

# IN PURSUIT OF PROCUREMENT EXCELLENCE

## *An Interview with Randy Watson of A.T. Kearney*



WHAT ARE THE HALLMARKS of procurement and supply management excellence? What are the leaders doing in this space that sets them apart from the others? How can companies not currently at the top get on that path to procurement excellence?

These are among the critical questions addressed in A.T. Kearney's Assessment of Excellence in Procurement (AEP) study. The recently released 2008 AEP study, the sixth in a series that dates back close to two decades, was co-directed by Randy Watson and John Blascovich of A. T. Kearney.

Watson, a partner in A.T. Kearney's Atlanta office and 12-year veteran of the firm, believes that the results from the latest survey are notable in a number of respects. For one, he says, they clearly underscore the advantages that procurement leaders enjoy over the so-called followers. These begin with superior costs savings, but they don't end there. Closer supplier relationships, better management of risk, more creative and innovative value strategies, more effective use of technology, higher retention of talent...are just a few of the other comparative advantages of the leaders.

Watson discussed the key results of the AEP survey—and its implications for supply management professionals—with *Supply Chain Management Review* Editorial Director Francis J. Quinn.

**Q.** How did you determine the leaders in your survey?

**A.** We had a very tight definition of our leaders and strict criteria for who received that designation. Eighteen global companies of the more than 300 that originally participated in this year's survey were classified as leaders; the rest were considered followers. Note that since the time of the initial data analysis in early 2008, we now have almost 600 companies that have filled out the survey.

**Q.** What are the two or three most important findings of the latest Assessment of Excellence in Procurement (AEP) study?

**A.** The first is that leading companies have a broader mandate. Most importantly, they have executive support for procurement and tight organizational alignment. Illustrative of this, over 50 percent of the leaders identified in the study report directly to a CEO or a COO. Incidentally, that number continues to increase every time that we do the study, which is a great thing to see. The leaders also are designed to be flexible in terms of how they are organized around the business units they support and the categories they manage on a day-to-day basis. They're finding ways to have procurement participate more and more in strategic activities. Plus, they're more aggressively pursuing initiatives like automating transactional activities, creating shared services organizations within the company, or outsourcing the more tactical activities. These initiatives are all part of that broader mandate.

Second, the survey shows that the leaders are really expanding their toolkit to create value. This was a partic-

ularly exciting finding. Beyond the tools used for the regular strategic sourcing and RFP-type activities that are part of the everyday procurement job, they are applying new strategies and solutions in areas like supplier collaboration, product and service innovation, and revenue growth. The leaders now also address risk management, a subject that has taken on increased importance recently. (Exhibit 1 contrasts the leaders' vs. the followers' applications of specific risk-mitigation strategies.) Value chain optimization, for example make/buy, outsourcing/offshoring, emerged as another tool leaders are using to enhance their overall value to their company.

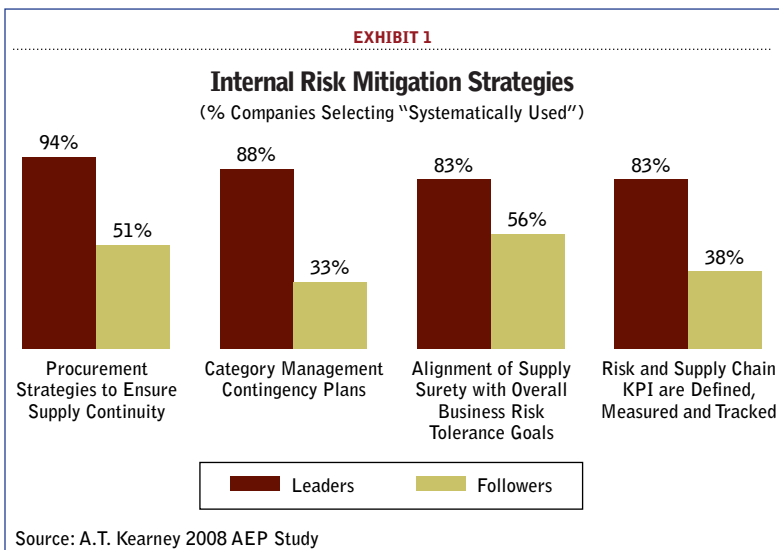
The third area related to the leaders' investment in capabilities—processes, technology, and, most important, people. With respect to that last capability, winning the war for talent has gotten harder. Though that was suggested in earlier surveys, it's more clearly evident this year. There's a growing gap between procurement organizations that are mainly tactical and those that are strategic. And if you're not winning the war for talent, you're not going to be able to get to those strategic goals that the leading procurement organizations have set for themselves.

