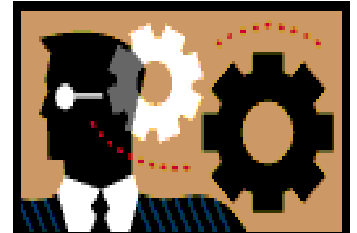




Welcome to Transform, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



The Growth Game

As economist increasingly talk about the green shoots of recovery, CEO's and business leaders are cautiously planning for the next growth cycle

A guide for CEO's, CFO's and CPO's on how leading procurement practices can make a powerful contribution to their company's play for growth

What's in it for you? Discover why developing capability in supply management will provide powerful fuel for growth, and why making Supply Management a Core Competency (SMCC) will provide a real competitive edge and prevent your company being disadvantaged in supply markets

Reading time: 15 minutes

Introduction:



During the down turn, smart CEO's will have taken the opportunity to lay down plans for the upturn and a return to growth. Part of this preparation requires a procurement function that can not only make a contribution to cost reduction, but also speed up the innovation pipeline and create value chains to fuel growth.

In most companies however, the organisational framework and capabilities required to meet these demands is lacking. In the search for growth CEO's need a procurement function that is more value-orientated, and entrepreneurial, embedded as a strategic core competency across the organisation.



Supply Management – A Foundation for Growth

To prepare for sustainable growth, organisations must first develop the foundation. Inefficient internal processes, poor understanding of customers, a lack of skills and resources in the right places creates an organisation that is ill equipped to meet current market demands, or to sustain and leverage growth.

Organisations must understand their current environment in order to build capability in the core competences of their business not only to sustain current business but to build the resources that will drive future growth.

Unfortunately, many organisations do not organise or support supply management as a core competency. We strongly believe that organisations must address this issue in order to compete effectively in the 21st century. Supply management as a core competency, which we call SMCC, seeks to maximise opportunities and minimise risk in external markets. Without this capability, businesses will increasingly miss opportunities to support growth and suffer supply chain inefficiencies which can actively damage growth and reputation.

A Licence to Operate

For the CPO to participate in the growth agenda, procurement will need to be sufficiently developed along the maturity curve within their organisation to be accepted by their colleagues in marketing, new product development and operations, as it will be this respect and trust that provides the licence to operate in the growth game.

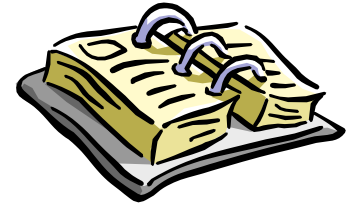
In other words they must have developed SMCC which brings the following measures into place:

- Integration of procurement with both the internal organisation and supplier. Senior executive sponsorship to foster links between procurement, sales & marketing, new product development as well as with human resources etc.
- Entrepreneurship is important and modern CPO's and their staff must see themselves as drivers of revenue through innovation. Entrepreneurship also creates the flexibility and energy to challenge both internal and external boundaries that may prevent the ability to do things differently

Currently, procurement functions in many companies fail to integrate sufficiently, being organised rigidly around cost, risk reduction and security of supply. To avoid sustaining this image in the company, just as procurement has disconnected transactional and strategic procurement, so should they separate value generation. A new way of looking at contracts, partnerships, the supply base and the internal organisation requires a different business model that allows for entrepreneurship and flexibility.



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Understand your Company's Growth Strategy:

As a company pursues profitable growth, it typically seeks to introduce new products and/or enter new markets (Fig 1). It can choose to do this either through its existing activities or by entirely new activities or both, whether via a green field initiative, a joint venture, a merger or acquisition. By being involved early in the strategy, procurement can ensure the company has evaluated the supply chain and its capabilities, because you can't enter a new market or bring out a new product without a supply chain that can support it. Similarly with M&A, early procurement involvement is critical to capturing synergies and capturing value.

Customer Focal Point

Growth is not about acquiring new technologies or assets, it is about winning an expanded share of existing customers business and winning new customers. It figures then, that understanding customer needs and expectations is a key growth success factor. Only by understanding customer needs and their growth plans can new technologies, processes, or assets be applied in an effective manner to deliver growth in your company.

