PROCUREMENT VALUE PROPOSITION TRANSFORMATION FOR LARGE SCALE PROCUREMENT ORGANISATIONS: THE FUTURISTIC MODEL

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ABSTRACT

Today, sustainability and corporate responsibility draw increased focus, along with technological advances, geopolitical and macroeconomic alterations, and demographic shifts is leading to a rapid organisational change in the external and internal environment of the global business landscape. (hanfield, 2014). The sourcing and Procurement function is increasingly mandated to fuel the growth and dexterity necessary in these volatile and uncertain times. CPOs and other senior executives are faced with a challenge to adapt to a dynamic business environment and to create greater business value. (Genpact, 2014) If purchase and supply chain managers are to embrace these challenges new skills, competencies and new ways of looking at supply structures and process need to be looked at. (hanfield, 2014). Many global businesses have gained efficient results through Procurement transformation initiatives in the past; however its current operating models are seldom able to deliver on these expectations due to large scale macro-economic shifts and dramatic changes in the role of Procurement within organizations. The global Procurement fraternity is exploring an entirely new landscape to tackle these changing dynamics in global business.

Over the next decade, Procurement officers will need to take on more holistic roles within their organization, guarding the corporate brand identity, advocating for sustainable business practices and back innovators who...
develop new products and services. This paper is an attempt to highlight the evolution of Procurement transformation principles demonstrated through an empirical study of large scale practices and conclude with new age approaches around Procurement transformation aligned with future requirements and expectations from the function.

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1. INTRODUCTION

1.1. Foundations of Contemporary Procurement

Procurement has a history that is linked in the core concepts of centralization, volume leveraging and cost reduction. For years, chief Procurement officers focused on reducing costs for purchased materials and services and ensured that there is no delay in delivery of goods and services.

Although Procurement has evolved tremendously from its humble beginnings, it still has room to evolve more in terms of executive recognition, talent management and organizational challenges. Today, as the global business scenario is plagued with legal complexities, sustainability concerns, and regulatory and ethical considerations exists, that could impact not only their company’s vision but also its brand and public image. In other words, in a VUCA (Volatile, Uncertain, Complex and Ambiguous) environment, traditional static models of leveraging power to garner business recognition no longer work. Procurement must earn the business’ and stakeholders’ trust to fully succeed, and develop a vision that goes beyond the present day thinking, leveraging creativity and knowledge to not just bring about a positive change from within, but the overall business value that Procurement can deliver (Bonnie Keith, 2015). Many organizational C-level executives have started to realize the fact that in future, the competition between businesses will take a back seat against that between supply chains. With these pressing issues at hand, many businesses have turned to Procurement, looking for plausible solutions that have long term and sustainable effects.

1.2. The emergence of Procurement importance

As a consequence of this responsibility, Procurement as a business discipline has grown exponentially in past 25 years. It has evolved from an operation focused support function to a more strategic and widely recognized profession which has seen waves of new technology, innovative methods and practices that have brought recognition to the value of Procurement.

However, Procurement is in its relative infancy and has not reached an intellectual maturity yet. In fact, Procurement is often seen as the poor relation of other business functions and, when it comes to indirect Procurement, something of an even lesser status.

Peter Kraljic’s publication in the Harvard Business Review in 1983, ‘Purchasing must become Supply Management’, was pivotal in the rise of Procurement from a tactical service to a strategic business function. His studies pointed to the fact that,
Procurement Value Proposition Transformation For Large Scale Procurement Organisations: The Futuristic Model

Procurement should focus more on high-value and high-risk supply items and that these called for a transformation from ‘supply management’ to ‘purchasing management’. The addition of the theory of ‘chain’ in supply management gave rise to multi-disciplinary ‘supply chain management’.

Changes in global industrial landscape had a deep impact on Procurement as it metamorphosed into a professional function. The initiation of ‘outsourcing’ of non-core competencies since the mid-2000s is possibly the most prominently affecting factor. Technological is advancing at a rapid pace that it is getting difficult for companies to do everything in-house. The consequence of outsourcing trend is that companies become heavily dependent on the performance of the suppliers and, therefore, need to make sure that suppliers are effectively managed, as if they were an extended part of their own company.

1.3. The era of Procurement and Supply Chain collaboration

It goes without saying that today many organizations see their supply function as a key driver of competitive advantage. Procurement is at the heart of not only supply chain management but also the organisation’s processes and has shifted its focus from direct relationship between buyers and suppliers towards end-to-end supply chain management.

Procurement executives today are required to contribute more in this era of globalization and are asked to push Procurement in areas that depict new business models and approaches. And yet many organizations are caught between traditional Procurement demands such as supply assurance and cost reduction – while knowing the real potential that a world-class supply management packs.

It is against this backdrop that the elevation of purchasing – from transactional function to a strategic function with corporate visibility and influence needs to be understood. The rise of an executive position of the Chief Procurement Officer (CPO) is symptomatic of this trend. Companies are increasingly realizing the importance of improving their knowledge and competence in Procurement which has led ‘Procurement Transformation’ to become the buzz word in many organizations.

Procurement transformation is a specific type of organisational change management which focuses on strategies to enable major and long-term improvements in Procurement and supply management processes, activities and relationships (Day and Atkinson, 2004). Procurement transformation is a relatively new concept lacking definition and is usually placed within broader discussions of change management and transformational leadership (Day and Atkinson, 2004). Although the precise nuances of bringing change within the Procurement function differ from those in other functions, the fundamental doctrine determining the success or failure of changing processes, practices and behaviours remain the same.

