CREATING A COMPETITIVE ADVANTAGE THROUGH PROCUREMENT

IN A CONSTANT QUEST FOR COMPETITIVE ADVANTAGE, TOO MANY CEOs ARE UNDERESTIMATING THE POWER OF PROCUREMENT. IT'S TIME FOR PROCUREMENT LEADERS TO CHANGE THAT
“To achieve competitive advantage.” That was the mission statement for the procurement function at Mars, the privately owned American group famed for its confectionery, pet foods and pet care. Unlike many corporate mission statements, this was not something that was formulated, signed off and stuck in a drawer (metaphorical or literal). Anybody who worked in procurement for the company knew that, if they ever met a member of the Mars family, they would be asked: “What have you done to buy any of the following products or services better than Cadbury and Rowntree?”

The key word there is ‘better’. Traditionally, in the eyes of many CEOs and – as a consequence, in the eyes of whoever leads the procurement function – better has been defined as cheaper. In some ways, that priority has paid dividends. Since the 2008 economic crisis, procurement departments across the world have saved thousands of companies and protected millions of jobs by cutting billions of dollars in costs.

One unintended consequence of these Herculean labours is that it has reinforced a narrow, restrictive definition of the procurement function. As Martin Denham, operations director at procurement advisors Xoomworks, says: “Procurement is too often seen – within companies and sometimes within its own function – as a department that defines process, negotiates contracts, drafts regulations and polices them. In the eyes of other stakeholders, it is the department that says ‘No’. Yet in reality, procurement could be, should be – and increasingly is – a powerful source of competitive advantage.”

In a global economy that is changing at warp speed, procurement has an historic opportunity to prove that it can create value for the business, not just protect it. The tools to help the function to do that job – digital technologies, Source to Pay software, robotic process automation, the Internet of Things, machine learning and AI – are becoming increasingly commonplace although, as is ever the case, different companies are at very different stages on the digital transformation journey.

“If procurement is to do more with less – which, like every other central function, it is increasingly expected to do, it needs to embrace this technology to automate less strategic activities, improve its capabilities and become more agile,” says George Rösch, vice-president of product management at Jaggaer, a leading global provider of comprehensive Source-to-Pay solutions, which counts Xoomworks as one of its business partners.

The rise of new technologies – and the decline of old business models – gives procurement the opportunity to reinvent itself. The critical question is: will that opportunity be taken?

THE BIG PICTURE
If it is, it will be because procurement leaders have the nerve, foresight and imagination to fundamentally reappraise what they do, why they do it and how it serves the business. Many supply chains have not been created by an overarching, long-term design. They are the result of a complex amalgam of legacy mindsets, historic relationships, short-term priorities, cultural biases, fluctuations in market demand, changing corporate objectives and, to be fair, a continuous effort to ensure that the company spends its money as efficiently as possible, be that on a multimillion-pound contract with a supplier of strategic components or a process for procuring office stationery.

Few procurement leaders have been able to step back, take a different perspective and look at the big picture. From time to time, many of them will have been nagged by the thought that there must be a more efficient way of doing x or y but often the daily pressures are so relentless they never act on these thoughts. That needs to change.

“With the technologies that have already been developed – let alone the technologies that are just developing – procurement leaders can look at their function, ask fundamental questions and, depending on the answers, take appropriate action,” says Denham. “Managing cost is one of the biggest challenges facing a company and if you manage them more efficiently, those savings go straight to the bottom line. But procurement can have a big influence by considering the operating cost of managing costs. If procurement can minimise those, it can focus on the issues that are most likely to help the organisation achieve its strategic goals. Leaders can look at the function as a whole and explore how best to simplify it so that they can spend most of their time doing the things that are most valuable to the business.”

Many procurement leaders look at their existing systems and processes and ask “Why?”, when they might do better to dream of completely new systems and processes and ask “Why not?” In practice, few procurement functions have the
freedom to start completely anew. Yet, if leaders can look beyond what their function is currently achieving, they can envisage what procurement needs to achieve to serve the business in the next three to five years.

Having articulated that vision, they can use that to inform their procurement strategy and, just as importantly, to engage, educate and persuade other internal stakeholders. This will also help address one of the challenges around digital transformation. In Jaggaer’s experience, even though many businesses are making progress with digital technology, these are often limited in scope. “Many other organisations are still unsure where to start or where to go next,” says Rösch. The goal here is not a digital Utopia but to have a clear sense of how technology can improve performance and focus on that.