By making customers the focal point for managing growth companies can:

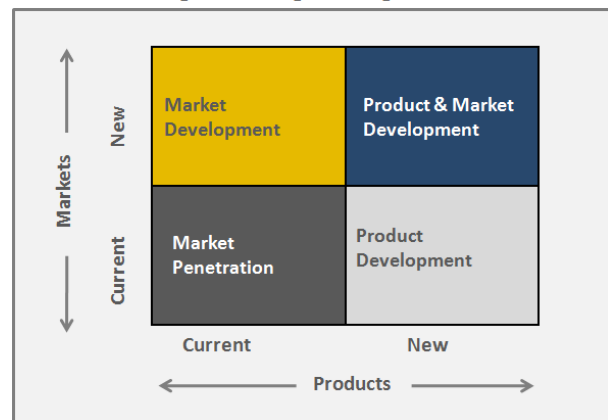
- Ask major customers to quantify their growth objectives and put teams in place to help contribute to them
- Create joint growth plans with customers that strengthen each customer's competitiveness.
- Improve customer retention by helping customers grow

The benefits of this customer driven approach to growth are:

- Develops a strategic roadmap for future growth
- Creates an actionable plan that identifies tangible key initiatives
- Establish a clear process driven approach to planning

The CPO must ensure that procurement forms a key part of the customer focus team.

Fig 1. Strategies for growth





Procurements New Obligation

It is difficult to discuss growth without talking about innovation. Corey Billington and Frangois Jager of IMD business school in Switzerland described innovation as procurements 'new obligation' and that supply management professionals should recognise that procurement processes lie at the core of the innovation process. To fulfill this new obligation it is useful to define what innovation is to your company:

- **Access to new products:** When suppliers develop new products with new or improved functionality, appearance, performance, lower cost etc that is better than current or competitors product.
- **Access to New Service:** When a supplier offers improved appearance, reliability, responsiveness, competency and/or courtesy etc that is better than current or competitors service.
- **Access to new processes:** When a supplier offers goods or services which are faster, more productive etc which improve your company's process.
- Innovation may not be completely new, it just has to be new to your company or industry.

Innovation is a key enabler of growth and should be managed through the development of key capabilities to capture the value of innovation. It requires a clear strategy with metrics, a definable process to deliver the innovation and be adequately resourced with clear roles and responsibilities. The specific role of procurement is to understand customer requirements, identify suppliers, build relationships, negotiate terms, facilitate the evaluation process, and draw up a contract that secures exclusivity of the product, service or process if it's successful, for a limited period of time.

Innovation Culture

In many industries today a company's suppliers are responsible for significant technical innovation and are a source of resources and expertise. Whilst many CEO's cite innovation as important for their company's growth, it is largely managed on an ad-hoc basis. This represents a considerable obstacle for procurement, who will not effectively tap into this expertise unless the leadership promotes a culture of innovation within their company. Prerequisites for an innovation culture include:

- Continuous and visible support from top management
 - ✓ Define sponsorship and leadership
 - ✓ Roles and responsibilities



- ✓ Set goals and objectives
 - ✓ Establish review and tracking mechanisms
-
- A decentralised focus on innovation activity
 - Suitable incentive structures to foster the right behaviours from employees

Unfortunately, there is often a history of adversarial style relationships with suppliers that must be overcome, but this is unlikely to happen overnight. It takes time to build long-term sustainable supplier relationships and to change the perception within an industry of buyer behaviour. A company that has focused only on cost will need to spend time convincing and educating suppliers that it now wants to work with new ideas and wants to be a preferred customer to its suppliers. Tangible steps that can be taken include:

- Involvement of senior management
- Setting clear goals and objectives for innovation from the relationship
- include innovation in the service-level agreement
- ensure regular discussions about what kind of new ideas suppliers can bring to the table

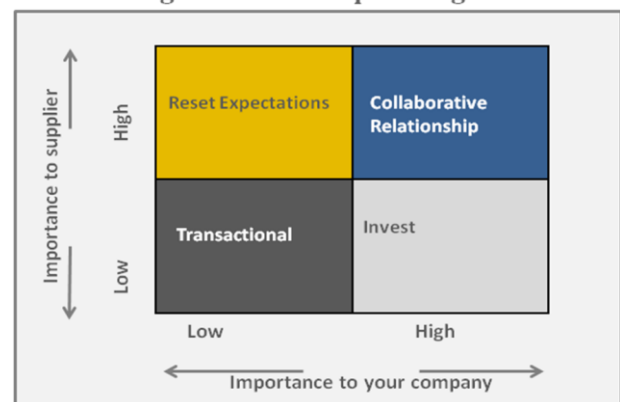
This change of approach also needs to occur with non procurement personnel in other functions who also come into day to day contact with suppliers and be reflected in their behaviour, if a company is to succeed in developing successful collaboration with suppliers to drive innovation and growth.

