

# Modern Purchasing & Supply Management has a duality of purpose: Cost Reducer and Value Broker



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## Modern Purchasing & Supply Management has a duality of purpose: - CIPS Knowledge Summary

The economic climate is fast moving and organisations have to change just to keep pace. Technology is helping to increase global competition, which means organisations in every sector have to be able to compete on the basis of many factors, such as speed of delivery, cost efficiency, assured quality, innovation, flexibility and, probably most important, customer-responsiveness. Customer choice is driving organisational change as the customer wants faster, cheaper, better, more flexible and personalised availability of products and services. This has created an even greater burden on the procurement professional to deliver efficiencies whilst faced with a number of conflicting priorities during their daily activities. As a result many purchasing teams have evolved dramatically, taking on more responsibility and a more proactive role in organisations helping to shape their growth.

### The changing role of procurement

The role of procurement in modern organisations is changing as supply chain or strategic procurement departments emerge whose role is that of cost reducer and value broker. What does that mean? Ensuring that all procurement initiatives must be tied back into shareholder value and customer perceptions to drive costs down and both add and protect what is valuable to the organisation and the customer. In order to be seen as truly strategic and value adding, purchasing professionals must understand what is important and what value looks like within their organisation

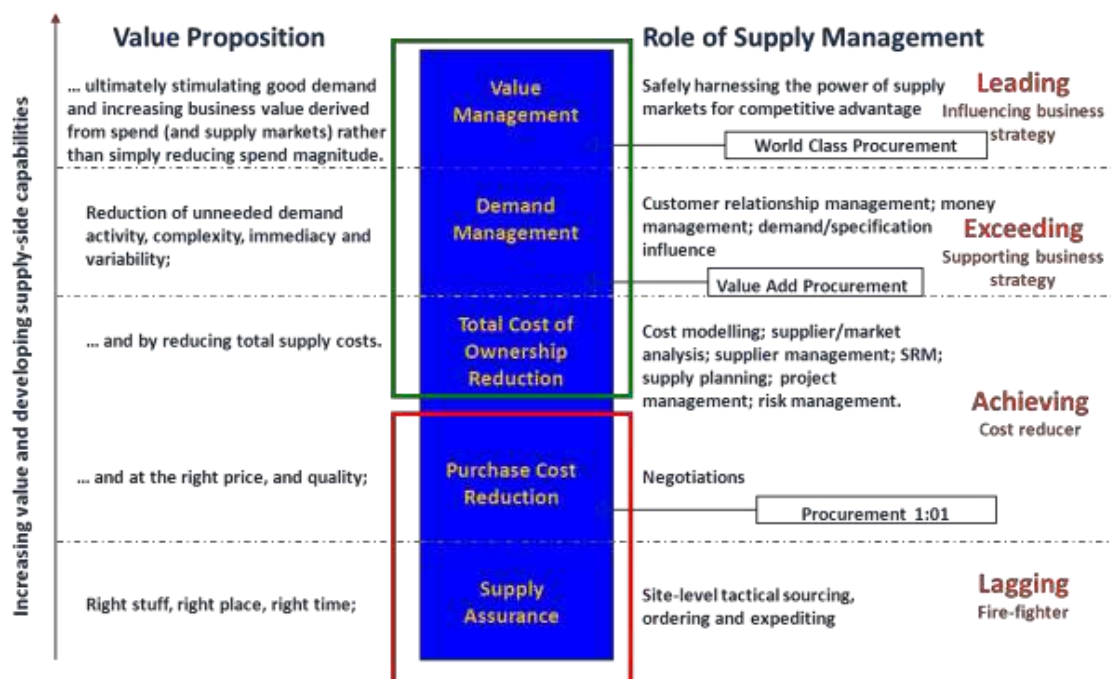


Fig. 1

This diagram (Fig1) illustrates the journey some purchasing functions have undergone to evolve into this new role:

- expanding its remit into managing risk and vulnerability within the supply chain, particularly when suppliers are scattered across the globe
- understanding complexities arising from the volatility of supply – for instance interest rates and exchange rates have changed significantly over the past year or so
- managing other risks such as shortages, disruption and reputational damage – natural disasters such as the ash cloud, earthquakes and flooding have recently presented many supply challenges to organisations
- the types of relationships we have forged with suppliers have changed. The recession taught us a hard lesson that we are all in this together and much more collaborative relationships have been created, based on shared risk and reward, but also encouraging innovation
- purchasing is becoming the forerunner for sustainability in the organisation both in initiating environmentally friendly innovations such as less packaging, and also ensuring appropriate conditions for workers throughout their global supply chains
- continued emphasis on the appropriate formulation and implementation of *high-level sourcing strategy*. There is great emphasis on the importance of ensuring alignment between corporate and supply strategy, building on the organisation's core competencies and leveraging the power of purchasing & supply management.

Procurement's role is increasingly focused on optimising the way in which organisations manage not only their inputs but also how these inputs are transformed into finished goods.

### The trinity of aspiration, capability and execution

#### Attracting and retaining procurement talent

As procurement expands its role, taking on more and more responsibility and bringing additional value to the organisation, the skills required to perform within the function change. Procurement professionals have become more focused on developing and implementing value creating initiatives, such as revenue generation, technology acquisition, risk management and ensuring sustainability goals are met. And yet there is a mismatch between the demand for and supply of high-quality experienced supply professionals and this remains a key challenge.

