The Professional Agenda for Procurement
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Introduction

As the world climbs slowly out of the global financial crisis, no one expects serenity. In fact, the regular dramas in nightly news bulletins remind us that we live in a volatile world. Natural disasters, wars, man-made disasters, pandemics, political changes and high profile supply chain shocks seem commonplace. The world is an increasingly volatile place to manage which affects risk, then confidence, then total costs.

On a number of measures, Australia is leading the world in recovering from the global financial crisis (GFC). Having to some extent ‘dodged the bullet’ we have a competitive advantage in being able to get back to business quicker, easier and safer than many others. Nevertheless, people understand that things have changed. Nothing will go back to exactly how it was before the credit crunch led to a full blown global financial crisis. We learned too much. We stared an economic meltdown in the eye – and nobody in business at the time will forget that.

So it is unlikely that we will now sail into permanently calm waters. No one expects serenity after such a storm. Further squalls are likely. After all, economists are now predicting a wide range of indicators illustrating the uncertainties which we face. Broad forecasts for 2011 have included, for example, interest rates rising above a 6% cash rate and oil at over $100brl again – each are reasonable possibilities. Any of these scenarios could disrupt supply chains. Together they could even derail the Australian economic recovery?

Professional procurement managers have to be ready. They have to plan ahead and prepare for volatility as never before. Assume the worst case, work for the best case. They must bring a new discipline to procurement strategy to drive down total costs in the context of hands-on risk management. They now have to envisage the likely, the possible and the impossible in securing their supply lines. They also have to include new demands from their employers utilizing procurement as an instrument of policy. Firmer processes, higher probity levels, stronger ethics, lower risks, better PR and cost firmly back on the agenda are just some of the implications of the GFC upon the world of procurement.

The growing awareness of the true impact cost of supply chain disruption is another factor in the corporate consciousness now. So is the renaissance of corporate benevolence down the supply chain, as sustainability, socially responsible procurement and reputational risk make their way back into corporate consciousness. Especially as carbon trading returns to the corporate agenda with a new green-influenced federal government.
Since the GFC particularly, volatility has been the norm and, in future, we have to be better prepared for it. Oil has been within the last three years at $147brl and $36brl, interest rates at 8% and at 3%, the ASX at 6,000pts and 4,000 pts, the dollar at 40p and 60p to the pound. Freight has hit record prices, and been free of charge. Growth in China has been at nearly 14% and as low as 6%.

How will we cope in future if any of these extremes return? Is the procurement profession capable enough to manage the inevitable? Is it prepared? Is it thinking ahead in the right way to manage the insecurities such shocks bring? Is it working for the future, or stuck in the past? Is it building the strong relationships with colleagues and suppliers to get better more stable outcomes in a volatile world?

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The detailed Professional Agenda 'dartboard' can be downloaded at www.cips.org/en-au/Resources/knowledgetopics
Given this context, what specific challenges does the typical professional procurement manager face today? What are their employers and other stakeholders expecting of them? What is the generic professional agenda? What fills the procurement manager’s in-tray?

Of course the issues in the in-tray are quite different to a formal job description for an average procurement manager. Indeed, they are quite different things.

President Obama, upon taking office as President of the United States in January 2009, had to swear an oath to deliver his ‘job description’ - effectively to always act in the best interests of the American people. But on his first day in the job, he also had a clear pile of massive issues in a very full in-tray on the President’s desk which included; ‘war in Iraq’, ‘war in Afghanistan’, ‘financial meltdown’, ‘global meltdown’, ‘healthcare crisis’ and ‘immigration crisis’.

Although of a slightly smaller scale, the typical procurement manager also has a clear list of issues to manage. Imagine their in-tray, what would be in it today?

Starting with initial desk research CIPS have worked with the CIPSA Steering Group in a focus group format to redefine the typical procurement manager’s in-tray of current issues. Initially over the course of the last few months of 2008, and then again at the end of 2009, the group specifically addressed the same question – what are the real issues faced today by a typical procurement manager?

