



Business Consulting Services

# Procurement - Contributing to Corporate Value




## The Global CPO Survey 2007

Philip Molnar  
IBM Canada



## Value Wins: The Global CPO Survey

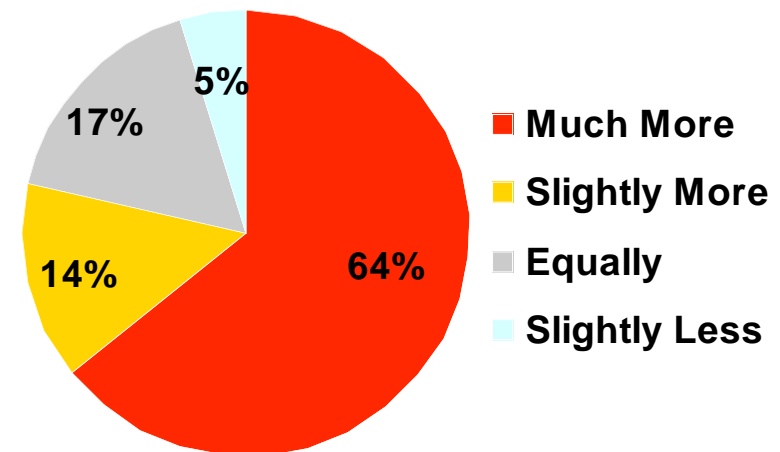
---

-  **Raising the Stakes - Procurement on the Boardroom Agenda**
- 2 New Frontiers for Value and Savings**
-  **Raising the Game - a New Role for the CPO**
-  **The Battle for Talent**

## Procurement is back on the boardroom agenda - and the stakes have been raised

- A combination of **cyclical cost pressures** and a **permanent structural shift**
- Competitive pressures have placed procurement squarely back on the strategic Boardroom agenda
  - Profitable growth
  - “Zero inflation, and more” mindset
  - Global competition, global sourcing
- Structural changes are increasing Procurement’s strategic impact on corporate performance...in addition to cyclical cost pressures
  - Third Party spend continues to increase
  - Increasing supplier value add and risk
  - Corporate restructuring
  - Growth in outsourcing

Q Importance of Procurement Savings over next 3 years



*Growth in Third Party Spend* (Source: IBM Benchmarking)

Procurement savings more important due to:

“the increased price of raw materials,” *CP*

“industry deregulation”, *Energy and Utilities*

“more budget reductions”, *Government*

“market pressures”, *Pharmaceuticals*

## Delivering Competitive Performance - the old challenges remain but traditional approaches are no longer enough

---

- Business as usual - the old challenges stay the same
  - Cost is still King
  - Cost, Quality and Service Responsiveness continue to be critical
  - Supply Risk and Supply Chain Security are becoming more important in supplier selection
  
- High levels of maturity in ‘first generation’ strategic sourcing competencies
  - Leveraging volume and supplier consolidation for direct materials
  - ‘First generation’ global sourcing

“Procurement Strategy is in line with our Marketing and Sales Strategy. Permanent cost reduction is our main objective”,  
*Consumer Products Products*

“We’ve gone as far as we can in leveraging price. Now we have to find other ways of meeting our targets”, *Industrial Products*

## 5 Common Themes....

---

**Fresh challenges** will make the difference between leaders and laggards...5 big common themes emerged from the survey

1. **MORE PRO-ACTIVE** Category Management as the No 1 driver for continuous value creation, across enterprise wide spread
2. **FEWER, DEEPER** Supplier Relationships with the emphasis on long term value creation and managing contracts to completion
3. **MORE STRATEGIC** and more complex contracting, driving the requirement for Total Cost of Ownership (TCO) approaches
4. **GROWTH** in the use of Outsourcing to unlock new value
5. **FURTHER GROWTH** in the use of Low Cost Jurisdictions, driven by competitive cost pressures

