

AGENT OF CHANGE

*The Chief Procurement Officer and the
Transformation of Corporate Procurement*

SpencerStuart

The past several years have brought fundamental changes in the role of the procurement function in countless corporations. Once often viewed as a “cost out” role expected to deliver goods on time and at a low price, the function is now, in many organizations, a strategic leader and advocate for greater operational effectiveness in everything from inventory to manufacturing, product design, cash flow, outsourcing, workflow quality and customer satisfaction decisions.

As part of this evolution, many companies across a variety of sectors have shifted from a regional procurement approach to a center-led global procurement strategy. Spencer Stuart recently interviewed a number of procurement leaders from around the world to learn their insights on the changing requirements of the chief procurement officer (CPO) role and their keys to success as agents of this organizational change.

A BUSINESS IMPERATIVE

The shift from regional and business unit-based procurement in favor of a center-led operation that can leverage the scale and support the strategy of the overall business represents a profound change in the role procurement plays in the organization. And while this trend has been building across various industries in recent years, most procurement leaders agree that it has been accelerated by recent economic challenges.

“There has to be a driving force within the businesses to make them willing to undergo change,” said Leslie Campbell, chief procurement officer for Reed Elsevier. “The economic downturn has been a great catalyst for that. Even businesses that didn’t want much to do with a centralized procurement organization are now willing to take help from wherever they can get it.”

And more organizations are becoming wise to just how big of a competitive advantage strategic procurement can provide. “In the PC industry, material costs represent a large portion of the total supply chain budget, and saving even a few percentage points can have a huge impact,” said Gerry Smith, senior vice president of Lenovo’s global supply chain. “Companies in some industries with high gross margins will see, as their markets mature, the profit opportunities in taking a holistic, end-to-end approach that integrates procurement teams across the business.”

Such an approach is based not on buying everything globally, but on sourcing strategically based on total acquisition costs and the overall needs of the business. “We’ve seen plenty of industry examples where people confuse ‘central’ with ‘global’ and then assume everything should be global,” said Stijn van Els, executive vice president of contracting and procurement for Shell. “The trick is to become more centralized but keep what I call a ‘global-local’ mindset across the organization. We previously did 40 percent of our purchasing using global strategies and are targeting a level of over 80 percent. It doesn’t mean we’ll buy globally, but that we will have thought about these items on a global level using a consistent method and will execute the procurement on a global or local basis as is fit for purpose for the category involved.”

In addition to enabling sourcing decisions that are more strategically sound, a center-led organization also allows the CPO to leverage scale and drive efficiency across the organization. “One of the CPO’s key tasks is to reduce complexity and provide transparency,” said Hugo Eckseler, chief procurement officer at Deutsche Post DHL. “You can do that only through centrally developed processes and systems that create standardization and reduce the number of providers. In the case of travel management, for instance, that might mean going from many providers to two or three to facilitate global reporting to the business.”

FROM PURCHASER TO INFLUENCER

To institute this procurement transformation successfully, the CPO must become a valued partner and recognized asset who collaborates effectively across the organization. “It’s less and less about

being a master of the purchasing technique today,” said Philip Duncan, chief procurement officer for Novartis. “It’s far more about the ability to persuade, to influence, to see the bigger picture and have credibility with the business.”

According to Andy Koehler, global sourcing head for adidas, one key to success in effecting change as a CPO entering a new organization is to cast an objective but understanding eye on the procurement decisions that have been made previously. “You need to show respect for what the company has built up instead of assuming that you have to come in and change everything. Then you need to find the open-minded people who will be your change supporters and find connecting points by not criticizing what was not done in the past, but by discovering opportunities.”

Acting on these opportunities is easiest when everyone feels that they own the decisions and see the procurement leader as being there to support them. For this reason, Bob Dandie, procurement consultant and former CPO of CLP Power, advocates the creation of procurement boards for larger buys with the business group director as chairman, the CPO as the process owner, and department managers as board members. “I always try to bring in other business group department heads, as well — I call them ‘K factors’ because they ask the out-of-the-box questions,” said Dandie. “The procurement board creates an atmosphere free of fear and full of confidence, so that the questions are all asked and the procurement team can convince the board that their actions are well thought-through and proceed to the next gate.”

