

# Re-writing Procurement

Most Procurement organizations and leaders need to look and act very different if they want to be considered a strategic and valuable partner in today's business environment—This paper explores why, what, and how to embark on the journey to re-write procurement

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*"If you no longer go for a gap that exists, then you are no longer a racing driver" – Ayrton Senna*

**The time is now!** Successful Procurement Leaders should be thinking and acting differently to seize the momentum procurement is experiencing in terms of strategic relevance in any industry. There is a lot to consider and to be addressed. I will assume that if you are reading this paper, it is because you acknowledge that there is a problem or opportunity that your company needs to address in order to meet the CEO's expectations and extract the most value from your company's third-party spend. But...

## The Bar Has Never Been So High (Why)

There is no doubt that businesses are changing rapidly, and the "bar" has never been so high for companies across all industries. Several disruptive forces have been pushing the boundaries and are changing how procurement should act to help businesses survive, or even better, create advantages in their sectors. According to the well-known Innosight's biennial corporate longevity reports, refreshed again in 2021, the average 30–35 year lifespan (longevity) of S&P 500 companies in the 70s is expected to diminish to 15–20 years this decade, as shown in Exhibit 1. Looking further at such analyses, it is possible to see that the "churn" in 2020 was 3.2% (16/500). That means that 16 companies were added or dropped from the S&P 500 index.



So, how is your company's procurement function helping the business in such a challenging environment? Key procurement-driven values vary by industry. They have been chiefly known, and companies have been actively pursuing them in the last decades. In fact, 20 years ago, I was part of A.T. Kearney Operations Practice's core team, who spent a week at the firm's NYC office analyzing the data and

developing the reports and insights related to the 2001 Assessment of Excellence in Procurement global survey. At that time, the 2001 study identified three procurement-driven value sources—cost leadership, innovation, and marketing (top-line impact). Twenty years later, these values are still among the most important, and many companies are still struggling to deliver on them consistently. Today, I would add risk management and enterprise social responsibility (including supplier diversity) to that list. So, the key question is not about "what" are the critical procurement-driven values, but recognizing that the challenge has been and continues to be the "how"!

Let's explore the **FIVE SOURCES OF VALUE** that are critical to most companies:

- We have seen a great effort from all sectors and companies to embed **(1) INNOVATION** as part of their ways of working—perhaps the most critical element to succeed in their industries. We could say that innovation has been on the agenda of any CEO in the last decades. Some companies are well known for being very innovative. It is part of their DNA, simply in the very center of how they develop and manage their businesses. When we think about innovation, we usually think about companies such as Apple, Netflix, Tesla, Samsung, etc. However, innovation goes beyond what we see in the company's products. Unfortunately, the reality is that not many companies have mastered essential processes, practices, and behaviors to make innovation a core competency. Therefore, bringing innovation to how they work, and ultimately to their products, is not natural. It is a long journey to get there, a cultural shift, requiring employees to behave and act differently, be curious, think about innovation in everything they do—from R&D to how they pay their suppliers.

For instance, at the biopharmaceutical company where I've worked for many years, innovation is formally one of the core values. Everyone is expected to display such a mindset in the day-to-day, no matter what role or at what level that person plays. It does not mean that the company is realistically always expecting people to come up with breakthrough ideas. Rather, the employees are expected to show an appetite to challenge the status quo, with intellectual curiosity and humility to learn from their mistakes, taking into consideration other's points of view and external perspectives. If you are in a procurement role,

that is a must. No company can be sustainably innovative if its suppliers are not feeding them with new ideas, processes, or components at competitive prices.