**Q.** Any especially surprising findings from the survey?

**A.** Yes. A couple of new topics appeared on the radar screen, and again we saw a big difference in how the leaders and the followers were approaching them. The first one was risk management. The leading companies are dealing with this in a very creative and holistic way through their category strategies and supplier strategies. They're making sure that these strategies are linked to the overall business risk management plan put together at the corporate level.

Another surprising finding centered on sustainability. Procurement is getting more and more involved in this activity. In fact, we're seeing a growing number of CPOs being given specific responsibility for sustainability within their organizations. Fully 89 percent of the leader group had a procurement plan in place dealing with sustainability. And while virtually all the companies that we surveyed had a corporate-wide sustainability goal, only the leaders really have translated that into procurement sustainability goals complete with supporting activities.

The other surprising area, which is related to the risk management, is that companies are revisiting their sourcing strategies,



particularly with respect to China and Southeast Asia. In the future, they are planning to de-emphasize those areas and look to grow sourcing capabilities in places like Mexico and Latin America. Brazil, in particular, stood out. That doesn't mean they are going to abandon Asia altogether, but for U.S.-based companies, anyway, they will stay a little closer to home. The exception to Asia is India. Companies still predict strong growth in sourcing activities for the next two to three years at least. So, what we're likely to see is a more blended supply chain as opposed to putting all your eggs in the Asia basket. So you'll see corporations adopting a blended supply chain practice that combines a North American blend, a South American blend, an Asia blend, and a European blend. That was something that came out loud and clear in the study.

**Q.** Could you elaborate on the finding showing a close correlation between center-led supply management leadership and higher performance?

**A.** The leaders certainly were mainly organized around a center-led model, which we define as either a centralized overall approach or center-led approach around specific categories, business units, or geographies. When you look at direct materials, for example, over 80 percent of all leaders are centralized or center-led organized around these direct commodities. Followers actually are not that far behind, at 77 percent. Obviously, many companies have figured out that it makes sense to have more robust centralized functions around direct materials.

If you look at the indirect materials side, about 80 percent of the leaders have adopted a centralized or center-led approach. The followers are lagging behind a bit at 72 percent. Again most companies are now seeing the advantages of a center-led model for indirect materials.

Where we see a big-ger different is in services. More than 80 percent of the leaders procure services via a center-led model, compared to only about 60 percent of followers. The same ratios hold true with capital expenditures. We see a lot of opportunity for companies to

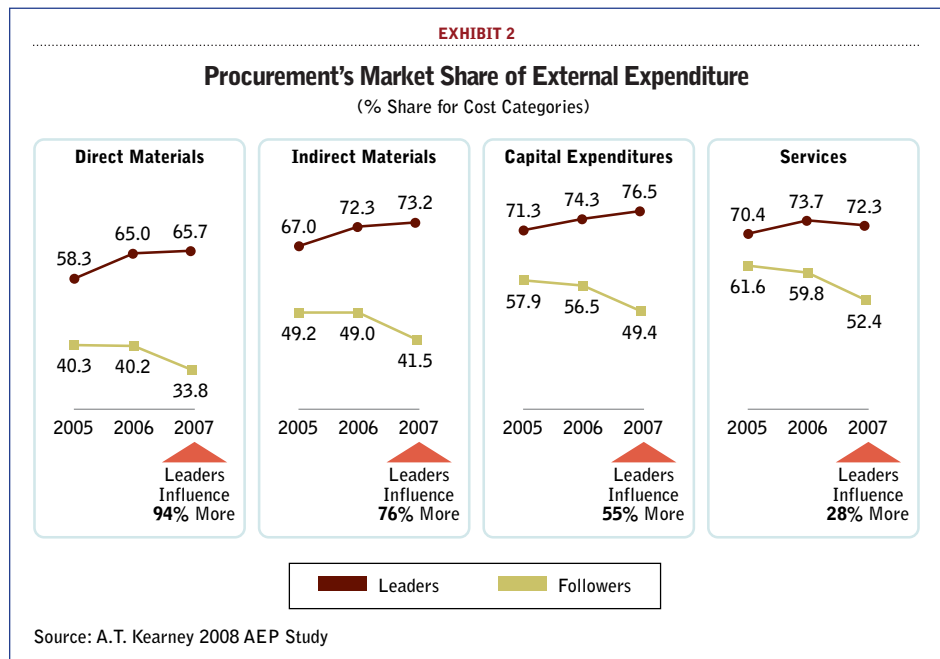
become more organized around their capital expenditures, which are typically plant- or local site-location-driven. The same holds true for a lot of plant services, mill services, and corporate site facilities that are being driven at a site rather than at a corporate-wide service level. The leaders are working on a center-led approach to this spend.