Traditional power plays work best when you control the environment. We live in a world that is impossible to control. Even the most successful Fortune 500 companies can be brought down by a bunch of creative entrepreneurs working from their garage who have a new and better idea. It has become more of a necessity for the sourcing and Procurement function to contribute to their growth and agility in these volatile and uncertain times. The current operating models, often lack resources to tackle higher challenges like analysing global and fragmented supply chain risks as well frequent geographical changes due to expansion in the company’s area of operations, M&A which renders them unable to deliver on these expectations (Genpact, 2015).
Today, success is defined by one's readiness to embrace dynamic business challenges (and take benefit of opportunities). It is not about short-term wins – but rather recognizing that true competitive advantage requires more than just muscle to support sustainable growth and profitability. Those who emerge as winners in the future of business will be those that navigate effortlessly in today's complex global marketplace, seeking coherence in long-term, self-perpetuating business eco-systems rather than conventional buyer-supplier relationships. Successful companies will be those that understand – and embrace – a full continuum of sourcing business models that allow them to align the right sourcing tools for the right environment.

This paper will relay the findings from transformation taking place in the Procurement and purchasing function. Special focus will be laid on exploring various developments in Procurement strategies as it applies to changing and managing the VUCA macro environment. The paper then identifies through literature reviews and case studies the important elements in a successful Procurement transformation. The future of Procurement will be in a continuous phase of progress, alignment flux and adoption to the multitude of shifts that are occurring. The paper will attempt to conclude with a provision on a roadmap for navigating the change and how Procurement needs to change through a Procurement transformation framework.

2. NEED OF PROCUREMENT MATURITY: BUSINESS AND MARKET SHIFTS

Global economies, financial market and supply chain have been severely affected with rising volatility in the global market, increased exposure to shocks and disruption risks like never before. Even minor mishaps and miscalculations can aggravate complexities as their impacts have an almost immediate effect. Just as how the world transformed in early 19th century when we substituted muscle power with machine power, the current economy will undergo a transformation in ways that we still can only begin to fathom. Post the 2008 crisis Jeff Immelt, the CEO of General Electric, said it is an “emotional, social, economic reset”(Gunther, 2008). This reset or shift in the global economic landscape as late Peter Drucker would have undoubtedly called this shift “a change in the theory of business”. Peter Drucker used to say “companies fail, not because they do the wrong things, not even because they do the right things poorly, but companies fail because they fail to understand and anticipate and adjust to a fundamental shift in the conditions under which the business operate”, and this paradigm shift is essentially what Procurement is facing or witnessing in the global macroeconomic landscape today. The need for Procurement maturity has stemmed from the way the companies do business and the macroeconomic shifts.

2.1. The Shift in Enterprise Strategy

Organizations in multiple sectors continue to pursue global growth strategies that focus on expansion into new regions. With globalization, the need to partner with local service providers becomes imperative with which comes a host of new problems that enterprises have little to no experience in dealing with. The pace of globalization in companies has had a dramatic effect on where the companies’ source from, where they produce, and the complexity of processes required in selling to the customer. This complexity is taking many forms, from products designs, packaging designs, logistics complexity giving rise to a highly intricate supply chain to be managed by the new age Procurement professionals. Along with the increase in complexity, globalization, the exposure to risk is also accelerating. According to Handfield’s
supply chain analytics prediction for 2014, every two weeks, companies are believed to encounter some sort of logistics problem as a result of volcanoes, wars, tsunamis or other complications. To add to the list, global logistical channels along with labour issues at ports and ships with greater capacity are a few of those multiple other factors that are driving even more risk into the global complex supply chain landscape (Frank Straube, 2013). As the global footprint of the organizations expands, regulatory requirements occupy a huge share of this complexity framework. Corporate social responsibility and sustainability of companies are a new age shift in enterprise strategy bringing in a new angle of complexity and responsibility into the hands of sourcing professionals. The importance of these trends leads to the conclusion that Procurement’s understanding of supply chain and alignment to business is more important than ever.

2.2. Macroeconomic Shifts Impacting Procurement
Taking both internal and external Procurement dimensions into account, the five widely accepted key trends that dominate the business world today are highlighted in the table below: (CIPS, 2012)

<table>
<thead>
<tr>
<th>Trend</th>
<th>Potential for Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing focus on effects of Corporate Social Responsibility</td>
<td>Corporate Social Responsibility will soon occupy a more important place in organizational framework. Changes in demographics and global consumption patterns will affect the triple bottom line and have a major impact on green, social and financial strategies</td>
</tr>
<tr>
<td>Burgeoning Technological advances</td>
<td>Technological innovations will continue to grow and at an ever quickening rate impacting all that we do in society and business</td>
</tr>
<tr>
<td>Global geo-political and macro-economic change</td>
<td>There has already been a shift in global markets. These market changes alter demand and consumption which in turn creates increased pressure on the availability of raw materials and other resources</td>
</tr>
<tr>
<td>Changing Demographics</td>
<td>Changes in demographics viz. declining birth rates, aging populations or migration patterns will have high level impact on the availability of skilled and/or affordable labour</td>
</tr>
<tr>
<td>Shift in the Economic centre of gravity</td>
<td>Demand in the mature markets in the developed economies of the world is slowing down whilst in developing markets and economies it is quickening pace and strong growth is being created</td>
</tr>
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</table>

