

Procurement's Chance to Shine

Procurement professionals today have a huge opportunity to make a powerful impact on business performance.

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The business contribution expectations for procurement professionals are increasing; gone are the days of simply “I need a PO for this.” Successful transformation of the procurement organization hinges on enhancing its professionalism. The three key dimensions of the required transformation are:

- Increasing responsibilities and higher value contributions.
- Understanding and analyzing supply market dynamics.
- Increasing support and alignment with business and functional strategies.

Increasing responsibilities and higher value contributions. Customer demands on procurement and the supply chain overall are increasingly more diverse and complex. Procurement must be positioned to anticipate changes in business requirements, adapt to these changes, and accelerate change implementation to capture opportunities ahead of the competition. The capability to align customer segments with the right products/services and to develop adaptive supply chains are core elements of the value-added contributions that procurement is increasingly expected to deliver.

A.T. Kearney's recent Assessment of Excellence in Procurement (AEP) study determined that among the companies identified as leaders, 73 percent of their procurement activities were strategic in nature, the remainder tactical. In the “follower” organizations only 49 percent of their procurement activities were described as strategic.

Today's responsive procurement organizations must break the constraints of transaction processing workloads. Tactical buying, P.O. processing, and vendor invoice discrepancy resolution must be reduced, rationalized and automated. If it takes procurement professionals more than a few mouse clicks to determine the historical amount spent by category, vendor or business unit, they are constrained in raising their strategic performance levels.

Understanding and analyzing supply market dynamics. As procurement organizations have aggregated spend and rationalized suppliers, there has been a corresponding increase in the importance placed on becoming a “preferred” customer for key suppliers. This trend increases the emphasis that procurement organizations must place on proactively managing key supplier relationships. Leading companies identified in the AEP study use collaborative partnerships with suppliers to improve time-to-market and innovation and as well as reducing exposure to supply disruption risks.

Sourcing techniques are becoming more analytical and complex. Leading procurement organizations employ advanced techniques such as product teardowns, design for sourcing, should-cost modeling, value chain reconfiguration and total cost of ownership.

Increasing support and alignment with business and functional strategies. Procurement professionals are expected to be fully engaged in helping to shape business strategy and then to ensure that the supply management strategy is fully aligned. In the AEP study, 83 percent of leaders' procurement organizations have medium to high involvement in company

strategic planning, compared to only 50 percent of the followers. Procurement's involvement in the development of corporate and business unit strategies includes activities such as proactively discussing business plan inputs and contributing to formulation of business unit strategies.

Procurement Organization Response

How should procurement respond to these heightened expectations? First and foremost, it must move up the value chain—be more proactive than reactive, more strategic than tactical. No longer can success be defined as merely reducing unit costs. Procurement organizations must execute dynamic value creation strategies that align with and impact business unit strategies. Procurement must integrate with business operations to effectively establish and govern collaborative innovation, risk mitigation, and supplier relationship management.

For procurement organizations to move up the value chain, spend visibility and analytical tools are needed to free up procurement resources from transactional processes and enable a deep, analytical understanding of improvement opportunities. Eighty-three percent of leaders agree that they focus on supporting strategic initiatives, leveraging technology, and outsourcing to reduce procurement's involvement in (and related

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cost of) supporting transactional activities. However, only 19 percent of companies overall have completely implemented standard transaction processes across all spend categories.

Enormous expectations are being placed on procurement people to raise their professional skills and capabilities. Yet it is impractical to expect every individual to possess the full set of procurement skills. Smaller procurement organizations generally lack scale to support a high degree of specialization, something that larger companies are better positioned to do. For many organizations, a competency-based delivery model is required in which category managers blend category expertise with business acumen and leadership to drive cross-functional sourcing initiatives. These category managers must address a much broader range of external spend categories, while simultaneously deepening analytical skills to manage more data-intensive, complex sourcing techniques. The cross-functional teams pursuing sourcing opportunities will rely on specialists who will support analysis, process redesign, negotiations, IT and knowledge management.

An Action Plan

Procurement professionals should be assessed individually to determine their personal skills and career goals. The skills assessment can be leveraged to identify development opportunities, plan for assignments that can address these needs, and keep the individuals moving forward in their careers. Individual professionals should leverage their backgrounds, experiences, training opportunities and business unit relationships to maximize their personal value propositions. Individuals should strive to ensure that multi-year skill development plans are incorporated into their evaluations.

Below are specific action steps procurement professionals in various positions can take to advance their professionalism:

- **Procurement leaders:** Develop a deep understanding of procurement's value proposition across the enterprise; procurement processes and capabilities; and procurement's alignment with business unit strategies. Encourage job rotations across procurement and business unit operations to cross-train and deepen collaborative working relationships

- **Category managers:** Push yourself to become a source of specific category supply-market expertise and demonstrate your ability to proactively impact business operations.

- **Supplier relationship managers:** Leverage your understanding of supply market industry dynamics to work more collaboratively with suppliers on step-change and joint process improvements.

- **Supply chain specialists:** Build a deep skill set in one or more functional areas that bring sustainable value to your organization. Potential areas of expertise include supply market analytics, risk management, contract negotiation, joint process improvement, and demand management.

- **Tactical buyers:** Build a deep understanding of your available systems and tools to effectively execute your activities. Develop your analytical capabilities to help monitor compliance and identify new sourcing opportunities

Procurement organizations and procurement professionals have the opportunity to significantly impact the performance of the company. By transforming from a focus on transactional tasks to strategic, value-creating activities, procurement can elevate its contribution to the organization's success. To achieve this transformation, the procurement organization—and the professionals within its ranks—must invest in developing the requisite skills and capabilities necessary to understand their key supply markets, align with their business unit peers, and drive a supply chain that meets their company's long-term, strategic needs.