

Procurement Transformation

Industry Perspectives

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Foreword

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.

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 has gathered reflections from a number of Supply Management and Procurement thought leaders.

Throughout this collection, you'll read along as our industry's top minds wrestle with a subject that's intrigued 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.



Part I: Looking Back

Introduction

Sourcing Strategies Group's Jim Baehr kicks off our collection 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.



1898

The term 'logistics' appears in print for the first time.

1919



Syracuse University establishes the first academic program for Supply Chain Management.



1952

Norman J. Woodland and Bernard Silver patent the first barcode.

Nothing Less Than a Change of Perspective

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, Kraljic’s 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 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.



1982

Keith Oliver coins the phrase “supply chain management.”



1983

Harvard Business Review publishes *Purchasing Must Become Supply Management*.



1988

The term “lean manufacturing” appears in MIT’s Sloan Management Review.

Leading Change

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.



1990

Computer scientist Tim Berners-Lee invents the World Wide Web.

1995



Harvard Business Review publishes *Leading Change*.



1997

Amazon.com goes public and reaches 1 million customers.

The Perfect Excuse

Then came the financial crisis of 2008. Companies responded by pursuing a single objective - reduce costs at all 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 technologies. 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.



1998

The United Nations Standard Products and Services (UNSPC) Code taxonomy is created.

2002



The National Association of Purchasing Management becomes the Institute for Supply Management.



2008

The Great Recession hits and the Institute for Supply Management introduces its Certified Professional of Supply Management program.

Something to Everyone

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 a Transformation. 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, however, to conduct research and begin implementing best practices



Part II: The Right Mindset

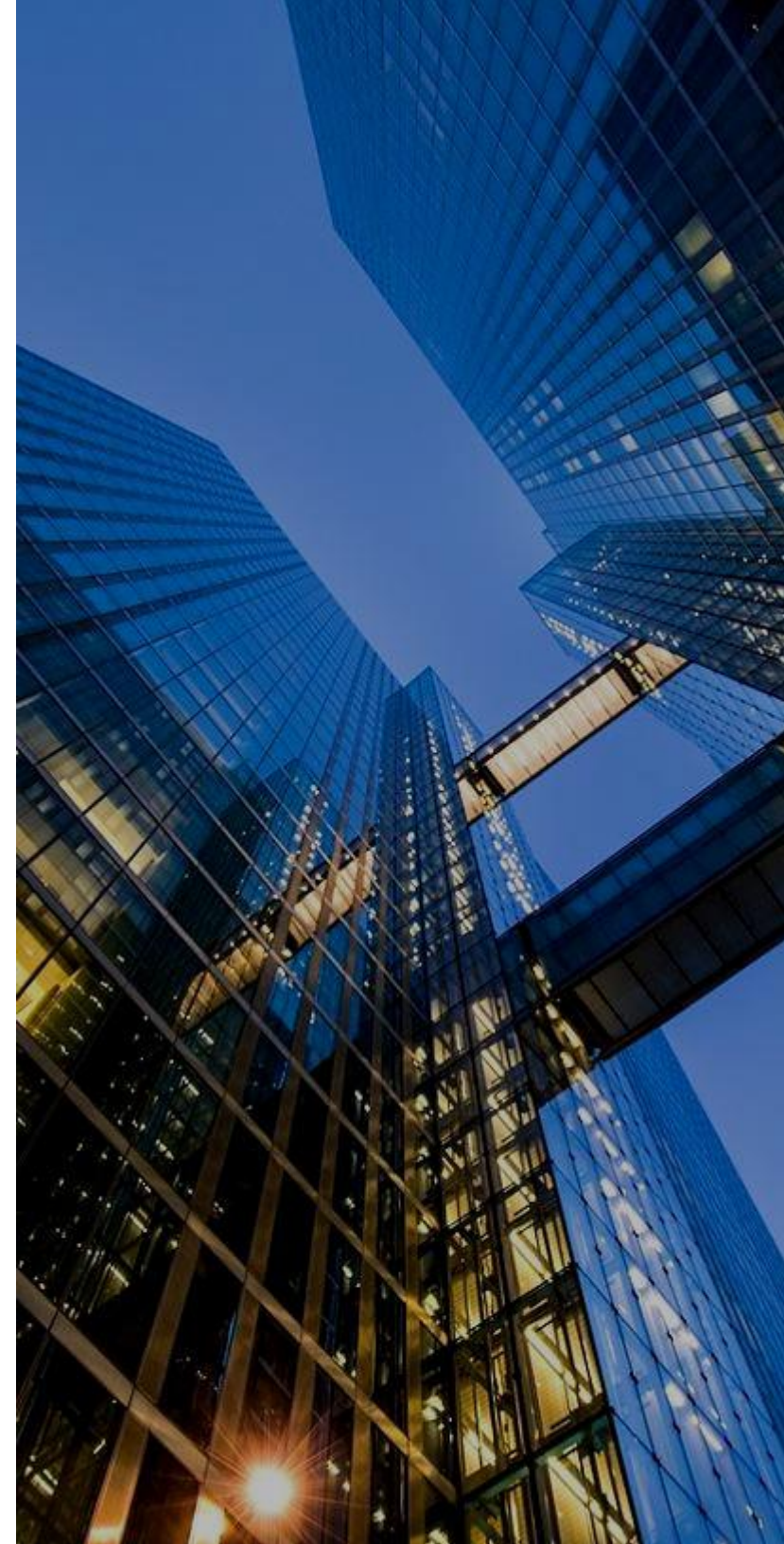
Introduction

Why do so many Procurement Transformations come up short? The Art of Procurement's Phil Ideson has a few ideas. Kicking off Part II 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.

Joe Payne closes out this chapter with some answers of his own., but first he asks a question of his own What is a Procurement Transformation?

It's certainly big question. What's more t'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?'



More Than “Keeping the Lights On”

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 a powerful position when it comes to resolving this situation.

Procurement has boundless potential. It can (and should) serve as the lifeblood of the organization. It should 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 the necessary changes?

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 have put a bad taste in the mouths of IT, Marketing, Finance, and other departments.

In many cases, the taste still lingers despite the fact that we have made lightyears worth of progress through streamlined processes, more user-friendly technology, and new value-oriented objectives.

Procurement’s legacy tends to make Transformation initiatives more challenging. After all, internal stakeholders typically won’t invest in optimizing a department they don’t consider strategically valuable.



Only 1 in 4 Procurement leaders believe they are excellent business partners contributing significant strategic value*

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.

Change

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 evolution.

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 a 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*

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.”



Redefining Roles, Priorities, and Operating Models

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 join 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.

Policies Dictate, Transformations Change

Opening this collection, Jim Baehr proposed a “sensible vision” for Procurement Transformation. I agree, but I would 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.





Part III: People, Processes, Technologies

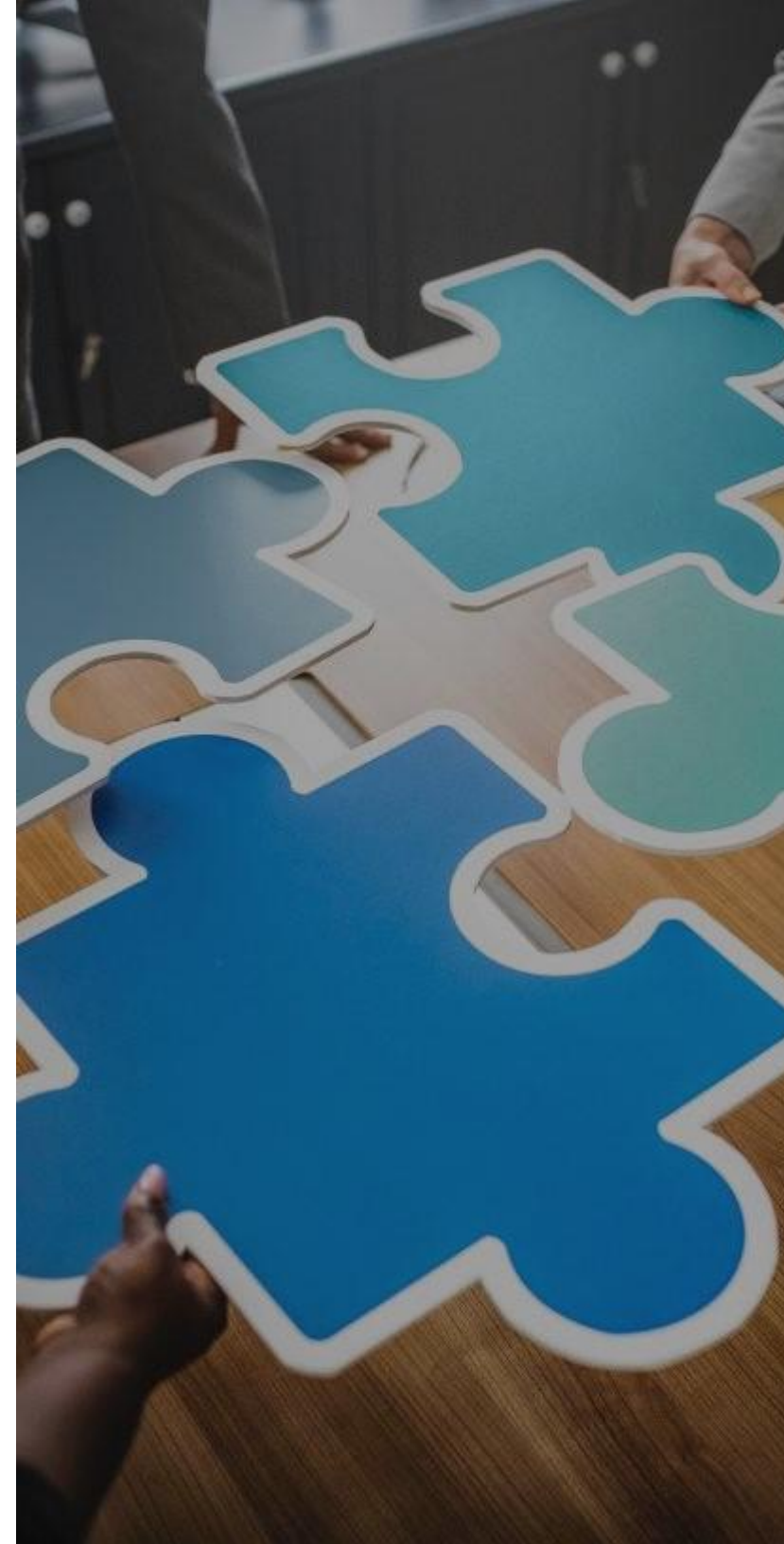
Introduction

Procurement Transformation is a serious investment. The up-front costs of a holistic initiative are often a hard-sell. Without dependable budgets or executive sponsorship, Procurement's usual solution is to compromise. Instead of embarking on a comprehensive transformation, they look to make quick-win improvements in their weakest areas.