2.3. The need for Procurement Transformation
The story of Procurement since the early 1980s mirrors the wider business landscape. During this time, the function has strengthened its position steadily to hold strategic importance in organizational landscape thereby, playing a pivotal role in helping businesses manage both direct and indirect spend and acting as the guardian of supplier relations. The impact of globalization and technological advances has only
served to further both the cause of Procurement and its perception in the wider business world. Suppliers’ health and other risk-related issues are increasingly being regarded as a prime area of responsibility, if not, its unique value proposition. The next several decades hold a larger promise and significance. Having established its credentials, Procurement will need to evolve and demonstrate the real benefits and value it can add to business as a whole. Risk will increase in importance; corporate social responsibility (CSR) will be tied up with the security of supply; and Procurement will need to draw on market knowledge, supplier relationships and use of new technologies to identify major threats to a business. The wider political and economic environment will become even more relevant to global organizations in this context, where the way in which Procurement is structured and perhaps even where it is based will change too. With teams spread across the globe, Procurement will have to manage virtual networks of suppliers, stakeholders and internal customers, drawing on the present age power of social media channels to communicate. Procurement must continue to compete for talent and aim to recruit the best and brightest people, alongside.

These global shifts in the macroeconomic environment coupled with that of enterprise strategy point towards the fact that existing Procurement models need a complete overhaul. Consequently, the first step in understanding how Procurement will deliver to the business in future is to fully understand how the Procurement landscape is shifting. This change is occurring across a backdrop of continued volatility across the supply chain, impacting nearly all industries; fluctuation in the prices of commodities and currency shifts are unprecedented in many markets. And above all, are the opportunities and threats of a complicated global regulatory and tax environment.

In a volatile economic ecosystem, companies must plunge deep across their supply chains for optimization and efficiencies to help combat the impact of a challenging economy. As sourcing of direct and indirect material continues to grow in emerging areas, today’s sourcing and Procurement organizations should adopt a strategic sourcing approach that includes initiatives planned to drive effectiveness, increased yield and eventually business results, to create a new roadmap for the supply chains of future (Butner, 2010).

Procurement’s value proposition to the business is inextricably linked to performance and capability. The impact of value and performance on the business requires Procurement to maintain a high profile and appetite to deliver ever-broader services. There is a clear need for Procurement’s operating model to upgrade itself with time. With no historic permission, no mandate or accountability, and weak IT support, there is a clear need to push beyond supply centric Procurement methodology. Customer and demand management adoption are critical to Procurement to help realize its true and latent potential to deliver value with deeper involvement in stakeholder processes, including that with external suppliers (hanfield, 2014). Forward-thinking players are setting their sights on advancing the future of Procurement with dynamic value management. But there’s a long way to develop itself as an essential part of the enterprise performance conversation. It is increasingly evident, on a global scale that the Procurement and supply profession is emerging as the most strategic of all other functions, a real success differentiator in an increasingly aggressive environment where innovation and marketing are not enough (Noble, 2014).
Procurement Value Proposition Transformation For Large Scale Procurement Organisations: The Futuristic Model

Efforts by Procurement to make drive more efforts towards strategy continue, but sometimes at the cost of misunderstanding between Procurement and rest of the business. Still Procurement has a lot in terms of expertise to offer, which can provide substantial financial benefits. New vision and capabilities are needed. Procurement leaders might well ask not what business can do for them; rather what they can do for the business (Bonnie Keith, 2015).

3. CHANGE MANAGEMENT: RE-EVALUATING PROCUREMENT VALUE PROPOSITION

Value is possibly the most overused term in business today. Hence it is, important to clarify its definition and its relevance to Procurement and enterprise alike. In Peter Drucker’s celebrated book Management: Tasks, responsibilities, practices (1974), he says: ‘The final question needed in order to come to grips with business purpose and business mission is: "What is value to the customer?"’ (hanfield, 2014). Drucker goes on to say: The customer never buys a product. By definition, the customer buys the satisfaction of a want. He buys value.

3.1. Realizing the Power of Procurement

Value management has become a hot topic in the world of Procurement. Nick Wildgoose, Procurement director at Zurich Financial Services, emphasizes these sentiments: “The key internal challenge for CPOs in strategic sourcing,” he says, “is ensuring that it is recognised at the highest level as a way of supporting the needs of the business in meeting financial goals and therefore maximising shareholder value.” PålEikeland, director of the group Procurement function at Orkla, Norway’s biggest conglomerate, argues that: “There must be a strong link between Procurement value proposition and the overall business strategy. We have to identify key areas of focus, in terms of both cost-down and value-up activities, in order to secure maximum overall business effect.” The commonality in these two arguments is that there is a need for Procurement to meet demanding investor expectations by maximising shareholder value in a sustainable manner. Procurement has to be closely integrated with critical business drivers, particularly those linked to growth, return on capital and margin management.

