Seven Slides for the CEO

Getting stakeholders to believe in the power of the procurement professional to secure acceptable supply lines and deliver both significant total cost reduction, as well as broker real value in other ways, is the greatest challenge.

CIPS members can record one CPD hour for reading a CIPS Knowledge download that displays a CIPS CPD icon.
Introduction

The perennial issue facing the procurement profession is that of stakeholder buy-in.

Getting stakeholders to believe in the power of the procurement professional to secure acceptable supply lines and deliver both significant total cost reduction, as well as broker real value in other ways, is the greatest challenge.

Of course, the principle stakeholder is often the CEO of the organisation. Convince them, and anything is possible it seems. It will certainly help, and although 68% of the largest companies in the world now have Chief Procurement Officers [CPOs] on the executive management teams [AT Kearney research 2004], it is still not enough. Many smaller firms have no CPO at all!

Professional procurement can play a key role in delivering corporate goals and sustainable improvement in shareholder value. We know we do a great job; we just have to prove it to our stakeholders.

This paper offers a user-friendly and practical way to engage your CEO, with a straightforward argument for the procurement profession and the role it can play for your organisation in a strategic context. We have tried to make the argument as succinct, flexible and relevant as possible.

We truly hope this paper will help you win the argument for support, whoever your stakeholder is, and whichever type of organisation you work within.

Good luck

Jonathan Dutton FCIPS
Managing Director
CIPS Australasia
Melbourne, October 2008
What can professional procurement do for your company?

Using the fastest growing profession in business

Seven slides for the CEO...

What can professional procurement do for your company?

Using the fastest growing profession in business The target audience for this presentation is the CEO or CFO of the organisation; or the key stakeholder, often the MD or GM of a strategic business unit [SBU], department, subsidiary or brand; and almost always the budget holder or P&L holder.

Professional procurement has been described as “the fastest growing profession in business” [see Procurement Professional magazine: Issue 13 – June 2007, page 12 and BRW magazine 14 Feb 2008, page 52].

These SEVEN slides present a top-level argument for the engagement of the procurement profession within the core business. They have been compiled by CIPS – the global peak body for the procurement profession with over 45,000 members in 134 countries worldwide, including over 2,600 in Australia, New Zealand and the Pacific Islands alone.
Large businesses are exposed to their supply chains

Large businesses are increasingly exposed to their supply chains. It is quite usual for large companies to spend up to 70% of revenues on procured goods and services, often leaving them exposed strategically and operationally.

Such exposure demands professional expertise in managing the supply interface and professional leadership of decision making, with such high dollar sums being committed externally on behalf of the business. Line managers need support from procurement expertise in the same way they need help with complex IT, HR or financial issues.

Supply chains are more fragile than ever due to growing risks outside the company’s control, changing socioeconomic and political patterns, consumer trends, and growing regulation and accountabilities. Businesses now have to manage risk in their supply chains more proactively than ever before – just ask Mattel toys.

Recent research in the USA at Georgia Tech has calculated after examining ten years share Wall Street data, that companies which suffer a major supply chain disruption can suffer a share price drop of 20%, which begins up to 60 days prior to any announcement being made, and continues for up to two years after the announcement of any major supply chain shock. Even minor disruption was seen to influence share prices.

It has never been as cheap to produce one extra unit of anything. Conversely, freight is becoming dramatically more expensive due to rising oil prices, higher insurance premiums and the loading of carbon-miles. Solving this conundrum is a new challenge for all businesses involved with the supply of goods. Direct cost savings that fall to the bottom-line can deliver real shareholder value. Multiplied by a typical EPS ratio [say 17 times], they add to market capitalisation value disproportionately. The alternative gross revenue required to substitute in the equivalent value would be substantial – in the order of 30 times the actual cost saving.
Professional Procurement is changing...