**Q.** Is the move toward center-led procurement a long-term trend?

**A.** It is. As I indicated, the percentage of respondents this year reporting a centralized or center-led procurement model is north of 80 percent, which is a significant increase over the 2004 study. And if you go back to the first studies that we did in the early 1990s, the centralized and center-led percentage spend was more like 20 percent.

**Q.** Any other longer term trends?

**A.** Well, procurement has come a long way and that's something that we are actually very excited to see. Consider the procurement market share, defined as the percentage of spend over which procurement has either direct control or significant influence. We're seeing that the leaders are increasing their procurement share over time as well, which means they're getting more and more involved in all aspects of spending across the enterprise. Among the follower group, however, the procurement share is dropping off. So that's a disturbing trend that we're seeing there. (Exhibit 2 shows the relative procurement share in different spend categories.)



In terms of savings percentages generated, the leaders and followers are much closer. In fact, the followers are actually closing the gap from the last study that we did in 2004. So that's the good news for the followers—they are working hard to catch up.

**Q.** *Another leadership trend you mentioned centered on supplier relationships. Could you give a few examples of what the leaders are doing with their supply base that gives them an edge here?*

**A.** Supplier collaboration was one of those major value levers that came out of this study. We've seen a big increase in this area over past AEP studies. In fact, over 70 percent of our leaders now collaborate across the value chain in order to secure greater benefits from their supply base. There are a number of advantages to doing that. Asked what results they're seeing from closer collaboration, 84 percent of the leaders pointed to a greater supplier contribution to their product and service innovation and 63 percent cited faster time to market. Suppliers contributing to product or service innovation and helping generate faster speed to market—those are impressive advantages, which most of the followers are not realizing.

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**Q.** *Any other examples?*

**A.** The programs we heard about really fall into two main categories: one-to-one supplier activities and initiatives involving groups of suppliers.

Let's look at the group efforts first. It could be a process improvement program like Six Sigma or VMI (vendor managed inventory) that is initiated among a group of strategic suppliers. Or it might be an effort to reduce complexity among a specific supplier segment. We first saw this in the automotive industry years ago; it worked well and was subsequently adopted in other sectors. Group initiatives also can be category specific. In categories such as print management, for instance, we've seen companies bring in a group of suppliers and develop an online marketplace tool.

In the one-to-one category of supplier collaboration,

we see the more traditional types of activities around areas like reducing logistics/ transportation costs or finding alternative product specifications. For example, one leading company worked with their transportation carriers to optimize their delivery routes and include more back-hauls, picking up and delivering products to another location on their return trips.

**Q.** *Does excellence across these traits you mentioned translate directly to cost reduction?*

**A.** The survey found that the leaders, through their procurement efforts, have on average doubled the cost savings vs. their followers—though that gap is narrowing. The next time we do the study it will be interesting to see if the leaders have found ways to lengthen the gap or if it will keep narrowing. In any case, the leaders still maintain a decided cost-reduction advantage. As another indicator, we looked at what the leaders are doing in terms of a stock price performance. In the most recent study, we found a 10 to 20 percent increase in stock price in the leader group versus the followers.

