Since 1992, Source One’s team of spend management consultants has helped guide the procurement function forward and drive the conversation around its strategic value. A lot has changed in that time. Solutions have evolved and advanced, supply chains have grown and shifted, and purchasing trends have emerged only to fade into obscurity. All these years later, however, some things remain the same. Our team still finds itself discussing one topic more often than just about any other: Procurement Transformation.

For most organizations, it’s no longer a secret that Procurement can handle more than processing purchase orders and managing inventory. The department, they’ve realized, has unlimited potential. Now, there’s just the matter of reaching that potential.

A successful Procurement Transformation initiative starts with defining the term itself. You can’t transform Procurement unless you’ve identified room for improvement.

That means reaching an understanding of what the department looks like, what it should look like, and how your organization can make these expectations a reality. Ultimately, Procurement Transformation means something different in every instance. The unique perspectives and experiences of each organization ensure there’s no one-size-fits-all approach to optimizing the department.

In the spirit of diverse perspectives, Source One is collecting reflections from a number of Supply Management and Procurement thought leaders. Over the course of this series, you’ll read along as our industry’s top minds wrestle with a subject that’s defined Procurement for decades now. Though they each possess a unique point of view, every contributor agrees that procurement groups must transform to survive. The days of idle roadmapping are gone.

It’s time for Procurement to take an active role in writing its own future.
Sourcing Strategies Group’s Jim Baehr kicks off our series with a historical overview of Procurement Transformation. Throughout his career, he’s not only witnessed shifts in the supply management space, but has also seen the term transformation undergo its own string of transformations. Beginning in the days when supply management was merely a suggestion, he traces the evolution of Procurement all the way to the present day.

How did Procurement Transformation go from a nice idea to a daily, industry-wide concern? Read on to find out.
Understanding business transformation is like trying to understand the mysteries of the universe. Is it about making changes? Is it about Business Process Re-engineering? Is it about transition? Is it about outsourcing? Is it simply semantics - just another way of saying change?

For Procurement, the road to understanding begins with a seminal work titled, *Purchasing Must Become Supply Management*, by Peter Kraljic published in the September 1983 issue of the Harvard Business Review. While structured Purchasing has been around a long time, at least since the days of the Roman Empire, the Kraljic article called for “nothing less than a total change of perspective: from purchasing (an operating function) to supply management (a strategic one).”

Surprisingly, the word transformation doesn’t appear in Kraljic’s article. It took about a decade for businesses and consultants to put his concepts into play and redefine them as transformation. It was a difficult concept to embrace.

It was quite an experience - the equivalent of trying to find your way to the light switch in a darkened room.

In the early 1990s, there were no purchasing technologies, no degrees in Supply Management, and no “how-to” manuals. There was little in the way of spend detail. No Verticalnet. No UNSPSC. No electronic catalogues. No sourcing-to-contract suites. No reverse auctions. And, category management was something retailers used to manage their inventory.

Procurement was a back-office function. In most cases, companies viewed it as a necessary evil. Those who saw value in the procurement process took control by establishing their own shadow Procurement groups. For example, look at the Information Technology Program Management Office.

One of the primary operational responsibilities of the PMO was to do IT’s buying. Procurement, they believed, couldn’t be trusted to handle these complex transactions. We had yet to win over Senior Executives. We hadn’t made the case for the “change of perspective” Kraljic described.
Despite some early achievements, transformations weren’t always successful. In March 1995, John Kotter penned “Leading Change,” for the - you guessed it - Harvard Business Review. The article included Kotter’s explanation for why so many transformations were coming up short. “Without a sensible vision,” he wrote, “a transformation can easily dissolve into a list of confusing and incompatible projects that can take an organization in the wrong direction or nowhere at all.”

Unfortunately, the emergence of so many new technologies, tools, and methods had become a distraction. Our new tools had certainly refined purchasing, but they didn’t provide this sensible vision. They led us on finite initiatives that focused only on buying. Worse, many of us truly believed we were transforming.

The transformations that did succeed were aimed at the big picture and fueled by Strategic Sourcing. They were disciplined, fact driven, and cross-functional. They leveraged spend analysis to determine buying behaviors, sourcing suites to tender opportunities, and negotiations management to achieve mutually beneficial strategic partnerships.

They produced results and earned trust. More and more executives came to realize that Procurement could be strategic. Leaders grew more willing to embrace the department and make it a business partner.