## Category Management Strategies and Structures

---

- CPOs recognise that **Category Management is the No 1** driver for delivering permanent year on year value creation
  - Long term, strategic, targeted
  - Enterprise wide spend
  - Continuous and repeatable
  - Closed loop process
  - TCO driven
- **Strategic, central contracting** of spend is expected to increase dramatically over the next 3 years... but the battle for compliance has yet to be won
- **Spend Visibility** is rated as the No1 inhibitor to achieving next generation sourcing benefits
- **Indirect categories** are generally more immature, presenting greater upsides for improvement
- **Sector differences** will drive specific priorities (e.g. opportunities for External Aggregation across Government departments)

“Our goal is to have 100% of the spend managed 100% of the time”, *Consumer Products*

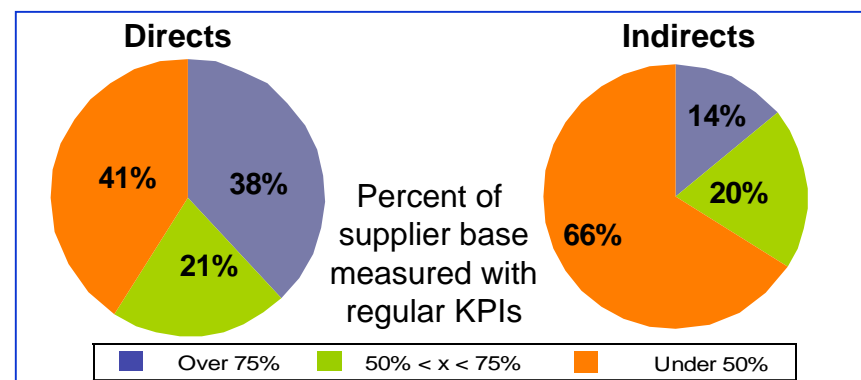
## Total Cost of Ownership (TCO) and Strategic Supplier Management

- With the shift in focus from Price to Value, CPOs recognise the fundamental importance of **Total Cost of Ownership (TCO)** in the new environment
  - Greater value add and risk with suppliers
  - Supplier involvement in the full product lifecycle from design to disposal
  - Greater supplier impact on supply chain
  - More complex relationships
  - Solutions vs. products, 'outcome based' rather than 'input based' contracting
- Leading CPOs have recognised that **Strategic Supplier Management** has become fundamental to success... and that current practices and skills are lagging behind what is needed

"Making procurement value more transparent to Finance is a big issue. Our buyers have a big influence on product development", *Automotive*

"Standardisation and harmonisation of specifications have a big influence over our opportunities for supplier reduction and global sourcing", *Industrial Products*

