Global Digest

Procurement Organisation and Infrastructure
Background

CASME RoundTable meetings on the topic of procurement organisation and infrastructure were held in Warsaw, San Francisco, Brisbane, New Jersey, Sao Paulo and London during a period from March to September 2017. Between seven and sixteen companies were represented at each event. The following main topics were discussed:

- Definition, scope and current structure
- Developing a new Procurement structure
- Procurement support structure
- In-house versus outsourcing purchasing
- Talent management
- Measuring Procurement's performance
- Future trends.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available on the subscriber-only Resource Centre.

Definition, scope and current structure

- Global companies usually have indirect procurement teams based around the world, with global category leaders located at the organisation’s head office, or within the regional sites where most stakeholders are based. Procurement is often divided into transactional, operational and strategic purchasing groups. Transactional and operational activities are often outsourced or performed by specific in-house groups, enabling category managers to focus on strategic sourcing.
- Category strategies are generally formulated and managed by a global or centralised procurement organisation and implemented through decentralised regional and local teams. Purchasing hubs are often established to advise, manage and support the strategic requirements and regulations of the regional business units.
- The chief procurement officer (CPO) usually reports to the chief financial officer (CFO) or the chief executive officer (CEO). In organisations where there is no CPO, Procurement may report directly to the CFO or to a supply chain or operations director. Procurement typically manages up to 80% of a company’s total category expenditure.
- Procurement team size is usually determined by the scale and maturity of the business, the category complexities, the geographic coverage required, and the extent of stakeholder engagement. Criteria being used to determine how procurement teams are resourced include spend levels, alignment with corporate and stakeholder objectives, and the levels of corporate support and importance attributed to Procurement.
- Procurement can establish the need for category management by demonstrating its value beyond cost savings, providing market and industry insights, and by monitoring supplier contracts and managing supplier performance. Category management often demands flexibility, and cloud-based tools are being used for recording and tracking stakeholder management activities, data analysis and resource allocation.

Developing a new Procurement structure

- The reasons for reviewing the structure of Procurement may include the need to improve alignment with the business units, adapt processes to a new business environment, improve responsiveness and increase cost savings. The timing of the restructure may be directed by senior management due to a business transformation or merger and acquisition (M&A) activity, or geographic expansion or increased category demands causing the need for greater virtual presence and the provision of self-service options for buyers and stakeholders.
- Suppliers are an essential source of information regarding innovation and changes in procurement practices that may influence a restructuring plan and its subsequent implementation. By holding supplier days and workshops, organisations provide suppliers with opportunities to provide insights to key stakeholders and Procurement.
- Third-party consultants may be used to provide external perspectives and benchmarking based on their experience of procurement restructuring within a broad range of companies. Care should be taken to ensure that the specific requirements of the company are represented during the benchmarking process.
A change management plan is essential for the successful implementation of a new procurement structure, as well as a progress management team comprised of representatives from Procurement, stakeholder groups and suppliers, dedicated to applying effective change management techniques.

Procurement support structure

- Procurement centres of excellence (COEs) are established to support procurement teams, and conduct activities that are designed to provide consistency across Global Procurement. The COE may be a centrally-led virtual team comprised of regional and local COE team members who may be located anywhere in the world. This provides flexibility and ensures that the most appropriate people with best skills are available within the COE.
- Procurement frameworks, tools and templates for most purchasing activities are provided by the COE, so that the category managers are equipped to conduct strategic tasks. Tactical work is managed either by a separate internal team or an outsourced service provider. The COE also performs knowledge management, often through a centralised procurement portal; although this may also be performed by a separate team.
- Some companies have outsourced transactional activities to low-cost countries (LCCs); in others, in-house purchasing support services and COE activities are conducted in offshore or near-shore locations. These services are beneficial, particularly when there is significant pressure to reduce headcount within Procurement. However, it remains important to be aware of user satisfaction and that continuous support upgrades may be required.
- The benefits of integrating Procurement and Accounts Payable (AP) with a comprehensive procure-to-pay (P2P) system include faster invoice processing times and payment of suppliers, with the extra benefit of gaining potential early payment discounts.