- In many industries, **(2) SPEED** might be the most important business trait nowadays. We all know that procurement has historically struggled with understanding such challenges and coming up with approaches, processes, tools, or even the appropriate behavior to drive work with speed! It is clear that markets and overall competition are pushing companies to be very agile in their decision-making, flexible to shift resources, and very fast between identifying opportunities or risks and driving actions to address them.
- What about **(3) COST MANAGEMENT**? Most companies have already captured the “low hanging fruits” through traditional sourcing techniques and are already reaching declining returning points. However, new technologies, cost structure variabilization, automation, supply chain integration, outsourcing, and other levers continuously offer companies new and more sophisticated opportunities to reduce their third-party expenses. Therefore, yes, that has been—and it will always be—a significant challenge and procurement stewardship, particularly in industries where operating margins are very tight.
- Over the last years, and indeed, even more now with COVID-19, **(4) RISK MANAGEMENT** has become a top priority for senior management, going beyond the procurement function/supplier-related risk scope. More corporate functions are thinking and driving different initiatives to identify and manage risks associated with their processes and operations in a more structured way. Although this is not a new topic, risks seem to be escalating each year and reaching new areas and stratospheric levels, becoming more challenging and getting into CEOs’ and board members’ radars. Just as an example, according to *Cybersecurity Ventures*, in 2021, the projected global cybercrime costs could reach \$6 trillion—twice what was estimated in 2015! We are sure that the pandemic made this issue even greater. Employees are doing their best to accommodate the challenges and distractions presented when working from their “home office.” I can confidently say that organizations that are not working with their employees and suppliers to develop awareness, controls, and mitigation actions exponentially increase their company’s exposure.

Therefore, the ability to develop and integrate “risk sensors” throughout the value chain and across the functions (i.e., Finance, Supply Chain, Quality, IT, Cybersecurity, Regulatory, Corporate Affairs, etc.) is a significant challenge. Risk management organization, governance processes, and tools seem to be in an infant stage—uncoordinated and very ineffective. Unfortunately, CPOs seem to be hesitant in stepping up and assuming such corporate, strategic, and high resource-consuming roles—i.e., having procurement taking a stronger and more proactive position in mitigating risks associated with working and integrating with the company’s third parties. Back to the cybersecurity example, if your procurement organization is not currently heavily engaged with the IT/Chief Cybersecurity Office, collaborating to mitigate third-party risks, something is probably wrong.

Furthermore, this situation is particularly annoying for suppliers, who frequently receive duplicated inquiries (i.e., surveys, audit visits, certifications, reports, financial statements, etc.) from different areas within the same client, without coordination and sometimes asking for the same information. Now, can you imagine multiplying this by hundreds of clients? Unfortunately, most ERP, Supplier Relationship Management, or Supplier Risk Management tools still can’t offer a holistic, integrated, and standardized solution, even within the same industry—something so needed. The good news is that emerging stand-alone technologies/tools and service providers are moving fast and bringing new capabilities. Companies can address the parts of the problem to assess, create visibility, monitor, and drive actions to mitigate risks. However, this is still not ideal since they are not fully integrated into corporate/cross-functional or even procurement systems.

- Last but not least, **(5) SOCIAL RESPONSIBILITY, RACIAL EQUITY, AND SUSTAINABILITY** are emerging priorities for companies worldwide. Does your company have a good strategy, action plan and dashboard to manage sustainability goals? For example, what about your supply chain carbon emissions? Or at least for T1 suppliers? If procurement is not actively managing and driving initiatives to help companies to move on such strategic and long term journey, something is missing. **SUPPLIER DIVERSITY** is also becoming a strategic area and value that procurement organizations should have in their plans—not only for the US market! Many would agree that 2020 has been a turning point—first,

with the tragic death of George Floyd and the strong social reaction in the US and ramifications in Europe. An article from ABC News released in March 2021 showed that nearly 3,800 anti-Asian hate crimes were reported over the year during the pandemic. This is an example of racism and hate crimes that have been rising and have created an unprecedented level of interest and support to accelerate awareness and affirmative actions to reduce inequality within underrepresented groups and minority communities, with direct implications to procurement and its Supplier Diversity agenda.

What in the past used to be a requirement for companies selling to the US government (minimum spend with small business enterprises), and in some cases, other internal motivations—i.e., employees' concerns, belief that diversity was vital to improving innovation, etc.—now has

moved to another level and become a more global business priority. According to a survey conducted by CVM/Supplier IO, corporate social responsibility, alignment to corporate culture and workforce inclusiveness, and customer requirements represent the top reasons companies invest in supplier diversity. Another interesting fact, and certainly an opportunity, is that only 29% of companies have SD programs outside the US. No doubt companies and procurement can do much more, such as exploring synergies and stronger collaboration with global business unit leaders and Employee Resource Groups (ERGs) to influence businesses to shift spending to underrepresented minority suppliers, particularly in areas of spending that are more strategic and relevant to the company in terms of expenditure and opportunity for differentiation/innovation. And very importantly, without cost increase.