CPOs note that building these strong collaborative relationships with internal clients is critical to gain a seat at the table in early-stage discussions where procurement can have the most impact. “Traditionally, if our engineers wanted, say, a table, they would have designed it or told us which table to buy,” said van Els. “Now, we sit down with them and figure out if we can design one where we have a competitive advantage, asking ourselves whether we need one in the first place, or could better do with an ‘office solution’ instead, before ending up ‘buying tables’ — to make procurement itself a competitive differentiator.”

Early, visible successes in the role can also assist the cause of procurement transformation. “The best CPOs open gaps,” said Tony Milikin, chief procurement officer for Anheuser-Busch InBev. “It’s not about doing one standard deviation, it’s about going after two. It’s about stretching, about causing the organization to be uncomfortable and then executing.”

THE EVOLUTION OF SUPPLIER RELATIONSHIPS

As CPOs take on more of a strategic role and build stronger relationships with their internal clients, they are also looking at supplier relationships through a new lens. While negotiating skills remain critical, the recent unpredictable economy has procurement organizations more focused on risk management related to continuous supply. Lenovo, for instance, evaluates one commodity

a week, re-evaluating each commodity on a quarterly basis, to complete a risk assessment from a financial, technological, geopolitical, and supply-based perspective for tier one, tier two and tier three suppliers. “We have a simple grading system to highlight the areas where we think there’s exposure,” said Smith. “We’ve had some bankruptcies in our supply chain, but because we anticipated it and had contingency plans in place, they didn’t cause supply disruptions.”

This risk management extends to responsible sourcing, something that has become a greater priority in an age of conscious consumerism. According to Dandie, part of the CPO’s job today is to ensure that internal clients follow a best-practice process orchestrated from the center when they make their own purchases to eliminate the risk of rogue buying.

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CPOs are also working with suppliers to build stronger, more mutually beneficial partnerships. “We’re engaged in a fairly large ongoing program with our suppliers around Lean Six Sigma,” said Joseph Meier, senior vice president of global procurement for GlaxoSmithKline. “We’ve been able

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to create a true win-win by shaking cost out of the supply chain, rather than always trying to squeeze supplier margins.”

To strengthen supplier relationships, adidas brings together an advisory board twice a year consisting of roughly 15 business people from development, marketing, purchasing and engineering along with the business leaders of the company’s top six suppliers. “We ask them to leave their company hats at the entrance to talk as business people about various subjects — like where they see the business going, what trends they are seeing and what they think adidas could do better,” said Koehler. “It’s an eye-opening exercise that builds stronger relationships based on mutual trust.”

But while procurement leaders make efforts to forge stronger, win-win relationships with key suppliers, they are also relying more on e-procurement technologies for certain commodities to facilitate competitive bidding, and are taking other bold approaches to avoid being taken advantage of by suppliers. “When we are leveraged by our supply base, we will consider investing in verticalization or collaboration with another company,” said Milikin. “We have our own glass manufacturing in Brazil, Paraguay and the U.S.; our own malting operations in Central Europe, South America and the U.S.; and our own labeling and printing in other

areas of the world. We’re not in love with verticalization but we are willing to invest if it will change the market economics.”

DEVELOPING PROCUREMENT TALENT

As the role continues to evolve, today’s supply chain leaders are focused on developing procurement executives who possess superior management, business and financial skills in addition to functional knowledge. “Leaders in this industry must have a global mindset,” said Smith. “CPOs need to look beyond their procurement role and develop an entire approach toward managing teams, cultivating talent, problem solving with Lean Six Sigma, building relationships with suppliers, and running an organization in a borderless economic environment. I’m looking for business leaders, not just procurement leaders.”

To develop these multifaceted leaders, companies are creating more formalized development programs and career path mapping for a function that often lacked these initiatives in the past. Novartis, for instance, recently launched a program called My Career Procurement. “We’ve identified the competencies and experience needed for each of our different positions and have mapped out the potential career paths,” said Duncan. “If you’re a junior buyer today and you want to be a CPO in 10 years, you can see the leadership and functional

abilities and experience you need to get there, and how to get them.”

At Reed Elsevier, Campbell works to build open relationships with her team so they feel comfortable discussing the areas in which they need development. “We talk about areas where they don’t have the level of expertise they want to have, and that requires a certain amount of trust, because they have to feel okay telling me they have a blind spot,” she said. “They need to be able to say, ‘I don’t actually get the financial statements,’ so I can make sure they get that skill set before they’re so far into their career that it becomes a black eye that they don’t have those skills.”

