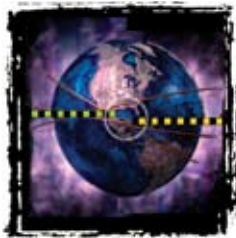


Accelerating the Procurement Transformation

With certain key success factors in place, you can speed the transition from a tactical paper-pushing procurement function to a strategic supply chain organization.

By Carrie Ericson



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Over the last few years, in nearly every interaction I have had with individual CPOs (especially those who are new in their positions), the most frequent topic of conversation is “How to

best transform their organizations from tactical, paper-pushing procurement functions to strategic, value-delivering supply chain organizations?”

For the most part, these CPOs have a good understanding of what a best-practice, high-performing supply chain organization looks like. They have studied the frameworks developed by the providers, such as A.T. Kearney’s House of Purchasing and Supply. They have researched the individual components of these frameworks and often have experience implementing them in previous roles.

At the end of the day, we generally come to an agreement pretty quickly around a common definition for best practice, but the key questions CPOs struggle with in making the transformation are:

- How do I get there?
- Where do I start?
- What is the best way to prioritize the work?
- How do I front-load the benefits?
- How do I maintain the momentum of an initiative that may take 18 to 36 months?

Key Success Factors

In facing these challenges, a savvy CPO can design an overall roadmap for transformation, but may still have difficulty deciding how to prioritize each step, given the lack of data and resources

available. In building a business case and prioritization plan to accelerate transformation, supply leaders must understand the business pressures driving the “need for speed.” Will accelerating sourcing efforts support time-to-market requirements? Will speed provide needed flexibility around strategic decisions on make vs. buy for contract manufacturing? Can service parts acquisition costs be dramatically improved?

Strategies to accelerate the work vary. To ensure success, selecting the appropriate strategy (or strategies) and matching them to the major business issues will drive stakeholder alignment. Fundamentally, procurement supports or enables other business units and functions. So designing the transformation to meet these internal stakeholder needs, and using common language to communicate objectives that resonate with them, will go a long way toward building alliances and driving internal alignment.

While the key business drivers motivating the transformation initiative may differ from company to company, for the most part each company must start in the same place; that is, obtaining a broad and deep understanding of the overall company spend. Detailed spend analysis is Job No. 1. Without it, planning remains opportunistic and business continues to be managed in an ad-hoc fashion.

The goal of spend visibility is to develop and implement a systematic methodology to obtain and maintain data that is cleansed and organized to support the various procurement processes. These include strategic sourcing, compliance management, demand management, supplier performance management, and so on.

For most organizations, completing a first pass at obtaining this holistic view of the data may take 8-12 weeks. Furthermore, spend visibility is not a one-time effort, as new spend comes into the organization every day. Spend will need to be refreshed every quarter or a couple of times per year, until the transformation effort has succeeded to the point where the origin for the spend (for instance, the requisition-to-pay process) provides clean, accurate, and enriched data.

For most CPOs, one of the early priorities is in launching a strategic sourcing initiative. There is often no better mechanism for funding future transformation investments than a successful sourcing initiative. Unfortunately, procurement transformation doesn't come cheaply; it often requires investments in people, systems, and processes. The sourcing work can identify savings that the CPO may successfully lobby to have reinvested in the initiative's continued success. This isn't an obvious or easy argument to make, as most CPO's don't actually "own" the spend and as a result they don't often get to keep the savings that flow to their business partners. There is nothing like a successful track record to build credibility and open the door to more resources to deliver even greater benefits in the future.

After spend visibility is in place (or at least underway) and a sourcing initiative has been launched, the next priority item is typically talent acquisition. Procurement transformation is no different from other corporate transformation initiatives. It takes evangelists to sell the program and establish an internal network, great project management to keep the program on track, and continuous successes to maintain the momentum. Typically, these activities require resources with skills that were not previously available within the procurement organization. While there may be some stars among the legacy team, more often than not a new CPO finds himself launching, either overtly or covertly, an initiative to assess and recruit new talent to the organization.

This doesn't mean that everyone has to go. But it does mean that the procurement executive needs to find and recruit a few key lieutenants to help drive the initiative.

In conjunction with the talent assessment, an activity analysis can be a useful tool in identifying the tactical activities that must be transitioned to more strategic activities. Many procurement transformation initiatives start out with the goal of reducing overall procurement headcount, as tools and technologies are brought on board to streamline processes. What we have found, however, is that many companies already did an aggressive job of staff reduction through the 1990's and 2000's. There typically is not a lot of fat left to cut.

The critical requirement really is to redirect staff from tactical to strategic activities. Not all resources will be able to make the transition and staff changes that will be needed. But the impact on overall headcount is not typically that dramatic. In fact, as companies look to upgrade talent and expand to support international procurement offices and supplier performance management initiatives, the operating budget may start to increase. The reason: the talent required typically costs more than the tactical staff on board in the past. The reality is, there will be opportunities to reduce staffing levels, but the keys to success are in maintaining the flexibility to reinvest that budget

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into talent that will likely be more expensive in the future. This is one of the toughest "sells" facing a CPO. And it's a lot easier to accomplish if the business case for the entire transformation initiative is not predicated on staff budget reductions.

Building the Business Case

Once some of these initiatives are started, a robust business case to take the transformation to the next level will prove useful. Few organizations have the temperament to support the sign-off of a comprehensive procurement transformation business case without some successes already underway. The business case must outline near- and long-term improvement opportunities and required investments. To the extent the benefits can be aligned to match the business units' objectives, it will be easier to generate buy-in, approval, and investment dollars.

With a business case in hand and real successes from sourcing underway, the CPO is in a much stronger position to cultivate allies among his leadership team to help ensure that the transformation initiative keeps moving forward. Enrolling these allies in the design of the future procurement organization can be another way to ensure that their ongoing business needs are being met and they are engaged in the process.

These critical success factors of procurement transformation typically get prioritized first in most initiatives and are instrumental in securing early and consistent success. When done right, they can accelerate the initiative. When done poorly or not at all, things tend to bog down and the initiative generally dies a slow and painful death.