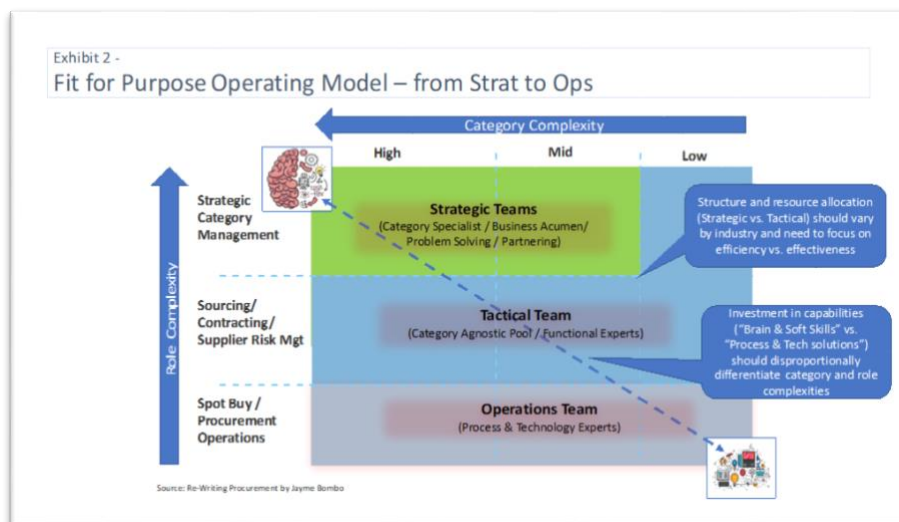
## Three Elements to Change (What)

With all these forces and challenges, Procurement Leaders should re-think how their function operates and contributes to the business's success. Generally speaking, there are three key elements that procurement organizations should address to deliver the value-added and results expected by CEOs:

### 1. OPERATING MODEL AND CATEGORY MANAGEMENT

- **END-TO-END PROCESSES GLOBALLY MANAGED (FROM BUSINESS PARTNERING TO PAY)**—Globally defining how procurement professionals engage with business leaders to understand and translate

business imperatives into category strategy. How the category strategy process delivers value globally to the business, or how category strategy affects procurement operations, and, consequently, user's experience—they are all intertwined and vital to define the way and overall



perception of how procurement brings value to the business. In order to do that, procurement functions should own and master the key processes across the procurement ecosystem.

- **SEGMENTED ORGANIZATION MAPPED TO THE DIFFERENT TYPES OF ROLES**—By properly segmenting the nature of work across the end-to-end procurement process, it is possible to more precisely define a “fit for purpose” model, taking into consideration what type of professional profiles are needed in each of the sub-processes, the required skills, and seniority, to effectively and efficiently play each of those different roles. As shown in Exhibit 2, that includes strategic (business partnering-to-strategy), tactical (source-to-supplier & risk management), and operational (procure-to-pay, analytics, reporting) activities. In this way, it is possible to allocate the right type of resources to the right type of work, split in a way that makes sense to

your industry, business priorities, and procurement maturity.

- **AGILE RESOURCES ALLOCATED AND MANAGED TO THE HIGHEST OPPORTUNITIES**—This is about enabling procurement to anticipate and quickly respond to different types of priorities, business opportunities, and new demands, no matter where the work happens. This has become particularly crucial in the face of constant economic volatility, supply chain uncertainties, natural disasters, geopolitical and global commerce movements, and other disruptive types of risks, such as the COVID-19 pandemic. Procurement organizations should have the ability to redirect resources according to project-specific required skills and the area/category of spending and supply industry involved. There will always be roles that need to be linked to a physical location, specific function, or category.

Therefore, a good percentage of the total resources can't be simply "owned" by category teams. In fact, several of those roles can be performed out of a pool of resources, supporting projects or businesses virtually and with a strong digital component. This has been proven possible with the new ways of working and team collaboration technologies accelerated by the COVID-19 pandemic crisis from a physical allocation standpoint. It seems that there is a consensus across different companies and industries that many roles, until recently considered "fixed" to a specific office or business, can be just as effective outside the office as if they were sitting at their desks. Furthermore, it has been proven that the flexibility of remote teams can even present efficiency gains. So, the question of "can remote teams be productive?" has mostly been answered.