### Q Regular Supplier KPI Reporting – percent coverage of supply base

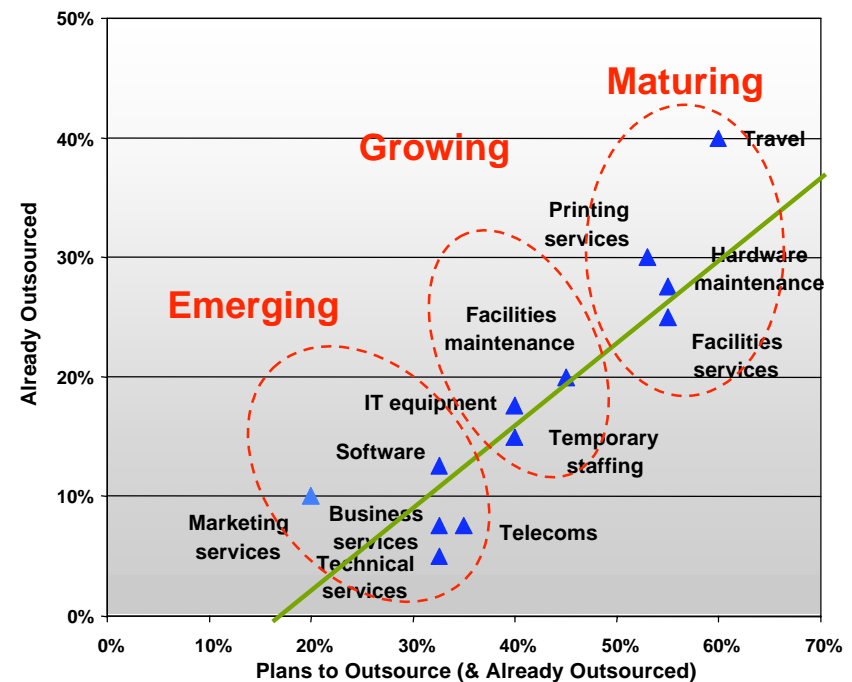


# CPOs are promoting Category Outsourcing but growth is constrained by skill shortages

- **The high level of planned and pilot activity** confirms the growth trend
- **Outsourcing penetration, and value** has been greatest in more commodity based, 'one size fits all' market categories vs more bespoke, 'custom designed' services
  - Driven by scale economies and multi-client leverage
- **Markets, and supply base capabilities** are maturing for certain categories (e.g. Travel, Facilities Management)
- **Critical skill shortages and resource bandwidth** are the main constraints which inhibit further growth

"We have a very different strategy and status for Direct and Indirect. Indirect is more immature and will get a focus to improve over the next few years", *Consumer Goods*

Q: Category Outsourcing – current status

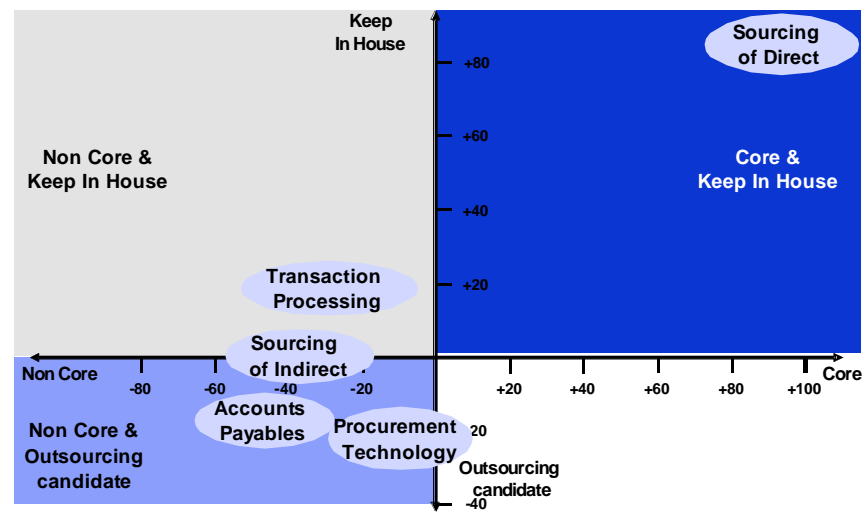


"We have no real history of managing outsourcing. We need to focus on managing contracts through to completion", *Financial Services*

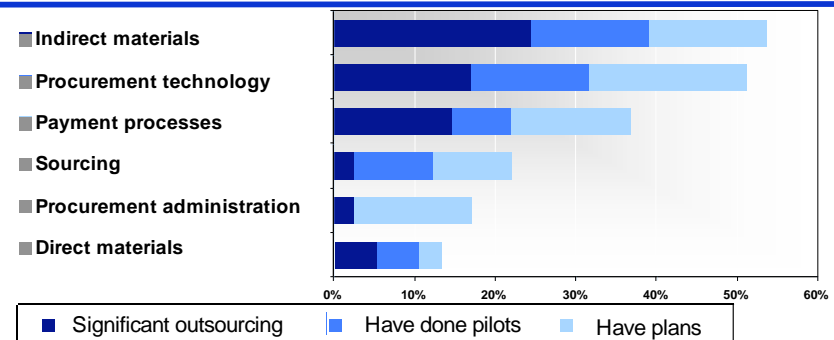
## Broader Procurement Outsourcing is rising up the agenda

- **Primary candidates for outsourcing**
  - Procurement Technology
  - Accounts Payable
  - Sourcing of Indirect
- **Less appetite** for outsourcing of Procurement Administration
- Current **status of outsourcing** reflects these same priorities and the level of **pilot and planned activity** reinforces the same trends
- **Immature Indirect sourcing** has been the business case driver for significant levels of category based outsourcing activity to date
- Outsourcing procurement for **Direct Materials** is low on most agendas with current activities relating mostly to contract manufacturing supply arrangements