The work was further contributed to by the CIPSA regional branch chairs and vice-chairs in early 2009 and finalised internally by the CIPS team. The now well-know ‘dartboard’ graphic, or ‘professional agenda wheel’ was also developed internally to illustrate the size of a professional procurement manager’s challenge in the modern world. It was first published in Procurement Professional magazine in February 2009, and updated and improved for publication in April 2010.

In 2011, this professional agenda still seems as relevant. It is a defining set of generic issues faced by the profession at their desk on a daily basis.

**The five key challenges facing professional procurement managers**

At first, the CIPSA professional agenda of 2008 placed globalisation, sustainable procurement, the skills shortage and supply chain vulnerability at the heart of the procurement managers’ challenge - all tied into a context of needing stakeholder buy-in and better performance measurement.

Redefining this agenda in the new context that 2009 presented post GFC, was no small challenge. Some challenges are ever-present for procurement managers; others seem directly tied to events and global circumstances. Indeed, as a speaker at one of the CIPS
conferences remarked at the time, “procurement is often the first to see change coming” and, therefore, has to be the first to react.

The development team for this work ultimately identified five refined principal challenges facing most procurement managers in Australasia (within the inner circle in the graphic) as:

- Driving procurement led business solutions within their organisation
- Ensuring socially responsible procurement practices
- Balancing risk and total cost
- Improving the organisational interface
- Professionalising their procurement efforts

Within each segment, a number of compelling issues are identified. Each one is directly relevant to today’s procurement context and is likely to be directly or indirectly relevant to the organisation goals at a strategic or tactical level. Some are perennial procurement issues, some are more of their time. Some are likely to be with us for some time, others may not be an issue even next week? For example, in less than one year oil prices have hit $147 and $47 for the same barrel of sweet crude. Both prices have significant implications for most supply chains.

The scale of these 27 issues on the outer ring of the ‘dartboard’ will inevitably vary from organisation to organisation. They will affect different enterprises in different ways. Some are more relevant than others depending on what business you are in. But a generic TOP FIVE for most might well include some current business essentials such as, for example;

- Reducing total costs
- Preparing for carbon trading schemes
- Coping with macro-economic impacts
- Ensuring procurement’s strategic fit & goal alignment
- Improving procurement awareness internally throughout the organisation

The beauty of the ‘dartboard’ is the chance for each procurement manager to select their own priority issues.
Of course, immediately after an economic crisis is an opportunistic time scaremongering and mercenary opportunism in draconianally reducing cost. The temptation to exclaim the pure purchasing opportunity must be keen. Surely the responsibility to stakeholders to get the best value for every dollar spent outweighs tact in taking advantage of difficult times? Perhaps. But the opportunity will always be more sustainable if it is taken with respect and positioned correctly. That the organisation can benefit structurally and in the long term if it uses the heightened awareness of the need for frugality in order to better position itself for after the downturn and for long term growth by expanding its addressable spend, managing demand, working more upstream in the supply chain and working with suppliers down the length of the supply chain to attack the common enemy of waste.

This professional agenda identifies many of the ways that the modern procurement professional can benefit their organisation by tackling the procurement issues of the day; which often link directly to many of the most compelling business issues of the day—regardless of whether they work within the private sector or the public sector. They are both part of the same business world.

The ‘Dartboard’ graphic opposite also illustrates the interdependent nature of many of the issues that have to be managed by a typical procurement manager in a large organisation today. Collectively these issues represent the professional agenda. Importantly, though, not the job description of a typical procurement manager – but the key issues they face. President Obama’s in-tray of issues is quite different to the POTUS job description.
Developing procurement led business solutions

- Responding to legislative, corporate & policy changes
- Focusing on outcomes, not processes - but quicker
- Optimizing procurement governance needs
- Balancing low cost country sourcing opportunities
- Meeting compliance & governance needs proactively
- Reducing total costs

The CIPS Professional Agenda 2011
Developing procurement led business solutions

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The development of ‘procurement led business solutions’ is perhaps less hubristic than it sounds as organisations demand more and more from their professional procurement teams. The supply side of business is increasingly becoming seen as an area of opportunity for a wide range of business benefits and a good place from which to drive better business outcomes. Almost as a catalyst for good commercial management.

