The TOP 3 issues facing the procurement profession
Introduction

CIPS Australia’s first undertaking at its inception in late 2004 was to conduct specific research into Australia’s procurement profession to identify the major issues facing the profession today.

This was clearly a priority but also a major task for an organisation new to the Australian market and establishing the administrative necessities of an organisational start-up in a new country. But it was an essential first step to support the principal reasons CIPSA exists - to help people and organisations improve their supply side performance and to provide a representative voice for the profession whilst building on an appropriate body of knowledge relevant to the Australian market.

But the compelling question, *What are the top issues facing our profession in Australia at the current time?* just had to be asked as a starting point.

The research was designed to begin defining the problems we face as a profession, to establish the true priorities and the size and shape of the problems facing us to start the debate. It is not designed to offer solutions - yet. However, it is our role to help you do that in future and CIPSA has already begun work on strategies to address these issues and simultaneously advance the standing of the profession in working towards it becoming truly recognised and valued at boardroom level.

CIPSA will report its progress through its website www.cipsa.com.au, our magazine *PROCUREMENT PROFESSIONAL*, our other publications, education forums and conferences & events throughout the rest of this year and beyond. We will also offer a progress report at our inaugural annual conference in November 2005.

This simple narrative summarises the key points of our research in a user-friendly format. We hope that this research will help your insight of your organisation’s specific needs and help prioritise your own work ahead.

We are also looking for your contributions and views, so let us know at info@cipsa.com.au.

*Jonathan Dutton*
Interim CEO
CIPS Australia
The Research Process

The first step in this process was to devise and distribute an e-survey to over 2,000 procurement practitioners across Australia. The issues raised were then quantified and prioritised by an analyst. Once tabulated, collated and grouped the results were paraphrased into collective issues and laddered in order of volume of preference.

A short list of several top issues was identified, prioritised and articulated with supporting desk research. It was presented again to the group for further discussion in February 2005 as a top 8 list of issues in the form of challenging questions facing our profession across 5 broad categories. The top 2 were then the subject of two different workgroups of SG members who addressed these and the particular challenges of each. The two groups defined the exact nature of the overlapping problems faced and their relative weight.

This ladder of issues was fed into a facilitated focus-group type process in December 2004 with the CIPSA Steering Group – an advisory body from the echelons of the procurement profession in Australia made up of 15 senior professionals from a cross section of the profession including representatives from the public and private sector, consultancy and academia. The steering group ensured the issues were an accurate reflection of the views and experiences across the whole Australian profession.

A subsequent discussion process in March 2005 (following presentation of the workgroups output) identified a final set of six closely aligned issues. The split was defined as three issues internally focused on our profession and a second set of three external issues as an organization might see our profession - from a ‘client’ or CEO point of view.

These top six issues were written up internally at CIPSA and presented as two sets of the TOP 3 issues facing our profession.

They will also form the basis of research briefs for working groups of senior practitioners to address in the future. They will also provide CIPSA with a platform of relevant content in its future work for the benefit of everyone interested in our subject.
The top 3 issues facing the procurement profession in Australia today.

**From the INTERNAL self-perspective looking inward at ourselves;**

1. **Stakeholder buy-in**
   Have we got true buy-in from our internal ‘clients’

2. **Performance measurement**
   Are our measurement efforts adequate, how do we prove we are doing a good job?

3. **Training & Education**
   Are we developing ourselves in professional procurement well enough?

**From the EXTERNAL perspective of the CEO looking at their Procurement Department;**

1. **Value Generation**
   How am I getting true value from the professional procurement effort and how is it aligned with our current organisational goals – what are the real results?

2. **Risk Reduction**
   How can we better reduce risk in our commercial process?

3. **Outsourcing**
   Are the real questions being asked, is this a strategic or commercial question?
The top 3 INTERNAL issues within the procurement profession in Australia

1. **Stakeholder buy-in** – Obtaining true buy-in from internal ‘clients’?

   Procurement professionals define internal ‘clients’ as end-users with needs that have to be satisfied external to the organisation.

   A number of issues impact on the level of ‘buy-in’ and support of the role of the procurement professional from clients, colleagues and senior management. The CIPSA research revealed senior management has a widespread lack of meaningful knowledge about the function of the procurement team, its motives and where its true value lies. This is inextricably linked to the other major factor – lack of performance measurement (see point 2 overleaf).

   This lack of knowledge of the procurement role and the inability to measure results stems from the low profile of the profession and lack of promotion of the hard benefits associated with its practice. At its worst this can lead to procurement being thoroughly undervalued and patronised.

   CIPSA defines the seven core benefits of procurement as:
   - security of supply
   - lower costs
   - reduced risk
   - improved quality
   - greater added value
   - increased efficiency
   - new innovations

   These benefits have to be in line with the overall corporate strategy, consistently and accurately measured and directly attributed to professional procurement efforts, only then will its true contribution be appreciated and its importance and place in future operations assured.

