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**PROCUREMENT LEADERS
ROUNDTABLE**

IN ASSOCIATION WITH
GENPACT

MISSING THE LINK

A greater understanding of what business wants and better engagement skills among executives will help better align procurement with business outcomes

It is one of the most difficult challenges faced, not just procurement, but by the entire business: how to tangibly link underlying processes to business outcomes. In short, every company would benefit from a better understanding of processes at a granular level and how they impact the wider business.

A recent *Procurement Leaders* roundtable event hosted in London, attended by nine senior European-based procurement executives and one finance professional, offered an opportunity to delve into these murky waters a little deeper and investigate whether linkages really can be developed between procurement processes and business outcomes.

How do we understand what the different parts of the business want at different times and how do we satisfy that and improve on what we're doing?

Sponsored by Genpact, the event provided intriguing insight into the challenges faced by procurement in its attempts to align itself completely with the wider business, a difficulty summed up well by Nick Dobney, group GNFR purchasing director at Kingfisher, owners of DIY brands B&Q and Brico Depot. "I've got a team of people who are busily creating deals with suppliers; putting deals in place, leveraging our spend," he explained. "But, critically, that's got to integrate into the operational activity of our businesses."

Colin Davies, senior director of functional excellence at Pfizer, made a similar point. "I'm particularly drawn by the outcomes," he said. "What is procurement's role within the business,

how do we understand what the different parts of the business want at different times and how do we satisfy that, how do we measure it and how do we improve on what we're doing?"

One way in which procurement can align itself with the business is by providing solid visibility of third-party spend. With up to 60% of revenues committed to supplier spend in some industries, timely information on when that spend is leaving the corporate coffers and how much it will be allows the wider business to make better decisions.

But it's not an easy task, a point made by Ben Horton, head of property solutions at Royal and Sun Alliance. "You can have 20:20 vision of the historic

spend, and we tend to obsess on getting perfect data on all the money that we have spent," he said. "But, the real trick is visibility of current and future spend. We create the perfect strategy for the battle that was fought last year. That, for me, is where strategic procurement has to play because otherwise you're always trying to catch up."

Tracking expenditure

It's a classic example of spend visibility – having the right processes and systems in place to be able to track corporate expenditure in real time. It sounds easy, but when you consider the hugely complex nature of the average large, multinational organisation it becomes anything but simple. [▶](#)

But get it right and the benefits of good spend analysis can help align procurement far better. More than that, it can provide procurement with the tools to challenge how things are done.

“By having that spend visibility, it allows you to go back and challenge,” said David Newton, head of indirect procurement, Europe at Heinz. “You can go to stakeholders and say, ‘what is it you’re spending this money on? Why are you doing this?’ That gets you at the table. But, once you’re there, knowing how much you spent last year probably only tells you about 40% or 50% of what you’re going to spend next year.

“That’s a big driver for us, from a senior level – people are saying very clearly to us now within procurement, ‘don’t come and tell us history, we can go and read history, tell us what’s coming in the future,’” continued Newton. “That’s where you add the value.”

Of course, adding value sounds simple. But even if you do possess the most impressive spend analysis system in the world, which unlocks real-time

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corporate-wide data, it’s useless unless you possess the ability to leverage that information with the wider business. Stephen Wills, chief procurement officer of insurance group Axa, raised the lack of engagement skills among procurement executives as being a particular issue. “That’s a huge issue for a lot of traditional procurement people who talk procurement but don’t actually talk to the business and don’t have the skillsets to be able to get the engagement with the business to use that data,” he said.

Unlock value

Ultimately, it’s all about unlocking value rather than chasing cost reduction alone. And it’s much more than talking about data for the sake of it. “It comes to a department thinking about their activities for the next three years,” said Kingfisher’s Dobney. “Thinking about the business plan associated with that, thinking about the return

on investment, that’s where you need procurement to be, so that we’re part of what the business does.”

Pfizer’s Davies expressed doubt at whether the average procurement function really understands what the wider business wants from it. “I’m not sure we’ve cracked it yet; how to recognise what different business units want in terms of value from us and then be able to deliver that,” he said. “We’ve done a great job to a point, but there’s still a lot more sophistication in terms of the segmentation of our customers and really engaging with them and understanding what they want.”

Beyond the bottom line

He raised the issue of the average CFO, who tends only to be interested in the bottom line and how the company gets to it, rather than putting much of a focus on value – a situation which isn’t always the case in all areas of the business, however.