They might implement a new technology without tailoring it to their team, or welcome new hires without refining their outdated processes. The kindest thing you can say about this strategy is that it's (slightly) preferable to stagnation.

Successful, long-term transformations—from the incremental to the sweeping—treat Procurement's people, processes, and technologies as interdependent. Not all transformations are massive undertakings, but truly effective initiatives strive for alignment.

That's why Naseem Malik, Kelly Barner, and Kristian O'Meara join us for Part III of *Procurement Transformation: Industry Perspectives*. Exploring Procurement's people, processes, and technologies respectively, they reveal the necessary complexity of an effective Procurement transformation.



Procurement's Most Important Tool

What's the most important tool for constructing an effective Procurement department?

Is it a spend analytics platform that turns historical purchasing into realized savings? Is it an eSourcing system that automates and expedites Procurement's myriad processes? Is it some artificially intelligent, cognitive, analytical, big data-driven, resource that's still in the works? No.

Even in the days of consistent innovation and endless forecasting, **people** are still what separates world-class Procurement departments from the pack.

As more companies invest in maturing their Procurement departments, more Procurement departments are tasked with building teams capable of driving long-term strategic growth.

Assembling a team and assembling the right team, however, are two very different things. Management faces an ever-widening talent gap.

Organizations know they need to make new hires. They even have an idea of what they need from these hires, but few are

successful in bringing these hires aboard. Even fewer succeed in keeping them around. It's become increasingly difficult for even true business leaders to identify the appropriate Procurement talent, bring them aboard at the appropriate pace, and enable them to develop the appropriate skills.

The so-called talent gap has nothing to do with a lack of candidates. In fact, Procurement's situation is so intriguing and so frustrating precisely because there's so many qualified, tech-savvy, and collaborative candidates out there. An appropriate mix of hard and soft skills, however, is rarely easy to come by. Procurement's new, cross-functional, utterly essential duties mean that **the mold for a leading Procurement professional has changed. It's changing at this very moment.**

The analytical skills and supply chain know-how that provided for decades of cost savings and tactical victories no longer suffice. Procurement's internal and external importance call for leadership and negotiation skills that would look foreign to practitioners of the past. These are what will define Procurement in the decades ahead.

In today's supply management sphere, very

few topics command as much attention – or provoke as much anxiety – as this talent gap. Procurement Transformation is among them.

Companies who view the two topics as distinct are only making things more challenging for themselves.

Whatever their maturity level, Procurement departments would do well to focus their transformative efforts on talent. This incremental evolution will provide the means for broader changes moving forward.

51% of Procurement leaders believe their teams do not have sufficient capabilities to deliver on their procurement strategy.

Transforming Recruiting

In the past, Procurement could easily trace its talent concerns back to a lack of visibility. Unfamiliar to most young professionals, the department occupied an obscure, niche position. Things have changed.

Procurement has generally graduated from the backroom to the front office. As more industry leaders invest in their Supply Management teams and more colleges and universities offer degree programs, the department looks more familiar (and more attractive) to emerging talent than ever before.

In theory, this should make recruiting efforts easier. Unfortunately for small and mid-sized organizations, they aren't the only ones on the hunt for young Procurement professionals.

In such a crowded, candidate-driven marketplace, aggression is increasingly the name of the game for everyone. Following the blue chip players' lead doesn't have to mean offering jobs to an entire graduating class. Nor should it mean waiting around to get acquired by one of these organizations. Emerging companies can mimic the confidence,

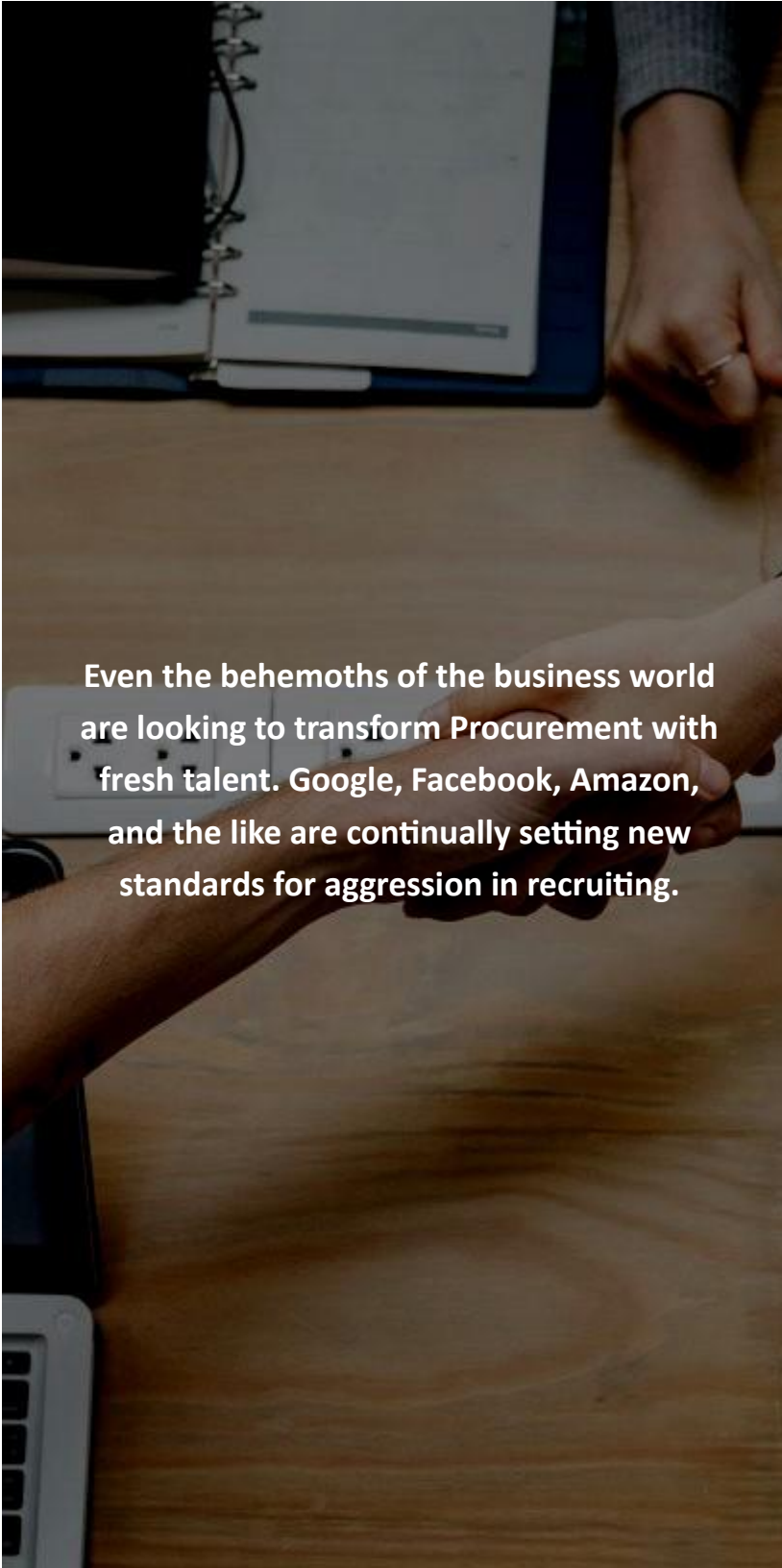
decisiveness, and foresight of their more formidable competitors without breaking the bank.

Procurement's new visibility also means it's easier than ever for candidates to learn about prospective employers. A leading CPO knows that building Procurement's brand and disseminating it widely is a full-time job. **Candidates already know why they should consider working for a household name.**

Without the benefit of instant name recognition, practitioners from emerging companies need to work twice as hard to tell their story across social media and other platforms.

Don't forget that a relationship with a candidate isn't so different from any other relationship. You don't want to come on too strong.

A long, drawn out hiring process certainly won't do you any good, but empty promises and instantaneous offers will prove just as fruitless. Discerning candidates can smell desperation. Don't scare them away in your attempts to woo them.



Even the behemoths of the business world are looking to transform Procurement with fresh talent. Google, Facebook, Amazon, and the like are continually setting new standards for aggression in recruiting.

Transforming Retention

Just because you've managed to persuade a promising candidate to join your team doesn't mean your work is done. **While recruitment is understandably the more immediate concern, it's important to continually emphasize retention throughout the life of a talent Transformation.**

As previously stated, Procurement and Supply Management's leaders and innovators are highly aggressive. Aggressive enough that they'll rarely hesitate to poach talent from their competitors. Promising challenge, compensation, and a slew of enticing incentives, they'll continue to pursue candidates even after these individuals have accepted positions elsewhere.

Millennial professionals are sometimes labeled as disengaged or disloyal. In reality, they're simply unlikely to display loyalty or engagement if they don't observe these qualities in their employer.