   The lack of stakeholder buy-in was also attributed to common conflicts of interest between departments, such as cost v quality; the need for clear reporting lines to ensure the procurement message is heard at senior level; and owning the procurement role without overtly challenging client credibility and functional or business ownership.

   Interestingly, procurement professionals also acknowledged a failure of their own skills at marketing themselves and a failure of advocacy in selling their own argument to senior client managers and the CEO of their organisation.

2. **Performance measurement** – Are our measurement efforts adequate?

3. **Training and education** – Are the current education standards producing world class procurement practitioners?

**KEY QUESTION:**
How do we build management support for the procurement role?
The research overwhelmingly found that internal clients just aren’t convinced that procurement performs a seriously valuable function, certainly not to the extent they attribute to most other senior management roles. Clients often feel that they could adequately fulfill the professional procurement role themselves.

Practitioners are of course, fully aware of the pivotal part they play in contributing to a healthy bottom line, quality output and risk minimisation. The issue lies in ensuring that these deliverables are measured and regularly reported so that the added improvement from professional procurement input can be valued objectively. In other words, they have to prove it.

Whilst some sophisticated organisations are in fact measuring the effectiveness of procurement at some level, it is still very much an evolving process and is yet to reach a level that accurately reflects all the areas a practitioner has direct influence on – i.e. the seven benefits of procurement, mentioned previously, not just reducing price or achieving cost savings.

Examples quoted of current measures being used today included: direct savings, cost avoidance, market comparison pricing, the benefits of product/specification development, revenue generation potential and enhanced residual value. But these examples do not appear to be in widespread use.

There is also an acknowledgment that the procurement objectives have to be properly connected to the business strategy of the organisation, and therefore measured against the agreed corporate objectives not independently.

To some degree, respondents also identified the need to improve supplier performance measurement and saw that in some cases this was inextricably linked to performance measurement of the procurement team itself.

Many procurement professionals see performance measurement as the biggest challenge facing the profession moving forward, in that successful measurement will inevitably conquer the biggest issue facing the Australian profession - lack of stakeholder ‘buy-in’.

**KEY QUESTION:**

How do we prove our worth?
3. Training and education – Are current professional education standards producing world class procurement practitioners?

The role of core procurement within overall supply chain management requires a stronger definition to provide context, understanding and a starting point for the education community.

The key to any procurement activity is to have the appropriate organisation structure populated by a professional team of people developed to best-in-class standards for the role they are asked to perform.

Unlike many other professions, ladders of progress are missing in procurement and supply. Students require education pathways which allow for increasing professional status and international recognition. This lack of education pathways to international standards is part of the reason an insufficient pool of professionally qualified labour is currently available in Australia.

The procurement profession also undoubtedly has an image problem and this has impacted on the education options available in Australia. Most procurement professionals come from a broad range of business backgrounds and ‘fall’ into a procurement role rather than proactively choosing it as a career. Their on-the-job experience then forms the basis for learning the specifics of the profession and provides the insight required to realise procurement is a worthy and challenging career option. Many see it as an excellent and broad based business education.

Many respondents also felt that building the attractiveness of the procurement profession is a key challenge moving forward and could result in numerous benefits to the profession as a whole. “Professional Procurement needs a PR job” said one respondent succinctly.

The low penetration of professionally qualified people, largely due to the status of the profession but also as a result of the very limited opportunities for study. Organisations seem to have been over relying on simple ad hoc training courses to paper over the cracks. What’s missing is a community of professionals educated to international standard.

There is also a recognition from several sources that there is a disconnect between the educational standards which organisations claim they need and what the universities are currently offering in terms of vocational professional qualifications.

However, the corporate need is apparent and growing. Companies are desperate to compete, forcing them to foster procurement teams capable of giving them competitive advantage. A number of respondents felt supported by their organisation but lacked avenues of study to pursue. This alone will create more opportunities to build more professionally qualified teams. However, pivotal to the growth of such opportunities is continued commitment from the CPO.

**KEY QUESTION:**
How do we improve ourselves and become more professional?
The top 3 EXTERNAL issues facing the procurement profession – the CEO’s perspective

1. **Value generation** – How am I getting true value from our professional procurement effort and are these efforts aligned with our organisational goals?

2. **Risk reduction** – How can we further reduce risk in our commercial processes?

3. **Outsourcing** – Are our outsourcing decisions rigorous enough – is this fundamentally a strategic or commercial question?

CEOs have a clear agenda, quantified goals and strategies to achieve them. It is imperative for the procurement team to show how it is an integral part of that agenda. One step towards achieving this is to specifically align procurement goals with bigger picture organisational goals. This is key in professional procurement becoming a strategy itself and not just “good housekeeping”.

It would appear that some companies in Australia are already starting to work in this way, but it is far from standard management practice. The majority seem not to have advanced much beyond an essential first step – attempting to measure cost benefits rather than price reduction. Although some have progressed to becoming recognised risk managers, process improvers or even genuine external resource managers.

