5 PRO TIPS FOR IMPACTFUL PROCUREMENT

Don’t Question Procurement’s Value, Deliver It
Over the years, Procurement has received a lot of attention as the organization has matured from a tactical function to a more strategic business unit. As a driver of major purchasing decisions, the function continuously and consistently works to demonstrate its success by correlating it’s impact to not only the success of its various stakeholder departments, but to the success of the enterprise as a whole. With a direct reach to the bottom-line, the question posed to us is no longer whether procurement has the potential to add value, but whether it can actually deliver value. While procurement continues to expand its influence, it is often met with significant challenges related to its technology, metrics, processes, and talent management. These challenges must be effectively addressed for the function to maintain its momentum and to not suffer a misstep that could cost valuable stakeholder buy-in. But, in order to be truly best-in-class, companies striving to advance procurement operations must avoid the common pitfalls of a one-size-fits-all approach and must instead align procurement’s structure to enterprise-specific goals, and seek customized solutions that will enable ongoing success.
Take a Balanced Approach to Technology

Leading Procurement teams leverage innovations in data and analytics to develop collaborative, performance-driven relationships with stakeholders and suppliers, mitigate risk, and gain a more comprehensive understanding of where efficiency gains can be made across the supply chain. While there is no question about the importance of new technology and the overarching benefits it can offer the organization, there isn’t a clear, one-size-fits-all strategy for securing and delivering a higher return on investment. Selecting the wrong technology solutions, ineffective tech implementations, as well as both an under- and over-reliance on the tools themselves are often the greatest unpredicted and consistently missed opportunities within Procurement. The most common trap associated with an over-reliance on technology is that there is no built-in flexibility. Often, procurement support tools; an ERP module, P2P platform, or a cloud-based e-sourcing suite; are allowed to drive the business rules and process of the procurement function. When they provide little or no flexibility, that rigid technological process can reinforce bad decisions and ultimately align an organization to the wrong supply chain partners.

Case-in-point, several Procurement organizations adopt a standard set of supplier qualification questions and incorporate them into their sourcing platforms to help streamline the RFX process. While these questions are intended to help qualify and evaluate potential suppliers, they are often too rigid and as a result limit the potential supply-base. Without proper vetting, otherwise qualified suppliers are then eliminated as a result of poor scoring mechanisms and misinterpretation of questions. Worse yet is when systems narrow the pool of competitors and suppliers in the marketplace without ever surfacing smaller, capable, often local suppliers.
Equally as counter-productive as over-relying on technology is underutilizing the technology already purchased. Investing heavily in technology without training your practitioners on how to use it may create a situation in which the program or platform becomes too burdensome to support. Analytics are essentially useless if the end user cannot interpret the data, or attempts to circumvent the process altogether. Reports are meaningless when no-one knows their purpose, and too often create busy-work that requires substantial time investment simply by stakeholders not communicating their needs properly.

Many organizations expend valuable time and resources on technology, when their time would be better spent on higher priority opportunities. Running analytics in excel manually may take up to several days to return valuable data the organization can use to analyze savings, whereas running the same scenarios through big data analytics tools can be accomplished in a matter of minutes, resulting in increased savings and efficiency.

Similarly, running the wrong metrics in the wrong analytic tools can burn up far more resources than simply banging out some numbers in excel.
Procurement has historically played an integral role in navigating competitive environments where cost mitigation is critical to business success, but the evolution of the function has seen more Procurement organizations seek out additional scope requirements and spend responsibility to increase the value and impact they deliver across the enterprise. As the Procurement function continues to grow and gain recognition, it is important that the process of measuring its effectiveness parallels this transition from an operational and tactical mindset to that of a strategic business partner. The Procurement function should be tasked and measured by a variety of value-added innovations rather than exclusively on cost savings. World-class Procurement organizations continue operating in a lean environment to deliver cost savings, since that has remained the primary measurement of their success to-date. The paradox of “doing more with less - for less” is that it is not sustainable; eventually cost-cutting efforts will decline, or quality metrics will suffer in order to continue reducing costs. The critical measures that have the greatest correlation between the overall businesses’ success and procurement’s contribution to it should involve a balance between financially-centric and operationally-centric measurements. Rather than focusing solely on short-term gain through minimizing costs (financially-driven measurements), Procurement needs to balance this focus with long-term stability and scalability through maximizing outcomes (operationally-driven measurements), drawing on the synergies between the two.

Procurement must identify strategic priorities not only within the function, but within the enterprise, and develop KPIs that have the greatest influence on those strategic priorities.
A significant and often underestimated pitfall within procurement is the extent of their involvement in the strategic sourcing process. The function needs to be engaged sooner, and remain active throughout the implementation phase to deliver savings that impact the bottom-line. Many organizations still adhere to a traditional procurement process that stipulates once a contract with a supplier is signed and executed, Procurement’s involvement is done. This is a primary reason many sourcing initiatives fail. In ‘The CFO’s View of Procurement’ report, AberdeenGroup, found that only 34 percent of projected savings are realized in a sourcing initiative\(^1\). That means that procurement is delivering less than half of what they promised to deliver.

The book *Managing Indirect Spend: Enhancing Profitability Through Strategic Sourcing* published by John Wiley & Sons asserts Procurement must develop an implementation plan and supplier relationship management strategy to reduce internal resistance, mitigate external risk factors that hinder the success of a sourcing initiative, and capture the remaining dollars left on the table\(^2\).