- The correlation between professional procurement & profitability is now proven... see McKinsey research [www.mckinsey.com]

- Firms are increasingly recognising the wide range of benefits procurement can bring... see AT Kearney 2004 research [www.atkearney.com]

- 78 of the top 100 most profitable firms in Australia now employ CIPSA members... see CIPS Australia research [www.cipsaustralia.com.au] and BRW Top 100 listing [www.b unrw.com.au]

The old world

New procurement professionals

The best global companies invest in professional procurement

Professional Procurement is changing...

Professional procurement is changing. No longer a dowdy and transactional admin process, it is now a strategically focused generator of business value.

Organisations are increasingly recognising the wide range of benefits that professional procurement effort can bring, such as reducing total cost, mitigating commercial risk, securing supply chains, driving socially responsible procurement policies, improving process and speed to market, driving quality standards, introducing innovations, reducing waste and driving better business outcomes across the business.

The link between financial performance and sustained shareholder value and investment in professional procurement is now proven [see McKinsey research] and 78% of the best performing large companies in Australia [BRW listing DEC 2005] employ CIPSA members as procurement professionals. Over 65% of worldclass companies now have Chief Procurement Officers [CPOs] on the senior management team [see ATK research].
Goal alignment... for corporate relevance

Professional procurement is not just good housekeeping. By aligning the objectives of the procurement team with the goals of the organisation, procurement can become a strategic contributor. The specific benefits offered by professional procurement can be prioritised, targeted and managed as part of the business process. These essential outcomes are integral to successful companies – procurement is a disproportionate contributor.

As the external resource manager for the organisation, procurement can align your supply chain to the true business need, balance internal-external resources, and deliver a genuine return on investment. It can also help use the supply chain as a good place from which to manage commercial risk to the organisation.

The average procurement professional who is a member of CIPSA is responsible for around A$80m expenditure per annum. With many expenditure categories, double digit savings are possible at the outset. A substantial return on investment in cost savings alone – and the strategic benefits can dwarf the cost savings.
Five key questions for your CFO...

These five key questions for the CFO measure awareness of the dependency on your external resources.

The answers can often be found in the invoice data in accounts payable. This data is minable and often surprising – it is not rare for large companies to have more than 15,000 suppliers. Most figure they need less and capture the obvious benefits of aggregation as a first step.

These questions reveal an ascending agenda for procurement within any large organisation with significant third party expenditure – whether direct or indirect to their core business.

Listing spend-by-supplier in ranking order will give real clues to where your exposure lies.

*Be careful when asking your CFO or your CEO these questions – they might reasonably expect you to have the answers to hand!*
Basic spend analysis...The Kraljic Matrix

Basic expenditure analysis demands mapping aggregated dollar spend value against strategic risk to the business.

Each box on this two-by-two “Kraljic matrix” suggests a different strategy to get the most value out of each segment of expenditure.

Most high performing companies today have the top-right hand box secured despite the shifting winds of the day-to-day business environment. This often includes the supply of raw materials – imagine McDonald’s with no beef today!

However, the opposite is also important. Many emotional supply lines creating much ‘corporate noise’ need managing in the bottom left-hand box, ie. travel services or fleet management.

But the other boxes still offer real potential that is often untapped [bottom right] or is exposing your company to real and unacceptable business risk [top left].

The best procurement teams have worked closely with their internal clients to develop thought through market-tested strategies in each box.
The Real ‘Triple Bottom Line’

Professional procurement is changing. It is strategically focused and can make a real difference to your business relatively quickly.

It is a disproportionate net contributor offering a compelling return on investment.

It is not just cost focused, but can deliver a wide range of other benefits with a commercial management approach.

The best companies are able to demonstrate key characteristics of global best practice in procurement which include addressing over 90% of external expenditure, having a Chief Procurement Officer [CPO] on the executive team, working collaboratively with major suppliers, developing an internal cost-focussed culture, driving professional development programmes for all team members, and in some cases, repeatedly achieving double-digit savings.

These benefits from professional procurement are real, measurable and sustainable, and work right across the business. Indeed, they work along the full length of your supply chain.

The best companies are embracing professional procurement, investing in their people, and using the function as a good place to groom their best management talent.