Axa’s Wills was also optimistic about what he was hearing from the wider business, saying that the more people he

speaks to, the more he hears about cost out, value in. “It’s a mantra which I’m hearing a lot more of,” he said.

So, procurement can become more aligned with business outcomes by following a set of logical paths: using good spend analysis data to provide the businesses with good-quality, forward-looking spend forecasts, aligning different spend categories with business goals, employing the type of procurement executive who can speak the language of business and not be locked in their own little world of procurement.

But for event sponsor Genpact this doesn’t go far enough. Navanit Samaiyar, senior VP at the Indian-based outsourcing and consulting firm, challenged attendees to explain how they came up with spend forecast numbers or the value of a procurement project to the overall business strategy. “How would you determine if that business strategy value is 4% or 6%?” he asked. “How does that number come up?



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Colin Davies
Pfizer



Nick Dobney
Kingfisher



David Newton
Heinz



Chris Bullock
BT

Is it historical, is it peer group? How do you eventually determine that?”

Samaiyar explained how his firm had carried out a study among 50 CPOs across different industries and geographies to learn how they determined such information. “There were three key things that came out,” he said. “One very significant issue was the organisation of silos which show up in indirect procurement – especially the companies that had grown with acquisition. But, more importantly, all of them asked how they could determine their goalposts.”

Genpact was so taken with this, it decided to take matters into its own hands and developed a methodology that could be used to develop a much better understanding of the purchasing process.

“We broke down a source-to-pay process, the way it impacts business into multiple levers – so about 130 different processes.”

Those 130 processes included spend visibility, the proportion of data which is extracted accurately, preferred vendor spend, e-cataloguing, e-RFXs and so on. Genpact benchmarked each of those 130 processes to determine how they could be developed by procurement to add to the eventual business outcome of total cost of ownership.

“You start with, say, three key things at level one – sourcing, procurement operations and account payables,” explained Samaiyar. “Within sourcing you could have spend visibility, you could have contracting and negotiations, you could have vendor score-carding and in procurement operations you could have requisition to purchase order and e-cataloguing, and so on.”

The power of maintaining such a granular view of procurement processes is, for example, that by looking at the accounts payables side, procurement executives could quickly see information such as the number of vendors who, despite the company paying late, had not complained. “How many of those have you gone back to and told the sourcing guys, ‘here’s a set of guys who I’m paying late but they’re not complaining, so maybe if I was to start paying them on time because my cash flow is fine, they could give us a 5% discount. And you tie all of those together into one eventual business outcome which is total cost of ownership.”

While the thought of developing detailed metrics for up to 130 procurement



processes is enough to turn even the most hardened CPO a whiter shade of pale, for any one organisation no more than between 15 or 20 metrics need be compared in any depth. Which ones are depends on the company in question.

“We made the mistake of looking at it across the board initially and we were all over the place,” admitted Samaiyar. “So you have to define your sand box – it could be a category, it could be a region or it could be a business unit; but that sand box has to be defined very clearly.”

Get the ball rolling

It would be fair to say that few of the roundtable attendees could boast such an in-depth understanding of their source-to-pay processes. Nor was everyone in total agreement that it was completely necessary.

But Helen Harris, global purchase to pay operations manager at Travelport, has at least got the ball rolling. “We’re just starting off the process,” she said. “We’ve had Genpact in recently. Some of the things we were already looking at,

but breaking it down further is producing some really good metrics for us.”

“It’s something we should do a lot more of,” said Pfizer’s Davies. “We spend very little time looking internally at how effective we are as procurement groups, breaking it down into 20 or 130 activities and then doing the process mapping and process improvement exercise. We’d be absolutely shocked in terms of how inefficient we can be.”

It was a point that led to much nodding of heads. One thing is clear: procurement executives can certainly see the value of understanding how the individual processes they undertake impact on business growth and value. The problem seems to be whether the end justifies the means.

After all, it’s not an easy road to travel and, as Axa’s Wills said, it won’t always sit well with the business units or even the CEO. “I can think of one example I’m working on right now where there’s market opportunity and the CEO sees the opportunity and if he doesn’t get there in six weeks, he will have lost it,” he said. “And there’s us saying we’ve got 36 steps in our process.”

It might have been a slightly tongue-in-cheek comment, but in it lies a nugget of truth. It’s all very well arming yourself with the greatest diagnostics and metrics in the world, but if you lose the ability to be agile you really will misalign procurement from wider business goals. [PL](#)



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