### Q Attitude to Procurement Outsourcing

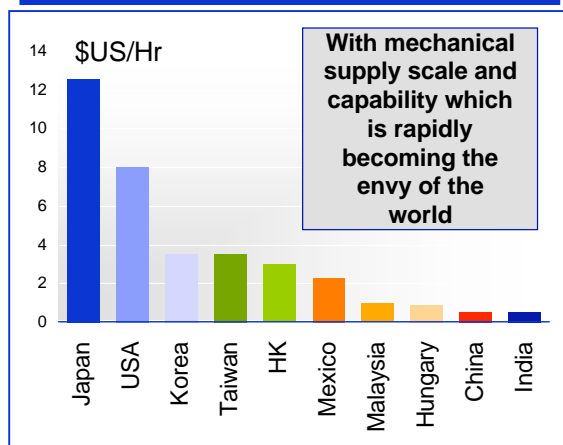


### Q Status of Procurement Outsourcing

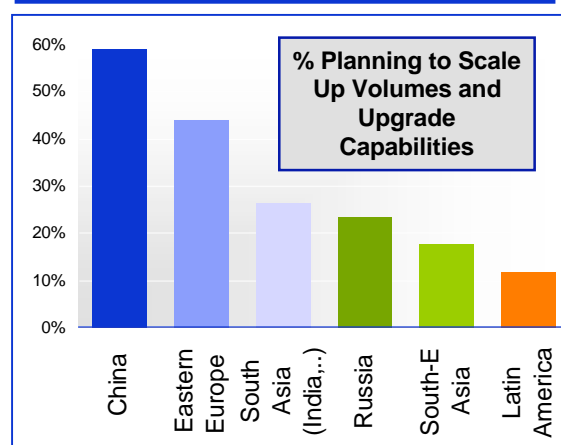


# New Frontiers for Savings – finding better value suppliers globally is high on the boardroom agenda

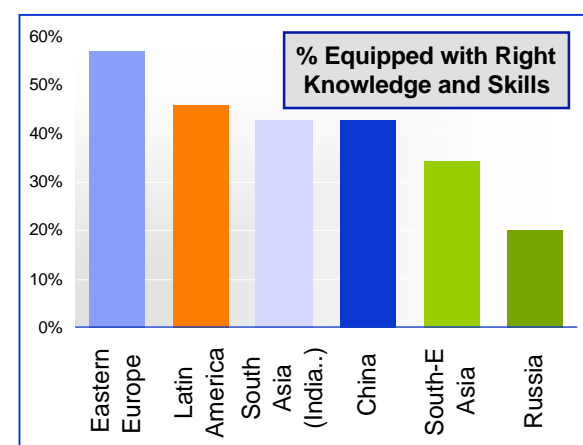
## Competitive manufacturing labour rates



## China is top of the agenda followed by Eastern Europe



## But businesses recognise the challenges and the risks



“Increasing cost pressure is the high level driver of our global sourcing strategy”, **Consumer Goods**