Admittedly, we were making it up as we went along. That does not, however, diminish this period’s importance. We stood on fertile ground. We were working together to reinvent the discipline, grow more strategic, and create greater value.
Then came the financial crisis of 2008. Companies responded by pursuing one single objective – reduce costs. Those who saw Procurement as nothing but a cost-cutting function felt validated. They had the perfect excuse to bring back outdated behaviors. At best, transformations went on hold. More often, they were abandoned altogether.

To make matters worse, the financial crisis cost many middle managers their jobs. These were the professionals who witnessed the first wave of transformations. They were the bridge between established professionals and emerging talent. Now, they were gone.

After the downturn, companies took a long look at their people, processes, and technology. Many decided they already had what they needed from Procurement.

The transformation process looked unnecessary - more trouble than a strategy. After all, systems were emerging to address everything from procure-to-pay to Supplier Relationship Management.

New hires were also arriving with technical skills and Supply Management degrees. As a result, Procurement transformation devolved. New initiatives focused on making changes around the edges, gaining book knowledge from new hires, and seeking out latest technologies. This wasn’t transformation.
Thirty-five years later, we see a new Procurement landscape, but transformation is no less relevant. The big difference is that we are no longer making it up as we go. We have experience and expertise that we couldn’t have imagined in the late 1980s and early 1990s.

We have technologies that enable the process and a generation of emerging professionals that have read the script and are prepared to star in the movie.

In fact, Procurement Transformation has even become democratized.

So, what hasn’t changed? Transformation is still within reach. Any company with vision, internal support, determination, and a solid plan can optimize their procurement function.

Thirty-five years later - Procurement Transformation can be done and is still being done!

All companies – big or small, private or public – are equally capable of refining their operations. This was unthinkable decades ago.

FORTUNE 500 COMPANIES
Cost reduction remains a priority, but digitalization, stakeholder collaboration, and talent management continually grow more important. It’s the perfect time to assess your current state and develop a vision of where you want to be.

FORTUNE 500 TO 1000 COMPANIES
You represent the “sweet spot” for transforming. In all likelihood, you’ve been growing for some time. You need to keep up the pace to bring more value to your stakeholders.

PUBLIC ENTITIES
Procurement means something different to you. You’ve got to ensure your stakeholders, communities, and rate payers that you’re doing all you can to spend wisely and manage costs. Yes, it’s possible to transform within the boundaries set by state and regional codes.

COMPANIES AT RISK
Nothing drives a transformation better than a sense of urgency. This is true whether you’re in abject peril or simply lagging the competition. Take time to assess your operations and develop a concise plan of action.

MID-SIZE ENTERPRISES
With a stable, clearly defined process, you can start to assess your operations and implement accordingly. Now’s the time to invest in the people and technology your organization needs to grow.

SMALL BUSINESSES
Transformation may be an overreach. You’ve still got an opportunity to conduct research and begin implementing best practices.
Source One Management Services is a premier procurement services provider and strategic sourcing consulting firm.

Since 1992, our team of spend management experts has supported best-in-class organizations in ensuring their procurement and sourcing capabilities are optimized and that they achieve the most value at the best possible price from their suppliers.

We serve as an expansion of client’s existing teams, saving them time and resources by applying our experience, tools, cross-industry best practices, and customized solutions.

In 2018, Source One joined Corcentric, LLC – a leading provider of Procurement, Accounts Payable Automation, and Billing Solutions. Together, Source One and Corcentric help companies optimize how they purchase, pay, and get paid.

Jim is the Lead for the Sourcing Strategies Group LLC (SSG) supporting the Supply Management needs of clients in both the Public and Private sectors. He’s also aligned with Source One Management Services (SOMS) as a Senior Advisor.

His recent corporate roles were as Vice President of Global Information Technology Procurement for Reed Elsevier, and Director of Technical & Services Procurement for Bayer Corporation. Jim has extensive experience in IT Management positions and an accomplished career in Sales.

Jim is the Past President of the ISM – Pittsburgh Affiliate and a member of the Board of Governors of the Joint Chemical Group of Pittsburgh.

He’s a frequent presenter at industry conferences; an established blogger; author of featured articles for industry journals and white papers on the relationship between Sales and Procurement; and a contributor to the book Next Level Supply Management Excellence: Your Straight to the Bottom Line® Roadmap.