It is also increasingly an instrument of policy for both public and private sectors organisations alike. In fact organisations are loading more and more straws on to the back of the procurement camel. Stakeholders also want more surety over outcomes and influence over processes – what is done and how it is done. They want lower total costs, improved security of supply, less risk, more sustainable solutions and solid governance protocols driving rigid compliance, probity and ethical standards. They want more confidence. More professionalism in a nutshell.

All delivered within a framework of constant change being driven by PESTLE = political, economic, social, technological, legal and environmental changes. The nightly news offers examples of each.

This context offers huge challenges and an environment of guaranteed change within which professional procurement managers have to deliver real results whilst achieving a balance of WHAT is actually achieved and delivered and, increasingly importantly, exactly HOW it is achieved.
Ensuring socially responsible procurement

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- Minimising internal demand
- Preparing for carbon trading schemes
- Avoiding ‘greenwash’
- Meeting OH&S compliance needs
- Managing to the tip of the supply chain
Ensuring socially responsible procurement

Minimising internal demand
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- Managing to the tip of the supply chain

The new Australian federal government does not hold an absolute majority with the Greens holding a key influence, especially in the Senate upper house. Sustainability is therefore inevitably back on the agenda, and carbon trading with it.

But it is not just a question of compliance, though both laws and regulations will in future inevitably demand greater corporate social responsibility – regardless of who is to blame for global warming.

In any case the “world’s shoppers are still buying green” as Hilary Clinton said during the GFC. Consumers are increasingly demanding sustainable solutions and are “prepared to punish organisations that are unable to offer sustainable solutions” as former New Zealand Prime Minister Helen Clark said at a CIPS event in June 2007. She was right.

But more than that, as both World Vision and Business for Millennium Development www.b4md.com.au exclaim that trade not aid can alleviate global poverty and benefit us all - so buyers should accept vicarious responsibility right to the tip of their supply chain.

Being green is not enough. Social responsibility is broader than pure sustainability – both at home and afar. Brands that have suffered reputational damage through supply chain failure will be the first to agree.

Finally, as cost thunders back onto the corporate agenda post-GFC, cutting costs through abstinence has never been more popular in business. Saving by minimising demand is a valid business tactic, and a questioning role required of procurement.
Balancing risk and total cost

- Implementing risk management plans
- Managing markets by category
- Developing procurement’s role in the supply chain process
- Managing key supplier relationships & financial needs
- Coping with macro-economic impacts

Post GFC there seems to be a new acceptance by organisations and their stakeholder communities that risk exists, and will always exist. That risk and return are truly the essence of business - Return on Investment as the ultimate measure for shareholders, customers and citizens alike. There is more to business than security of supply, and nobody ever cost-cut their way to greatness. Goal alignment between procurement and the organisation will always be key to that.

The real question on the supply side is more about how much resource should be expended to minimise foreseeable and unforeseeable risks to the security of supply? And demand for that matter, as increasing numbers of high profile brands have suffered from supply side shocks and no little reputational damage affecting demand.

The rise of category management as a specialism driving both a more proactive and more reactive end-to-end management approach is one clear example of organisations investing more in the supply chain - upstream and downstream of the sourcing decision - to drive better value and more control.

A balance of total risk v total cost can be taken at different levels of course – for components, products, categories or, even, whole markets. The universal sourcing matrix of mapping risk against cost in a two-by-two model will always help buyers to decide exactly where a balance of risk v cost might lie by individual category relevant to their own organisations particular supply need at that point in time. Needs vary over time.

The macro-economic impacts described in the opening paragraph of this paper provide exogenous shocks to the idea of constant supply lines. Volatility creates risk which affects confidence which raises costs. This is why procurement is becoming, and needs to become, more professional – as professional judgement trumps process in managing dynamic scenarios.