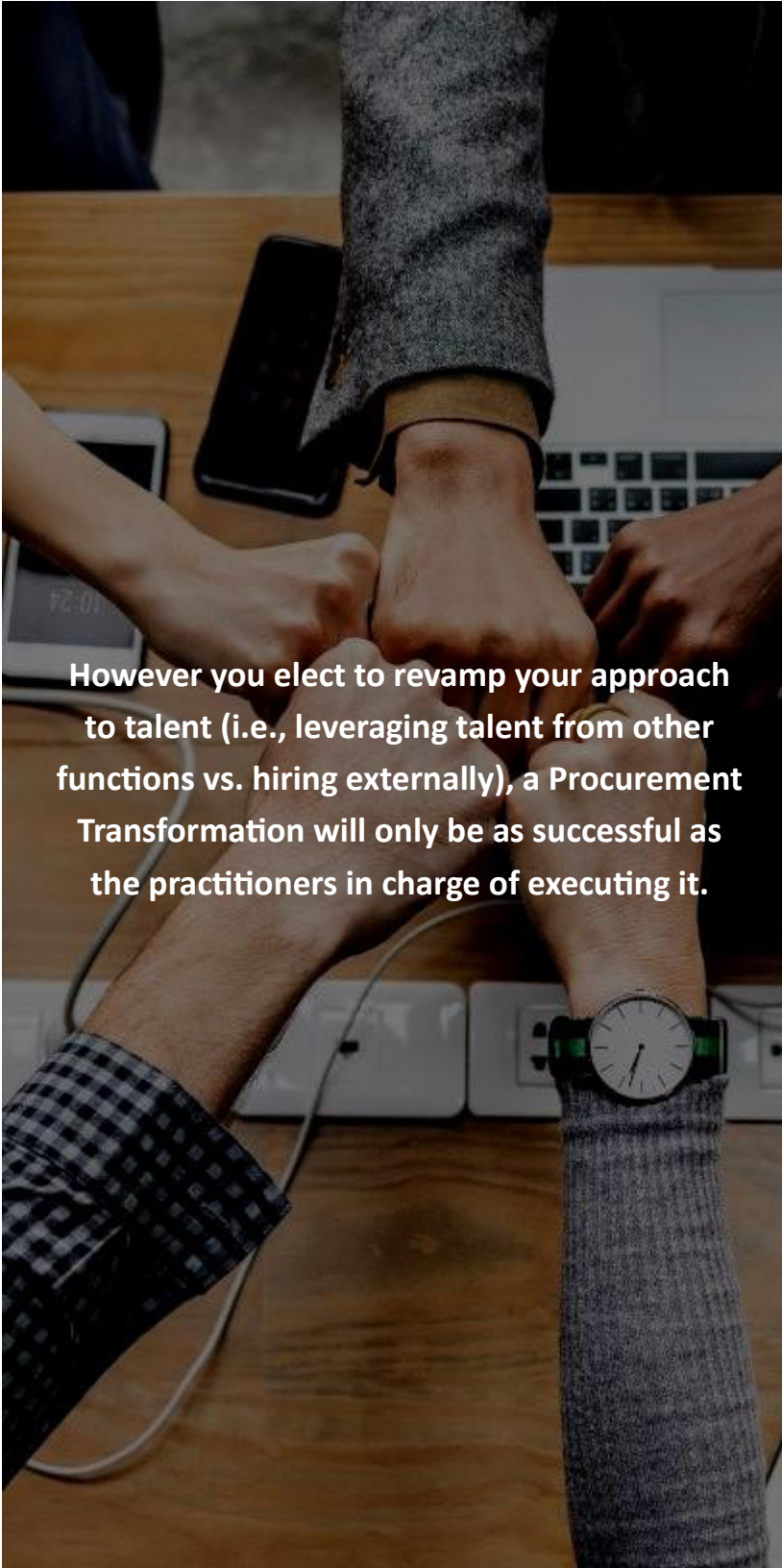
From day one, it's important that each new hire not only feels welcome, but feels equipped to contribute to their organization's growth.

Developing clear career paths, openly communicating expectations, and regularly providing feedback all remind new hires that their professional development matters. Offer recognition in times of success and reassurance in times of failure to ensure new hires feel compelled to invest in maturing professionally.

If Procurement's reputation among young professionals has suffered in the past it's because many perceived the department's duties as monotonous.

Take care to introduce real challenges early and often. Rotational programs, for example, could provide the perfect opportunity to familiarize a new hire with the diverse workload and critical importance of today's Procurement departments.

The bottom line is that a Procurement Transformation sans a talent upgrade is much more an exception than the norm. It's difficult to approach gaps in technology and processes without first changing up the status quo within your team.



However you elect to revamp your approach to talent (i.e., leveraging talent from other functions vs. hiring externally), a Procurement Transformation will only be as successful as the practitioners in charge of executing it.

The Study of Friction

When we talk about Procurement Transformation, we typically focus on two areas:

1. **The changes we need to make**
2. **Our vision for the department's future**

While these are important areas to consider, they neglect an equally critical component of the diagnostic process - a study of the friction between Procurement and the rest of the enterprise.

When initiating a Transformation, Procurement needs to focus on the current problems at hand, and nearly every organization can count internal friction among these problems.

If Procurement fails to directly and immediately address this friction, Transformation efforts have no chance of succeeding.

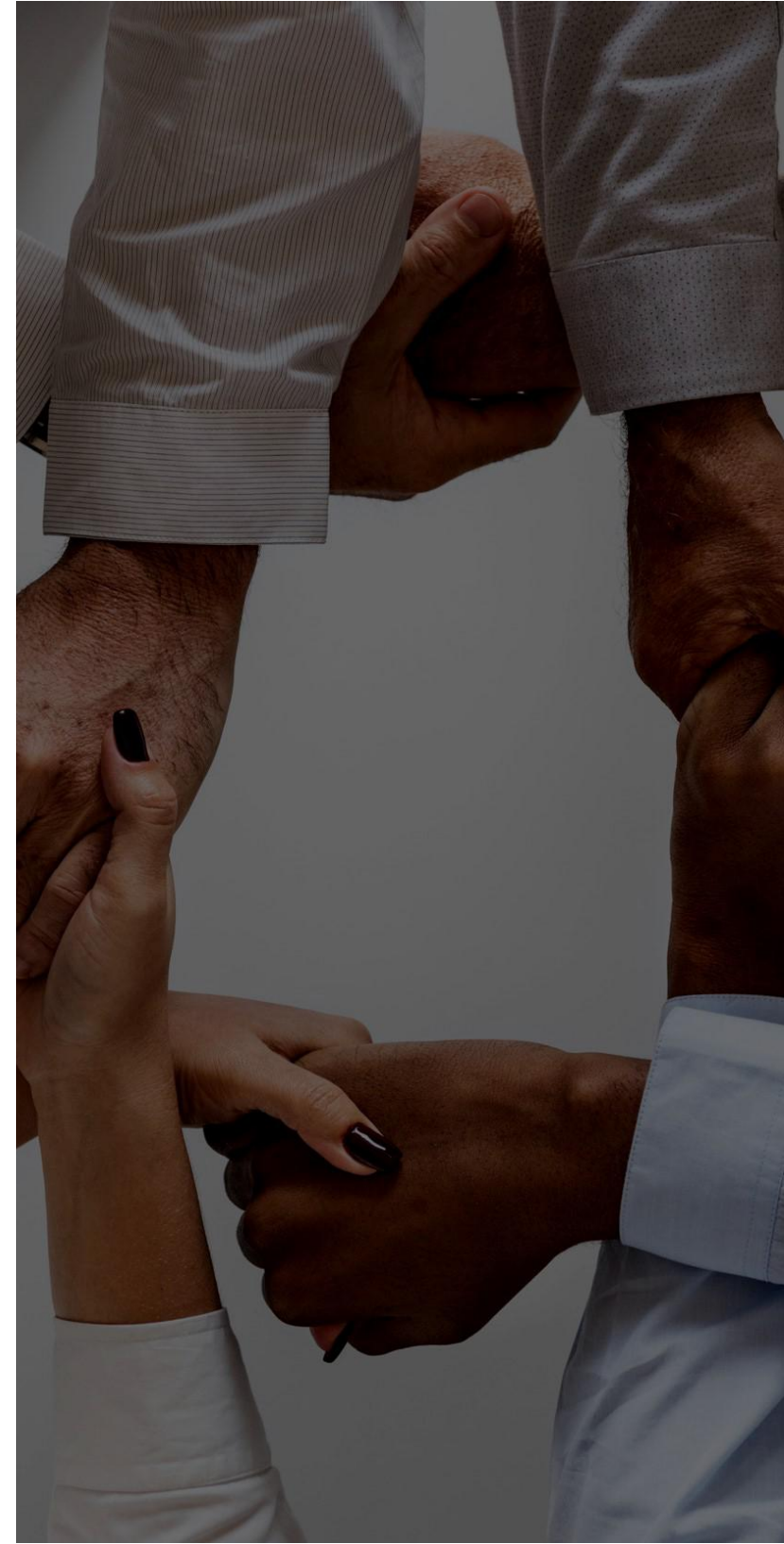
Procurement should study organizational friction the way a doctor studies pain. Pinpointing the location and cause of the discomfort can prove enlightening enough to keep an initiative alive.

Non-productive friction stops Procurement from doing our best work and prevents the enterprise from realizing the maximum value of our efforts.

But not all friction is non-productive.

Compliance and governance are important pieces of Procurement's mandate. It's well within our purview to introduce friction by pushing back against spend that is not in the company's best interest.

With so many opportunities for friction – productive and non-productive – let's consider the role it should (and shouldn't) play in Procurement's efforts to plan and initiate Transformations.



Addressing Friction

THE SOURCING PROCESS

It's easy to see why Procurement's stakeholders might resist Strategic Sourcing as a method for selecting suppliers and developing contracts. Many are used to purchasing and negotiating autonomously, and they resent the influence of another department. Strategic Sourcing has seen significant changes over the years, but its capacity for producing friction remains largely unchanged.

