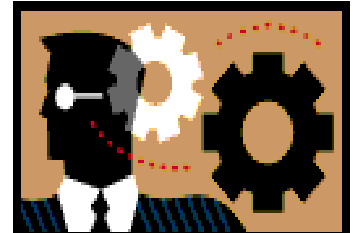




Welcome to Transform, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



Innovation Centred Procurement (ICP)

Innovation places the skills and responsibilities of the procurement function right at the heart of the company's play for growth

A guide for CEO's, CFO's and CPO's on how Innovation Centred Procurement practices help drive their company's play for growth

What's in it for you? Discover why successful innovators place procurement at the centre of their innovation programmes to achieve ambitious growth targets, and how these organisations are sourcing innovation externally as an alternative to doing it themselves

Reading time: 15 minutes

Introduction:



Today's top companies are constantly under attack from smaller more agile organisations introducing game changing approaches and strategies that can turn markets on their heads and be the downfall of their larger more cumbersome targets. The issue at hand is innovation.

CEO's are constantly under pressure to drive growth from investors, and they know that innovation is a critical success factor in achieving growth. However, they also know that innovation is neither simple nor fast and must be orchestrated, that it is about changing culture and organisation and that it takes patience, time and strength. Problem is not many know procurement excellence is key to making it happen!!!



Leaders recognise that Innovation is not an optional extra that can be added and removed according to circumstances, it must be a core part of the organisation. They find ways to embed innovation into the fabric of their company's infrastructures, people, processes, and beyond to its customers and suppliers.

“Innovation places the skills and responsibilities of the procurement function right at the heart of its process.”

CEO's really have no other choice if they're going to realise the expected growth targets, survive challenging economic times, avoid the disruption endured by companies such as Kodak or survive the downfall scenario experienced by companies such as Hasselblad and Remington Rand.

Successful Innovators

Leading organisations are beginning to move beyond traditional product and service innovation to pioneer new business processes, value chains and business models.

Companies such as Apple, Unilever, Procter & Gamble and Johnson & Johnson, have increasingly looked externally for innovation, choosing to procure ideas and intellectual property. This enables them to focus on the ideas themselves, by creating innovation centres focused on finding faster, cheaper and more effective ways of securing and exploiting new ideas. Effectively, they have created a new innovation model based upon sourcing - concepts, skills and technology from external sources.

This new innovation model requires radically different approaches that enable companies to source in the right places, identify the best ideas, develop them in the most effective way and build the most robust and flexible supply/innovation networks to deliver and support them. These innovation sourcing pioneers have mastered three key capabilities that enable them to do all these things:

1. Exploit the innovation to the fullest extent possible.
2. Deep understanding of their environment and innovation universe.
3. Systemising innovation decision making, processes and tools across the value chain.

This new approach has important implications for CPOs.

Procurement at the centre of the Innovation Process

Innovation places the skills and responsibilities of the procurement function right at the heart of its process. Helping define needs, Identifying and evaluating potential suppliers, negotiating complex deals and managing long-term partnerships with suppliers are activities that procurement understands and has a track record of delivery.



The challenge for procurement is to develop the new skills required when dealing in intellectual property; they must:

- engage supply markets without revealing critical details about their intentions.
- have the tools to evaluate how much they are willing to pay to explore and develop new ideas.
- collaborate and to build partnerships that build preferential relationships with suppliers.

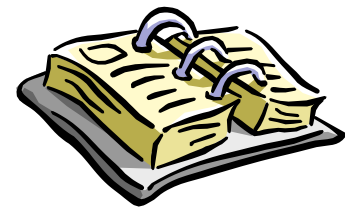
Procurements Role

The opportunity for CPOs to support their company's innovation programme is a significant one. The CPO's role on innovation is to secure the support of the board, create alignment across the organisation and integrate procurement both internally and with suppliers and customers alike. To create an atmosphere where everybody in the company knows that the board is behind procurement the CPO must:

- Gain equal status for procurement with other functions
- Instil a real belief in suppliers as valuable allies and not simply cost levers
- deliver quick benefits to internal customers, to prove the value of procurement in innovation

Procurement must demonstrate entrepreneurship and develop strategy that aligns supply chain priorities with the organisations growth priorities. Procurement has existing core competencies that support innovation which must be built upon by adding new skills to their portfolio. These include; market scanning, fostering collaboration and innovation sourcing.

