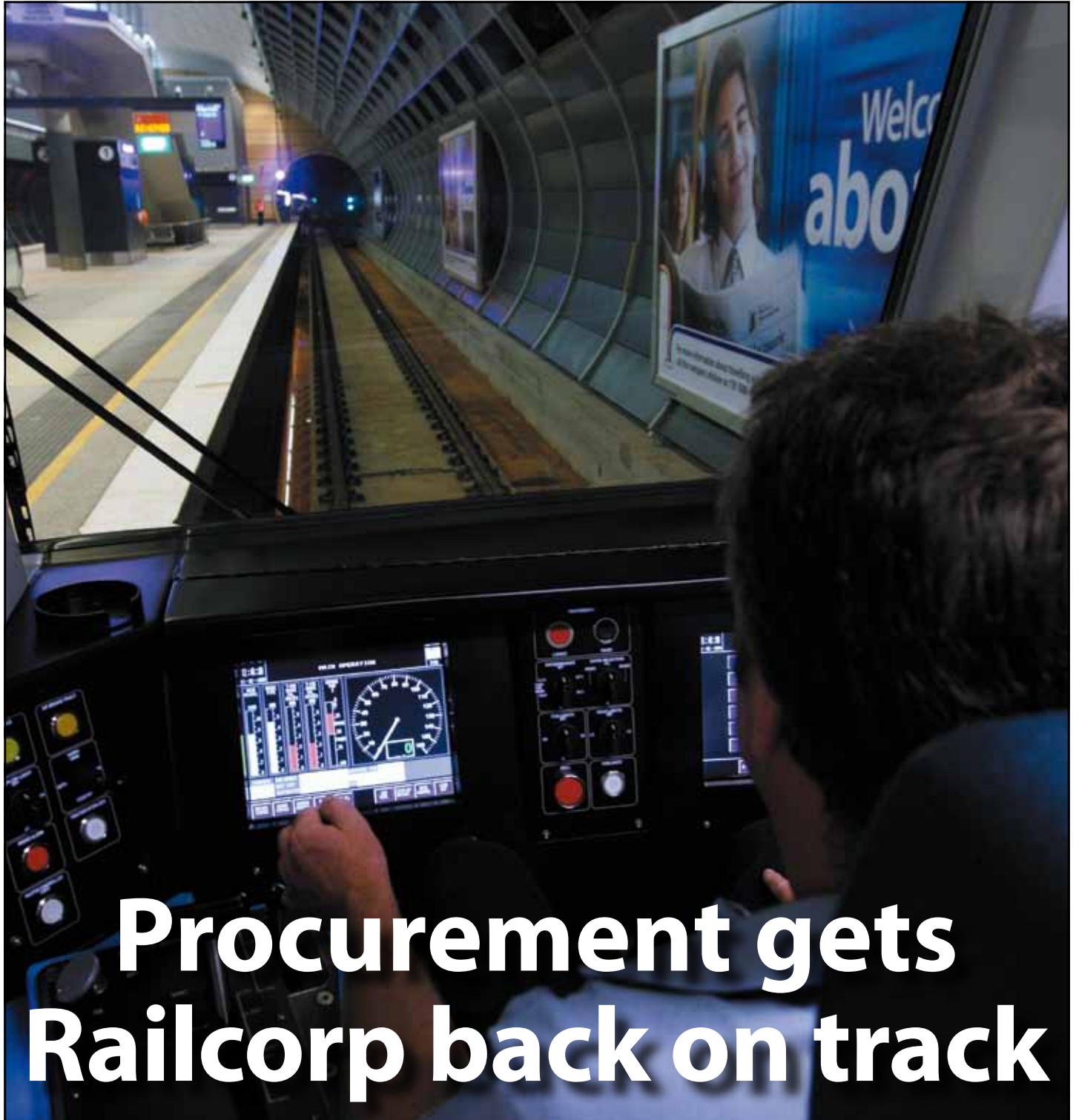


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Procurement gets Railcorp back on track