Non-productive Friction: Historically, the complaints about strategic sourcing have stemmed from the fact that it prioritizes low costs above all other objectives. Now, however, the goals and objectives of Strategic Sourcing have changed. For most mature Procurement teams – especially the ones actively pursuing Transformation – the majority of addressable spend is already well-managed. The goals of transformed sourcing are likely to reflect more nuanced, value-driven business objectives. Achieving these will mean changing the very nature of the sourcing process. Procurement should watch closely for evidence of friction and adjust their standard processes accordingly.

Productive friction: Procurement also faces pushback from those who consider sourcing too “cookie cutter” or “one-size-fits-all.” This friction does *not* indicate a problem with sourcing itself. Rather, it indicates frustration with standard requirements and processes. No one wants to do work for the sake of work, but standardization is important to increasing value and decreasing costs. Oftentimes, it's necessary to slow down and consider all qualified options. So long as each step in the process brings us closer to our stated objectives, friction is a sign we are doing our job.

THE BUYING PROCESS

Advances to Procurement's technology have led to improvements in the buying process. While it does not completely mirror the user experience of B2C online shopping, it has progressed significantly and continues to do so. Still, friction remains. Procurement has to look beyond technology and get creative to address the remaining challenges.

Non-productive friction: If a buyer spends a long time figuring out where to buy something, who to buy it from, or which terms of service apply, Procurement has serious non-productive friction on its hands.

Whether you're employing an eProcurement suite, supplier punch-out catalogs, Amazon Business, or something else entirely, making buyers' lives simpler is a foundational expectation of any transformative effort.

Spending money the right way benefits the entire company. Procurement should never allow our savings and spend management efforts to create the sort of friction that would deter smart spending.

Productive friction: When you take a whole organization of people and try to corral their buying habits into a consistent flow, you're always going to go against *someone's* preferences.

Whenever possible, Procurement should allow flexibility in choice and process. We cannot waver, however, on the need for visibility. If that means standing up to friction from buyers who would rather work around eProcurement by using a purchasing card on a third-party site or engaging with suppliers directly, so be it.

Addressing Friction (Cont.)

RELATIONSHIPS

This is the million dollar question at the heart of Procurement Transformation: if Procurement makes significant changes to the way we work and measure our impact, will it alter our internal relationships and brand?

Non-productive friction: If there's any doubt that Procurement's priorities and interests are aligned with those of the enterprise, something is wrong. Whatever the problem, be it true misalignment or a simple misunderstanding, Procurement must identify the source and resolve it as quickly as possible.

Without the necessary intervention, no Transformation can produce the desired result.

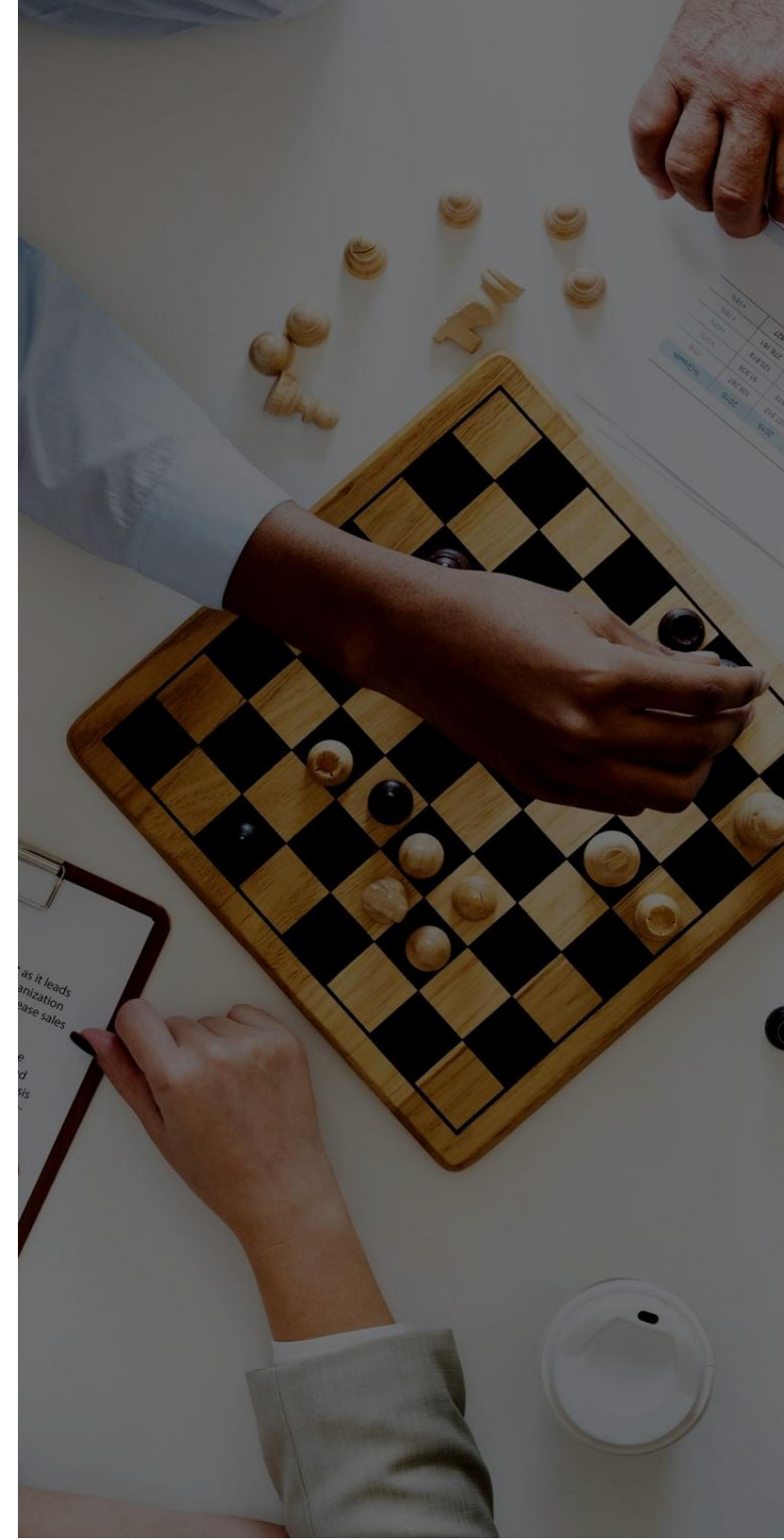
Productive friction: There is a reason enterprises have more than one function. When you dedicate a diverse group of people to meeting an objective, the result should balance all enterprise-wide goals and satisfy all parties. It is Procurement's job to ensure that all functions are exchanging their resources

to produce the greatest value possible. Period. That often means taking the time to find alternate resources. Sometimes this ruffles a few feathers, but that, too, is part of Procurement's job.

When Procurement sets out on a Transformation, it is easy to mistakenly address symptoms of friction instead of the friction itself.

In these situations, change management efforts are focused on alleviating short-term discomfort rather than introducing substantive revisions. To truly transform Procurement, we need to take a closer look at friction. We need to study it and assess its impact on the groups and individuals with whom Procurement engages.

We need to decide when that friction is productive and when it is not. Finally, we need to focus our attention on solving the real problems, addressing non-productive friction at its source, and communicating Procurement's strategic value.



Separating the Value from the Noise

In many senses, Procurement is a unique business unit, designed to promote innovation, encourage collaboration, and manage long-term change across an entire organization.

Procurement departments have slowly crafted a new corporate identity over the past decade, responding to a growing and evolving role within the company. This role has become increasingly dependent on technology, as the expectations of managing a complex and interconnected supply chain have risen.

The Procurement professional is now not only tasked with conducting business with more departments, but also with separating the value from the noise in terms of selecting and managing technology.

This environment has led to the need for a new skillset among Procurement professionals: the active listening skills necessary to inform a new approach to technology assessment. Only by nurturing these skills can Digital Transformation truly occur.

A quick glance at the Procurement and Supply Management blogosphere is a


clear indication of the noise level inundating Procurement professionals.

If it's not one solution setting unrealistic expectations and driving ineffective initiatives, it's another. Robotic Process Automation, Machine Learning, Artificial Intelligence, the list goes on.

Whatever the 'solution,' it can (and will) present serious problems for the underprepared and overzealous Procurement team. **The last thing any organization needs is a team that charges ahead into a technology investment without the proper preparations and stakeholder alignment.**

Fueled by visions of fully automated processes and totally foolproof decision making, a department may commit to chasing solutions without asking the necessary questions.

A CPO may be so excited to stand at the forefront of their industry that they neglect to ask why they ought to, or how they should.



Too often, the appearance of a new technology is perceived as a “magic bullet” for the Procurement department’s problem du jour.

Garbage In, Garbage Out

It's hard to blame Procurement. Nobody wants to feel left out when the next big thing comes along.

Many Procurement teams have grown painfully familiar with that very feeling. Dismissed for years as a backroom function, **Procurement has recently started to earn respect, admiration, and executive buy-in.** Settling into this new, strategic role, the department is often eager to showcase its value by implementing a cutting-edge solution. It's (understandably) hungry for an opportunity to take the next step in its move from tactical outsider to tech-savvy insider.

Adrenaline and excitement have their time and place. When initiatives come down to the wire, a small measure of these qualities can make a huge difference. They're far less useful in the period leading up to the start of an initiative.

