Procurement Transformation: Industry Perspectives

Part 2—The Right Mindset
Why do so many Procurement Transformations come up short? The Art of Procurement’s Phil Ideson has a few ideas. Kicking off the second installment of *Procurement Transformation: Industry Perspectives*, he suggests Procurement could afford to do some soul searching. Before the department can transform its operations, he argues, it needs to transform the way it thinks about its self, its relationships, and its essential role within an organization.
WHO’S TO BLAME?

The best most Procurement departments can say today is that they’re ‘keeping the lights on’. While it is true that the number of companies with immature or non-existent Procurement functions is declining, it is equally true that only a lucky few companies are enjoying the full strategic benefits of an innovative and dynamic Procurement team.

Who’s to blame for this lackluster status quo? Is it the department heads who consider Procurement a cost-cutting nuisance? Is it executives who lack foresight and imagination? No. The lion’s share of the blame belongs to Procurement itself. That’s the bad news. The good news is that we are in the power position when it comes to resolving this situation.

Procurement has boundless potential. It can (and should) serve as the lifeblood of the organization. It can oversee strategic initiatives beyond the supply chain and have a hand in each and every department. How can Procurement teams that fall short of this consistent positive impact make a change?

How can Procurement reach its full potential and make ‘Procurement Transformation’ more than a buzzword?

The first step is to take full ownership of our current internal brand. The second is to act on that ownership and completely revolutionize our role and relationships.

THE PATH FORWARD

Sure, some organizations see Procurement as a ‘dirty word’. Years of little more than enforcing compliance and slashing budgets put a bad taste in the mouths of IT, Marketing, Finance, and more. In many cases, the taste still lingers despite the fact that we have made lightyears worth of progress in terms of streamlined processes, user friendly technology, and value-oriented objectives.

Procurement’s legacy tends to add to the challenge of transformation initiatives. After all, internal stakeholders typically won’t invest in optimizing a department they don’t consider strategically valuable.

If they think Procurement enjoys their disdain and disrespect like a movie villain embraces the darkness, they are sorely mistaken. Although it may sometimes look like we would rather lament our status than become the business partner we ought to be, we are really just trying to find the path forward – while managing corporate spend, creating value, building supplier relationships, and responding to reporting and analytical requirements with lightning speed and precision.
A CHANGE IN MINDSET

Procurement Transformations are nothing if not a change of mindset, one that can’t occur until we change our own internal philosophy. Procurement has had enough ‘tough love’, especially from within. If we want to transform our function, we have to start by forgiving ourselves, acknowledging our progress, and closing the door on past guilt. Then we can begin an active and open outreach effort to engage the rest of the enterprise in our transformation.

Believe it or not, Procurement transformations aren’t really about Procurement. These initiatives are about far-reaching and long-lasting improvements to the entirety of the business. Procurement just happens to play a leading role in seeing these improvements through. The size of the role depends on the maturity and capabilities of the individual department, but these initiatives are never the business of Procurement alone.

The early stages of transformation will come with a rewarding set of surprises. Rather than driving project kickoff meetings with an overly standardized process, conversations will begin with, “How can I help you?” and, “Here’s how we’re going to help.”

A CHANGE OF VOCABULARY

No Procurement department, however accomplished, has learned everything there is to learn, and the same is true of our internal stakeholders. Most long-standing processes and battle-tested techniques can stand to improve. Procurement’s insights and experiences are best leveraged as fuel for a cross-functional Transformation effort. By actively listening to internal stakeholders, absorbing constructive criticism, and working to build (or re-build) relationships, Procurement can begin to ingratiate itself with essential strategic allies and develop a more actionable vision for the organization.

Deemphasizing Procurement’s role in Procurement Transformation is a good start. Stakeholders from outside Procurement are far more likely to come aboard when they understand the essential role they’ll play in these efforts and the considerable benefit they’ll soon realize. In fact, when proposing, initiating, and managing a transformation initiative, it may even prove helpful to avoid using the word ‘transformation’ altogether.

Think of the word. What does it imply? It suggests a complete overhaul, a total revamp, a metamorphosis. These images can scare even the boldest and most forward-thinking of executives. No one – including Procurement and our internal stakeholders - wants to hear that everything they’re doing is wrong. No one wants Procurement to inform them that the baby and bathwater are both headed for the trash heap. The idea isn’t to start over, it is to make a self-aware and evolved step forward.

20% of CPOs report **collaborating internally and externally to deliver value** as a common leadership quality within their Procurement organization.
A Transformation

A more fitting (and far less dramatic) name for these endeavors might be, “continuous improvements,” “procurement evolution,” or “ongoing refinements.” Presented as such, these initiatives are less likely to suffer from over-analysis or fall victim to fatigue and low morale – not to mention the festering damage of old grudges.

As you can see, it’s not enough for Procurement to change our mindset and collaborate more closely with other departments. Nor is it enough for other departments to change their mindsets and rethink their attitude toward Procurement.

Across entire organizations, a fundamental change of mindset is in order. You might even call it a transformation.

It’s essential that everyone, from the purchasing team to the C-suite, change the way they think about Procurement Transformations.

It sounds like a paradox, but the most successful Procurement Transformations are those conducted without a strict focus on Procurement or Transformation.