**Q.** *Is there any connection between procurement excellence and revenue generation?*

**A.** We did not specifically ask about any revenue advantages in the marketplace. But one could logically assume that the innovation and speed-to-market advantage that leaders enjoyed through tighter supplier collaboration would somehow translate to increased revenues. Of the leader group, 63 percent were meeting or exceeding their goals of increasing innovation from their supply base, as opposed to just 28 percent of the follower group.

**Q.** *What are the biggest obstacles that companies typically face in pursuing a course of procurement excellence?*

**A.** The barriers really come down to a couple of key areas. The first is around executive support and organizational alignment. If you do not have an executive mandate and strong executive support, you will be inhibited in the types of results that you're able to drive to the bottom line. As I noted in the beginning of the interview, executive support and a broad mandate from the top is a core strength of the leaders.

The second barrier is around technology adoption and implementation. Companies have not yet fully realized the technology capabilities now available in the marketplace. This time around we did not see a significant increase in technology adoption. What adoption there was tended to be on a category-by-category basis, rather than across the entire spend base.

The third area is around organization capabilities—and specifically people. This means not only keeping the people that you have, but also attracting new talent into your group. Again, the leaders are doing a much better job of keeping their top performers as well as attracting new people. The new talent could come from job rotation programs set up with other corporate functions or it could come from partnerships with leading universities to attract promising graduates. Executive search firms are another source of procurement talent. Networking with local organizations and industry associations is valuable, too. As I've said before, retaining and attracting talent is a never-ending struggle.

**Q.** *One surprising study finding was that fully one quarter of all respondents did not use e-sourcing tools at all. Why the lingering hesitancy to adopt e-sourcing in particular and technology in general?*

**A.** We wondered about that as well. The answers did not come out in the study itself but rather through our follow-up roundtable discussions that we conducted globally. We were able to draw a couple of conclusions about technology adoption. First, there's a cost versus effort question. Will the technology improve current practices to the extent that the investment justifies the ROI? In today's environment, that ROI needs to be crystal clear. In addition, the business case is not made strong enough to convince many corporate executives to approve the proposed technology investment.

The second problem is that even if you have the technology and a good adoption and training plan, how do you ensure that the tool is being used properly? It's amazing how many companies I come across that have a tool in place, and yet very few people are using it. Or if they are using the tool, they're not using it properly.

Often you see advanced technology being employed as little more than a glorified email system. Users attach RFP documents to the system and just email them out to the supply base as opposed to using the tool as an online e-RFX or an online e-Auction as it was intended. Used properly, these tools enable the bidding process to take place online with real-time interaction between buyer and sellers. Unless procurement people are held accountable for using the tool properly and unless it's made part of their performance evaluation, the technology will never achieve its full potential.

**Q.** *One of the interesting technologies singled out in the report were the social networking technologies. What's the significance of these types of technologies in a supply management context?*

**People are already networking socially online, so why shouldn't that start to translate into how the procurement and supply chain functions do business.**

**A.** Social networking sites like Facebook and Myspace have been around for years, but we're just now seeing procurement and the supply chain community start to embrace those types of platforms. A popular one is SharePoint. A lot of companies are adopting this collaborative platform because Microsoft is pushing it as part of a standard part of their platform. Another platform is UGS Team Center for engineering and design CAD type work. Working collaboratively, different component makers in the aerospace industry can design the airplane's interiors—everything from the seats to the galley, the kitchen systems, and the oxygen and gas mask systems—from remote locations. People are now working collaboratively in this manner, and they're already networking socially online, so why shouldn't that start to translate into how the procurement and supply chain functions do business.

The millennials, the younger work force, embrace and use technology platforms like these all the time. The challenge is to increase the adoption of these technologies throughout the rest of the workforce.