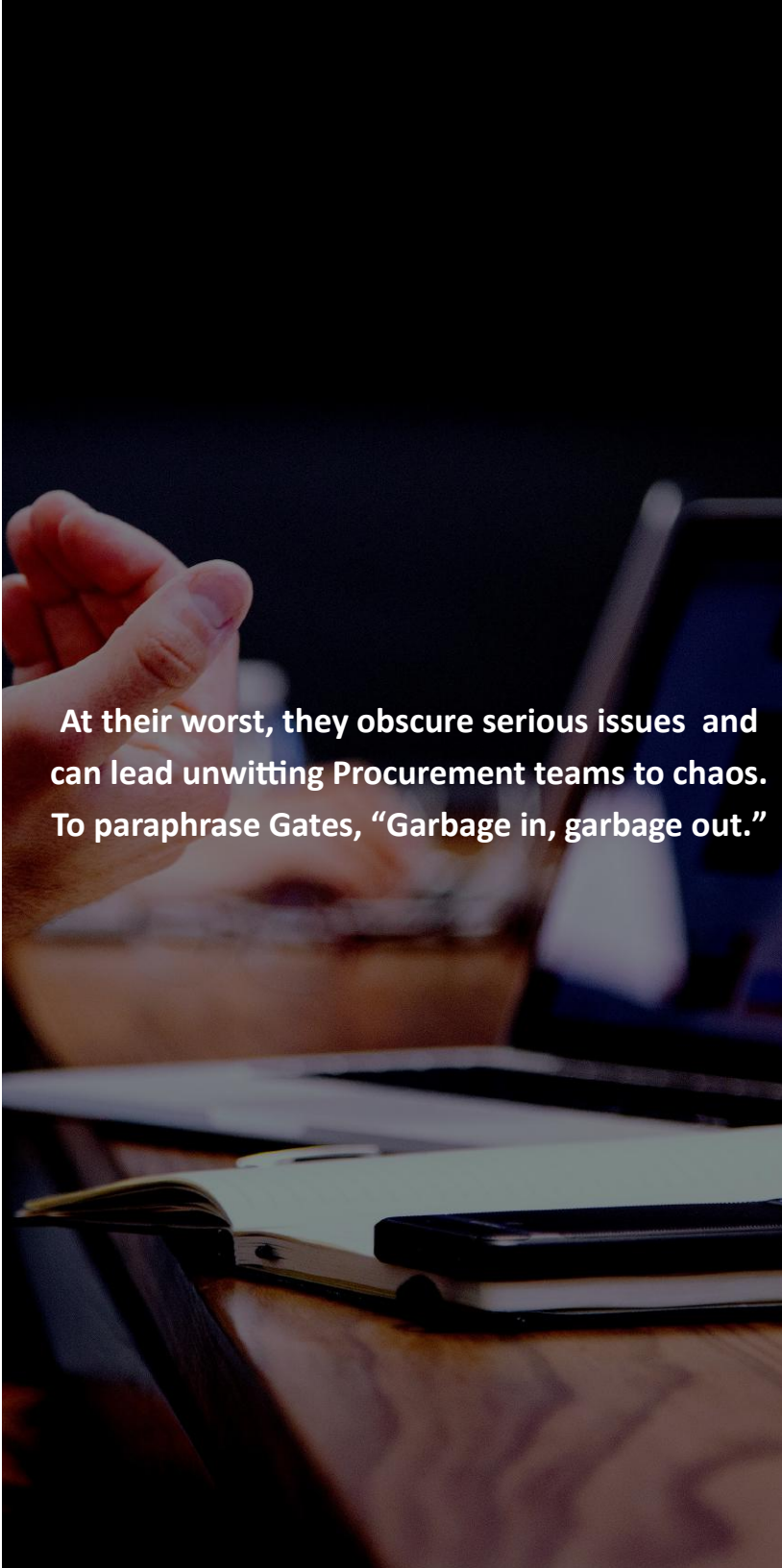
When it comes to technology Transformations, both tend to leave Procurement struggling with mismatched solutions and missed opportunity. Expecting renewed

efficiency and transformed operations, they're often met with just the opposite.

Procurement professionals would do well to remember Bill Gates' oft-quoted thoughts on automation. Promoting caution and healthy skepticism, Gates remarked, **"The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency"** The second, he continued, **"is that automation applied to an inefficient operation will magnify the inefficiency."**

Years ago, Gates effectively outlined the struggle facing many of today's Procurement departments. They're selecting tools before they've effectively assessed their operations. Some seem to believe the tool will handle this assessment for them.

As a result, they're letting inefficient operations and inaccurate data go unchecked. Even the most robust tool can't recreate human reasoning enough to point these out and correct them. Implemented ineffectively, solutions have no choice but to offer ineffective services right back.



At their worst, they obscure serious issues and can lead unwitting Procurement teams to chaos. To paraphrase Gates, "Garbage in, garbage out."

Active Listening

I don't mean to suggest that Procurement should resist transforming its technologies altogether.

Innovation and insatiable curiosity are key if Procurement teams want their ongoing evolution to continue. Professionals *should* keep their eyes open to assess the technological landscape and identify value-adding solutions. More importantly, however, they should keep their ears open. Perhaps nothing is more essential to the success of a transformative initiative than active listening.

Great listeners make great leaders. When Procurement Transformation is on the table, the best listen especially closely. Before even considering a new technology, they engage all relevant stakeholders to better understand their current state. In doing so, they identify strong points that the right solution could bolster as well as weak points that the wrong one could exacerbate. Building consensus and breaking down organization silos are key attributes in well run Procurement departments.

When it's time to set goals and objectives for technological transformations, true leaders listen instead of presenting an agenda. They work collaboratively with their team to reach

a mutual understanding of what they need from Procurement's people and processes. These efforts ensure everyone knows the role they'll play in driving the success of a Transformation. It also ensures they know what technology will (and won't) provide them.

Active listening isn't just for conversations. Even reading a blog on the hottest new Procurement solutions can function as an exercise in better engagement.

Instead of scanning an article looking for eye-catching phrases – or validation for what you already believe – take a more critical approach. Wrestle with the facts as they're presented, develop illuminating questions, and come prepared to engage with partners and providers in a constructive dialogue. Actively 'listening' to the way solutions are promoted can help identify right-fit tools and avoid expensive, time-consuming mistakes.

For Procurement to remain effective, for it to 'transform' into the optimized function businesses require, it has to transform the way it approaches technology. The ideal solution is not the most expensive. It's not the one with the most robust menu of features. It's not the one employed by the

competition. It's not the one that everyone is talking about.

The ideal technological solution is the one that best aligns with all the pieces of Procurement that *cannot* be automated and that serves the overall goal of the business. At the end of the day **Procurement is not a silo anymore.**

Technology alone won't drive Procurement's future or facilitate its transformation. Procurement's leaders know this.

They know that prizing technology at the expense of people and processes is worse than putting the cart before the horse. They know it's like leaving the horse in a ditch, telling the driver to go home, and waiting for the cart to drive itself. Finding the solution that will do your work takes work, and that's one test you can't ace by writing the answers on your arm before entering the classroom.



Part IV: The Road Ahead

Introduction

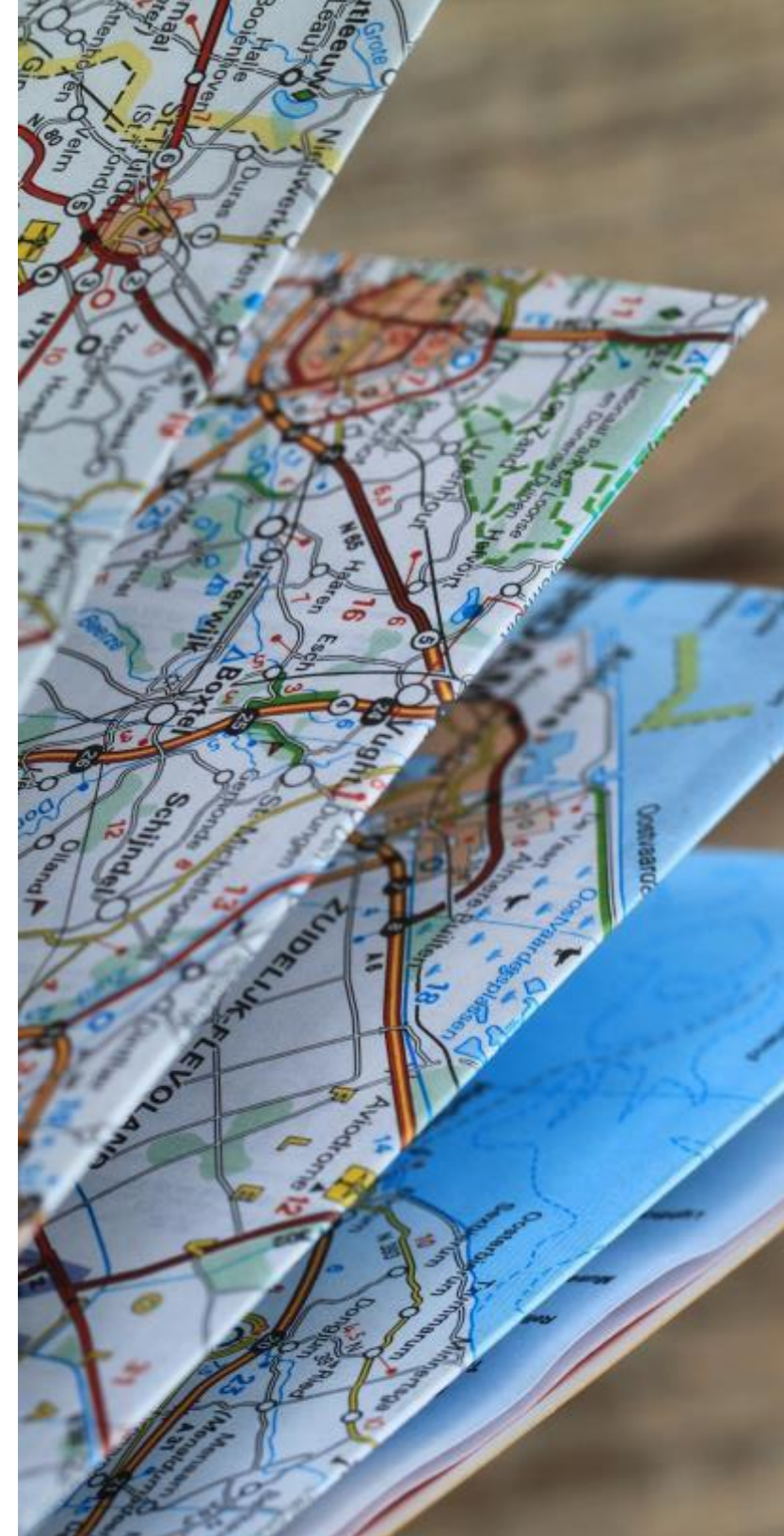
A single initiative won't transform Procurement. The process of optimizing the department's operations and empowering it to produce maximum value never stops.