However, the role of Procurement has for some time been very conservative. According to Richard Nixon (KPMG, 2012), “Procurement has been overwhelmingly slow to evolve. There is not enough focus on on-going supplier relationship management, precious little involvement in demand management, even less participation in the ‘make versus buy’ decision process and an often dangerous lack of preparation, mitigation and action around supply chain risk”. The evidence indicates that most of Procurement functions still lack a strategic role and are generally not considered (nor optimally delivering) as a genuine business partner to the organisation (KPMG, 2012). In many cases, this is a direct outcome of ineffective governance, policies and procedures or a lack of appropriate Procurement engagement during the early stages of Procurement process. This leads to failure to take effective purchase decisions, not fully leveraging spends and economies of scale, leaving themselves vulnerable to significant business and commercial risk.

While early involvement of Procurement has been validated to bring higher savings, the reality is that it is usually involved in the process either to convert leads or advise on the contract terms, and it is often far too late to add significant value or only when the commercial process has already broken down (KPMG, 2012). This
clearly indicates there is a lack of effective communication and change leadership that is needed to effectively communicate the value of Procurement. It is hence quite obvious that Procurement needs to be moved away from terms like SRM and category management and communicate in a language that business understands. Evidently, this will also necessitate Procurement to refocus their efforts and include other value-added services to the business besides just reducing purchasing costs. However, this usually requires a cultural shift, moving Procurement away from the calculated, category-focused culture that seems to dominate most functions, to one that is fully aligned with the organisational goals and is active in the strategic decision-making processes of the business.

3.2. Moving Beyond Cost Savings

GlaxoSmithKline is a good example of a competence-building and cultural shift in practice as mentioned above. As a pharmaceuticals powerhouse, formed through the merger of GlaxoWellcome and SmithKline Beecham, it has a tradition of executive commitment to Procurement transformation that stretches back over a decade. Joe Meier, senior vice president of Procurement and contract manufacturing, based in Philadelphia but in close contact with the company’s European operations, has a distinct perspective on the challenges of embedding sourcing and supplier management. In his view, there are a number of interrelated activities. “First, delivery of visible, tangible, measurable, top and bottom-line benefits is essential. From the CEO down, there is an expectation that Procurement fully supports growth and financial success. Second, you have to embrace technology, both in the Procurement space and with suppliers. In GSK, we have been aggressive in our use of worldwide information and e-sourcing and are also working closely with targeted suppliers on building their capability and technology applications. “Third, you have to move beyond short-term leverage savings into joint working and closer strategic integration with core suppliers. There are some exciting initiatives well under way across GSK through supplier forums, lean supply and our operational excellence programme. Lastly, and probably most importantly, the morale, commitment and development of people has to be the top priority. This is something we take extremely seriously. We are now using mentoring, coaching and sophisticated HR tools to make sure Procurement remains an exciting place to be.” (Hughes, 2005)

Clearly, Procurement functions will need to place renewed focus on building capacity in a number of key disciplines like, category management, strategic sourcing, SRM, demand and supply base management, if they hope to deliver greater value to their organisations. Procurement will need to stretch beyond savings to become a centre of value creation throughout the organisation. While most Procurement functions have made great progress in terms of creating value for their organisations, various research studies indicate that the momentum has somewhat stagnated recently. On a broader scale, since much of the ‘low hanging fruit’ has already been harvested in terms of cost savings, leverage and price. As a result, Procurement functions will need to stretch their tentacle in order to identify and capitalise on opportunities that add value, while also securing appropriate organisational investment to enable Procurement to develop into this more strategic role.

Procurement must approach these issues keeping in mind that only incremental changes are not enough. Earning the trust of the business and embracing the vision that goes far beyond the focus on transactional supply management and cost savings, is the need of the hour.
3.3. Enabling Internal Collaboration – New way of working
To get a better understanding of the role and value proposition of Procurement, there is a need to develop an understanding of core requirements of business from Procurement and what it can deliver in return. Henry Ford once said “coming together is a beginning, staying together is progress, working together is success.” This statement clearly depicts the position of many Procurement organizations today. While Procurement has come a long way since the 1980s and has made progress, it has to now demonstrate that it is capable of creating a positive influence on its organization’s spend and stakeholders. Otherwise, there is very little chance of Procurement being regarded and as relevant and a value adding function in the future (ProcServe, 2010). The success of the Procurement departments in large international companies depend greatly on their ability to enable parties to work together that are located in different geographical locations and at different hierarchical levels (Gérard Dahan, 2013). Procurement departments, at the core of the buyer / specifier / supplier relationship, are responsible for ‘orchestrating’ the dynamics of this relationship and hence have a crucial role to play in creating an efficient collaborative culture, with a view to adding value and their organizational role requires extensive coordination and collaboration with other internal departments (Semanik & Sollish, 2012).

Clearly, collaboration can no longer be considered as an independent activity that disrupts the normal BAU of departmental Procurement business. In itself, this does not exclude spontaneous, local initiatives that can deliver savings. However, to optimise the potential, it is clear that a broad and a long term view is needed. Collaboration is a strategy and acts as a catalyst for category management, e-procurement, sustainability and demand management to become a single coherent strategy. It requires optimum performance from enabling functions and technologies and a huge amount of attention to detail. More than this, collaboration transcends everything to become a new way of working.