**Q.** *Looking ahead, what other technologies do you see in the supply management professional's future?*

**A.** Knowledge management will certainly be a growth area, especially for the collaboration platforms as we just described. Contract repositories, software that monitors a category or maybe groups of suppliers, procurement department knowledge depositories, document storage...all of this knowledge is going to be embedded in a central area in a collaboration platform. It could be a SharePoint or some other platform that combines an end-to-end solution for all of procurement's activities—not just within their internal group, but with their supply base as well. Part of that is going to be open, maybe it's starting off with supplier scorecards and then having the supplier provide collaboration ideas on how to manage a project.

**Q.** *A question about leadership. Who should champion the cause of procurement excellence in the organization?*

**A.** I don't think there's just one answer. But reflecting on the leaders in our survey and the companies I've talked with, I think there's a couple of common threads. Certainly, it starts with the chief procurement officer and how strongly he or she wants to advance to that leader profile. Yet the CPO can have all the best ideas and intentions in the world and be a strong leader, but none of that will lead to procurement excellence unless they have an executive team in place that fully supports their actions. I mentioned this before, but it bears repeating: the really successful procurement organizations have complete buy-in and support of the CEO and the entire senior management team. In the best cases, top management is an active participant in procurement's efforts. In one very large company (\$10 billion-plus), the CEO is sponsoring and actively participating in a procurement initiative related to IT. In fact, the CEO attends all of the weekly team meetings. What a great signal that sends when you actually see the CEO supporting a procurement initiative in this way.

**Q.** For readers of Supply Chain Management Review, what are some of the personal implications of the study findings? What should they be doing right now to start getting on the road to professional excellence?

**A.** First off, look at your skills in the context of the trends we saw coming out of the study. So one of the key capabilities required is an ability to manage risk. What is your skill level here? Maybe you could benefit from additional training in project management. Or perhaps a risk analysis course would be valuable.

Sustainability is another emerging area. More and more, sustainability is being linked to supply management. Do you understand the "green" and sustainability mandates that companies will need to adhere to going forward? Do you know how these requirements will translate into the types of activities you will have to perform on a day-to-day basis?

Finally, while I mentioned earlier that companies are beginning to rethink their sourcing strategies, remember that we are still in an area of globalization. So do you have skill sets that lend themselves to support your company's globalization of its supply chain? Advancement in this area might mean developing your language skills or learning how to deal effectively in different cultures.

**Q.** Building these kinds of skills obviously involves training.

**A.** Yes, and the leaders we've identified are broadening their definition of training to include such

things as interpersonal and influencing skills, project management expertise, communications and writing skills, coaching skills, effective presentations, cultural sensitivity and awareness, and so on. They are making their training programs more robust and holistic so that the supply management professionals can succeed in a new economic environment.

The leaders also recognize that going forward it's more about being creative, about being innovative, about creating an environment where ideas can be generated back and forth between you and your suppliers. These ideas will be translated into productive programs that can then be implemented. Some leaders have started to formulate training programs to stimulate this kind of collaborative thinking, but most still lag far behind in this regard.

**Q.** I guess the flip side is that if supply management professionals don't develop these kinds of capabilities, they limit their career potential.

**A.** That's true. One leading company I know of actually has a checklist for different skill sets. If an individual doesn't get all of the boxes ticked off, he or she will not be promoted to the next level. So, it's very clear what specific skill sets are needed to advance. That type of system would certainly motivate me.

**Q.** Any final thoughts for our readers?

**A.** One question that always comes up is where do I start to get on the road to procurement excellence. We always recommend that companies begin by assessing where they are now and compare that to the findings of this study to get a best-practice gap analysis. Based on that, you can prioritize which specific improvement areas you want to focus on. You don't want to have a "boil-the-ocean" approach to procurement transformation. Instead, you want to develop a plan over, say, an 18- to 36-month period that allows you to address the priority areas in a careful fashion. Biting off more than you can chew often results in frustration and a sense that no progress is being made. It's so much better for everyone to achieve the small wins on the way to a well-defined broader goal.

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*Note: If your company would like to get an assessment of its procurement performance, contact [randy.watson@atkearney.com](mailto:randy.watson@atkearney.com) or visit the online AEP 2008 survey at <http://AEP2008.atkearney.com>. Once you complete the survey, A.T. Kearney will generate a feedback report in about two weeks for review and discussion.*