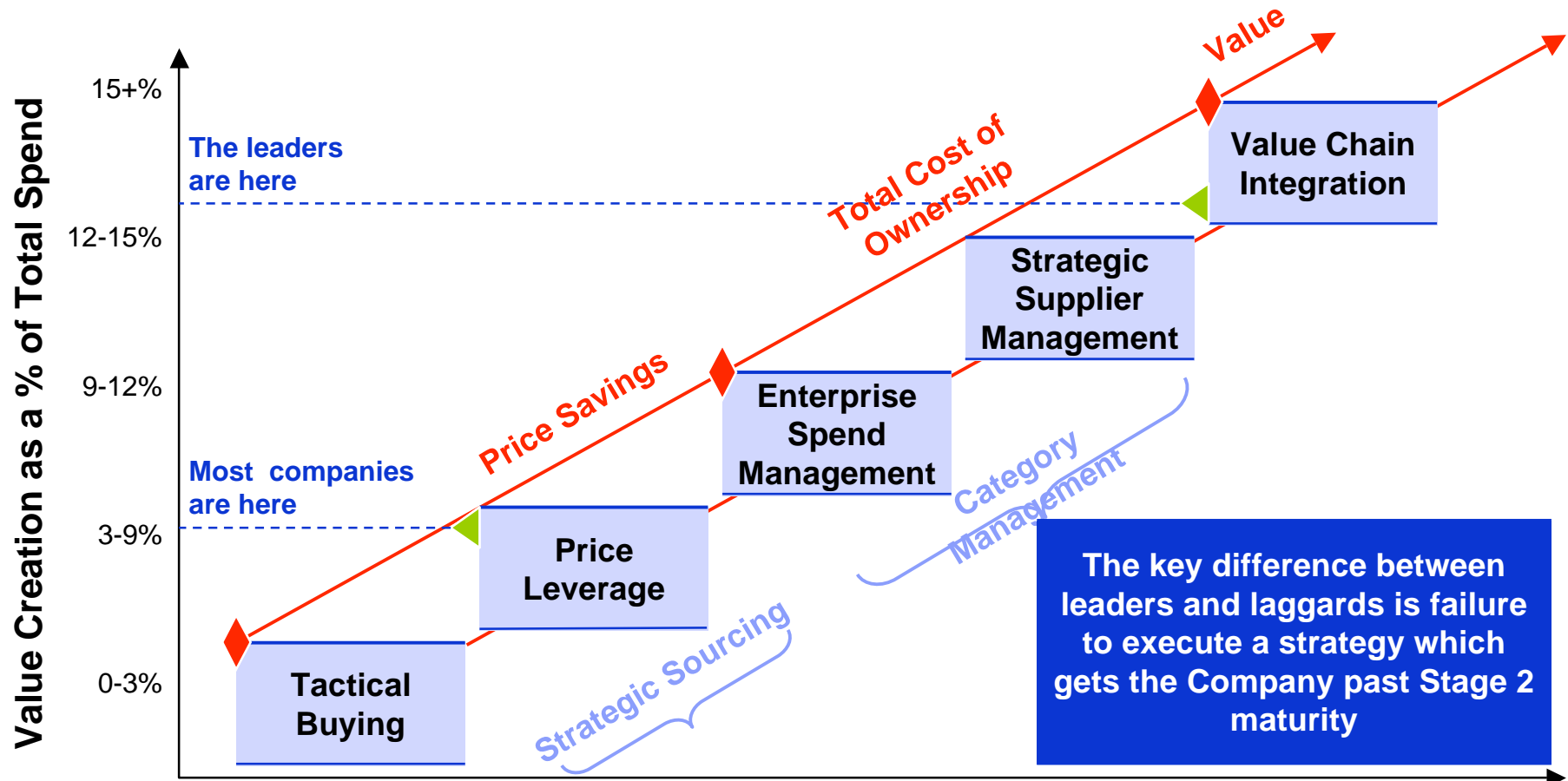
“Main drivers for global sourcing are cost savings and constant quality (specifications) across the world... we can then leverage volumes and take advantage of global expertise and know how”, **Consumer Goods**

“China and SE Asia are the preferred regions” **Industrial Products**

“We are investing in India for procurement and manufacturing operations”, **Pharmaceuticals**

“Our main issues when working with China and India are lack of local support, language and the complexity of contractual schemes”, **Industrial Products**

## Leaders and laggards - the CPO survey confirms the widening performance gap between 'first generation' strategic sourcing and pursuit of aggressive Category Management plans



"We estimate a 6 to 9% advantage against the market and the performance gap between leaders and laggards could be 15% or more", *Industrial Products*

# Raising the Game

**“From CPO to Chief Performance Officer”, “From Buyer to Business Partner” – the Corporate role of Procurement is changing fundamentally**

**CPOs recognise that organisational and behavioural challenges are key to success**

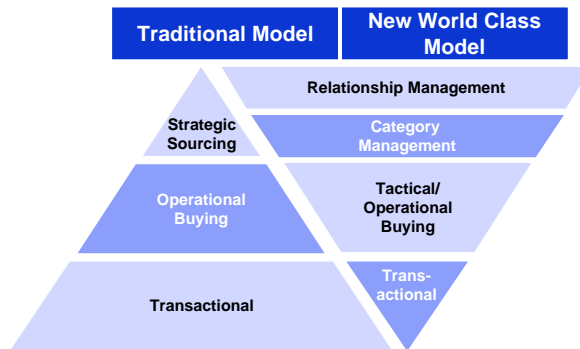
**Procurement leaders are transforming their business models and “inverting the Procurement pyramid”**