- **FLEXIBLE AND FLUID WORKFORCE**—There is a benefit in creating an organization that combines permanent employees and external resources, working seamlessly. How much of the workforce should be "blue badge" employees versus a "red badge"? I personally have had a successful experience building a solid and complementary team, enabled by contractors/independents and outsourced resources. Such a model requires a very well-integrated and inclusive approach, managed as a pool of resources with a high level of visibility and coordination—which can only be achieved with some type of resource allocations and management tools,

as well as agile, inclusive hiring, onboarding, and engagement processes. These resources are usually focused on operational or tactical tasks, where single individuals (contractors) or outsourcing partners can provide access to specific skills, category knowledge, or simply expand procurement's capacity in areas that are needed in a given moment. The rationale is that more flexible work structures, including on-demand talent pools, will have incredible results on the overall efficiency and effectiveness of how work is ultimately executed. It becomes critical to have a strong partnership with the company's Human Resource leadership to break some paradigms, practices, concerns, or even challenge internal policies on how to manage the "fluid" workforce inclusively and strategically mitigating any legal-related risks.

Another important aspect of this element is that the younger generations/millennials feel very comfortable working in this "loose model," also called the "gig economy." That seems to be aligned with their aspirations, desired flexibility, and freedom. Learning how to leverage this talent pool is not an option anymore.

## 2. DIGITAL TECHNOLOGY AND ANALYTICS

Technology has already been heavily affecting how work is done. In fact, the list of activities or tasks executed by a machine is growing—so Procurement Leaders need to understand how technology will unleash the potential to:

- Help find and manage the right suppliers
- Drive analytics, such as "should cost analysis" or insights on buying patterns and other spending trends as input for category strategy
- Execute transactional and tactical activities traditionally performed by "buyers"
- Offer simple and intuitive ways users can order from preferred suppliers, improving the overall user experience
- Enable users to leverage self-service tools in a way that they can handle their small/one-off buying needs without the procurement team's intervention
- Enhance compliance to defined buying channels and negotiated terms
- Reduce risks, improve visibility, and comply with basic policies and operating procedures.

Therefore, developing **AN END-TO-END/INTEGRATED DIGITAL STRATEGY AND PLATFORM**—while embracing big data and advanced analytics—will allow procurement to be

more efficient, improve the overall user's experience, while refining category strategy by leveraging insights that user buying patterns offer—in other words, first create value, and second, prevent value erosion. That will positively affect how procurement partners see the function's performance and overall value-added while keeping high operational efficiency. In Brazil, people used to say that it is important to “watch the cat while cooking the fish.” ...So, it is necessary to ensure that procurement tools enable the basics well (“downstream”)—i.e., paying suppliers, providing accurate information in real-time, supporting users to buy what they need in an “Amazon-like” type of experience. And certainly—and nowadays even more realistically—offer more advanced/value-added technology capabilities.

Otherwise, it will be challenging to obtain support to invest in more strategic and complex projects/solutions (“upstream”) that truly impact the businesses. Such digital architecture may require complementary tools since they will not be easy to find in a single and fully integrated E2E procurement platform. Although prominent players are quickly developing or promising such solutions, I would say that they are still not there, apparently missing something, either in part of the up or downstream, of the E2E Partnering to Pay process.

Here is where your company's IT organization will need to step up and play an important role, helping procurement to select the best technology options according to its business and IT requirements. If you need to bring in an external advisor, make sure that you engage with an independent and unbiased management consulting firm that will not be motivated by their partnerships with software houses or even their interest in implementing and/or operating the solution down the road.

### 3. WINNING TEAM

With the first two elements defined, Procurement Leaders can start answering key questions and implications for their future organizations—i.e., how much of the required capacity will come from internal versus external resources? How much of the work will be executed by humans versus AI and robots?

A substantial amount of repetitive work is already automated, and the automation scope will continue to grow.