As they assemble their procurement teams, the procurement leaders we spoke with expressed an overwhelming preference for executives who bring cross-functional expertise to the role. “You want your leadership team to include strong players from finance, engineering, and advanced planning and strategic planning backgrounds who also bring procurement experience,” said Garry Berryman, chief procurement officer for Sara Lee. “It’s important to build the leadership team in a very intentional, cross-functional way, and to have a team that is regarded by HR as a team with high potential. Otherwise you won’t have people who can get to the table, let alone be effective at the table.”

Such diversity can also foster the innovative thinking that is increasingly required in the function today. “We don’t want a bunch of people who are all the same personality,” said Smith. “We want diver-

sity across the organization, because it makes you stronger. You need different styles, people who understand P&Ls and people who understand what drives the sales team and the business units.”

Recruiting promising talent from elsewhere in the organization is one way to help build this cross-functional expertise. “I like to bring people in from the businesses,” said Campbell. “Someone from the marketing department, for instance, won’t have a lot of procurement skills, but we can teach them that. What they do bring is deep subject-matter expertise in marketing and a lot more built-in credibility with that group than we necessarily have on our own.”

Campbell is also an advocate of exporting strong talent to the business units. These employees also then become ambassadors for the procurement function within the business unit, in addition to providing another benefit. “When you start exporting good talent, you also become a magnet for good talent,” she said. “People in the business look at procurement and say, ‘That’s a place I might want to work because I’m not going to get stuck there forever, and some really good people have come out of there and done really interesting things in the company.’”

In some cases, this talent may even come back. “We need to be sure that our people are constantly challenged, and one of the key factors of building a robust procurement department is not having always been in procurement,” said Emmanuel Deligans, vice president and chief procurement officer at Siemens China. “I recommend letting

people try other functions that are internal clients of procurement, and then come back later as procurement management.”

Most procurement leaders agree that it is feasible for procurement talent to move across industries, as well. While industry knowledge is certainly helpful, some leaders we spoke with have successfully made the transition. These leaders argue that in procurement, many of the same rules apply across industries, and as a leader it is more about creating the vision, having the mandate and motivating people.

To nurture the next generation of procurement talent, companies such as GlaxoSmithKline are also building partnerships with universities to develop programs, particularly in major sourcing markets. “Most big companies tend to put ex-pats in senior procurement roles in the Far East,” said Meier. “We’re trying to develop the capability using local talent, and I see that as an important emerging trend.”

Organizations are additionally starting to realize the need for more procurement-focused business school programs. “The presence of procurement is not strong enough in boardrooms yet, and it’s only going to get strong enough if advanced M.B.A. programs start positioning procurement in a much more meaningful way in combination with a general education in business and industry,” said Berryman.

THE FUTURE OF THE ROLE

As they look to the future, procurement leaders expect green procurement to play a bigger role for the function, and believe that outsourcing

of certain procurement activities, particularly on the indirect side, may become a growing trend. Others see the business potential of taking on some sourcing activities for other organizations. “I personally believe that a company like ours — a major player in the logistics area — is well-positioned to do that because sourcing in best-cost countries like China or India would add just another service to the portfolio we can provide,” said Eckeler of Deutsche Post DHL.

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Moving forward, many of today’s CPOs also expect to see even more general management talent enter into the role. “The CPOs of the future will be people who have multiple exposures to the different angles of business management, notably quality, innovation and production,” said Deligans. “If you can combine these three sensitivities with the more commercial aspect of purchasing, you get a really good cocktail.”

While some feel that these cross-functional, multi-faceted business leaders possess the necessary skills to move more frequently onto other top management roles, they also argue that a passion for

the role and a laser-sharp focus on supporting the business — not on building a career beyond procurement — are critical to bring the maximum benefit to the company.

“I don’t think that the CPO should be competing with the business group directors,” said Dandie. “If you want that kind of power, you should be a business group director. If you want to be a CPO, you’ve got to realize that your role is to be a trusted adviser to the business. I think that will be the model of the future. Organizations need someone who can think things through, particularly when it comes to low-cost country sourcing, and that person has to sit outside the business.”

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