Many of the weakest links in the supply chain are in the relationships between buyers and sellers all along supply lines. This could perhaps be an area of real investment, driving more teamwork against the common enemy of waste.
Improving the organisational interface

Balancing client/company needs

Improving business discipline, probity & ethics

Optimising centralisation vs decentralisation design & sharing services

Measuring performance & procurement’s contribution

Building stakeholder buy-in & growing addressable spend

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- Building stakeholder buy-in & growing addressable expenditure
- Ensuring procurement’s strategic fit & goal alignment

Stakeholder buy-in is a continual winner on almost every survey run by CIPS amongst its constituents enquiring about the biggest issues facing procurement managers within their organisations. Buyers feel that their colleagues simply do not yet fully buy-in to the contribution that procurement professionals can make. That the fledgling profession is not yet fully respected - despite its label as the fastest growing profession in business.

CIPSA research suggests around 33% of procurement professionals report through to their in-house finance function, 33% to some form of shared corporate services function and the remaining balance through the line – whether it be a subsidiary, brand, operations team, engineering operation or plain line management. It is the line managers that seem to need most convincing of procurement’s worth.

As the business environment gets more complex, and the role of procurement professionals broadens, this is unlikely to change – almost by definition.

What procurement needs to be able to do in order to win the argument for their own validity is to professionalise and be able to clearly say to our stakeholders:

- Here are the standards we work to,
- The capabilities we strive for,
- The measures we apply to the outcomes we deliver,
- This is what we can do for you,
- This is what you should expect to pay as an investment in professional procurement and
- The business returns you can reasonably expect on your investment in us....

This is a message of substance to the procurement profession’s stakeholders and the wider business community at large. But this proposition demands no little investment and hard work to achieve for a ‘fledgling profession’.
Professionalising procurement

- Improving procurement awareness internally
- Building effective networks
- Introducing global standards & professionalisation
- Developing soft skills & influencing abilities
- Resolving talent scarcity & building capability

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CIPS describe three levers that drive improvement in procurement capability – people, process and technology. To fully succeed in professionalising any procurement effort, some investment has to be made in each dimension of procurement capability.

Procurement managers cannot simply parachute good candidates into their standard procurement desk-to-desk process, armed with a PC and access to an old stock-control system, and hope for good business outcomes in the new business environment. Investment is needed in all three to a cohesive strategy that is right for your organisation at this point in time.

Many vendors now offer a wide range of technological support tools to enable procurement efforts. Ubiquitous ERP systems often form the backbone in large organisations today. In fact, together with the growing range of other technology products, it can be said that good procurement process in increasingly indivisible from good software.

CIPS often use the analogy of the ‘kitchen and chef’: There is no point having world class technology [the kitchen] with best practice procurement policies, procedures and processes [the recipes] a without the staff [chefs] trained to use them. Equally, no point having world class trained staff without the tools they need to prepare a world class dish. Both demand investment in proportion to your own needs at the time.

The ongoing skills shortage and talent scarcity in the profession throughout our region provides the context for how managers need to go about training and developing their teams. Moreover, globalisation and global markets demand global buyers. The standards and rewards expected in procurement are therefore becoming entirely international. But importing new staff from overseas is only one, rather limited, solution. Hiring good people and training them is a more sustainable option which may prove more affordable in the long run.

Training and educating procurement staff to exacting global standards will build their confidence and better equip them to deal with the myriad of value chain issues, sourcing questions, policy variations, supply side shocks, legal requirements, probity standards, sustainability needs, project management skills, good PR news and pure business results that the modern world demands from its purchasing efforts.
Today, more so than ever, stakeholders demand the best possible outcomes and the best value from their investments, regardless of whether they are in the public or private sectors.

There are no short cuts to professionalism, procurement professionals need training (to improve skills) and educating (to build capability) to world class standards. Their expenditure levels at least demand that much.

One further aspect of improving procurement effectiveness that is increasingly demanded by stakeholders – especially CEOs and internal clients, according to anecdotal feedback to CIPS - is the perceived need for procurement professionals to invest as much in their soft skills and influencing abilities as they do in their hard skills and buying techniques. At the end of the day, everyone is in ‘sales’ – at least to sell your argument or point of view. This enhancement will also help build more effective, stronger supply networks both internally and externally.
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This paper itself was written by Jonathan Dutton who has been Managing Director of CIPS Australia since its inception in late 2004. He completed his MCIPS exams in 1988 and was elected a fellow if the Institute in his own right during 2008.

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