SRM & Collaboration

Reality dictates that a supplier can only have truly collaborative relationships with its most important customers. It is also unrealistic to remove every incentive for a supplier to collaborate with your company and at the same time ask it to commit its best people to your collaborative initiatives (Fig 2). This highlights that the resources of collaboration are a scarce commodity for which companies are not only in competition for the best customers, but also for the best suppliers. It follows therefore, that a collaborative approach to managing suppliers, one focused on creating benefits for both parties and ultimately for the final customers they serve, will be the best approach to securing these scarce resources.

The engagement strategy for these critical suppliers usually consists of:

Fig 2. Relationship Strategies





- Strategic intent
- Roles, responsibilities and governance process
- Activation process and initiative plan
- Guiding principles for the relationships

By identifying and building relationships with these suppliers procurement can pursue competitive advantage through:

- Influencing the supplier's R&D investment to address their own specific challenges
- Benefiting from the supplier's knowledge of and experiences with other companies
- Gaining preferential access to goods and services in high demand
- Securing preferential access to supplier capacity
- Linking suppliers into the supply chain to increase service levels
- Gaining preferential access to supplier innovations
- Reducing time to market

Procurement can lead the way for the next level of collaboration, which occurs supplier to supplier. Leading companies are designing and implementing 'value chains' in which selected suppliers are given a lead collaboration role in managing the relationships and activities among a group of suppliers all focused on the final customer. This is an important role for the procurement function in terms of leading the relationships within these value chains and your own company; to secure new levels of co-operation and innovation to create value.

Metrics

In this brave new world, procurement performance metrics need to change from price reduction to revenue generation, otherwise why should a procurement manager drive innovation if they are not measured on it?

Because the results of growth initiatives may not be apparent until sometime in the future, it can be more productive to track the '*process*' of growth initiatives. i.e. how much effort is being applied to growth opportunities identified, rather than waiting to see if those actions were successful. This can be done by considering process inputs and outputs:

- **Inputs:** Work priorities can be set to apportion the amount of time procurement staff spend on growth activities, i.e. 30 per cent cost management, 30 per cent stakeholder management, 20 per cent risk management and 20 per cent innovation. Work priorities can also be applied to the



time spent servicing innovation in existing products and markets verses new products and markets.

Targets can be set for initiatives such as the number of sources explored, customer trends identified, number of technologies reviewed, innovations applied etc

- **Outputs:** The review process then looks at what was achieved against the input targets set.

In looking at growth metrics in this way, the metrics of growth strategies measure the effectiveness of ongoing growth initiatives, not merely whether growth has occurred. Growth itself becomes the longer term result of the growth initiative process and can be measured by more traditional business metrics.

In Case We Forget

Despite all the talk of procurements desire to be seen as value creators, it should not be forgotten procurements traditional role as cost reducers plays a valuable part in providing the fuel on which growth is powered. The savings generated by procurement can if captured provide valuable funds for new investments which in turn power growth.

Conclusion

CEO's and CPO's must develop SMCC within their company and as they do so knit procurement strategies tighter and tighter to their own company's business strategy, by focusing on activities that help their company's customers grow.

By understanding customer requirements and managing the supply base to capture the 'value of growth', procurement can not only generate additional funds with which to further accelerate growth by funding new investments or providing additional incentives for customers, but also provide a level of innovation from its suppliers that delivers new products, services, enhanced levels of customer satisfaction and paves the way to enter new markets.

This is unlikely to happen without a highly skilled and accurately focused team. So whether or not the economist are right, the CPO they must unsure the green shoots of recovery have roots in SMCC.

For More Information

Purchasing Practice Inc can work with your organization to develop a strategic procurement capability that will add value and positively affect your top and bottom line. To learn more, call 1-778-988-1052 to arrange a free consultation, or visit us at www.purchasingpractice.com



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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.

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