For the value-added/strategic work, Procurement Leaders should ensure that the procurement organization has the right talent for each type of activity and responsibilities defined in the segmented model and supported by the technology footprint. Ultimately, Procurement Leaders want to have a function that their business partners view as a value-added group. The one whose talents are “invited to the party, and can dance to the nicest songs”! Developing excellent and sustainable business solutions enables a great user experience, high-level adherence to the preferred suppliers, and negotiated terms while meeting control needs.



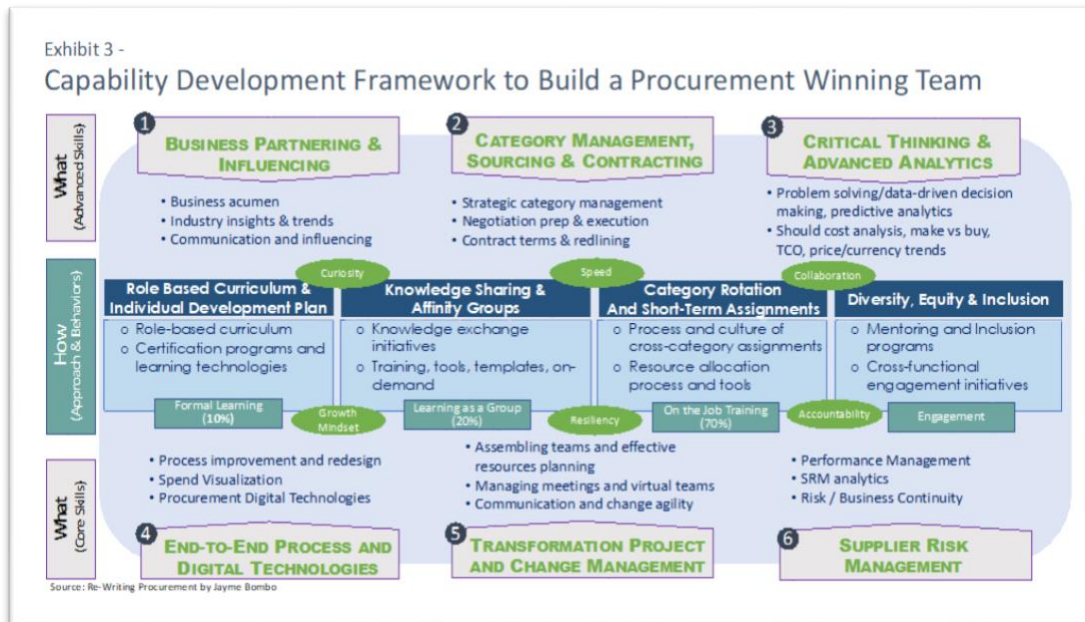
The challenge to the future Procurement workforce is vast and involves developing several new skills and areas of knowledge, covering specific industry, functional, and managerial capabilities. Procurement Leaders must start assessing their team, offering them the opportunity to develop more advanced skills, preparing them for this transformation, and ensuring that new hires bring a good portion of the necessary skills to work on the type of activities machines can't execute.

For this reason, companies must sharpen their talent management capability, which by itself is becoming a competitive differentiator. In fact, there is a clear need to develop a new talent strategy and model. As more and more processes become automated and the focus moves from tactical to strategic, it is critical that procurement talent models undertake a transformation from the traditional pyramid shape to a more senior and middle-heavy shape, moving from a situation where the majority of the resources are just doers, executing simple transactions, to a new one where resources are capable of analyzing data, driving insights, engaging, mobilizing, collaborating across the company, articulating, making sound strategic recommendations, ensuring functional integration, and creating concrete business results.

Wow! That is a lot, and I can say that finding those talents is not easy. Most importantly, Procurement Leaders need to be thoughtful to attract and develop them. It requires investment in recruiting, training, nurturing, and quickly promoting high potential talents. Even though it is important to keep in mind that such talent represents an immense management challenge, you either promote them quickly or lose them. Creating a talent pipeline with an agile and efficient hiring practice becomes crucial. Thus, the capability development strategy and process are crucial to every procurement function moving forward—Exhibit 3 shows a framework/multiyear

compliance to preferred suppliers. Very importantly, designing and leading complex sourcing and contract negotiation efforts.

