Ardent | Partners

SUPPLY MANAGEMENT EXPERTS

Five Transformative Strategies to Unlock More Procurement Value

Underwritten by:

BravoSolution

Andrew Bartolini,
Chief Research Officer
Ardent Partners
June 2015

REPORT SPONSORSHIP

The views and opinions in this report represent those of Ardent Partners at the time of publication. Sponsoring companies have had no measurable influence on the content and research in this report. The contents of this research report are the exclusive property of Ardent Partners. Please direct any comments or questions regarding our research sponsorship policy to Ardent's Chief Research Officer, Andrew Bartolini, at abartolini@ardentpartners.com and/or 617.752.1620.

Sponsor:

BravoSolution

BravoSolution is a leading global strategic procurement solution provider. Our procurement technology platform and practitioner experience help more than 600 companies and 65,000 purchasing professionals in over 70 countries unlock the power of procurement to drive financial performance, build procurement organizational excellence, manage risk, and influence innovation. BravoSolution's approach to strategic procurement consistently delivers business outcomes to enable customers to outperform their market. BravoSolution has direct operations in 18 offices located in 12 countries across four continents, employing more than 600 procurement experts. To learn more, see http://bravosolution.com.

Contact:

217 N. Jefferson Street, Suite 400,
Chicago, IL 60661
T: +1 312-373-3100
F: +1 312-373-3140
www.bravosolution.com

Five Transformative Strategies to Unlock More Procurement Value

The current generation of procurement professionals has witnessed first-hand a period of unrivaled advances for their profession as market forces and new technologies combined to pull procurement to the center of business operations and business results. But in 2015, many Chief Procurement Officers ("CPOs") and their departments find themselves at a crossroads, struggling to maintain their momentum while the speed and complexity of their businesses continue to accelerate. And, while the foundation of procurement's future will be built upon the past, the strategies and approaches that drive new successes will be markedly different. This report looks at the transformative strategies that will unlock procurement's next wave of value.

"[Procurement]… It's about value and being focused on value. Purchasing price is important but value is far more." ***~ Sam Walsh, CEO, Rio Tinto (March, 2015)***

In 2015, more and more CEOs talk about procurement because they interact with their CPO and the function more directly and to a much greater degree than just a few years ago. These include CEOs like the recently retired Allen B. Graham of Air Transat, who worked aggressively to make that reporting structure happen. Soon after his appointment, Graham moved the procurement department under his direct oversight (the CPO had reported to the CFO) as part of a move to help establish a culture of cost management within the company; the results were fantastic. And then, there are a handful of CEOs who gravitate to procurement because it is what they know based upon their direct experience and work history in the profession; Tim Cook, CEO of Apple – a former CPO – is one very notable example of a procurement leader who unlocked extraordinary enterprise value that extended far beyond the normal scope of procurement operations. It was Cook's supply chain strategies and execution that enabled Steve Jobs' product strategy and vision to be realized

Examples like the CEOs mentioned above are not yet pervasive, but they are not entirely unique either. Ardent Partners research shows that, today, slightly more than one in five (22%) of all CPOs report directly to the CEO. That means that more often than not, procurement leaders must work to earn their access to the top of the organization with crisp execution and the delivery of consistently strong results. The good news is that CPOs and their procurement departments are better equipped to gain this access and support the strategic objectives of the CEO and the overall enterprise than at any other time in history. This has been driven, in no small part, by the development of more advanced procurement capabilities and the utilization of powerful process automation tools like eSourcing and Spend Analysis, which can support a wide-range of business objectives and enable collaboration and visibility. These are the same tools that helped ignite, in the early 2000s, the broad-based transformation of the procurement profession that continues today.