The implementation plan should factor in regular communication with key stakeholders even after a sourcing event closes. Perception is reality, and if Procurement doesn’t invest time in seeing the process through, the stakeholders left to finish the heavy lifting feel paralyzed and perturbed by the amount of work they have to do to complete the project rollout. In the future they may not be open to engaging the Procurement group who, in essence, created more work for them. Regular reporting to business leaders after a contract is awarded should be mandatory as it reaffirms procurement’s value-add, and the benefits of working with the function.
Minimum thresholds for procurement’s involvement must also be reevaluated. Rather than relying on antiquated, tactical strategies of only engaging procurement for high spend categories, organizations must realize the earlier procurement gets involved in a sourcing event the better. In a Procurement Leaders article, Don’t Forget the Bread and Butter, Gregoire Letort, CPO of Electrolux said:

“We are one of the only functions that can genuinely influence the flow of new innovations into the business.”

With practiced negotiation skills and sophisticated sourcing tools, Procurement teams are now equipped to form strategic business partnerships and drive better business decisions, but only if innovation is not stifled by rigid processes. Instead, innovation requires an open mind to outside solutions. Procurement must engage with internal stakeholders as soon as the need to go-to-market is realized to facilitate meaningful discussions regarding their requirements. The early involvement of procurement in a strategic sourcing initiative reduces risk and improves speed-to market.
Beyond harnessing the power of technology, early and continuous stakeholder engagement is an essential foundational step to ensure immediate and sustainable value is delivered, and optimal results are obtained at the end of strategic initiatives. Truly best-in-class Strategic Sourcing and Procurement groups understand the inherent value of meaningful collaboration across the enterprise; yet, many of these supply management organizations still fail to break down silos and fully immerse themselves into the ecosystems of their business counterparts enterprise-wide, resulting in a lack of alignment and unsuccessfully executed projects. To maintain a seat at the table, Procurement must proactively seek out stakeholder engagement and collaboration to foster a mutual commitment to accomplishing shared objectives.

Collaboration and cooperation with other areas of the business was a hot topic during the executives-only sub-conference, ExecIN, at the 2017 Institute for Supply Management’s Annual Conference in Orlando. Several Procurement executives acknowledged that collaborating with stakeholders from various departments not only provided greater access to subject matter experts, but also ensured that the functions were working together to identify and tackle risks. Identifying all stakeholders at the onset of a project and conducting interviews to select the appropriate strategy and approach based on their feedback will enable the function to deliver the required outcomes.
Since stakeholders are directly affected by the impact of any procurement decision, they have high expectations of procurement, and want them to quickly get up to speed in understanding the specific needs of their function. Therefore, it is critical that Procurement sets realistic expectations for each business stakeholders’ involvement in the sourcing process, outlining roles and responsibilities to enable accountability and form healthy business partnerships. Procurement must also set realistic expectations regarding competing company objectives, acting as an intermediary between those who seek long-term cooperative relationships with suppliers and those that seek more competition to minimize risk and decrease costs.

Treating all stakeholder groups the same is a formula for failure. Procurement must seek to find common ground and collaborate with managers at every level of the organization to proactively address any concerns. Ultimately, all involved stakeholders must benefit in order for a meaningful and sustainable change to occur.
As Procurement continues to transition from a tactical, reactive purchasing group to a strategic business partner within the organization, practitioners must refine their soft skills and learn new tools to effectively address stakeholder needs and respond to shifting priorities. The challenge is that many Procurement organizations are understaffed, and struggle to deliver the flexibility, scalability, and subject matter expertise necessary to truly add value. By leveraging a blended talent model in the organization, Procurement can sustain value creation and execute against transformative initiatives.

A high-performing procurement team strengthens the functions value proposition, drives top-line growth, and delivers savings to the bottom-line. In a statistical study posted by Intuit, a tax preparation software company, the research indicated hiring contingent workers is an ongoing trend that will continue to accelerate, with more than 80 percent of corporations planning to substantially increase their use of a flexible workforce. This growing number of non-traditional workers is indicative of the realization across Corporate America that an on-demand workforce provides a holistic approach to meet business demands. As Procurement’s scope of work becomes increasingly more complex and unpredictable, Procurement leaders must assess the resources available to continually meet business challenges. There are several viable options and as with any strategic decision, it is important to define your goal before determining the appropriate solution.
In his presentation “Three Cardinal Sins for the Modern Sourcing Organization” at the ISM Conference, Bill Dorn, VP of Operations at Source One Management Services, spoke to the notion of a blended workforce stating, “Companies are placing more emphasis on a blended workforce, recognizing the value of full-time procurement resources, skilled contractors, procurement service providers, and group purchasing organizations.”

Whether you partner with a consulting firm, or tap into the subject matter expertise of contractors, one of these creative options may be the key to increasing your return on investment and future-proofing your procurement team.

Top Procurement teams leverage innovative tools, collaborate with stakeholders and suppliers, identify strategic initiatives within the enterprise, and develop appropriate KPIs that capture the function’s influence on business priorities, outside of typical cost savings. By involving themselves early on in a sourcing event, proactively engaging stakeholders, and customizing solutions per the department’s needs, the function is successfully able to deliver value and increase their scope of support.

Ultimately, Procurement teams that align their people, processes, and technology with their overarching, enterprise-wide goals are able to deliver sustainable, scalable solutions, and truly impact the bottom-line.
ABOUT SOURCE ONE:

Source One Management Services LLC is a leading provider of strategic sourcing and procurement services. Founded in 1992, Source One has remained the consulting firm of choice for forward thinking organizations looking to advance their procurement and supply management operations and gain a competitive advantage. Acting as an extension to client resources, Source One delivers a wide range of category expertise, market intelligence, and procurement best practices to implement sustainable results in the form of improved supplier relationships, cost reduction, and efficiency.

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