3. Display **CRITICAL THINKING AND ADVANCED ANALYTICS**, being able to use and tap into resources with appropriate skills and tools—e.g., predictive data and analytics, artificial intelligence, and automation for procurement operations, demand forecast, cost modeling, and risk management, to address more sophisticated issues and drive strategic initiatives,



capability development plan that I have applied with my teams, addressing the “what and how” to develop a winning procurement team.

**WHAT**—there are six main capabilities that procurement teams need to master. Half of them are somewhat fundamental; the other ones are more advanced.

1. Understand the issues and challenges their **BUSINESS PARTNERS ARE FACING AND BE ABLE TO INFLUENCE THEM**. They need to show deep business acumen and talk comfortably about business-specific processes, products, or issues, to develop joint efforts and influence others. They need to be viewed as the experts, the source of intelligence on what is happening in their respective industries, as a conduit for supply-driven innovation.
2. Connect and develop a trust-based relationship with business partners to develop a robust **CATEGORY MANAGEMENT AND SOURCING STRATEGY** that contemplates the appropriate buying channel and

such as make vs. buy, business operating model scenarios, network optimization, etc.

4. Understand and have accountability for **“END-TO-END” PROCESSES AND DIGITAL TECHNOLOGY** solutions to manage 100% of external spending, including a tail spend management solution via guided/spot buying tools to constantly improve performance and overall user experience. As technology and analytics become more embedded into core and enabling business processes, the line between tech and business roles is no longer evident. Thus, finding and nurturing talent with technical skills and key business expertise is one of the defining challenges for success in the age of big data and advanced analytics.
5. Master **TRANSFORMATIONAL PROJECT AND CHANGE MANAGEMENT** skills, including necessary managerial and interpersonal skills critical to delivering high-complex transformation initiatives.

6. Develop integrated **SUPPLIER AND RISK MANAGEMENT** capabilities connected to other functions and corporate-driven initiatives such as Business Continuity Management and Supplier Relationship Management. It is important not to forget the **BEHAVIORAL ASPECTS**. Deep business expertise and skills are essential, but soft skills (emotional intelligence, influencing, communicating, collaborating, etc.) are even more important and increasingly a point of talent differentiation. Procurement talents need to display vital soft skills such as **GROWTH MINDSET, INTELLECTUAL CURIOSITY, RESILIENCY, AND A SENSE OF URGENCY**. Furthermore, with the COVID-19 pandemic crisis, talent will need to quickly learn and adapt to new ways of working, driven by a new environment where teams need to connect and work remotely and more independently.

**HOW**—In order to develop procurement talent, Procurement Leaders need to think of this as a strategic and long-term effort. Typical training programs simply don't work. There is a need for bolder and more creative approaches to improving the way companies develop new capabilities. Procurement Leaders should not put a lot of hope and money into traditional instructor-led or procurement web-based resources. I firmly believe and have extensively used the "10/20/70" approach with my teams—i.e., traditional training represents only 10% of how people learn. They need to go beyond and develop ways people learn on the job, being exposed to high challenges, opportunities, learning from others, and—why not—from failures.

On top of those skills and behaviors, it is essential to ensure that teams bring diverse backgrounds and perspectives to challenge each other and drive the innovation needed in their areas. Thus, inclusion and the "human" side of work are critical aspects when thinking about talent. Furthermore, the COVID-19 crisis has changed the minds of the world's workforce to make the challenge even greater. Everyone is trying to understand the health risks, both physical and mental, as government and business leaders try and adjust the required measures to mitigate and balance the economic impact with health safety. The implications to individuals are many, from frustration at being submitted to

lock-downs, feeling alone, missing family and friends, to finding time to take care of their kids, parents, etc. More than ever, managers should be flexible, showing empathy in terms of how and what they can expect from their teams, trusting that the work can be done in a non-traditional way or outside usual working hours, while still ensuring the same if not higher levels of productivity.

## A Pragmatic Approach (How)

What if Procurement Leaders start acting like this was the most important strategic challenge they need to solve in their professional careers? The type of initiative that would keep them very, very busy, or perhaps up at night, in the following years! First and foremost, it is necessary to grant support from major business partners, the CFO, and the CEO. It is always essential to remember that although such transformation has a concrete value proposition, with clear payback, the investment is undoubtedly material and the first years likely unfavorable.