**Today’s performance measures are narrowly focused and need urgent upgrading**



# Raising the Game – CPOs recognise that organisational and behavioural challenges are key to success

- It's NOT (just) about Procurement Strategy... it's about Procurement aligning with Business Strategy
- The Role of the CPO is changing dramatically
  - “from Buyer to Business Partner”
  - “from CPO to Chief Performance Officer”
- Turning the organisation on it's head – Procurement leaders are transforming their business models



- Performance Management – comprehensive balanced scorecards are the exception not the rule

## Factors Influencing the Procurement Mission

### #1 The Company's Business Strategy

“Local transaction buyers are becoming relationship managers. This is an important step to improve our performance over time”, **Consumer Goods**

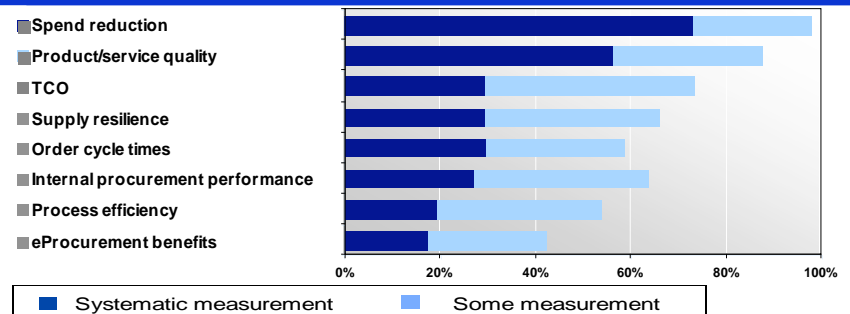
“Having a customer service mindset, and being able to manage change are essential parts of the new role”, **Technology Industry**

“Purchasing is not strong on supplier management and contract performance, we tend to be reactive not pro-active”, **Financial Services**

Managing culture change is the critical point for success”, **Chemicals and Petroleum**

“We need to find and integrate new personnel with fresh views and different backgrounds... rotation of our procurement staff into other departments is also in our plan”, **Consumer Goods**

### Q Procurement Performance Measures



# The Battle for Talent - a recurring theme for the majority of CPOs

## Q Main Strategies for Procurement Performance Improvement over Next 3 Years



**Top 3 Actions are all People Related**

Skills shortages are likely to be a major constraint on value growth

“Procurement talent is in short supply - especially outsourcing, complex contracting and supplier management skills”, **Consumer Products**

“People talent is the biggest challenge in contract manufacturing and outsourcing”, **Industrial Products**

“We just can’t find skilled people capable of doing global sourcing...we have to provide training for our team on emerging markets”, **Financial Services**

“Our main challenge for global sourcing is to recruit and retain highly educated procurement staff”, **Consumer Goods**

“Contract management is now a core competence and these skills are in short supply”, **Industrial Products**

# In Conclusion...

## Four Major Messages

- 1 **Procurement has become a Key Competitive Weapon** for the mid 2000's – leadership performance will translate directly into shareholder value
- 📄 **It's NOT about Procurement Strategy and Negotiated Price...** it's about Business Strategy and performance of the Integrated Supply Chain
- 📄 **The Role of Procurement is Changing Fundamentally** – “from Buyer to Business Partner” “from CPO to Chief Performance Officer”
- 📄 **The Battle for Talent** – skills shortages will be the single biggest obstacle to success



## For further information...

---

**Philip Molnar,  
Associate Partner & Procurement Consulting Services  
Leader, IBM Business Consulting Services – Canada**

**Ph: 416-478-3625**

**Cell: 289-259-0562**

**Email: [philip.d.molnar@ca.ibm.com](mailto:philip.d.molnar@ca.ibm.com)**