“Believe it or not, Procurement transformations aren’t really about Procurement.”
What is a Procurement Transformation? That’s a big question. It’s a question that every organization will answer in their own unique way. How should Procurement go about transforming? That’s an even bigger question. Typically, organizations can only answer this one through trial and error. Why should Procurement transform? That’s the biggest, most thought-provoking question of all. Countless organizations initiate transformations before even pondering this question. Source One’s VP of Professional Services Joe Payne believes this is why so many fail. He reminds Procurement that the first step in any successful transformation is always asking, ‘Why?’
WHAT IT ISN’T

There are many reasons why an organization might decide to undergo a procurement transformation. Maybe executives aren’t getting the results they expect from the department. Maybe business stakeholders perceive procurement as a bottleneck to the organization, slowing down buying decisions and stemming innovation and flexibility. Maybe the organization needs to address issues related to supplier risk or compliance. Or, more likely than not, maybe the company is just looking for new savings opportunities and more efficient processes.

In each of these situations, the organization certainly has work to do and problems to address. None of these situations, however, presents a valid argument for undergoing a procurement transformation. Addressing any of these concerns may help Procurement reach a functional state, but they won’t address the fundamental issue that should drive every procurement transformation - increasing the overall value proposition to the business.

WHAT IT IS

So why should an organization initiate a procurement transformation? What underlying motives will truly move an organization toward “best-in-class” status?

Companies shouldn’t transform Procurement to answer a one-off question or chase a few extra dollars.

They need to transform the department because good sourcing creates a competitive advantage through both bottom-line cost savings and top-line revenue growth.

There is no other function within an organization that can have as big an impact to both the bottom and top-line as Procurement. There is no other group that, by its very nature, touches every other business unit – for better or worse.

As Phil Ideson explains, “Simply put, Procurement transformations aren’t really about Procurement.” This sentiment is absolutely true, and goes to the heart of why most procurement transformations fail – it’s because they aren’t transformations in the traditional sense of the word. The business that procurement supports (i.e. the entire business) needs to actively engage in the transformation.

Otherwise, it will prove impossible to achieve the alignment necessary for building a best in class Procurement unit.

Let’s use the example of a typical “Procurement transformation”. It likely starts with the creation of a procurement policy, or the revision of an existing one. It may include a communication plan for transmitting any changes. It may also establish a training program for introducing procurement’s people, tools, and processes to the rest of the organization. These are all great things – but they hardly constitute a transformation.

You see, a procurement policy will establish the terms by which the business must engage with procurement; the rules they need to follow. A true transformation goes much further. A transformation will fundamentally change the way the business thinks about procurement. It will inspire them to utilize the function because they want to. It will compel them to recognize the value Procurement can bring, the weight it can take off their shoulders, and the competitive advantages it can provide.

THE RIGHT MINDSET

Redefining Roles, Priorities, and Operating Models
A Policy Dictates Behavior, A Transformation Changes It

Opening this series, Jim Baehr proposed a “sensible vision” for transformation. I would agree, but also add that it’s important to remember even the most sensible vision can lose steam. It’s essential that procurement never lose sight of what a true transformation can provide.

A true procurement transformation will fix day-to-day issues to make life easier for every department. It will create efficiencies and promote a higher level of effectiveness. It will streamline processes and leverage technology. It will produce cost savings!

Most importantly, it will ensure the role of procurement is elevated within the organization. It will remind all internal stakeholders that Procurement has value that doesn’t fully reveal itself in savings metrics and KPIs. They’ll come to realize that producing optimal results means providing Procurement with a prominent seat at the table.

Externally, a properly engaged supply base will feel motivated to provide the market differentiators they reserve for preferred clients. Risk mitigation efforts, too, will improve. Not because a new process is in place, but because Procurement will accept a larger role in strategy sessions, and work to identify risk scenarios more proactively.

To echo Phil’s sentiment further, the true power of a procurement transformation is not tied to procurement at all. Rather, it is all about how a business recognizes the value of their Procurement function and answers the question, “Why do we need a procurement department?”

If you want to engage in a real transformation, never lose sight of that why.
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.

Philip Ideson is passionate about the role that procurement professionals and leaders can plan in creating competitive advantage for their organizations in ways that go beyond the traditional value proposition.

Philip founded Art of Procurement as a way for the procurement community to learn from each other, increasing the impact they have on their organizations. In 2017, he co-founded Palambridge, a virtual platform of procurement experts, technology, and intelligence. Palambridge provides a broad range of flexible procurement solutions, available on-demand.

Prior to Art of Procurement and Palambridge, Philip enjoyed a career that spanned the procurement value chain, working across three continents for organizations such as Accenture, Procurian, Ally Financial, Pfizer and Ford Motor Company.

Joe Payne is Source One’s Vice President of Professional Services. He leads the organization in bringing value to customers through strategic sourcing and supplier relationship management.

Over the course of a decade, Joe has supported Source One in its commitment to moving the Procurement function forward. His work has enabled organizations from the mid-market to the Fortune 500 recognize the strategic value of more proactive sourcing. He is continually recognized for his efforts to transform the Procurement function and drive the conversation surrounding it.

Payne co-authored Managing Indirect Spend: Enhancing Profitability Through Strategic Sourcing, published by John Wiley & Sons in 2011. He is a frequent contributor to the Strategic Sourceror blog and regularly provides thought leadership at industry conferences.