The new embedded function

YOU CAN sense the questions lingering silently in the air whenever CPOs gather, even if they aren’t directly spoken: What, really, is the future of procurement? How will procurement’s effectiveness be measured? What changes in processes and positioning will finally get procurement into the C-suite? Where will procurement actually take place tomorrow: within the organisation’s four walls, at some third-party location, in the cloud? And whatever the future, which of the three critical imperatives – people, processes, and systems – will dominate?

Practitioners of every profession and function ask similar questions about their future. They should and must. Things change. Roles evolve. Procurement today looks very little like the procurement of a generation ago, and it is certain to look different still a generation from now. Guessing how it will look is an essential first step to preparing for – and taking advantage of – change.

But, as is always the case when trying to forecast the future, there is no clear answer to these procurement questions. Yet, there may be a consensus emerging on one issue, and it’s really not surprising: when it comes to the business triumvirate of “people, processes, and systems”, people and systems, including technology, may well be the first among equals both now and in the future.

Those questions were among the issues discussed at a recent Procurement Leaders Roundtable. Sponsored by Genpact, the roundtable took place in conjunction with Procurement Leaders’ March 21, 2013 Chicago Forum, which, fittingly, centred on managing change. The roundtable itself covered the tools, technology, and processes that will shape the future of procurement. And panellists had plenty to say.

“We spend a great deal of time building a business case around people,”
processes, and technology,” said Eric Walsworth, director of procurement programs and tools at Reed Elsevier.

Skills before process
That’s necessary because the expectations of procurement are changing. Said Seth Balsam, director of corporate procurement at Ciena, one of the roundtable participants, “It’s great to have new tools, but without the people to use the tools, it doesn’t matter how good the tools are. You need skills before process.”

But, finding the right people with the right skills to use the new technology available can be difficult. Jim Parker, sourcing team manager at 3M, told his fellow panelists that the company is in the middle of a major transformation, that has seen the deployment of an enterprise-resource management system globally.

It will be about a five- to seven-year journey, he said, and among the big challenges will be getting people ready to use the tool and take advantage of the benefits. “We are trying to find people with category knowledge who want to be in sourcing, but it can be hard to find what we’re looking for,” he said.

Amit Sobti, manager of procurement at Sask Power, added that you may be able to find people with sufficient technical knowledge, but they may be lacking in the soft skills that are needed by today’s businesses.

Patty La Valle-Jones, director of supply chain for indirect procurement at Hillshire Brands, agreed and spoke of the difficulty too of finding people with business acumen. “You need people who know which wars to fight, and not everyone has the finesse,” she said.

Once you do find those people – indeed, even as you are looking – you have to decide how much tactical responsibility you will give them along with the strategic responsibility. All roundtable panelists agreed that the strategic role must take priority. Parker, of 3M, seemed to speak for the group when he said that you can’t have the same people doing the tactical, transactional work as do the strategic. “If you do, you’ll always be putting out today’s fires,” he said.

He related how at one time his company had sourcing professionals working on purchase orders. “I asked them what value they brought from engineering, and they said that they do the engineers’ purchase orders,” he said. Consequently, 3M divided the staff into a buying team and a strategic sourcing team.

At Hillshire Brands, La Valle-Jones said she and other procurement executives debated whether to break procurement up into tactical and strategic teams. “We really wrestled with that,” she said. The decision was to keep the strategic role inside the company. “We saw a danger in losing strategic capability because of the tactical,” she said.

Of course, when you separate into tactical and strategic procurement...
teams, you face the decision of where to locate each team. Some CPOs have reached a similar conclusion to that reached by Sobti, of Sask Power. “Outsourcing the tactical is good,” he said. Of course, added Carl Musille, general manager of purchasing at Timken, the outsourcing of critical operations can be risky.

Not every company represented on the panel will pursue the outsourcing of tasks. Laura Ying, director of corporate procurement at Koehler, said there isn’t much outsourcing in her company, which is undergoing a transformation to being a globally focused company. Instead, corporate procurement is taking on more responsibility, for example, in category management, she said.

Still, many agreed that such a step as outsourcing the tactical may help streamline procurement in some companies. “Many companies want to be strategic, but they are so busy being tactical that they can’t be,” said William Childress, SVP of business development, infrastructure, manufacturing and services for Genpact.

“There is a large shift of tactical procurement being done offshore while strategic is being done here, whether through hiring and training in-house or with third parties,” he said. In a sense, it becomes a matter of whether you are measuring efficiency or effectiveness, he asserted. Efficiency can translate into such things as the number of days to cut a purchase order. But, effectiveness relates to how procurement is influencing cash flow and other priorities as seen by chief finance officers.

Data is king
And it is at this level where the other aspects of the business triumvirate – process and systems/technology – join people in importance. “You need data to show your effectiveness,” said Childress. But getting good data isn’t always easy. Koehler’s Ying said that it’s often hard to get data at her company except manually.

Even so, it’s worth the effort. “Data is king,” said Korian Strayer, SVP for global procurement for mining and construction at Metso Minerals Industries. He said that sometimes what management is told is happening isn’t really happening. Procurement needs good data, he said, because the data drives the transformation. “But it can be monumental to get it.” Procurement knows what to do with the data, he continued, “but first, we need to be able to get it.”

La Valle-Jones of Hillshire Brands, like the other panelists, knows how to use data. Unlike the case at Koehler, where Ying and her team are moving to a global focus, Hillshire Brands is moving in the other direction. And, for the re-engineering of procurement required for the company’s shift from a global focus to that of a North American holding company, the first step was to review analytics, she said. “We are trying to be more agile,” she added.

One aspect of procurement that won’t change in the future is that cost management will continue to be a major area of performance measurement.”

Kristina Yonkers, of Delphi, said that cost is still a pressure point in her company, but that risk had risen as a concern too. Musille, of Timken, agreed that in his industry cost and risk are both high on the list of concerns for procurement. He added, though, that a high-risk supplier isn’t necessarily a bad supplier. “It’s just that our quality group needs to spend more time with the supplier to be sure everything is OK.”

La Valle-Jones said that at Hillshire Brands, “It’s not really about cost because if you do the right things, the savings will be there.” She added that if procurement goes into any company thinking that cost is the most important thing, it stands a chance of making wrong decisions. “We lead, instead, with the business requirements,” she said.

Such an approach will be critical to elevating procurement’s role in the future and embedding it into the business ecosystem. And as for that triumvirate of people, processes and systems: Childress, of Genpact, said that as procurement gains in stature, tactical and strategic will split and there will be more of an emphasis on procurement skills (in other words, people) and data, particularly the ability of people to extract data and use it.