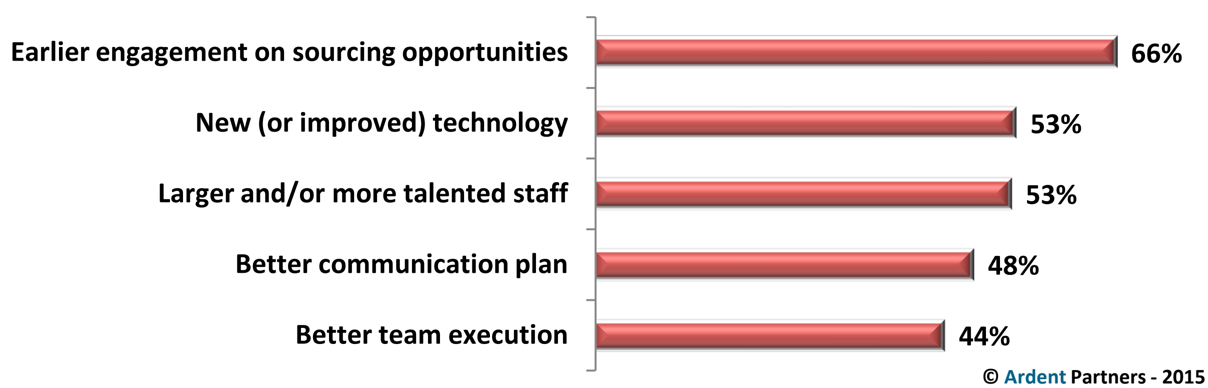
Soon, however, the need for procurement to do (and deliver) more will take on a whole new urgency – the accelerating speed and complexity of business will demand it. As impressive as the advances made by the procurement profession in recent years have been, any deep examination of procurement and business trends makes clear that the tried and true strategies that typically took a "command and control" approach to both suppliers and spend will soon begin to yield to more proactive and highly collaborative methods. There is, after all, a difference between managing (or influencing) spend and managing it well. Transformative strategies designed to leverage the collective resources and capabilities of stakeholders, organizations, and trading partners will be the keys to procurement's ability to unlock more value in the future. Ardent Partners recommends starting with the following five.

Transformative strategies designed to leverage the collective resources and capabilities of stakeholders, organizations, and trading partners will be the keys to procurement's ability to unlock more value in the future.

Transformative Strategy #1: Earlier Engagement

The first strategy on the list is perhaps the easiest to identify since it was called out in a recent Ardent Partners survey of more than 300 CPOs and other procurement executives as the top strategy to help their procurement departments break through to the next level of performance. As shown in Figure 1 below, procurement leaders believe that gaining earlier engagement on sourcing projects is the single largest opportunity to unlock more procurement value. Getting involved earlier in a sourcing project gives the sourcing team a much greater chance to influence the process and ultimately, the results. Earlier Ardent research has shown that a longer "runway" for the sourcing team can translate into greater savings, higher quality, and lower risk. With more time, sourcing professionals are better able to leverage their category expertise and the expertise of suppliers to refine the final requirements and make better decisions. Problems can be solved before they start when procurement acts as a strategic advisor instead of simply an order-taker.

Figure 1: The CPO's Top Drivers for Future Success



There are myriad strategies that procurement departments can use to get involved sooner on sourcing projects, including embedding procurement staff within the business, conducting regular meetings between procurement leaders and budget holders to review all upcoming sourcing needs and requirements, leveraging eSourcing technology to conduct a more visible and collaborative projects, developing strong marketing and promotion of sourcing successes, using automated Spend Analysis to better identify upcoming sourcing needs and provide stakeholders with regular access and insight to their spend information, and setting clear policy directives on how and when procurement should be engaged.