Driving Strategy

The growth game

Managing Risk

Dealing with currency volatility

CIPSA News

Regional leadership appointed

CIPS Australasia



Sourcing Procurement Professionals

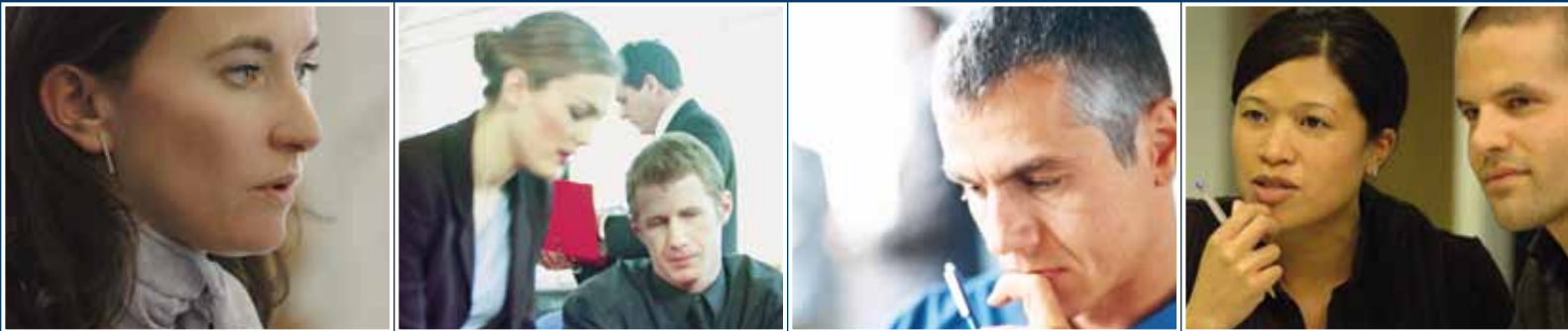
Hays Procurement is a top tier specialist global recruitment consultancy for contract and permanent procurement and supply chain professionals. We have an established reputation for providing quality candidates that exceed expectations, and are at the forefront of candidate sourcing and selection within the procurement industry.

The procurement market proved its resilience over the past 12 months as businesses recognised the profit contribution attainable through a quality procurement strategy. Recruitment activity was strong within the FMCG, pharmaceutical and public sectors, but weakened in mining and construction.

Many international businesses circumvented recruitment constraints through long-term (12 months or more) temporary assignments. A healthy number of entry-level roles were available for those commencing their procurement careers.

In order to recruit successfully at the executive level, employers need an in-depth, well-structured campaign. Candidate attraction strategies are still required at all levels, with a secure company and career progression essential components.

Salaries normalised in most job categories this year following very solid increases in previous years. Interestingly, candidates were accepting of this stability and the employer and opportunity rather than any possible increase in salary now motivates their job search.



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"We were looking for a Procurement Manager who would be key to our organisation. After running an advertisement on the job boards and in print we had an extensive response. The quantity was there but not the ideal candidates. After 7 weeks of running through the process we secured the help of the team at Hays Procurement. We had a comprehensive short list within 24 hours and had made an offer to a candidate within 5 days. A seamless and pain free exercise. The professional approach and level of knowledge and understanding of our requirements was exemplary. I would recommend Hays Procurement for any level of Procurement recruitment."

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Editor's Note



It's interesting that talk is shifting from downturn to recovery, and the challenge for procurement is to switch from cost-cutting to growth.

This is the theme in a number of articles in this month's edition, including Dave Henshall's detailed explanation of the need for procurement expertise which "speeds up the innovation pipeline and creates value chains to fuel growth". He argues that organisations must understand their current environment in order to build capability in the core competencies of their business, not only to sustain existing business but to build the resources that will drive future growth. Hopefully, some of this insight was gained in the last 12 months of introspection during which organisations had a good look at their structures and operations.