Relationships with organisations such as CIPS, can provide a structure for capability development and are critical in raising aspirations, developing capability and increasing performance levels. In essence, the ability of the organisation to attract, retain and train procurement professionals who can work cross-functionally; cross-culturally; who have 'softer' skills in leadership, collaboration and creativity is fast becoming a critical success factor.

#### Integrating internally with the organisation

Developing integration internally with other functions of the organisation has often received less attention than how we integrate with our suppliers and customers. However, internal collaboration and integration is absolutely necessary to access gains from information sharing, decisions related to outsourcing/insourcing and helping other operational units meet their cost savings targets. There is a role for procurement in generating senior level commitment, improving their status in the organisation and their contribution to strategy. This increased recognition within organisations may also provide an opening to expand procurement into

examining other drivers of cost beyond the goods and services purchased by the organisation, such as sales, or the more general and administrative aspects of the organisation's activities.

### Building value-creating relationships

Robust and forward-looking category management strategies help drive value creation through collaborative relationships with suppliers. Identifying, segmenting and modifying attitudes to working with suppliers, who are considered to be strategic, will help procurement align the supply base with corporate strategy and support the core capabilities of the organisation. Creating this value also requires that procurement acts as a central node within a network, managing groups of suppliers, rather than taking a single supplier approach.

Increasingly, (and in no small part as a consequence of the 'downturn') value-creation can be achieved through becoming the 'customer of choice' by understanding the supplier's position and building the trust required to create win-win outcomes. Developing this perspective on supplier relationships is critical to achieving cost savings by identifying and jointly eliminating supply chain waste with the supply base.

### Investments in technology

Technology developments, such as procure-to-pay and e-sourcing products, have boomed in recent years. Harnessing these new technologies requires both management buy-in, and acceptance of them among procurement staff, who will also need to have the skills and capabilities to implement their use and utilise the information they provide. Optimising the use of these e-sourcing technologies will likely cause headcount reductions across tactical purchasing activities, whilst illustrating value-add from effective, efficient professional procurement.

These same technologies, implemented globally, can underpin the creation of virtual teams with access to the same information regardless of their geographical location.

### Summary

The value that a strategic procurement department can add varies from organisations, down through to industry and sometimes even at a spend category level, as does the value proposition. Aligning procurement strategy, processes and policies to shareholder and customer value is key in order for procurement teams to be taken seriously and become a fully embedded part of the organisation rather than a bolted on administrative function. The traditional measures of cost saving are insufficient. Wider measures on shareholder value and the link between procurement strategy and business performance need to be considered nowadays. Definitions of value are becoming vitally important to capture the success and impact of procurement activity on the business.

### So what does it take to become a high performing purchasing team?

**Leverage the full capability of their supply markets** – maximise your suppliers to glean as much value as possible. Purchasing must act as both gate keeper and gate opener. Value can be reducing costs as well as maximising innovation or process re-engineering etc.



**Have flexible rather than rigid operating models** – be open-minded about how things can be improved and ensure you can switch processes and operations to avoid or limit risk.

**Create clear value propositions that are understood and valued by stakeholders** – talk the language that your stakeholders understand to demonstrate how you add value, and develop ‘customer friendly’ processes that work in synergy with the business. Make sure the business is getting the most from their suppliers and from you too.

**Engage in business spend planning, not just ‘spent analysis’**

Work with the business on ‘spend planning’ as part of financial/operations planning and budgeting, gaining earliest influence, and provide forward-looking economic spend/supply information rather than forensic ‘spent analysis’ activity – ‘post mortem’ strategising.

**Explicitly align to the business through a project portfolio plan**

‘Join the dots’ in tying metrics, processes, and capabilities to your value proposition with the business rather than working on these individually. There are currently too many disjointed activities within the procurement project portfolios of many organisations.

**Protect the business from supply risk and from itself**

Use formal risk management and market intelligence techniques to provide the business not only with visibility into risk, but also with a governance structure and process on how to best treat them.

**Shift the game from talent to knowledge**

Move from a purely talent management model (‘throw the best people at it’) to a knowledge management model by:

- 1) Shifting from current FTE staffing models to more flexible/variable resourcing models and
- 2) Providing better IT support for better capture and re-use of knowledge/intelligence.

**Turn data into information, intelligence, knowledge and insight**

Use information management as a weapon to transcend basic ERP/e-sourcing to a more thoughtful information architecture that helps manage extended supply chains and external intelligence.

**Measure suppliers, but also tap their hearts, minds and budgets**

Not only measure the suppliers through automated scorecards, but work collaboratively with suppliers to reduce total supply costs (not just supplier margins) and create innovations that will deliver economic value. Be around not just when you most need them, but also when they most need you.

**Uses P2P transactional processes as an asset –not a liability**

Provide not just ‘hands free’ processes to make life easier for procurement, but a failsafe ‘guided buying’ experience to channel employees to preferred buy-pay channels.

The key challenge of developing a strategic procurement capability lies in hiring the right people. Procurement professionals have increasing responsibility across more spend categories, often with a reducing headcount in the area, at least at a tactical level. Recruiting,

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retaining and developing staff who possess both the technical and people skills to drive procurement forward as a value-creating function are crucial. Make some small changes in your organisations today; network and learn from your peers; develop internal case studies to prove to the business what value you can add. The time is now for you and your procurement team.

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