3.4. Changing needs – Changing skills
Anyone with basic negotiating skills could handle Procurement. It was often said that deeper strategic thinking and serious deal-making took place elsewhere. For a nine-to-fiver, it wasn’t a bad way to make a living out of it. For an ambitious businessperson, however, purchasing was nothing but a dead end. But the scenario is different now. The growth in outsourcing, the drive for efficiency, and the remarkable cost savings that can be delivered by well-managed supply chains and pricing analytics have transformed purchasing into a strategic function in many companies. In fact, Procurement managers themselves substantiate a budding sense of optimism about their prospective customers, a sharp transformation from the earlier, gloomy assessments. In a recent Booz & Company survey of 100 CPOs and supply chain management leaders, 66 percent of respondents said the CPO will play a larger role in setting business strategy in the next five to 10 years, and 44 percent of respondents said activities in the purchasing department will be a top priority (Booz & Company, 2014). The same survey also revealed that 46 percent of senior purchasing executives deem strategic understanding and overall business sense as most important traits for purchasing managers in the future.

The modern Procurement professional today needs to be an expert, with a deep knowledge of the industry, the geographies they operate in, along with the product and services they are dealing with. This need stems from the considerable change that business has gone through and the development of new business models and formats.
According to Mickey North Rizza, formerly research director with Gartner Supply Chain and now vice president of advisory services at BravoSolution, consumer changes around the globe, with dramatic shifts favoring China, Asia, India and Africa are some of the factors contributing to the current shortage of procurement talent. Mass customization, on the other hand "demands a whole new set of management skills among Procurement professionals, massive change" in technology related to manufacturing and Procurement (Rizza, 2015). This suggests that although having functional expertise will continue to be important enabling them to get the best deal on what they are buying (as well as to get more value from the entire supply base), strategic capabilities, political know-how and leadership are increasingly important priorities and fundamental skills for Procurement professionals.

However, only identifying these above skills will not suffice. Companies must also prepare a strong talent pipeline to adapt with increasing responsibility for the role of Procurement. However, there is an industry-wide consensus on talent shortage for the future when it comes to Procurement. During May 2015, CIPS in collaboration with Hays salary guide released a Procurement insight report which identifies that, over the past 12 months 61 per cent of purchasing professionals received a rise in their pay, and while the rest of the economy received an average increase of 1.7 percent, those in Procurement got 2.5 percent. This led David Noble, group CEO, CIPS, to declare purchasers to be highly-prized professionals. “Despite the recession, our salaries have grown above average,” he says. “The demand for good Procurement people is increasing dramatically” (Green, 2015). CPOs from across the globe have quoted ‘people’ as the primary success factor when it comes to carrying out a successful Procurement transformation. CPOs and recruiters agree that hiring Procurement talent has never been so hard. As the evolution of a future state of Procurement unfolds, it will be important for companies to re-evaluate, identify, develop, and retain key talents to succeed in the marketplace.

4. CASE STUDIES OF PROCUREMENT TRANSFORMATION IN F500 COMPANIES

To improve the utilization of spend and alignment with executive stakeholder objectives organizations have started taking centralized supply management initiatives. With organizations embarking on a journey of strategic sourcing the first wave of strategies is typically identified and often targeted at cost reduction through volume consolidation and leveraging organization’s total spends. Strategic sourcing is probably the most significant aspect characterizing an organization’s transformation to supply management (Rendon, 2005). Yet, as organizations mature, executives recognize that supply management must adopt a more strategic set of value proposition beyond leveraging spend for cost savings. A review of the top purchasing organization’s Procurement transformation stories indicate that strategic sourcing and, specifically, with focus on business alignment are fundamentals of a total purchasing transformation effort that has laid the groundwork for tremendous cost reductions, increase in productivity, quality improvement, and return on investment.

4.1. Procurement Transformation – Royal Mail

Royal Mail led its Procurement transformation primarily through an organisational redesign. The company flattened its management structure in Procurement, reduced 13 different grades to four and the group Procurement director increased the number
of his direct reporters from two people to nine. Furthermore, 60% of the functions consisted of newly recruited employees (Supply Management, 2007).

4.2. Procurement Transformation – Siemens
Procurement transformation at Siemens was based on its '60:25:20' plan, which intended at pooling and aggregating 60% of global spend, increasing sourcing in emerging countries by 25% and reducing the number of suppliers by 20%. In addition, over 1,000 measures were identified to reduce cost and complexity across product specifications (Hughes and Day, 2011).

4.3. Procurement Transformation – Merck
At Merck, Prior to its November 2009 merger with Schering-Plough, the sourcing scenario was quite promising. As part of its transformation effort, Merck’s global Procurement function realigned its key priorities from basic service delivery (e.g., business continuity) to more advanced and complex business-driven capabilities (e.g., comprehensive risk management). It has reorganized its Procurement group into centres of expertise that establish sourcing strategies and regions that execute those strategies in their specific locations. Merck’s Procurement group has established a Procurement executive leadership team and operations leadership team that enact and execute broader strategies for the entire Procurement group. Merck has further developed its relationships with suppliers through the supplier value management process and has developed a market intelligence gathering initiative. These changes are a part of Merck’s proactive measures to adapt to its more global focus and to factors within the health care field.

4.4. Procurement Transformation – FMC Technologies
FMC Technologies, Inc. is a leading global provider of technology solutions for the energy industry. At FMC, approximately 305 sourcing and Procurement employees manage over two billion dollars in spend. FMC has 1,000 suppliers with only 150 of its suppliers accounting for 80 percent of its direct spend. FMC has long practiced category management regionally, but the organization recently moved towards a more global perspective with its Vision 2010 initiative. Launched in October 2010, the initiative greatly transformed the Procurement and strategic sourcing functions. FMC’s category management took a global approach to both strategy and supplier management but performed the tactical Procurement at the site production facilities. Each category was aligned to a product line based on the volume of spend, but the category team had to coordinate with all product lines that it touched. Each category team is staffed with technical and subject matter support, and a global SharePoint site facilitated collaboration across all production facilities.