Procurement leaders would do well to be driven by what management theorist Rosabeth Moss Kanter calls a “certain healthy paranoia”. As she told Strategy + Business magazine: “Companies that are great at change seem to say ‘Okay, we’re doing well today, but we might not be doing so well tomorrow, so we’d better be better at what we’re doing today and we’d better try to destroy our own established model before someone else does it for us.’ That creates a restless dissatisfaction. No matter how well you’re doing, you believe you can do better. That creates an obsession with unmet opportunities, with new needs and new desires. It’s very entrepreneurial and it empowers people to be as creative as possible and to spend time challenging the established models.”

Challenging the rest of the business is something, Denham says, that procurement leaders could do more of. Yet, in some organisations that is easier said than done. For a start, it’s hard to challenge if you’re not even in the same room as the CEO and CFO. All too often, procurement and supply chain leaders are only given face time when something is wrong. As one CPO of a large multinational complained once: “That means that, as far as the board is concerned, I’m only as good as the last bad thing I did.”

Procurement can help itself to face its challenge. Leaders could do more to put numbers – especially bottom-line savings – in the broader business context. For procurement, the art of persuasion starts with language – wherever possible, replacing internal jargon with terms that other stakeholders use and understand. Accompanying words and numbers with graphics, through the use of tools such as dashboards, can also make the narrative more powerful.

**NOT ALL RISK IS BAD**

There is also the matter of risk. Corporate appetite for risk varies from sector to sector and even between similar-sized companies in the same sector. The one constant is that, within each organisation, procurement is likely to be more risk-averse than most functions. Given what’s at stake – even a minor blip in production can wipe millions of pounds off a large company’s bottom line – this is perfectly natural. Yet, procurement leaders need to recognise that a reluctance to take even sensible risks can lead to complacency, stagnation and, ultimately, competitive disadvantage.

Relying too heavily on experience and expertise can lead good managers – and entire companies – astray. When Kodak invented a digital camera back in 1975, the innovation obviously had the potential to disrupt the company’s core business, photographic film. Believing the technology had enormous promise, managers asked the “experts” – Kodak engineers – for their verdict. Their findings – that the cameras were too bulky and didn’t offer the technical quality consumers had come to expect from film – doomed the project. A procurement leader might have answered...
that question differently, envisaging how the cameras could become lighter – and cheaper – how the technology might evolve and whether quality was so important to users that it outweighed convenience.

The upside of risk is opportunity and here procurement leaders with vision, influence, determination and a clear sense of priorities can reap significant rewards for their company. “A global manufacturing company outsourced their sourcing for certain categories to us,” says Denham. “We doubled the number of sourcing events throughout the year – auctions, RFPs, etc. – and, as a result, the client told us they had saved tens of millions of pounds.” That was clearly a risk worth taking because of the return on investment, but also because such initiatives help to change the perception of the procurement function, elevating it to a more strategic role.

In a similar vein, procurement at one large, high-tech American company got buy-in from the CEO and CFO after they saved £450m by shortening its supply chain cycle from 60 days to 50 days. Such efforts reinforce the point that the objective should not be to follow best practice, but to define your own best practice.

In the spirit of “restless dissatisfaction” championed by Moss Kanter, procurement could enhance its performance just by changing the way it manages its suppliers. Allocating more, most or all spend in certain categories to the best performing suppliers can significantly reduce costs. A relentless focus on how technology can simplify relationships with suppliers – at the very minimum, by automating and streamlining supplier onboarding – can give staff the time to work more closely with suppliers to develop innovations. Studies have repeatedly suggested that this is an ambition harboured by many procurement leaders but realised by only a few.

Moss Kanter firmly believes that incremental innovations encourage larger transformational ones. An entrepreneurial, creative strategic procurement function is more likely to deliver both – and be in a better position to attract the right kind of talent, the kind that can build a consensus with other stakeholders. “There will always be some stakeholders who say: ‘It’s my budget and I’m spending it how I want’,” Denham admits, “but we often find that most stakeholders are less resistant to change than people like to think.” His views are echoed by Rösch at Jaggaer who says: “Procurement needs to become a partner to the businesses it supports, making it a priority to develop a deep understanding of business needs. The customer – i.e. the business – needs to be the focus of digital transformation.”

There are many ways procurement can become a source of competitive advantage. To cite one topical example, the need to switch manufacturing swiftly and efficiently to avoid tariffs or get closer to a key market has shot up the corporate agenda. Innovative procurement leaders who embrace change, keep abreast of technology (but do not become infatuated by it), hire the right people and are not afraid to challenge conventional wisdom – their own or that shared by other stakeholders – will discover many more ways to sustain that competitive advantage in the years to come.

As procurement leaders leave the office (virtual or physical) at night, they should do so with the confidence that something they have done that day has made their organisation more competitive than it was the day before.

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