Transformative Strategy #2: Talent (and Knowledge) Management

For more than a decade, finding and retaining the right talent has been a top constraint for CPOs. This challenge for procurement leaders is one of both staff size and capabilities – staffs are too small and the talent mix is insufficient for the objectives at hand. The difficulty in raising a job requisition in procurement has made "doing more with less" the standard operating procedure for many procurement departments. Exacerbating this problem is the increasingly transitory nature of employment, where average job tenures are shrinking dramatically. Finding and developing the right talent is hard enough, without the perpetual threat of also losing that talent. Faster staff turnover makes organizational knowledge management and retention significantly more critical. Deliberate strategies must be developed to capture existing and emerging category, process, and supply market expertise. A sourcing project simply cannot stall for six months because a sourcing manager leaves to take a new job. Process automation tools that automate sourcing and contracts can be leveraged to capture and codify organizational best practices as well as any ongoing project activity so that new resources can step in, if needed, to provide project continuity.

Accordingly, CPOs must work to align current capabilities with the overall strategy and regularly evaluate on-hand resources to determine (1) if they are equipped to support the annual and multi-year strategic plans and (2) if they are the best that the group can afford. Above all else, resource allocation must be fluid and enable procurement organizations to get the right talent focused on the right opportunities at the right time. To do so, most CPOs should be open to adopting a total workforce optimization strategy that includes the use of "non-traditional talent" (a phrase now widely-utilized to describe all outside or non-employee talent like contractors, temps, and third-party consultants). More broadly, enterprises are experiencing a transformation in how non-traditional talent permeates their workforce, further blurring the lines between traditional and contingent workers. It is imperative for CPOs to understand the changing employment landscape.

Transformative Case Study: Procurement-led Innovation

Over the past 12 years, this Senior Director of Strategic Procurement has transformed his department and helped his company save millions of dollars, making it highly competitive in its industry. Ironically, the company operates in an industry where service – and not cost – is king. "While we have developed a very strong cost culture, we are a company that is willing to pay more," notes this procurement leader. As the procurement organization matured, he introduced a sourcing evaluation process that has increasingly focused on supplier capabilities over final cost. "We will not enter into an agreement with a supplier if it is not a win-win. And, we will pay more for superior, innovative, and interesting suppliers." As an organization that has its costs well under control, the opportunity to achieve the next level of value exists within its supply base; this requires a different type of supplier relationship – "Suppliers are our partners and we must help them control their costs," says this seasoned pro.

While the cost-side successes have been fairly straightforward, this executive also sits on the company's Innovation Council, which focuses on improving the company's products and services and tries to identify new ones as well. Says this leader, "Innovation is so important to the future of our business. We want to provide a different customer experience. We generate ideas and procurement takes them to our suppliers. Because they are true partners, our suppliers listen to us and they co-invest with us. Procurement will move the business."

Transformative Strategy #3: Collaborative Innovation

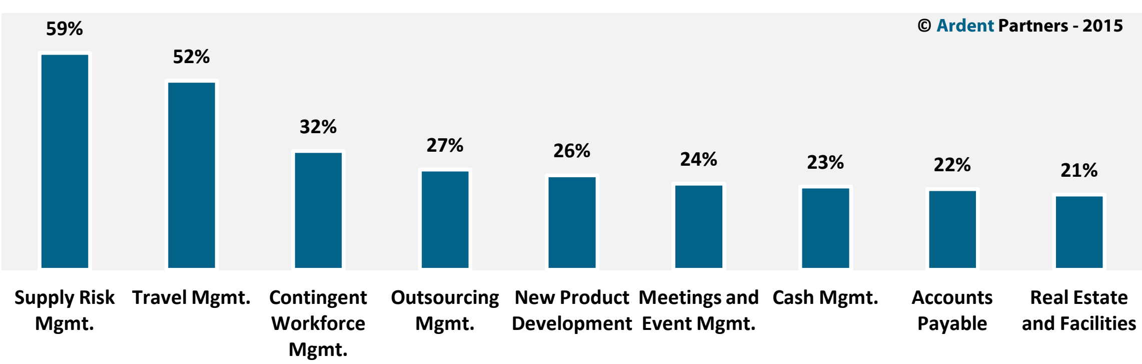
Business continues to change at an accelerating speed, as enterprises and their suppliers are forced to adjust to new, disruptive technologies, intensified competition, and a marketplace that continually resets its expectations. As a result, business requirements have become more diverse and dynamic, and lead times are shrinking and getting shorter, while the definitions of performance and success have become moving targets. Businesses can no longer rely solely on their own devices (literally and figuratively) to thrive and survive – change is happening too fast and approaching from far too many angles for a single enterprise to keep up. Leading organizations know that in order to maintain market share and market relevance, they must find strong business and trading partners with shared or aligned interests and develop a coalition of willing forces who can leverage their collective strengths for mutual benefit. Procurement is in a unique position to serve as a collaboration/innovation hub for both internal and external stakeholders in support of any enterprise-level "innovation" initiative. Ardent recommends these strategies to support supplier innovation programs:

- Define (or redefine) "Supplier Innovation" for your team and to your suppliers
- Establish trust and open communication with key suppliers
- Provide clear incentives and rewards to suppliers for their innovations
- Develop separate project teams for supplier innovation
- Vary the approach based upon type of supplier and potential opportunity
- Develop a set of supplier innovation metrics to help track program performance

Transformative Strategy #4: Role Expansion

Within the enterprise, business processes and functions are converging around value and shared interests just as some business partners are along supply chain lines. Located where it is within the enterprise, procurement is ideally suited to take on new roles and responsibilities and, as shown in Figure 2 below, it is increasingly being asked to do so. For some procurement groups, expansion has come in the form of managing new, complex categories like travel, contingent workforce, BPO, and meetings while others have taken over wholesale business functions such as accounts payable and facilities management. Others see expansion in areas that are often closely associated with sourcing and suppliers – supply risk, new product development, and cash management. Anecdotally, more procurement departments are also getting involved with the "front-end" of the house, specifically sales and customer relationships in support of the sales process, including trying to get large suppliers to become customers and providing training to sales teams to learn how to deal with procurement. Procurement can also play a role in customer areas like lead-time improvement and inventory reduction programs. Whether by design or necessity, the responsibilities of the procurement department will continue to grow and sometimes shift; with it comes the opportunity to make a larger impact and unlock more value.

Figure 2: Expansion – New Responsibilities for Procurement (Last Five Years)



Transformative Strategy #5: Balanced CPO Scorecard

The CPO is better equipped to support the strategic objectives of the CEO and the overall enterprise than at any other time in history. This has been driven by the development of more advanced procurement capabilities and the utilization of powerful process automation tools which can support a wide-range of business objectives.

For a plethora of reasons, savings can fail, by a significant margin, to capture the full value that the procurement group delivered in a reporting period. Savings, assuredly, is an important component of procurement performance, but a focus on it to the disregard of other key metrics does procurement and the CPO a huge disservice and devalues their contribution. More importantly, it can serve to limit procurement's actual contribution to the business. If procurement leaders are going to truly unlock more procurement value, they must begin to consider, discuss, and develop a more sophisticated, comprehensive, and balanced way to evaluate and present procurement's performance to the larger enterprise. Ardent Partners recommends the development of a CPO Scorecard™ that incorporates the following:

(1) **Hard financial metrics** including savings and cash flow impact
(2) **Stakeholder metrics** including internal customer feedback and supplier performance and risk
(3) **Process and technology metrics** including procurement efficiency and activity metrics
(4) **People and knowledge metrics** including staff competencies, training, and retention

The scorecard metrics should be linked directly to a procurement department strategy document (or plan) which, in turn, should link to the primary goals and objectives of the enterprise. The actual metrics and their associated weights may be unique to each group and based upon specific strategy, industry, supply, and enterprise specific considerations. Those groups that successfully implement a CPO Scorecard™ will have a formalized mechanism to validate their strategic plan and evaluate their success in executing it as well as a clear way to communicate procurement's strategic value and vision to the larger organization.