Visit the **Buying Magician Blog**: [The Top 10 Priorities to Drive Innovation Centred Procurement](#)



Market Scanning

The growing importance of innovation sourcing requires companies to be constantly be on the lookout for new ideas and emerging or disruptive trends in their business environment. The most successful companies map out the potential technological and commercial landscape for their products, processes, business models and services. They also regularly scan the evolution of this landscape for new and maturing sources of innovation.



Procurement is familiar with playing its role as the ‘eyes and ears’ of the company but few have fully developed this concept towards identifying external innovation and bringing it into the company. Procurement having previously been positioned on the fringes of the company fighting to get into the centre can now put that positioning to strategic use. Standing on the edge of the organisation it is easier to see the outside world, but with its new found status procurement can also look into the centre of the organisation and can therefore be the conduit between them.

“ The objective is to be the best, and choose the best innovations , wherever they come from”

Procurement must carve out a role in finding the best innovations, relevant to the company’s innovation plans, and to find the best way to securing it. The best innovations can sometimes be found in your own company and sometimes externally. The key point is, when you choose internal innovation, you do so after benchmarking with externally available alternatives. The business driver for this approach is to ensure the company is not placed at a competitive disadvantage by choosing the internal option, allowing competitors to source the external innovation and secure an advantage. The objective is to be the best, and choose the best innovations , wherever they come from.

Fostering Collaboration

As growth is closely correlated with innovation, so innovation is closely correlated with collaboration. Procurement must learn to collaborate with stakeholders, suppliers and customers alike.

With suppliers the aim is to encourage them to offer preferential access to new innovations and ideas. A myopic focus on cost will clearly be counter-productive to this objective. It’s very simple, if you eliminate the suppliers profit they cannot invest in innovation, so broader measures of success will need to be applied. Leading companies set joint objectives or business plans with their key suppliers and partners and include them early in the innovation cycle.

Key customers should also be accessible to procurement who should regard them as partners. Events can be held to discuss their requirements, problems and wish-lists, beyond the typical sales meetings and the information learned incorporated into product or service development plans.

For procurement, getting different functions working together effectively and overcoming the “not invented here” syndrome are significant challenges. Developing stakeholder management skills such as needs identification and strategic influencing skills are therefore important in its Innovation Centred Procurement role.



**A Well Known Open
Innovation Example:**

The Goldcorp Challenge

Goldcorp was running out of ideas. It needed to know where to dig for gold at their fifty-year old mine in Red Lake, Ontario, which some believed to be dying.

The CEO McEwen decided to take a radical step by publishing all geological data on the Web for all to see and work on and challenged professionals from around the world to do the prospecting.

Rewards:

A total reward of USD 575 K

Response:

1000 professionals participated from 50 countries

Outcome:

Identified 110 targets on the Red Lake property, since then 8 million ounces worth 3 Bn \$ have been found.

Innovation Sourcing

The innovation sourcing process needs to have mechanisms that fuel the innovation process. The innovation sourcing process must also provide the tools and techniques to engage innovation sources quickly and effectively to secure the maximum value out of particular innovations. It must also be integrated end to end across the company and with key suppliers and customers to capture the best Ideas.

Open Innovation

Henry Chesbrough, a professor at the University of California at Berkeley, coined the term "open innovation" to describe initiatives by companies to reach beyond their own walls to source talent and ideas from others.

This 'seeker – solver' model for innovation is much closer to procurement than it is to R&D. It helps connect Seekers, those who have an innovation challenge, with Solvers, those who come up with creative solutions to these challenges. This requires a single approach towards collaborating and open innovation, which calls for Marketing management, R&D management and Procurement Management to work as one.

Crowd Sourcing: Moves companies away from the "not invented here" syndrome, to a "proudly invented anywhere" mind-set.

Crowd sourcing accesses experts from around the globe to contribute their time, expertise and solutions to meet a company's challenge.