In Part 4 of *Procurement Transformation: Industry Perspectives*, we're focusing on the steps Procurement should take to ensure its adjustments take hold and its evolution continues well into the future.

First, Vendor Centric's Tom Rogers discusses Procurement's potential to guide organizations as a risk manager. The department, he suggests, is perfectly situated to address and answer concerns across the supply chain.

He's followed by Michael Lamoureux, who offers his thoughts on the future of Procurement technology. The Sourcing Doctor encourages organizations to pursue more advanced solutions and always keep abreast of emerging developments.

Source One's own Diego De la Garza brings the discussion to a close by focusing on momentum. He cautions Procurement against resting on its laurels post-transformation and advises a dedicated approach to maintaining its new image.



Little More than a Checkpoint

Procurement hasn't always been the most popular department.

There's no disputing this. With an outsized affection for policies and procedures, Procurement has historically impressed stakeholders as something between a nuisance and an out-and-out enemy.

Even the purchasing process – on paper, Procurement's domain – often features boundaries to keep the department from exerting too much influence.

Functioning as little more than a checkpoint, Procurement has not only failed to reach its full potential, but has also contributed to its own negative reputation. The department's fondness for checklists and well-worn processes has kept it tactical and obscure within all but a few organizations.

That's not to suggest compliance isn't important.

In fact, compliance is beyond important. It's essential for maintaining efficient operations and effective relationships with both internal and external stakeholders, including regulatory bodies.

Even at its most tactical, Procurement plays

a crucial role in keeping businesses from descending into non-compliant chaos. Not everyone, however, is always on-board.

C-suite executives and other internal business leaders are often skeptical of a department they associate with the three-bid-and-buy process, budget slashing, and purchase orders. Procurement, too, has played a role in slowing down its maturation. Old habits die hard, and Procurement's favorite tactics are no exception.

Even relatively forward-thinking Procurement teams aren't always quick to pursue executive buy-in and diversify their offering.

Oftentimes, it's outside forces that finally, successfully make the case for broadening Procurement's focus and improving its processes.

Unfortunately, the outside forces impacting Procurement include a growing number of unexpected data breaches and a variety of new government regulations from agencies like the Office of Management and Budget, the Federal Financial Institutions Examination Council, and the Centers for Medicare and Medicaid Services.

Data breaches, natural disasters, ethics violations, and other supply chain disruptions have become an almost daily occurrence.

Organizations ranging from HBO to the U.S. government have learned the hard way that managing vendor relationships means much more than identifying best-fit vendors and negotiating for an agreeable price.

It means addressing all aspects of the vendor relationship which includes regulatory and contractual compliance, performance management, and a heightened focus on reducing risk.

A More Strategic Role

As a **point of comparison**, think of the talent management process.

Even the smallest companies realize the importance of managing all stages of the employee lifecycle.

They don't stop with hiring. Once they've recruited talent, interviewed them, and welcomed them to the team, the organization engages in a thorough on-boarding process.

Supplemented with regular check-ins, career path development, performance reviews, and active listening, these processes encourage new hires to continuously improve and reach their maximum potential. Within leading companies, they never cease. The process of managing and optimizing talent continues to evolve and mature throughout the entirety of an employee's tenure.

There's no reason managing vendor relationships should be any different.

They, too, evolve as new risk factors, leverage points, and cost reduction opportunities emerge.

Companies should devote the same effort and resources to overseeing the lifecycle of their vendor relationships that they typically reserve for managing their internal teams.

They need to start **building dedicated vendor management units** and continually **emphasize the importance of non-stop risk management**. In some cases, the Procurement department is perfectly positioned to oversee all of this.

According to a survey of Procurement leaders, only **20%** of organizations have structured risk mitigation plans in place.



A More Strategic Role (cont.)

That doesn't mean Procurement should perform these functions independently.

Risk oversight is a great area for Procurement to distinguish itself, but leaving these complex processes to Procurement alone is almost as short-sighted as disregarding the department altogether.

Within most organizations, Procurement is not nearly mature enough to accept these duties by themselves. What's more, even the most advanced Procurement functions can't (and shouldn't) claim to speak for their entire company.

Vendor Management Committees should feature subject matter experts from across the organization.

Leveraging a diverse array of perspectives and experiences, these groups will encourage a balanced, proactive approach to vendor risk management and ensure that expectations are clearly and consistently communicated.

They will also provide Procurement with the sort of hands-on, directly impactful opportunities that have previously eluded the department.

As a valued member of these groups, Procurement will gradually reveal its worth, build internal partnerships, and broaden its exposure to new business areas.

Witnessing Procurement's successes first-hand will, in turn, encourage leaders from these business areas to embrace Procurement's more strategic role within the organization.

54% of CPOs consider risk management their business priority for the next twelve months.



Transformed Procurement?

This chapter is targeted at the average tech-enabled sourcing organization. They've 'transformed' in the sense that they've embraced eSourcing, but they still define eSourcing as eRFx with maybe the odd auction here and there. Relatively speaking, they're early on their eSourcing journey.

eRFx and eAuction, while still new to many Procurement organizations, are not only relatively basic sourcing technologies, but relatively mature sourcing technologies as well. In fact, they're now entering their third decade.

That doesn't mean there's anything wrong with these tools.

Many organizations are still using them to identify savings and new sources of value years (and years) after they first tried them. The reality, however, is that they're not sufficient to empower a Procurement Transformation, at least not on their own.

Why? eRFx is great for collecting information and supplier bids, but identifying savings requires deep analytics, identifying cost avoidance

requires demand management opportunities, and identifying new sources of value requires the ability to transform the way Procurement looks at data.

So how do you realize these next generation opportunities?

With **advanced sourcing technologies**.

Which ones?

Analytics, Modeling, Optimization, and Predictive Analytics. These technologies provide the foundation for cognitive sourcing, a topic you'll hear a lot about throughout the next stage in Procurement's digital evolution.

Without...

Good analytics, it's going to be hard to identify the top 10 categories not under contract.

A sound understanding of demand, the alternate opportunities for demand satisfaction and reduction, and the respective costs of each, Procurement will struggle to bring demand under control.

The ability to slice and dice spend data, alternative category structures, and component costs the department will never identify new opportunities for cost control.

Embracing Procurement's Digital Evolution

SHOULD-COST MODELING

Asking for current bids is one traditional way to get insight into current market pricing, but it doesn't always give Procurement insight into true costs.

If the supply base is small, for example, collusion can keep prices higher than necessary. Or, if the suppliers are poor at sourcing, they might not know that they are overpaying for their raw materials. Accurate cost models are the only way to *truly* understand if quoted prices are where they should be. **Next-generation sourcing suites with built-in Should-Cost Modeling will transform your sourcing.**

They'll help define very accurate Should-Cost models based on bill of materials and production requirements.

The best will allow Procurement to import a bill of materials, import commodity market feeds for current market cost data for each commodity, and import energy rates for the target market to calculate a very precise Should-Cost estimate for any product and provide a new level of security and insight.

The benefits of Should-Cost Modeling don't stop there. The process also allows an organization to understand the true cost

drivers of a product and, if the product cost is too high, zero-in on the best course for cost reduction. For example, if a raw material is too costly, the best course of action might be a product redesign.

A company might also learn that its energy costs are unsustainable and start an initiative to reduce consumption during production. Whatever the problem and whatever the solution, an organization can't identify them without Should-Cost Modeling.

DECISION OPTIMIZATION

When an organization begins its sourcing journey, it traditionally focuses on unit cost.

Focusing on unit cost reductions alone, however, typically leads to cost increases over time. Engaging far-away suppliers in low-cost locales, Procurement often sees significant increases in logistics costs that end up dwarfing their unit cost savings.

After a few expected wins turn into a few big losses, these organizations quickly smarten up and start focusing on landed cost. They force suppliers to bid the absolute lowest cost required to deliver a product and insist they take care of shipping. This results in savings across a number of categories, but could still leave money on the table.

In addition to import/export tariffs, organizations need to consider differences in quality and defect rates. These could affect their return, replacement, and warranty costs. Then, there are differences in temporary storage costs and concerns over carrier quality. The list goes on.

The best value comes not from the lowest landed cost but from the lowest total cost of ownership. Reaching this number isn't easy either. Logistics costs vary based on lane and carrier, return costs vary based on destination, warehousing costs vary by port, and carrier discounts can vary wildly.

To take all of these costs into consideration and map out the absolute best award among a set of suppliers (shipping from multiple locations, with multiple carriers, offering multiple lane options) **Procurement requires a modern decision optimization-backed sourcing system.**

Embracing Procurement's Digital Evolution (cont.)

PREDICTIVE ANALYTICS

Identifying products or services with cost savings potential (using Should-Cost models) is a good start. Leveraging decision optimization to define the best award is a great application. But there are more savings to be found with the right addition to your advanced sourcing suite, and that addition is predictive analytics. Traditionally, most business intelligence and spend analysis applications provide reports that simply describe spend over a certain period of time.

Traditional tools can help an organization identify categories that haven't been sourced, direct categories with savings potential, and even the categories where they've reduced costs over the past year. They are less useful in prioritizing opportunities and helping organizations identify which hidden opportunities are worth pursuing.

That's where second generation predictive analytics comes in.

It will augment spend reporting with trend analysis algorithms that can not

only map historical spend to known, predictable purchasing patterns, but can also predict future costs based on incremental changes in the spend profile and changes in market pricing for the corresponding commodity categories.

