Linking Strategy and Purchasing

CIPS is expressing beliefs on linking purchasing and strategy in order to encourage the development of the purchasing and supply management contribution to corporate strategy.

Introduction

CIPS considers that the key roles, characteristics and objectives of the purchasing and supply management function with respect to the implementation and development of a corporate strategy, whether it is in industry, commerce, public service or in a not-for profit organisation, are as follows:

- To ensure that as far as possible procurement strategies are in harmony with the time-scales and objectives of the corporate plan.
- The purchasing and supply management department should be quick to capitalise on those occasions when, due to external PESTEL forces, directors are particularly aware of the impact which sound purchasing techniques can have on the bottom line.
- An effective purchasing and supply management department, staffed by fully-qualified professionals, is in a strong position to influence corporate behaviour.
- To maximise its contribution to corporate wellbeing, it is essential for all members of the purchasing department to have an in-depth appreciation of the strategic objectives of the organisation and how purchasing and supply management can contribute to the achievement of corporate goals.
- Purchasing and supply management professionals should have the ability to analyse the corporate plan in such a way that they are able to generate objectives and opportunities for the purchasing department.
- Purchasing and supply management professionals possess sound commercial skills which can be of benefit to the organisation as a whole - in the development of joint ventures, for example.
- Purchasing and supply management professionals should in general be supportive of change where it can be seen to be of benefit to the organisation.
- Effective communication is critical to the success of any strategy.

Definitions

An organisation usually has a corporate vision - a 'North Star' - something it is aiming for and which is often aspirational. The vision is then supported by the mission that is a realistic aim over a reasonable time-scale, being reviewed, typically, every 3-5 years.

To support the mission, functions within an organisation often have objectives with time-scales of approximately 12 months. The purchasing function should be no exception. The goals should be SMART in that they are Specific, Measurable, Achievable, Realistic and Time-bound. The relevant strategies are then developed and perfected to ensure achievement of the objectives.

Policies, although not cast in stone, generally are of long duration and are updated every 3-5 years. They reflect the ethos of the organisation and are a key aspect on which purchasing and supply management is able to exert an influence.

It is important to avoid, or at least minimise, problems arising from mismatching time-scales. One of the key responsibilities of purchasing and supply management professionals is to be aware of (and if necessary draw to the attention of the relevant people within the organisation) cases where procurement strategies are at variance with the time-scales of the corporate plan as a whole.

Notwithstanding the above, CIPS acknowledges that different terminology is used interchangeably and often inconsistently within the sphere of organisational strategy, with terms like policy, objectives, procedures and indeed the term strategy itself often being confused.

The situation is not helped by the fact that strategy comes in a variety of forms. Thus, there are various levels of strategy such as the eProcurement strategy and how that feeds into the purchasing and supply management strategy. There are also strategies for a particular category of spend or for a project.

Examples of Corporate Goals

These are relatively few in number, but typically include:

For profit-driven organisations:
- Increasing profitability
- Developing the business
- Staying independent
- Safeguarding the organisation’s future.

For public bodies or non-profit making organisations:
- Achieving improvement and value-for-money in public services
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- Promoting democracy and/or political objectives (central and local government)
- Promoting certain values or causes (e.g. Commission for Racial Equality, Countryside Commission, charities)
- Protecting people (health, social care, armed forces and emergency services).

For a company whose goal is to maximise profitability, strategies might include:

- Cutting manufacturing and distribution costs
- Removing unprofitable lines
- Being lean and mean
- Developing new, more profitable products
- Transforming unprofitable customers
- Selling the existing profitable products into new markets.

An organisation with the primary goal of expanding the business might:

- Grow through merger and acquisition
- Sell existing products into new markets/sell more of existing products in new markets/sell new products into existing markets/sell new products into new markets
- Reduce prices so as to sell more.

A public body whose goal is to achieve improvement in public services might:

- Seek to optimise the use of resources to maximise the benefit
- Improve efficiency and eliminate waste
- Invest in infrastructure and new technology
- Recruit, train and develop its people.

