensions already discussed. The return on investment necessary to achieve this capability is considerable. See Tables 1-3. The stages of building capability are invariably common to all organisations

irrespective of industry or sector but the pace of advancement varies between organisations. One key factor is that this journey cannot succeed by being functionally led, and instead requires an organisation wide initiative supported and endorsed by the senior executive.

Setting the Foundations

An organisation cannot sustainably secure value from procurement if it is too busy issuing purchase orders, expediting deliveries and doing the traditional *“three quotes and a buy.”* A more sophisticated approach is required. The first step in building capability is therefore creating a strategic sourcing group separate from operational purchasing, tied to a sound strategic sourcing process. To be successful, strategic sourcing must be fully supported by executive management and staffed with capable

Table 1 - Raising Maturity – *“Getting Started”*:

Characterized by: procurement issuing POs, and buyers hopelessly trying to work on more strategic tasks while responding to a never-ending stream of expediting and tactical sourcing requests.

Key task: Separate out tactical from strategic task.

Most organizations typically start off by reducing paperwork and starting to leverage overall volume:

- P-Card: Is a great way to greatly reduce the workload of the procurement group.
- Supplier Portals & e-catalogues: work with approved suppliers to put up organization-specific pages/prices/items
- Aggregate demand as widely as possible (category dependent) and bid out your total requirements.
- Establish executive support for strategic sourcing, establish a team, a robust process and clear roles and responsibilities. Train the team.

Expected ROI = 175-200%



employees equipped with broader commercial skill sets to provide the foundation for transitioning from a transactional efficiency oriented function, to an effectiveness oriented, category led, savings focused function.

Securing alignment

The critical obstacle that must be overcome in progressing up the capability hierarchy is achieving alignment between increasingly dynamic business strategies, diverse budget owners, volatile supply

markets, and procurement itself. This challenge goes significantly beyond simply establishing strategic sourcing methodologies to focus on:

Table 2 - Raising Maturity – “*Catching up*”:

Characterized by: established Centre led procurement and focus shifting from short term cost reductions to gaining longer term sustainable benefit, but lack of business alignment restricts progress.

Key task: Securing business alignment of procurement both internally with the business and externally with suppliers whilst building procurement capabilities in areas such as:

- Sourcing management, cost management, performance management, collaboration, innovation, complexity/waste reduction, SRM, risk management.
- Invest in training procurement staff. Hackett research recommends a minimum commitment of 30 hours per year.

CPOs should be under no illusion, that the early cost-cutting wins cannot be used as anything except a foundation for the deeper and broader transformation to value-based procurement.

Expected ROI = 250 - 300%

Directly supporting business strategies. The dynamics of any business creates opportunities for procurement to increase spend under management and expand influence. Whether it's, supporting new innovation efforts, corporate social responsibility initiatives such as “greening the supply chain”, post-merger integration globalisation initiatives, or customer driven opportunities, the CPO must make the

necessary linkages and bind procurement to such initiatives.

Optimising internal relationships. The aim is to move from a reactive role as ‘*gatekeeper*’ or ‘*police man*’ to a proactive role as ‘*business partner*’. Such a transition provides the early spend influence and demand visibility necessary to deliver both world-class procurement performance and company level



industry advantage. It is also essential that organisations learn to optimise internal organisational relationships if more strategic relationships with external partners are to succeed.

Collaborating with external partners. Jointly attacking total costs by accessing suppliers capabilities requires cross-functional integration of total life cycle supply chain processes rather than just cross-functional sourcing. Also, as the trend towards outsourcing increases, procurement needs to take a proactive role in the insource – outsource decision. This means developing sourcing strategies that routinely address business process outsourcing decisions beyond just helping set up the contract once the decision is made.

Talent management. Aligning the talents of procurement staff to the requirements of the business and the new skills required in strategic procurement, requires a more structured approach to talent management. Also, highly skilled employees are susceptible to poaching by competitors and other organisations. Developing specific retention plans for high-potential or high-performing staff can be a smart investment and include: professional and career development programs, loyalty bonuses, stock options etc.

Beyond alignment:

As companies move through stage 3 toward stage 4, the focus begins to switch from “inward looking” capability development, towards “outward looking” capability development. This allows organisations to sense changes in supply markets in order to capture opportunities and capitalise on breakthrough

Table 3 - Raising Maturity – “Joining an elite group”:

Characterised by: procurement being involved in business strategy development, evaluating insource-outsource, rightshoring options for business processes.

Key task: Moving beyond alignment to become a true business partner.

- These procurement leaders seek to manage external markets to capture opportunities and manage risk to directly contribute and influence business level strategy.
- Procurement at this level will be helping the organization reconfigure the value chain on the supply and demand side based on newly uncovered innovations and opportunities.

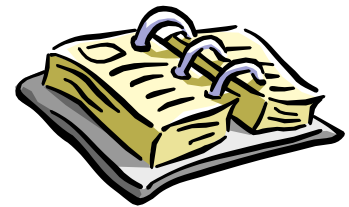
Increased focus on cost optimisation as opposed to cost cutting ensures organisational structure, resources and capabilities are deployed to secure competitive advantage.

Expected ROI = 500 - 1000%



innovations ahead of their competitors. Leaders specifically, factor such events into the business planning process. The most important characteristic beyond alignment is procurement's proactive role in advising on cost optimisation and risk management through business process sourcing, relationship management, risk intelligence and sustainable procurement strategies.

Visit the **Buying Magician Blog**: [Expanding procurements scope and influence](#)



Conclusion

The benefits and return on investment are considerable to any organisation seeking to transform procurements value contribution. To achieve such a transformation procurement must help the business to understand that the greatest ROI comes from increasing levels of alignment and capability along the maturity model – beyond cost savings, toward harnessing supply market power to deliver maximum value from spend. Procurement must also develop a detailed road map for how it builds its delivery model and the capabilities to execute on the promise of the transformed procurement function.

The delivery model must be tuned to the needs of the business - not just squeezing in a one size fits all solution. There are however, emerging trends that show how others have succeeded which include; a centre led model, category management approach, sourcing and strategic supplier management groups, and separate performance management groups to focus on the metrics, resource management, methodologies, training, systems, benchmarking and other such transformational capabilities. Maintaining alignment is an ongoing process where leading procurement organisations work across the business, in order to ensure joint planning and alignment.

The journey through the maturity stages will enhance the organisations reputation and its ability to achieve sustainable growth and margin improvement.

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



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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 to schedule a consultation.

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