A platform that can regularly absorb market pricing and organizational spending, re-run the pricing trend analysis, and detect when rapid upswings or downswings are about to happen can save an organization a considerable sum of money.

For example, they might determine when they should source a category early to avoid high costs or hold out for better pricing and lock in a contract later.

In other words, **traditional e-Sourcing platforms are good, but platforms that include advanced sourcing technologies are better.** They provide an organization with new opportunities to identify savings, generate value, and ultimately transform their operations.



Showcasing Procurement's Value

ELEVATING PROCUREMENT

Earlier in this collection, Joe Payne suggests **there is no function within an organization that can be as impactful as Procurement.**

Touching every other business unit, the department's value-producing potential is unparalleled. He does not, however, focus on Procurement alone. Rather, he highlights the role played by those other business areas who are supported by Procurement throughout a Transformation.

That role is especially critical once the Transformation activities have taken place and the "assimilation" phase begins.

What I mean by this is that once new policies and procedures are in place, new technologies are implemented, and the new structure is rolled out, *that's* when Procurement has reached peak potential and peak executive buy-in. Now, our efforts to *truly* elevate the function begin.

Prior to a Transformation, Procurement was likely perceived as a tactical and reactive group within the organization with little of substance to offer. Ideally, leaders from other business units participated in the

Transformation directly.

Regardless, it is very possible that not all departments were involved in the same way. Even those units who were heavily involved may still feel anxious. They're likely struggling to understand how their efforts will return value to their own function – or even to Procurement itself.

In other words, their perception of Procurement may have not changed very much because they haven't seen the transformed function in action.

ENABLING BUSINESS UNITS

I'm a firm believer that perception is reality. Whatever state your Procurement department is in, its perception across the organization will have a direct impact on its performance.

Simply put, business units that have always perceived Procurement as a tactical function are unlikely to abandon this notion. Old attitudes might keep them from (pro)actively seeking the department's strategic advice. This, in turn, could hinder its impact and limit its value within the organization. Undergoing a Transformation to become strategic is never a guarantee.

If Procurement is to operate as a strategic group, it has to be perceived as such.

Whose perception does Procurement need to manage? In short, **they'll need to manage every business unit's perception**, and they'll need to do so in different ways.

To elevate its perceived value, Procurement should develop a communication plan focused on **"Enablement."**

This plan's messaging should center on one question in particular: **"How does Procurement enable our business?"** Positioned properly, that message will prompt business units to engage Procurement earlier and more often to support their strategic goals. It will also enhance Procurement's visibility into what these various business units *really* need from them.

Over time, the culture of engagement and collaboration will produce results well beyond cost savings, the true value of the Transformation will reveal itself, and stakeholders will better understand what high-performing Procurement is all about.

So let's break it down.

Enhancing the Organization

To challenge its existing perception and align with business units on “enablement,” it’s important for Procurement to speak the language of these other units.

Let’s remember that Procurement enables the entire organization in different ways, and recognizing the metrics that matter to each area and functional unit is critical to achieving a consistent perception.

In communicating its results, Procurement must take care to “translate” them into the language of other business areas.

“Speaking the language” of *each* individual department is extremely important. IT and Marketing, for example, don’t look at Procurement the same way. While the former cares about service levels, licensing count, and up-time; the latter is focused on budget optimization and supplier management. Procurement also needs to learn when to put aside its own language.

Discussing savings with Marketing is far more likely to shut down doors than it is

to open them. The same is true for Operations, Legal, and other units.

Understanding what matters to each of these functional units, and properly communicating how Procurement can provide this, is as important for Procurement as promoting the value of its own work. It needs to make itself relevant to everyone – yes metrics do matter.

Executive buy-in is on the rise.

73% of Procurement leaders believe they have the support of their business’ leaders.

Generally speaking, enhanced Procurement departments reveal themselves in many ways:

- Optimizing processes and generating visibility into spend patterns
- Providing benchmarks, generating levers and creating best practices for negotiations
- Creating order and establishing controls
- Impacting the top and the bottom line by enabling supplier innovation and reducing costs
- Increasing market share and competitiveness—through supplier innovation and managed performance)
- Reducing risks – through adequate supply chain management
- Consolidating spend without compromising on quality
- Increasing competitiveness and driving innovation
- Improving product specification and service delivery

Maintaining Momentum

So, how does leadership perceive Procurement?

If a Transformation has taken place, it's safe to assume that the CPO (or equivalent leader) perceives the department as relevant, strategic, and potentially impactful.

This perception, however, needs to be fed and calibrated constantly. In order for Procurement to manage those perceptions, **it is critical to collaborate with leadership in developing a unique value proposition and aligning internal resources to that value proposition** so they execute with the right goals and values in mind.

Lastly, it's important for Procurement to manage its own perception and keep momentum alive. As Procurement gains relevance within the organization, it needs to ensure that its value is consistently recognized and articulated within the department itself.

Ultimately, managing the perceived value of Procurement in the long-term depends on close monitoring and consistent visibility. The department

should advertise its triumphs early to bolster its credibility and continue building momentum.

Start small. A newsletter with simple metrics can go a long way in revealing Procurement's value and making the department's continued growth and success a company-wide priority.

Procurement's evolution doesn't end when an initiative ends. Refining the department and enabling other business units are both ongoing processes that require unceasing effort. Without momentum, a valuable, strategic department can easily find itself faced with disengaged business units and disappointing results. Neither Procurement, nor the business it supports, can afford this.

1. Generate a value proposition

This mission statement for Procurement should align with the organization's core values and resonate across all business units.

2. Embrace digitalization

Taking a proactive approach to new technologies and training everyone on their use will ensure the department remains innovative and strategic.

3. Establish clear and aggressive development plans

Incorporate category expertise, leadership, and strategic thinking into these plans to identify, develop, and retain high performers. These leaders will represent Procurement and enable the business well into the future.



Part V: The Last Word (For Now)

Introduction

We're finally here, the last installment of *Procurement Transformation: Industry Perspectives*.

This time around, Source One's Jennifer Ulrich brings things to a close with her discussion of Procurement's essential metrics and the importance of reporting. Effectively tracking the department's performance and strategic value generation, she writes, is an essential step in building the business case for a transformative initiative. What's more, better metrics and reporting will keep momentum alive both during and after a Transformation.

Though we consider the five installments of this series to be definitive, comprehensive, and even exhaustive - we'll be the first to tell you that the conversation is far from over. We might be ending this particular discussion today, but we look forward to many more like it in the future.



Building the Business Case

Over four chapters, this collection of thought leadership has covered a range of topics. From planning an initiative to sustaining momentum, they all fall under the broad umbrella of Procurement Transformation.

It's safe to say we've communicated the breadth and complexity of the topic. I hope we've also made the notion of transforming Procurement a slightly less overwhelming one.

Though we've discussed the Transformation process from start to (temporary) finish, taking a deep dive into Procurement's essential elements, we've only indirectly discussed metrics and reporting.

In a sense, **metrics and reporting provide the bookends for a Transformation.**

If an organization is hesitant to commit itself to refining Procurement, it's likely because they can't imagine a good return on investment. Making a tactical, low-value function slightly more strategic and slightly more valuable rarely looks like a worthwhile endeavor.

For Procurement, **building the business case for this Transformation is largely a matter of demonstrating ROI through reporting and metrics.**

It's almost a paradox.

Before the function can dramatically improve its potential ROI, it needs to prove its ROI is significant enough in the first place. As a result, organizations who've habitually taken a hands-off approach to tracking metrics like cost reduction and cost avoidance could find it difficult to get an initiative off the ground.

Only 31% of Procurement leaders feel "highly supported" by executives within their organizations.



Technologies, Processes, People

When discussing the potential benefit of a Transformation, organizations tend to describe ROI in relation to the three “pillars” described in Part III of this collection.

TECHNOLOGIES

“We’re not sure why, but we definitely need it.”

It’s not hard to see why technology inspires so many Transformations. After all, there aren’t exactly salespeople out there singing the praises of better processes. Technologies are presented to Procurement with an emphasis on their immediate, considerable ROI.

Once implemented, the right tool’s ROI will be clear, demonstrable, and (hopefully) sustainable.

That’s why it’s so easy, as Kristian O’Meara suggests, for organizations to mistake a new technology for a full-on Transformation.

PROCESSES

“We’re a reactive function because our stakeholders do not engage us when they should, our workflows are inefficient, and we communicate poorly.”

The conversation around processes is a little trickier. It’s obviously a less tangible concept than technology and its ROI is similarly more nebulous.

It’s more challenging to pinpoint how a new way of doing things has created efficiency from a cost perspective.

Building this business case for Strategic Sourcing is one thing. Replacing tactical buying with proactive planning and sourcing certainly promises an ROI. Attaining the buy-in necessary to support Contract Management, Supplier Management, and Risk Management programs, however, is another challenge altogether.

PEOPLE

“We don’t have the right skillsets or level of expertise in-house to support the business.”

Though the ROI of effective Procurement talent seems obvious, this also seems to be the one pillar that organizations are most likely to neglect.

In any organization, Procurement’s people are at the center of the equation. Post-transformation, it’s up to them to navigate new processes and employ new

technologies effectively. Otherwise, you’ll never realize that ROI you fought so hard to demonstrate while building your business case.

You can have the Lamborghini of Procurement Technology suites and the most efficient, streamlined Processes imaginable, but without qualified, well-trained People in the mix, you are just wasting time and money.

This is typically the most difficult pillar to tie a concrete ROI to, but that does not mean the ROI isn’t there.

While conducting a Transformation, Procurement should work to transform its metrics and reporting to better reflect the importance of great talent.

Selling a Transformation

You can talk about ROI until it loses all meaning, but – as the saying goes – the proof is in the pudding.

Before, during, and after a Transformation, you need to demonstrate an ROI with hard, discernible metrics.