The examples below reiterate some of the typical goals of an organisation and indicate what procurement strategies are appropriate for achieving those goals.

Cutting manufacturing and distribution costs The relevant procurement strategy is to reduce supply chain costs

- Cutting out unprofitable lines.
- The procurement strategy is to negotiate the organisation out of existing supply contracts for materials or services that support those lines.
- Improving efficiency and eliminating waste
- Rationalising support roles so that core activities focus only on clear prime objectives. The procurement strategy is to consolidate procurement to ensure learning and good practice is shared.

Integrating Purchasing and Supply Management with Other Corporate Functions

An organisation's individual functions such as purchasing and supply management, marketing, operations and human resources then generate their own objectives that support and align with the organisation's corporate objectives and strategies. These must also dovetail with each other so that the purchasing and supply management objectives align with those of operations for instance.

Purchasing and supply management strategies should be visible and demonstrable. A Balanced Scorecard approach is recommended to ensure consistency across the organisation (Kaplan and Norton, 1996). It can also be argued that in times of increasing organisational change, the objectives of an organisation must be integrated carefully to ensure that it remains focused on the central strategic objectives.

Purchasing and supply management professionals have sound commercial skills that should be applied across the organisation. CIPS encourages purchasing and supply management professionals to work with marketing and sales in teaming and bid preparation activity and with senior management when considering joint ventures - these are just two commercial activities where purchasing and supply management skills can be applied to good effect.

In essence, purchasing and supply management must be aligned, and remain aligned, to the organisation's corporate objectives.

Purchasing and Supply Management Function - Responding To Change

As a guiding principle, purchasing and supply management professionals should accept and encourage change where it can be seen to be beneficial to the organisation.

No organisation is an island and as such it will have to continually react and respond to markets. However, it is difficult to keep purchasing and supply management strategy on track when organisations frequently and rapidly change direction. An added practical problem is that it takes time to change objectives and so it is not unusual for purchasing and supply management strategies to be out of tune with corporate strategies.

Such strategy must therefore be capable of being easily and swiftly communicated, and purchasing and supply management strategies developed to give them a way to document the strategy that is not too onerous to change. For example, if the organisation determines that it is in the business of bringing new products to market ahead of the competition, then purchasing and supply management may have to sacrifice cost savings at the expense of focussing on innovation in collaboration with the supply base.

This concurs with the CIPS view that purchasing and supply management never was and never could be about cost savings alone. Further, strategies are sometimes emergent in that, for example, a supplier generates innovation that the buying organisation had not predicted and so has to respond in a strategic and opportunistic fashion.

Projects are often considered part of programme management that, as a function, is sometimes external to purchasing and supply management. In such scenarios, purchasing and supply management professionals should ensure they can contribute to bringing projects to an effective conclusion (i.e. on time and within budget).

Strategy development also varies with factors such as the size of the organisation, the sector it is in, the maturity of the organisation and the maturity of the markets in which it operates.
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The Purchasing and Supply Management Function Within the Corporate Hierarchy

Purchasing and supply management professionals have long attempted to influence corporate objectives and strategies and in some cases have secured a place on the Board or its equivalent. Unfortunately, the power to influence is usually correlated to the status of the head of purchasing and supply management, with the purchasing and supply management function as often as not being perceived as not being as "professional" as the finance or legal functions, for instance. Perception is one issue that the purchasing and supply management professional can do something about.

The question of to whom purchasing and supply management reports is often key to its status and influencing power. This is not just a question of whether it is the Director of Finance or Director of Public Affairs but whether that person understands and can be persuaded as to the potential contribution of purchasing and supply management.

Equally, when key people that have been convinced of the importance of the purchasing and supply management contribution leave the organisation, the purchasing and supply management function often has to start the self-promotion cycle again.

In general, Boards are only interested in specific purchasing and supply management projects that are on their agenda, for instance if they are concerned about surging oil prices - the fact that purchasing and supply management has had the foresight to hedge for oil prices, the Board is interested as it saves them substantial costs.