Conclusion

To this point in procurement's history, efficiency, compliance, and basic execution have been paramount. But, the world is changing fast – so, while it is important to understand

and learn from our history, it is vital to execute in the present and plan for the future. The need for innovation now extends beyond mere products to business models and functions and procurement has the opportunity to play a central role in finding, managing, and transforming that innovation into tangible value. Procurement organizations that were designed solely to control both spend and stakeholders will begin to have trouble distinguishing themselves and their performance in the near-term and may even struggle over the long-term. For procurement organizations, the ability to perform the basic "blocking and tackling" duties across the source-to-settle process have become table stakes while the ability to sense and adapt to the dynamic changes and growing complexity within their departments, enterprises, and supply chains are becoming competitive differentiators. The procurement profession needs new, more proactive strategies, technologies, and approaches to propel it to the next level of performance. The winners in procurement will be the agile organizations that can inject their systems, culture, and operations with transformational strategies designed to unlock more procurement value.

Case Study: When Success Breeds Higher Expectations

One CPO of a Fortune 200 company, who has leveraged supply management technology to significantly impact his company's business, recently relocated to a newly opened center of excellence in Eastern Europe. The center of excellence was established to help his company develop regional procurement expertise and begin to identify and develop regional suppliers, but it was also established to help the company better understand the opportunity to sell its products and services in the local market. Says this CPO, "The more mature you are as a procurement organization, the more extensive the value proposition you offer becomes; this results in a more extensive performance expectation, too. For example, if I look at how I am evaluated today, the standard things like 'cost, quality, and delivery' are what we're expected to deliver; these don't generate special kudos. Our [internal] clients have learned to anticipate far more value from us."

This globally renowned CPO capitalizes on the position of his team to drive value in both traditional and very innovative ways – this leader has driven extraordinary supply chain synergies by driving costs out and becoming a more agile organization. This CPO's team has also been involved in highly strategic initiatives like company divestitures and working to develop and transform regional suppliers into global partners. While this CPO's level of strategic impact stands out as an exception in today's market, it should, in the not-too-distant future, become the rule.

APPENDIX

ABOUT THE AUTHOR

Andrew Bartolini, Chief Research Officer, Ardent Partners

Andrew Bartolini is a globally-recognized expert in sourcing, procurement, supply management, and accounts payable. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their finance and procurement departments. Andrew is also the publisher of CPO Rising, the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com) and Payables Place, the leading global source for ePayables news, research, and analysis (www.payablesplace.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 200 times in seven different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their accounts payable, sourcing, procurement, and supply management operations and his research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (managed projects totaling more than $500 million in client spend), business process transformation, and software implementation provides a 'real-world' context for his research and writing.

Andrew has been named a "Pro to Know" by Supply and Demand Chain Executive three times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

ABOUT ARDENT PARTNERS

Ardent Partners is a Boston-based research and advisory firm focused on defining and advancing the supply management strategies, processes, and technologies that drive business value and accelerate organizational transformation within the enterprise. Ardent also publishes the CPO Rising and Payables Place websites. Register for exclusive access to (and discounts on) Ardent Partners research at ardentpartners.com/newsletter-registration/ and join its LinkedIn Group.

CPO Rising 2015: The Procurement Event of the Year

October 20 & 21 – Boston, MA

This October, a select group of Chief Procurement Officers and other business leaders will come together at the Harvard Club (Back Bay) in Boston for the inaugural CPO Rising 2015 event, an executive symposium brought to you by Ardent Partners.

This exclusive event promises valuable networking opportunities and the interactive exchange of ideas for CPOs and other procurement executives. Attendees can expect to return home with a collection of new and innovative ideas and strategies that will help improve the performance of their organizations and increase the impact their teams have on business results.

Online registration is opening soon with "Early Bird Pricing" available until July 15.

For more details and updates, visit www.cporising.com

THE CPO IS RISING IN 2015!