FMC values professional talent development and is constantly improving its in-house training program. FMC focuses on SQDC—safety, quality, delivery, and cost—in all aspects of its business. Each category and supplier are measured based on the SQDC areas, which drive FMC’s continuous improvement activities.

4.5. Procurement Transformation – Rio Tinto
Rio Tinto, is one of the world’s largest diversified metals and mining companies with 200+ locations and five product groups. Rio Tinto launched their Procurement transformation with a vision of ‘Procurement effectiveness’. Their model of effectiveness was initiated with a vision of ‘networked organization as a model of
effectiveness for Procurement’. The model of effectiveness at Rio Tinto according to Ramsay Chu can be summarized in 3 words ‘Organization, strategy and people’. Rio Tinto focused on transforming their supply chain from ‘analog to digital’ by focusing on collecting as many data as possible to understand commonalities and enable collaboration to have much more meaningful, insightful and productive conversations. Commodity sourcing was centralized in Singapore with $9 billion of $15 billion routed through Singapore Procurement excellence centre. The rest of the $7 Billion is done through regional hubs to drive consistent stakeholder outcomes by controlling regional super suppliers.

4.6. Lessons Learned

It's evident from the above examples that some of the world’s leading and highly specialized organizations are building a much more profound and detailed architecture of strategic sourcing to draw higher efficiency. CPOs remain optimistic and determined to drive greater performance. No one believes their job is complete. Indeed, Casey Kelly, formerly a general manager in Procurement with Cathay Pacific and now a partner at TAS Management in Italy, emphasizes this point: “Many businesses are not yet comfortable with strategic initiatives. They have to drive strategic, innovative action within Procurement and across the supply chain. This remains a powerful lever for competitiveness, capable of driving organizations into the upper performance percentiles of their sectors.”

5. PROPOSED PROCUREMENT TRANSFORMATION MODEL FOR MODERN ERA

Through the analysis of existing practices and transformation stories it is evident that there are different stages of Procurement maturity and that transformation is a continuous process. Most of the success stories in the past are in a simple context of large and powerful buying organization, procuring an uncomplicated product or service from an acquiescent supplier. However, in reality, things are not as simple as that and real-life Procurement is a far more complex issue. Procurement managers are challenged with managing innovation, well-established markets and also in the growing complexity of our worldwide business. It is clear that Procurement leaders today are faced with a new set of challenges. They need to be able to forge and maintain relationships with suppliers with to innovate and match the supply for long-term requirements of the buying organization. These include ‘Triple Bottom line (TBL) Procurement’ (Hanfield, 2014).

- The management and co-creation of innovation
- The management and understanding of markets
- The ability to operate in complexity

Today it is no longer enough to build a supply management capability that is efficient, demand-driven or even transparent. An idea or a process innovation that adds incremental value must also be offered by Procurement to the organization. Procurement needs to deliver innovation through its collaboration and long-term focus. Whilst Procurement has spent the last 30 years looking backward at all the money wasted and supplier performance in the past month, modern Procurement professionals will need to add value, be forward thinkers and deal shapers. These people will be both analysts and commercially proficient, guiding the business in strategic planning.
Procurement’s new value proposition is multifaceted, requiring focus on cost management, supply risk, and sustainability. One model of how the future Procurement organizations should/will look like is a continuous ongoing debate. But, based on process evidence and case studies from successful organizations it is clear that Procurement can show clear new value proposition to the organization. Based on our survey we have identified along with these cases, that there are six defining characteristics of a future Procurement organization which will provide sustainable value to the business.

5.1. Modern Era Characteristics of Procurement organization

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5.1.1. Intelligent Cost reduction strategies

Future Procurement organization should not only be able to deliver cost savings based on companies’ spend but should also be in a position to drive business strategies. This means Procurement should be in a position to answer the most important question put by a CEO ‘how much will these strategies cost the business?’ That said, however, cost reductions remain and will remain Procurement’s number one responsibility to the business – ahead of enterprise growth and product or service innovations. Business strategies and operational strategies can change so fast that, flexibility and agility will become the key characteristics of Procurement organizations who can continue to do intelligent cost reductions.

5.1.2. Holistic focus around Risk

The perception of risk is rising. Most of the CPOs play an active role in the wider risk management process. However, in the current state of Procurement, investments to related technologies and processes to manage risk remain low. The primary approach to manage risk is during the supplier pre-qualification and on-boarding phase. In a futuristic Procurement organization, risk management has to become everyone’s business as capacity and demand soar and complexity dominates our thinking. Supply management will need to anticipate scenarios and increase awareness around supply risk along with an expansion of what and where the risk lies. CPOs should make sure that they invest adequately in identifying suppliers critical to brand and business

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continuity, and those most likely to fail. With limitation in capacity, efforts should be focused on suppliers that cannot easily be replaced. CPOs should train the teams to identify symptoms of financial distress and enable them to access relevant support.