When trying to sell a Transformation to leadership they want to know one thing above all else: “How will this help drive top line growth or impact the bottom line?”

Any successful business case for Transformation will center on Procurement’s capacity to repay the efforts you are planning to put in, the resources you are going to divert from other business operations, and the investments you’ll have to make.

If you can show leadership that Procurement is already a valuable mechanism, they’ll feel confident in its ability to evolve into a self-funding function powered by people, processes, and technologies.

From there, metrics and reporting should become a fixture of the day-to-

day conversation.

Tracking the success of the Transformation is just the beginning.

Once Procurement has reached a high-functioning state, it needs to provide valuable reporting, market its success, and ultimately become the decision support mechanism it was always meant to be.

Just 1 in 4 Procurement leaders believe they are excellent business partners contributing significant strategic value.



In Conclusion

METRICS MATTER

Becoming this trusted advisor will take time. More importantly, it will take consistent, data-driven reporting.

It is easy to say that you can save x% on a contract renewal, it's far more effective to *show* that you have saved x% in the past and based on market trends you can achieve at least that much. **Simply put, metrics matter.**

For organizations looking to kick off a transformation, good reporting and metrics could provide the burning platform necessary to get things started. For teams whose initiatives have stalled, they can provide the reassurance necessary to see things through. Even organizations who've successfully carried out a Procurement Transformation can benefit from more effective, impactful reporting and metrics. For these organizations, a dedicated approach to reporting and metrics can help keep momentum alive and make Procurement Transformation not just a concept but a cultural imperative.

A JOURNEY

The concept of Procurement Transformation is nothing new. As Jim Baehr remarked back in Part 1, the idea has been out there in one form or another for several decades. What

we have learned in that time is how to navigate it better, engage leadership, and motivate the business to take part of the effort. We have also empowered the Procurement function to understand that it's just as accountable throughout Transformation as the organization it supports.

It's up to them to drive change management by encouraging a change of mindset. **When Procurement becomes its own ambassador it does more than advocate for change.**

As an advocate, the function moves from arguing for Transformation to actively invoking it. That's when real, long-term change becomes possible.

A Transformation is not a single event. It is a journey, one that does not need to be nearly as scary or as intimidating as some organizations imagine. It is *your* journey. You can tailor its path to your needs, resources, funds, and objectives.

While we do not typically recommend extending the main events of a transformation beyond a year and a half to two years, there is no rulebook for how a Transformation should proceed. With a solid, dedicated team to manage the effort, there's no reason a Transformation can't go on indefinitely.

THE NEXT GENERATION

Organizations would do well to introduce their new hires to transformative initiatives early and often. These journeys are a great way to set the right pace and establish a solid foundation and introduce best practices, best-fit tools, and optimal processes.

The next wave of strategic leaders will be tasked with keeping Transformation alive. They'll need to guarantee that the change enacted through this era of Transformations is not only sustained but continuously improved over time. Those of who are currently embroiled in Transformations need to remain mindful of those that'll follow us.

We need to establish an environment that's accepting of change and open to innovation and lay the path for new Procurement teams capable of supplementing today's best practices with tomorrow's lessons. Now that Procurement has caught up to the rest of the business, it needs to find a way to keep pace and maybe even jump a step or two ahead of its partners.

Whatever leaps the function makes down the road, expect our definition of Procurement Transformation to evolve alongside it.

ABOUT JIM BAEHR OF SOURCING STRATEGIES GROUP:



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*.



ABOUT PHIL IDESON OF ART OF PROCUREMENT:



Philip Ideson is passionate about the role that procurement professionals and leaders can play 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.



ABOUT JOE PAYNE OF SOURCE ONE:



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.



ABOUT NASEEM MALIK OF MRA GLOBAL SOURCING:



Naseem Malik has gone from sourcing goods to sourcing talent. After gaining 15 years' experience as a procurement practitioner, Naseem turned his full attention to something he enjoys most – leveraging his network, connecting the dots and finding the best talent in the profession.

Spanning diverse industries, he has worked in numerous roles of increasing responsibility, including implementation of global supply strategies, product and process cost reductions, and supply chain improvements.

He was Director of Global Sourcing at both Terex Corporation and ACCO Brands, and his background includes working in management consulting for AT Kearney, as well a multiple start-up businesses. While working at major Fortune 500 companies,

As an active member of the Institute for Supply Management (ISM) and various Purchasing Councils, Naseem has authored articles for Inside Supply Management magazine and presented on topics relating to talent challenges in the global marketplace.

Naseem holds an MBA from the University of Illinois-Chicago and resides in Chicago with his family.



ABOUT KELLY BARNER OF BUYER'S MEETING POINT:



Kelly Barner is the Owner and Managing Director of Buyers Meeting Point. She has a unique perspective on procurement from the numerous roles she has held during her 15 years in procurement. Kelly worked for Ahold USA specializing in systems implementation and hired services category sourcing and spent three years as the Associate Director of consulting services at Emptoris before it was acquired by IBM in 2011.

Since 2009 she has covered procurement news, events, publications, solutions, trends, and relevant economics at Buyers Meeting Point. BMP provides the Procurement with a calendar, blog, social media network, and podcast, all of which are trusted sources of information for practitioners and solution providers alike. Kelly has several regular columns throughout the industry, and in the summer of 2016 was appointed to become the Business Survey Chair for the ISM-New York Report on Business.

Kelly has co-authored three books: 'Supply Market Intelligence for Procurement Professionals: Research, Process, and Resources' (2014), 'Procurement at a Crossroads: Career Impacting Insights into a Rapidly Changing Industry' (2016), and 'Finance Unleashed: Leveraging the CFO for Innovation' (2017). In 2017, Kelly co-founded Palambridge with Phil Ideson (Art of Procurement).



ABOUT KRISTIAN O'MEARA OF JAGGAER:



Kristian O'Meara ('KO') serves as JAGGAER's SVP of Global Value Engineering and joined the team in 2001. Mr. O'Meara is responsible for working with customer's and prospective customer's executive leadership teams to identify, create, and deliver sustained organization outcomes and value via JAGGAER's enabling technologies and their value-added partner delivered solutions & services.

He brings 20+ years of procurement and supply chain experience helping procurement organizations drive financial results, achieve organizational excellence, manage risk and drive innovation. Prior to joining JAGGAER, he held various positions within the Supply Chain Solutions consulting practice for Ernst and Young/Cap Gemini.

He holds a Bachelor's of Science in Business Administration from Ohio State University, Max Fisher College of Business and is an alumnus of Columbia Business Schools Executive Education Program.



ABOUT TOM ROGERS OF VENDOR CENTRIC:



Tom is founder and CEO of Vendor Centric, a boutique consultancy that specializes in helping organizations take a disciplined approach to managing the risks, costs, compliance and performance of their vendors. He is a trusted advisor in vendor management to organizations from \$5M to \$5B across the United States.

In 2011, Tom formed Vendor Centric to address a growing need he was seeing with his clients. The contractual relationships they were entering into with their vendors were getting riskier and more strategic, yet his clients didn't have the right people, processes and systems to manage the all of the costs, compliance and risks associated with those relationships. So he focused Vendor Centric on the emerging business discipline of vendor management, and created one of the first models for a Vendor Management Framework that is the foundation of the firm's work.

He is a frequent speaker and writer on the topic of vendor management, and hosts the Rethinking Vendors podcast. He is an adjunct professor at Georgetown University, served previously on the NIST Board of Examiners for the Malcolm Baldrige National Quality Award and serves currently on several nonprofit boards and committees.



ABOUT MICHAEL LAMOUREUX OF SOURCING INNOVATION



Michael Lamoureux is one of the most prolific writers and experts in the procurement and supply chain areas “the doctor” of sourcing innovation, a leading resource for education on supply management best practices, technologies and trends.

Michael's path to procurement falls outside the box. After leaving academia upon completing his Ph.D. he worked for a few early e-commerce companies where he designed online databases and virtual shopping carts before most people even knew what the World Wide Web was. During these activities, he stumbled onto a startup that wanted to change procurement forever by bringing optimization to strategic sourcing. His job at this firm, as the first hire, quickly morphed from building the data model, to feeding the optimization model, to building the sourcing model itself.

In 2006, he started his own blog, and since then, has always enjoyed – well, almost always – the banter with Jason Busch and company at Spend Matters, with whom he currently partners with as Consulting Lead Analyst on Advanced Sourcing Technologies.



ABOUT DIEGO DE LA GARZA OF SOURCE ONE:



Diego De La Garza is a Director at Source One Management Services, LLC, a *Supply & Demand Chain Executive*-recognized Pro to Know and winner of the Council for Supply Management's 2016 Emerging Leader Award.

Forging his procurement expertise in his nearly 10 years with Source One, Diego has helped countless organizations optimize their supply management operations – providing the right guidance on strategy, processes, human capital, tools, and technology to enable them to become world-class procurement organizations who deliver value to their business beyond cost savings.

In addition to his dedication to delivering procurement solutions for his clients, Diego is an industry thought leader, regularly contributing articles to numerous procurement publications and a frequent guest speaker at major industry events

ABOUT JENNIFER ULRICH OF SOURCE ONE:



Recognized industry-wide as an authority on Procurement Transformation and Category Management, Jennifer Ulrich boasts over a decade of consulting experience.

She has successfully led large-scale initiatives for both direct and indirect spend categories in industries including: biotech, medical devices, pharmaceuticals, and consumer packaged goods. Source One's clients trust her to provide the cross-functional procurement knowledge and innovative strategies necessary to develop transformation roadmaps and realize long-term savings. Her efforts have also included developing customized training programs for Strategic Sourcing, Contracting & Negotiations, Spend Analytics, Procurement Process Redesign, and Supplier Relationship Optimization.

Jennifer is a Supply & Demand Chain Executive Pro-to-Know, a contributor to *Managing Indirect Spend*, and a regular featured speaker at universities and organizations including Next Level Purchasing Associate and ISM-Philadelphia.