In-house versus outsourced purchasing

- There is currently a trend for centralising operational and transactional procurement processes within either an internal or external shared service centre. Activities that are commonly being outsourced include procurement operations such as the analysis of RFP responses and supplier registration processes. Tail spend management is also being outsourced, and sometimes external procurement expertise is required for certain categories, such as energy, facilities and fleet management.
- Successful outsourcing requires effective management and good working relationships with the service provider’s personnel to ensure accountability and compatibility with the company’s objectives and culture. Additional benefits can be derived from higher performance levels than those delivered internally, due to the provider’s flexibility to adjust to volume fluctuations. The disadvantage of outsourcing is the potential loss of internal knowledge and skills.

Talent management

- Most companies find it challenging to recruit and retain skilled and talented procurement professionals. However, it is essential for consistency and credibility, as well as providing an attractive environment for other candidates.
- For certain categories, it may be better to recruit subject-matter experts or individuals with work experience in the supplier environment. This often gains the individuals immediate credibility with stakeholders, and can be followed by training in procurement processes and practices. For other categories, recruiting personnel with specific procurement backgrounds and skills may be more appropriate, due to the complexity of the procurement environment.
- Soft skills, such as the ability to influence without authority, collaboration, adaptability and conflict resolution, are important attributes of a procurement professional and difficult to teach.
- Stability within the procurement workforce can be maintained by rotating personnel between job assignments in different categories and various areas of the business, establishing transient project teams, offering training modules and opportunities to demonstrate leadership skills on various assignments. Adjustments for the younger, entry-level workforce may be additional flexibility in offering a combination of home-based and in-office schedules, as well as opportunities for these individuals to express their creativity in project work and team assignments at home and abroad.

Measuring Procurement’s performance

- The success of Procurement is measured by the cost savings it delivers. Return on investment (ROI) may be determined by calculating cost savings as a percentage of procurement personnel costs and...
establishing an index to demonstrate progress. Third-party providers are being used to benchmark Procurement’s annual functioning costs against those of the company's competitors.

- **Performance beyond cost savings should not be ignored.** The added value being provided by Procurement should be identified and reported, including cost avoidance and risk mitigation. Results should be visible on the company’s enterprise resource planning (ERP) system.

- **Stakeholder satisfaction, or silence, is another performance indicator.** There may be targets to reduce stakeholder dissatisfaction. Feedback is routinely collected on a quarterly or annual basis regarding stakeholders’ opinion of suppliers and the quality of support received from Procurement.

**Future trends**

- **Procurement organisations will continue to focus strategically,** optimising a combination of in-house resources and outsourced expertise. Stakeholders will be encouraged to self-service up to a certain purchasing value, by following a procurement process toolkit and registering the goods/services within company procurement systems.

- **Developments in data science and automating technology** will impact the future of sourcing activities and procurement tasks. Cognitive procurement, along with the associated self-learning systems, predictive analytics, big data and artificial intelligence (AI) advancements, will result in improvements in processes and protocol throughout the procurement system. These include RFP evaluations by software bots, completion of P2P electronic forms using predictive text capabilities and triangulation of data, and AI systems that retrieve procurement information in response to spoken questions.

- **Face-to-face collaboration with stakeholders and suppliers is essential and cannot be replaced by technology.** Advancements in the application of SRM principles, and the continued emphasis on innovative process improvement solutions, will demand an increased amount of trust and confidence developed through personal and professional relationships.

**Resource Centre links**

The following are links to the full meeting notes for each region:

- **Australasia,** Brisbane
- **Europe,** London
- **Europe,** Warsaw
- **Latin America,** Sao Paulo
- **North America,** New Jersey
- **North America,** San Francisco.
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Important
These notes are a summary of the facilitated discussions held between the delegates various meetings. We recommend that any references, particularly to legislation, or recommendations contained in these notes are cross-checked by the reader in order to verify their accuracy prior to being acted upon. Any third party organisations named in this document are not recommendations but are examples of companies mentioned during the meetings that might be considered when tendering for appropriate goods or services. These are not intended to form an exhaustive list and it is likely that other organisations not listed may also provide similar goods or services.

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CASME is the trading name of Market Focus Research Limited
EMEA and Head Office: 1 Holt Barns, Frith End, Bordon, GU35 0QW, United Kingdom
T: +44 1420 488355 W: casme.com E: info@casme.com

Americas
New Jersey USA
T: +1 973 218 2566

Asia
Singapore
T: +65 6832 5584

Australasia
Sydney NSW
T: +61 2 8015 2340