5.1.3. Collaboration and Customer Focus

A successful, demand-driven and value adding Procurement organization will require collaboration in understanding what the customer wants and what organization needs from suppliers to deliver business value. Despite the obvious need for customer interaction, Procurement continues to be pushed to focus more on their suppliers than their customers.

5.1.4. Sustainability and Diversity

A large part of future Procurement organization characteristic context is about the social, environmental and governance risks, conveniently packaged in the term ‘sustainability’. Sustainability, social and environmental issues, is a good proxy for areas of risk to Procurement, like geopolitical risk, reputational risk, commodity pricing, failure to identify potential sources and failure to identify supplier-specific risks. By considering sustainability risks and opportunities at each step of the Procurement process, you are assessing the context and taking better Procurement decisions. This process is known as ‘sustainable Procurement’. A key sustainable theme in Procurement today is supplier diversity, and more and more organizations are reaping benefits of supplier diversity programs. It is apparent that next generation of Procurement professionals will understand the benefits of having a diverse supply chain. Supply management must establish itself as the ‘differentiator’ in all matters that are related to sustainability by operating with the business to define tomorrow’s standards. By leading the way on issues such as sustainability and supplier diversity, Procurement will drive innovation, for organizations through engagement with SMEs or ‘green’ applications and thereby bring competitive advantage to the business.

5.1.5. Agility as an agenda

Agility, with respect to Procurement, requires enterprise sourcing and Procurement teams to be highly responsive to any change in stakeholder needs, supplier capabilities, and market conditions. The team must be “light on its feet” with sourcing opportunities and category management (Ardent partners, 2015). With the macroeconomic shifts and constant change in organizational strategies, Procurement must become the ‘go to’ function in the business they serve.

5.1.6. Winning Procurement Team – Talent Acquisition and Retention

Procurement is no longer immune to broader corporate restructuring and this pressure is likely to increase as it repositions itself as a key partner in organizational growth. Procurement is being asked to be more efficient, and if not, then to develop additional capabilities with the same headcount. There is an increasing demand for pools of talent to support the analytics agenda and to enable Procurement to play a role in driving innovation. Proactive organizations are taking deliberate steps to win the war on talent when it comes to setting up their Procurement talent pipeline. In establishing the type of individual who can operate within Procurement, organizations may need to reach out to the non-traditional source of talent to recruit the right people. What worked for ‘good negotiators’ 10 years ago may turn out otherwise for today’s more consultative form of engagement with internal stakeholders.
Procurement Value Proposition Transformation For Large Scale Procurement Organisations: The Futuristic Model

To help develop the broader areas of expertise that Procurement professionals will need to thrive in the new era, businesses should actively seek, engage and train their new line of managers. However, to prevent the brain drain of such individuals it is essential to offer concrete and compelling career paths to these individuals in house and promote intelligent growth. The future Procurement organizations will act as training grounds for senior positions in the ‘corporation’.

5.1.7. Procurement Maturity ladder
As Procurement takes the centre stage, it has to build a sustained reputation and improvements. Procurement practitioner need to promote their value proposition, develop capability and execute to improve performance. The figure below shows a maturity model for Procurement and supply management. As the capability of Procurement organization moves up the ladder, its role and value proposition increases transforms from ‘laggard’ at the very bottom where the focus lies on low-level tactical activity to a ‘leader’ where it directly influences corporate strategy (CIPS, 2012).

![Procurement Maturity levels: Value Proposition and SCM role](image)

The role of supply management is categorized by the Procurement maturity ladder at four different levels of performance. Procurement’s aspirations to move up the ladder have to be deliberate and it must be sustained.

5.2. Beyond Cost savings - Rise of Value Procurement
Since the global economic meltdown of 2008, Procurement has borrowed the lessons of category management from sales and marketing and made it a permanent functional aspect, thereby enhancing its status. Category management with respect to Procurement is essentially a structured process to realize and maximize value across an organization wide spend, that are third-party in nature. The objectives of category management are strategic in nature, but many Procurement organizations never go beyond the cost reduction mindset of ‘Procurement push’. Hence, maximum value is not generated from the category that is being managed. Cost reduction will always hold importance as it is the cornerstone of efficient Procurement practices. But, the
future of Procurement lies in value creation rather than cost reduction. Organizations that embraced category management since the 2000s have gone through their spend portfolios for as many as three or possibly four iterations. Each category and sub-category has been standardized, rationalized, and commoditized. But the effect of this activity masked a unique aspect of Procurement practice. This created a fundamental flaw in the notions of partnership and alignment where Procurement’s ‘clients’ did not have cost reduction as their primary aim but, Procurement did! (Hanfield, 2014).

Since the 1990s, category management has been the only credible Procurement strategy and is witnessing a change. The techniques developed in category management strategies to choose suppliers and build strategic partnerships are due for an overhaul. Today Procurement organizations must deliver something that adds value, where Procurement contributes to the triple bottom line (TBL) as discussed above. Procurement must be a function that is continually challenging ways of working. It must strive to ensure that its internal business stakeholders achieve their goals and target and, at the same time, challenge total cost, facilitate innovation, and manage risk. Most critical of all is that Procurement must be aligned with corporate focus addressing the key question for any business: ‘What is the value to the customer?’

5.3. Procurement’s new age value proposition

The focus of this research has been to establish the notion that a new practice is needed within businesses with respect to outlook and expectations from Procurement. It is clear that the Procurement function is going through an evolution. Organizations are increasingly moving away from the discrete function of the past; the ‘buyers’ are being replaced by ‘enablers’ or ‘value adders’, ‘profits’ are replacing ‘cost savings’.