Cloud Sourcing: (Crowd sourcing in the Cloud) Cloud sourcing utilises the power of the internet to gain access to specialized expertise, without increasing overheads. Accessing experts 'on demand' to address important business challenges. Utilizing the "cloud" speeds up the innovation process, maximizes access to the smartest global talent and enables companies to quickly scale up and enhance innovation performance.



The best contributors within cloud sourcing communities will be drawn closer to corporations via incentives and additional opportunities.

Prize Power: One example of this is the [“Virgin Earth Challenge”](#). The Virgin Earth Challenge is a prize of \$25m for whoever can demonstrate to the judges' satisfaction a commercially viable design which results in the removal of anthropogenic, atmospheric greenhouse gases so as to contribute materially to the stability of Earth's climate.

Companies are adopting this method of innovation to:

- be more agile
- be able to tap the best knowledge resources
- be more efficient in the innovation process

but above all to be more competitive.

This very different type of procurement activity has significant impact for the CPO. Companies are effectively **outsourcing** part of their innovation activity to a supplier it doesn't know, not one of its preferred or carefully selected suppliers but one with whom it has had no prior relationship.

It is our view that the issues of transparency, fairness and due diligence still apply to open innovation and the issues addressed in the strategic sourcing process are still apply. Further, in this move towards buying solutions or ideas rather than products and services CPO's will need to develop more sophisticated methods to identify innovation needs within their organisation.

Concerns around open innovation often originate from lack of clarity regarding the management techniques used to control it. Procurement techniques are ideally suited here, providing CPO's with an ideal opportunity to get themselves on the open innovation agenda.

Innovation Networks

Innovation nets are designed to harness the potential of extended innovation activity through hundreds or thousands of participants.

These nets implement a set of 'seeker' designed mechanisms designed to mobilize independent suppliers in the pursuit of innovation. These mechanisms are critical to understanding how innovation nets coordinate innovation efforts and how these nets will impact on innovation and procurement.

Innovation networks require a coordinator who acts as gate-keeper, deciding who will be allowed to participate. The network coordinator is also a core element of the governance processes to coordinate the activities of the network, for example, determining how disputes will be resolved and how performance will be measured.

Participation in the network may not require formal contractual documents, although later, specific initiatives will require contracts to be developed to govern them.

CPO's must develop the mechanisms to support procurements role.



CPO's need to understand these extended 'Innovation Networks' and learn how to use them in the most effective way, by adapting procurement processes and providing the tools to enable, encourage, engage and manage these problem solving relationships.

Building Capability

Because of procurements proven skills and experience in outsourcing and supplier management, CPOs must lead in defining the competencies to provide the process, skill sets and guidance necessary to manage innovation sourcing. Sourcing 'ideas' has five components: leadership, culture, people, process, tools:

Leadership:

The drive for innovation needs continuous and visible support from its leaders who provide the building blocks for innovation. This involves integrating innovation into the corporate agenda by making it the responsibility of all functional heads, ensuring they are accountable for it, and encouraging and fostering an environment open to ideas, inside and outside the company.

Leaders must invest time to develop and articulate a clear innovation strategy, which can be managed, tracked and influences corporate behaviour. Each functional leader therefore plays a key role in creating trust, openness, and a curiosity that cultivates innovative ideas. In particular they can help define the kind of innovation that supports corporate objectives and develop formal performance metrics and targets for innovation.

Culture:

The most innovative companies have a corporate culture that has adopted an innovation mindset, and where seeker-solver networks are viewed as a new value adding capability. To solicit the desired attitudes and behaviours companies must make it clear that the leadership team is interested in and will execute ideas that fit and further the innovation strategy. Culture also extends to interaction with customers and suppliers. Leading companies encourage strong connections with their customers and suppliers by supporting collaborative working to build strong innovation networks.

If the climate within a company is averse to innovations then this will negatively affect their capacity to innovate. CEO's who listen to their employees, understand their customers, forge close links with key suppliers and anticipate market trends will collect the fruits of innovation.

“CPOs must lead in defining the competencies to provide the process, skill sets and guidance necessary to manage innovation sourcing networks.”