Increasingly, we hear talk about procurement-led processes. The assumption is that procurement can play a leading role in business development, moving out of the background and contributing to value creation throughout the organisation. But how does a cost-containment function gain a platform to influence the business? This is the topic of the debut article by new CIPSA foundation professor, Graham Hubbard, who argues that procurement has missed the boat in the past – for a number of reasons.

Hubbard's advice to practitioners is to understand the specifics of the business strategy, consider how procurement can deliver value in terms of the business strategy and spend more time influencing top team members about future business opportunities, rather than focusing on current cost savings.

Some of this, of course, is about procurement talking to senior management, and consultant Paul Rogers reaches into his toolbox this month to provide some valuable 'dos and don'ts' to help get the procurement message across most effectively.

On the topic of speaking to senior executives, we also include an article on CIPSA's new CEO, David Noble, and his mission to broaden and strengthen the global reach of the organisation. Noble is the first former practitioner to head the institute since 1966 and he has hit the ground running, already reaching out to big business and government and initiating a reshuffle of the organisation to ensure it is more customer-focused. He has visited Africa and China to promote the work of the institute and support members in those regions and will be a keynote speaker at the CIPSA annual conference in Melbourne.

That conference is already shaping up to be the biggest yet, with very strong delegate bookings and strong sponsor and exhibitor support. For those who miss the two-day event, the highlights will be reported in the December edition of Procurement Professional, just as the recent Public Sector Procurement Forum is covered in this edition.

Looking forward to seeing many of you in Melbourne.

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Growth

Text David Henshall

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Key Points

- > To prepare for sustainable growth, organisations must understand their current environment in order to build capability in the core competencies.
- > Understanding customers' needs and expectations is a key growth success factor.
- > A collaborative approach to managing suppliers will help to secure scarce resources.



The growth game

As economists increasingly talk about the green shoots of recovery, CEOs and business leaders are cautiously planning for the next growth cycle. David Henshall argues that leading procurement practices can make a powerful contribution to companies' play for growth.



David Henshall is the president of Purchasing Practice Inc (www.purchasingpractice.com), a Canadian-based international procurement consultancy.

During the downturn, smart CEOs 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 not only makes a contribution to cost reduction, but also speeds up the innovation pipeline and creates 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, CEOs need a procurement function that is more value-orientated and entrepreneurial, embedded as a strategic core competency across the organisation.

Supply management

To prepare for sustainable growth, organisations must first develop the foundation. Inefficient internal processes, poor understanding of customers and a lack of skills and resources in the right places create 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 competencies 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.

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 fosters links between procurement, sales and marketing, new product development as well as with human resources, etc.

Entrepreneurship: Modern CPOs 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.

Understand your company's growth strategy

As a company pursues profitable growth, it typically seeks to introduce new products and/or enter new markets. It can choose to do this either through its existing activities or by entirely new activities or both, whether via a greenfield initiative, a joint venture, a merger or acquisition. By being involved early in the strategy, procurement can ensure the company

Growth



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.

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&As, early procurement involvement is critical to capturing synergies and value.

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 customers' 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 that it:

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

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

Procurement's new obligation

It is difficult to discuss growth without talking about innovation. Corey Billington and Francois Jager of IMD business school in Switzerland described innovation as procurement's 'new obligation' and urged supply management professionals to 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 the 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. and which improve your company's processes. 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 to 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. While many CEOs 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;
- > A decentralised focus on innovation activity;
- > Suitable incentive structures to foster the right behaviours from employees.



DO NOT PUT A FREEZE ON YOUR PROCUREMENT CAREER

Unfortunately, there is often a history of adversarial 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. 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 and 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. 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:

- > 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, to secure new levels of co-operation and innovation to create value.

Conclusion

CEOs and CPOs 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 economists are right, the CPO must ensure the green shoots of recovery have roots in SMCC.

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