![Figure 3 Evolution of Procurement Value Proposition (Hanfield, R., 2014)](http://www.iaeme.com/IJM/index.asp)
reporting into the board. Leadership team need to know how strategic goals and operational performance are aligned with internal activity – internal activity in terms of challenging business rules and long-held beliefs and ways of working, improving policies and procedures, allowing innovations led by suppliers into the business, which encourages collaboration and innovation.

5.4. Achieving the Value Proposition Agenda

Cultural change is very essential to get more value out of Procurement. Cultural change starts with a change in the behaviour of the people employed within the organization. Moreover, a Procurement professional needs to update oneself to become savvier with the present age technologies and trends. Their professional credentials will be measured by their ability to influence, persuade and provide vision. Their mindset must be strategic, global, collaborative and above all commercial (hanfield, 2014).

Based on our research we have identified 4 major pillars that form the strong base required to make Procurement’s value proposition and transformation a reality.

- Focus more on time instead of cost
- Use of technology as a flashlight to identify new areas of value addition
- Lead collaboration and innovation through partnership with suppliers
- Attracting and retaining the best Procurement talent

5.4.1. Focus on time instead of cost

As the industry is faced with challenges to improve productivity, augmented sales and reduce costs, there are greater expectations from Procurement professionals to develop and implement approaches that can assist businesses in addressing these challenges to realize value and profit. We are now in the phase of going beyond Procurement to drive company-wide productivity and value. Taking cost out of the supply chain and operations was the central focus of category management led by Procurement transformation. To succeed in building agile Procurement function of the future, has to be the driving force behind this transformation by ‘squeezing time out of the supply chain’. Lean and agile Procurement means shorter lead time, which in turn means faster reach to market, and that ultimately leads to enabling businesses to get more new products to the customers faster and more effectively. And the holistic being, rapid profit generation. In this new age of Procurement transformations, organizations must look crunching time and then cost savings will follow.

5.4.2. Technology as a Flashlight

Today everything starts with ‘E’ in Procurement. Procure to pay, sourcing, contract management, and other automated solutions are integrated up and down the supply chains, fully adopted, providing greater transparency and real-time insight. The success of Procurement transformation in the new age will be defined by the ability of the organizations to leverage ever-changing technology landscape to shine a light on new areas of the value proposition. More and more people are working ‘on the go’. The new internet – savvy and technically confident generation is entering the workplace using smart phones, gadgets and gizmos, tablets, and other devices to create a mobile work environment for Procurement professionals and suppliers alike. This coupled with internet-of-things (IOT) and big data analytics will change the shape and dynamics of supply chains and Procurement organizations in the future.
With the new Algorithm Economy reining the marketplace, products are expected to get smarter and so are the Procurement cycles. A new approach to Procurement technology is required, based on a portfolio of solutions, to let Procurement organizations manage scale and complexity for greater value delivery (Deloitte, 2014).

5.4.3. Get a New set of eyes

Procurement along with their suppliers, stake holders, and customers are all parts of interdependent supply chains. Procurement cannot be successful without the support of its peers. According to a recent survey, 88% of CPOs says that a tighter working relationship and more collaboration with their suppliers is one of their very top priorities. To successfully drive value-based Procurement transformation, collaboration of Procurement with suppliers and customers will help to identify and deliver innovation from the supply base and create new value to the organization. To drive value from supply base, Procurement and suppliers need to get onto the same side of the table. Only through this collaboration Procurement can drive more value and improved business outcomes. Managing value can pave way for profitable growth. Procurement professional need to ‘get out more’: they need to express the value they can contribute and then deliver it. The process of involving suppliers, buyers and customers to find, share, translate, select, assess, understand, implement, and communicate becomes the catalyst for value creations.

5.4.4. Attracting and retaining the best Procurement talent

There is a lot of speculation regarding the demand for top talent in Procurement. The role of Procurement is progressing from decision support to one requiring predictive capability. Increasingly there is a rising demand for Procurement professionals who can demonstrate that they are both commercially focused and analytically capable. To drive Procurement transformation through value creation, it is mission critical to improve recruitment and retention levels in Procurement. Procurement managers can no longer rely entirely on HR, and must shoulder some responsibility for recruiting the best and the brightest. By investing time and resources, developing clear and suitable job roles and carving out clear paths for professional growth and advancement, Procurement organizations will be able to find, develop and retain the talent needs of the organization.

6. CONCLUSION

As far as Procurement is concerned, now is the most important and interesting time to be in the profession. The evolution and path of Procurement is an important concern for organizations around the world. Various macroeconomic shifts are driving businesses to their purchase departments to streamline the supply chain as more and more businesses realize that the future success is dependent on winning the war of supply chains opposed to the war of companies. There is a need to understand this changing identity, structure and process of Procurement within organizations from a broad business perspective. To deliver its value proposition and meet the needs of businesses today implies a different role and set of responsibilities for Procurement. This paper argues that there is no one-size-fits-all framework or tool that can bring about this transformation in companies, however, the success of a value based Procurement transformation is fundamentally rooted in the culture and minds of the Procurement professionals and leadership expectations of Procurement in every
organization. There needs to be a constructive debate in shaping the future of Procurement value proposition.

REFERENCES