Articulating procurement achievements in a manner which appeals to the CEO and other stakeholders often forms the underlying problem. If the procurement team can effectively communicate strategic added value, illustrating to the CEO where and how much the procurement function contributes to the bottom line, then perception of the profession is bound to change. Simply, procurement has to define its own ROI in terms that the CEO quickly recognises as relevant to their agenda.

The absence of a communications skill set may be why, as the research also suggested, that the most senior procurement professional in an organisation is often overlooked for the top procurement job – as the CEO often prefers a more rounded business manager in a role that needs perspective.

**KEY QUESTION:**
How do we demonstrate value to the CEO’s strategic agenda?
2. Risk reduction - How can we further reduce risk in our commercial processes?

Risk management continues to move up the agenda of the CEO and is a key area of responsibility for the procurement practitioner as the commercial climate of accountability grows warmer. The considerable risk management responsibilities of the procurement function however are not always widely recognised at senior level. Nor is it widely understood that a buyer’s primary duty is security of supply, not price reduction. Manufacturers though seemed to have learnt this lesson a long time ago as the risk of “stopping the line” is so expensive.

Assessing the market, evaluating responses, finding suitable vendors who are compliant with legislation and contracting, are all part of the procurement function and if these roles are not performed effectively the repercussions for the organisation are considerable. An example quoted was the US company Walmart who used a recruitment agency for the supply of temporary staff who were placing illegal immigrants, which has resulted in a series of negative impacts on Walmart.

The supply chain is often the best place to mitigate risk - it is the point where many of the potential risks facing an organisation stem from. An obvious risk mitigation strategy is dual-sourcing rather than single sourcing for example, although the research suggested that even this approach is still an underused strategy to minimise risk.

Examples of risk issues particular to the supply chain were mostly about compliance, finances or environmental reporting. To combat this as an issue for the profession, however, lies once again in communicating the risk management efforts of a procurement team. Risk management efforts should form part of routine reporting and analysis. Most companies seem not to include it, for example, as an early part of the annual budgeting process.

Management consultancies are increasingly being briefed by nervous CEOs under shareholder pressure and public scrutiny, to develop risk management models to effectively define and reduce risk as well as report on risk management efforts. This often includes positioning external resource issues as strategic questions.

For the CEO, or any company director, risk reduction is now about more than just company profits, reputation or sustainability – personal exposure is now also a major concern. Procurement people understand this very well but need to be able to explain it better.

**KEY QUESTION:** How, exactly, can procurement reduce business risk?
3. Outsourcing – is it fundamentally a strategic or commercial question?

Outsourcing has not only become a topical issue in recent years but it is now becoming a wide-spread and common practice. A tangible business trend.

Whilst outsourcing grows so does the nature of what is being outsourced, with a move from functional components like call centres being outsourced, to more strategic operations being considered. No longer is the goal of outsourcing to simply get better/faster/cheaper goods and services, but also to achieve genuine competitive or strategic advantage as well as to let organisations focus on core competencies. The research suggests that this is partly why procurement teams seem to be increasingly marginalised in the big outsourcing decisions.

To outsource or not to outsource is both a strategic and commercial question that can be caught in the tension between the different imperatives – whether strategic, political, competitive, environmental or subjective.

The focus must always fall on the true reasons for outsourcing. Simply cutting costs should never form the sole basis of outsourcing decisions as the complete total cost saving can often not be calculated. There is always a bigger picture - as the survey illustrated.

CIPS suggest a number of considerations that should be applied when assessing the suitability of outsourcing for a particular function including; having clear business reasons to do so, understanding customer needs, supplier assessment for specific outsourcing related risks, total cost of ownership should be calculated, staff transfer implications considered, effect on direct/indirect & fixed/variable costs and whether you know your own business well enough to outsource the model for greater efficiency? The research suggests this commercial rigour is too often absent from the decision making process.

Even if outsourcing is to be a purely strategic decision, a full cost/benefit analysis is the least that should be done commercially suggests one respondent.

The research identified that today’s outsourcing decision had evolved a long way from the old purchasing make v buy debate. But, also that the procurement team is the best place to centre expertise on outsourcing – especially if they are to truly fulfill the primary role as the external resource managers for the organisation.

**KEY QUESTION:** How can we ensure that both strategic and commercial angles to any outsourcing decision are always considered?
The research seems to present two extremes.

On the one hand, the procurement profession can sometimes paint itself as insecure, patronised, poorly trained and irrelevant to the CEO’s agenda.

On the other hand, it is honest, hardworking, worthy and merely suffers the same difficulties as many other professions – poor performance measurement, a persecution complex, bad press and the constant striving to improve.

The truth is surely somewhere between the two and will vary throughout different organisations at different times. But even the most blinkered stakeholder now recognises the worthiness and common sense of professional procurement efforts.

However, our profession is undoubtedly on the rise. A quick glance in the vacancy columns illustrates the growing and tangible demand for procurement professionals.

The challenge for the profession is to step up to the clients’ true need, demonstrate real value to the corporate objectives and take on the obstacles to progress the research defines. Only then will it start to fulfill its undoubted potential.

Jonathan Dutton
Interim CEO
CIPS Australia
May 2005