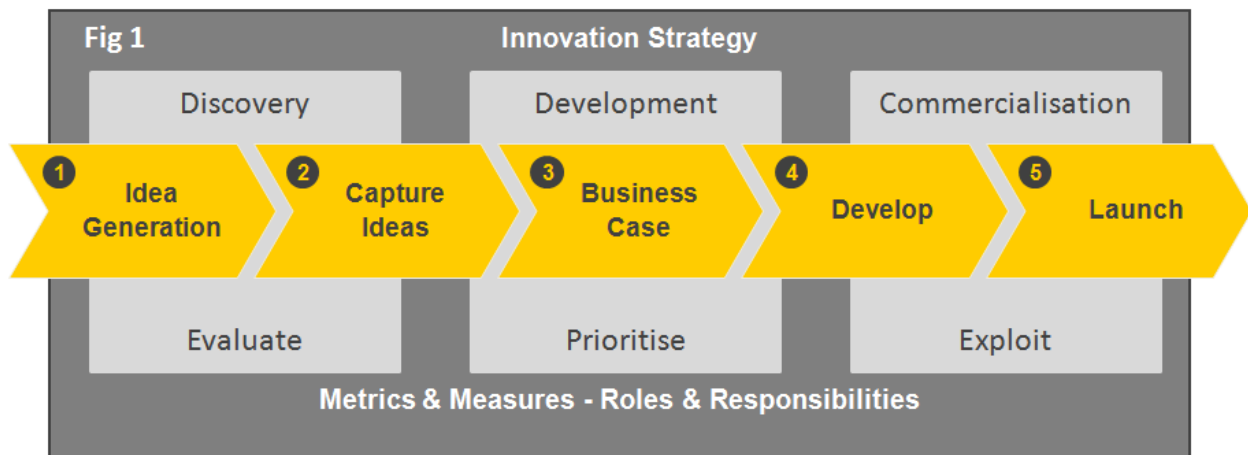
People:

Like all aspects of business, success depends on attracting and enabling the right people. Innovation is no different. The main challenge, is to find people with the right mindset. Whilst you can train people to use systems and processes, and communicate better, developing the right mindset is much more challenging. An open mind, natural curiosity and an entrepreneurial spirit is critical to innovation to prevent the “not invented here” syndrome killing innovation at birth.

Entrepreneurship is an important characteristic because it not only brings critical business instinct but also creates the vitality and flexibility necessary to break through internal and external boundaries that stifle innovation. Procurement staff must be creative, team orientated and good networkers, communicate well with engineers and marketing colleagues, have an excellent grasp of the business and the ability grasp technical data.

Process:

Just as the sourcing process has defined phases or steps, we believe innovation needs to be defined as a process to be repeatable. To this end, Purchasing Practice has developed a process to help organisations start to consider requirements for systemising innovation (Fig 1):



Companies need a process to handle problems, ideas, opportunities and execute projects, too many companies approach innovation in a fragmented manner which doesn't achieve any sustainable systematic capability.



Tools:

Activity	Tool
Exploring Opportunities	Scenario planning
	Idea mapping
Environment Scanning	Innovation alerts
	Mapping innovation clusters
Exploiting	Product & Profit Lifecycle
	Value Chain

Conclusion

We believe that the procurement organisation has the best range of skills and responsibilities to drive innovation for growth. The ability to monitor external markets, negotiation skills and an understanding of the impact of customer-supplier dependencies mean it is already extremely externally focused. This facilitates the open mind set that is less likely to dismiss ideas on the ‘not invented here basis’.

In the future powerful ideas will be generated from almost anywhere. Internet enabled collaboration has opened access to innovation networks which generate the ideas and concepts that will ultimately produce the exciting, products and services that customers are willing to pay a premium for. ICP is likely to be the source of the majority of commercially significant new products , services and methods of doing business in many industries in the years to come.

ICP will be a vital differentiator for companies of all shapes and sizes, in all sectors globally. Achieving ICP will become a key competency to keep pace with change and innovation in an increasingly diversified and differentiated world. Procurement must be ready to deliver - disrupt or be disrupted.

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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