Also, there is no single or standard way of getting it done—it varies according to industry, current status, priorities, etc. But in general, and to address all elements discussed in this paper, I believe there are four main steps that need to be considered (Exhibit 4).



First, **DESIGN THE OPERATING MODEL**. The opportunity here is to start with a multi-year strategic plan targeting procurement's organizational model and talent strategy.



It is never enough to reinforce how important it is to listen to key business leaders and learn what they expect from procurement. The findings from a “voice of the customer” exercise inform the Segmented Operating Model and help define how to organize the function and the priorities.

In order to obtain such insights, it is important to establish a strong partnership with the HR organization, work with business savvy professionals to engage senior business partners, as well as think about the organizational elements, such as span of control, layers, comp strategy, etc.

In parallel, Procurement Leaders should establish a robust plan and start strategically assessing how current and future technology, demographics, and other new “ways of working” aspects define **REQUIRED CAPABILITIES AND DIGITAL STRATEGY**. Then, assess the current gap and ultimately update all the job descriptions to ensure that they reflect the business needs. Although this is a very tactical task, I hypothesize that many managers are still hiring talent based on job descriptions that have been defined decades ago instead of bringing a forward-looking lens and anticipating some of the future needs, preventing the company from being ready to face the challenges they have today and in the near future. These findings define the **MULTI-YEAR TALENT DEVELOPMENT PLAN** and **THE TECHNOLOGY ROADMAP**. Finally, it is imperative to be thoughtful about the **IMPLEMENTATION STRATEGY AND PRIORITIES** to drive the execution. It is not possible to drive all workstreams in parallel.

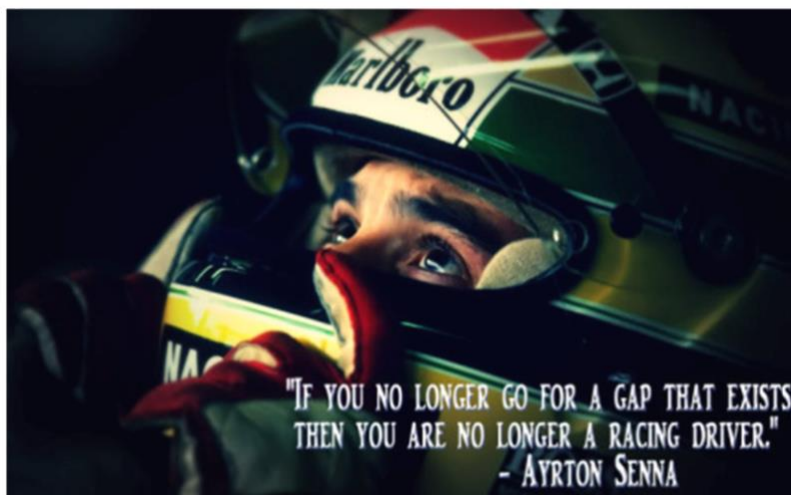
It is just too much to tackle and to ask. Prioritizing and finding a way to show results quickly is critical in order to create momentum and get the necessary support to drive this multi-year journey.

As you should have realized already, it is a lot to take to properly plan a procurement transformation effort—i.e., strategically thinking about how to tackle all the elements that need to change and the most critical barriers that will come along the journey, in order to develop the best model and the best team that will fit the company’s needs.

For many companies, a deep transformation is the only way for procurement to survive and/or be viewed as value-added, strategic business partner/advisors, the ones who can identify opportunities, partner with the right suppliers, and collaborate with the business areas to bring opportunity/innovation to their product—ultimately, helping to address real business issues and opportunities.

Unfortunately, what I see today, talking with procurement leaders and speaking at large procurement conferences, is that the majority of the procurement organizations are still focused on basic issues—i.e., spending data accuracy, supply base reduction, compliance to preferred suppliers, ensuring they have a role in managing spending, onboarding suppliers, managing payment discrepancy, and other operational performance issues. That is OK, but not enough! So, yes, the journey is long and very challenging, requiring a strategic and strong leadership team. But the result is extremely rewarding! As my idol in sport Ayrton Senna once said, “If you no longer go for a gap that exists, then you are no longer a racing driver!!” Are you ready?

**The time to close your gap is now! Your competitor might already be a lap ahead of you!**



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