Purchasing and supply management should maximise any opportunity such as this, when the spotlight is on them, to promote their contribution to the organisation. Specifically, if purchasing is able to secure the support of the Board in a particular project which goes well then a level of trust may often develop, which could well result in purchasing being approached by the Board on a subsequent occasion when for instance a new marketing initiative could be under consideration.

A Leading Role for Purchasing and Supply Management Professionals

It can be argued that once purchasing and supply management professionals become Board Directors, they should no longer have an operational role. The point is that in some cases it is preferable to have a representative on the Board who is sympathetic to purchasing and supply management and can therefore influence Board business accordingly.

This is particularly powerful when that individual has at some point been seconded to purchasing and supply management. An effective purchasing and supply management department, staffed by fully qualified purchasing professionals, is in a strong position to influence corporate behaviours.

As purchasing and supply management is the key interface with the supply market it is in a position to influence behaviours by policies on issues such as ethics and sustainability. By ensuring that the entire organisation behaves professionally and responsibly in respect of the supply market, purchasing and supply management can elevate the organisation's status with its suppliers.

There is an issue about corporate governance and risk management in that this is fundamental to an organisation's corporate strategy and a particular aspect that purchasing and supply management can influence and/or contribute to.

Whatever the status of strategies, the key point is that they must be effectively communicated; this can be achieved by various means (intranet, email, written documents, presentations, etc).

Purchasing is able to make an effective contribution to corporate strategy but only if purchasing and supply management professionals ensure their entire team has a detailed understanding of the strategy and those to whom the strategy is communicated are able to understand and support it.

It is important for it to be communicated upwards and downwards in an organisation so that all levels of staff understand both what it means and what its impact on them will be; it also needs to be communicated across the organisation thereby ensuring that the various departments or functions do not operate in isolation from each other.

Purchasing and supply management professionals must therefore:

- learn to articulate; develop communication and interpersonal skills e.g. skills of persuasion
- learn to give a reasoned argument
- learn how to segment, target and position communications within the organisation - one single email to all is ineffective
- learn to write good workable strategies, policies and processes
- learn to give effective presentations
- learn what interests the Board
- learn how to impress and influence the Board
- understand how to interpret messages from the top i.e. not be distracted by political agenda

Purchasing and supply management professionals should be able to take the corporate plan and disect it so as to generate objectives for purchasing and supply management. By being aware of the macro environment purchasing and supply management can remain ahead of the game - in other words, be proactive rather than reactive to change.

The purchasing and supply management function needs a range of business competencies to ensure that it remains alert to such developments. Key to this is the Continuous Professional Development (CPD), a concept whose value is underestimated by many organisations.

The management of emergent strategies is eased by purchasing and supply management networking with colleagues i.e. remaining close to the business. Walking around the organisation, with specific objectives (discussing market trends for example) weekly 'cascade' meetings...
(reinforced by conventional face to face meetings) can help.

In cascade meetings ideas are cascaded upwards from managers and departments to the Board and then downward immediately after the Board meeting. Forecasting and probability models etc. can assist with the management of emergent strategies as they encourage proactive thinking and planning.

Risk assessment is a key purchasing and supply management activity fundamental to the management of emergent strategies. Market intelligence is required across the whole supply chain; research activities are vital to this knowledge.

Conclusion

As this position paper has demonstrated, purchasing and supply management has a pivotal role to play in the formulation and evolution of an effective corporate plan; indeed CIPS would suggest that it can be unwise to develop such a plan without the active involvement of purchasing.

By definition this means close co-operation and regular discussions with members of the Board and it is essential therefore that the purchasing department is seen as an efficient function within the organisation, staffed by qualified professionals.

Whilst it is not being suggested that efficient purchasing is simply about cost savings, experience has shown that an efficiently run purchasing function is able to make a significant impact on the achievement of corporate strategic objectives.