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Getting your house in order

Procurement teams and their colleagues across the business have been busily working through budgeting procedures – and with a typical process taking up to 75% of a CPO's time, it's important to get it right, writes **Richard Edwards**

BY COMMON consent, the run-up to the start of a new year is not simply procurement's busiest time of year – it's also the most crucial.

The first three months not only set the tone for the year, they also have the potential to make or break procurement's reputation – particularly if the budgetary process that buying organisations from across the world are undergoing has not been as rigorous as it should have been.

With economic headwinds battering the commodity markets, and a huge amount of uncertainty still shrouding the Chinese economy, procurement's planning processes certainly have plenty to consider.

While budgetary discussions are arguably likely to be more upbeat than at any other stage since 2008, there will still be an understandable amount of board-level nervousness over what lies ahead.

Relationship fruition

From a procurement standpoint, though, it also represents an opportunity for the relationships built in recent years to come into their own, as Richard Wilding, professor of supply-chain strategy at the Centre of Logistics and Supply Chain Management at Cranfield School of Management, tells *Procurement Leaders*.

"One of the most important things is collaborating internally with other operations teams and the marketing team so you can get high levels of transparency on cost to serve," he says. "It's all about getting that cost to serve in the supply chain and the biggest challenge many procurement teams face is proving that transparency to truly show how they fit into the system."

"You might say 'I'm focused on buying items on the cheap from India, or another low-cost country', for example. The key, though, is to understand the cost to serve and how that will impact on the risk profile of the total supply chain. Procurement now needs to be far more collaborative internally within the organisation."

That strikes a chord with Larry Beard, a former CPO at both Severn Trent and Tate & Lyle. Now working in an advisory role at a major London-based firm, he believes the success of the planning process is almost entirely dependent on procurement and finance working together towards a common goal.



"The budget process at this time of year can take up to 75% of your time," Beard says. "You will sink or swim as a business, as a department and as an individual, if you don't get it right. If you're not aligned with the finance department at this time, it can – and I've been in businesses where this has happened – destroy a business."

"At best, not getting it right puts you on the back foot when entering, perhaps, procurement's most crucial period."

While any planning involves a certain amount of gazing into a crystal ball, the analytical tools are now available to procurement to inject an element of confidence that may not have been present in the past.

Communication, as with many things in procurement, is fundamental. "You need to understand what the business priorities are," Kendall Smith, former global head of procurement at Yell, tells *Procurement Leaders*.

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"You need to find out their objectives, their priorities. Of course, containment and cost reduction will always be important, however, when the economy improves – as I think we've seen it doing throughout 2015 – then there will be an increased focus on expansion and I think it's important that procurement organisations understand and react to that."

Preparation, preparation, preparation

That change in focus, albeit a gradual one as the European and US economies stumble gingerly to their feet, has required not only a change in approach but a change in mindset. It also requires procurement organisations to hit the ground running as soon as midnight strikes on 31 December.

Beard claims procurement's delivery pipeline and the budget set-up around it will stand or fall, depending on how successful the first quarter of next year is.

"You need to focus on value creation that is delivered, ideally, in January," he says.

A common error made by organisations, he adds, is the continued urge to set up contracts that begin or expire in January – a decision that can create huge problems.

"A lot of businesses fall into the mistake of

Time, we're often told, is the one thing that procurement organisations simply do not have enough of. But when it comes to planning for the next 12 months, it is essential the planning process includes a window for assessing the successes and failures of previous years, taking on board the lessons that have or have not been learned.

According to Smith, this should be an inclusive process involving every team member – from the most senior to the most junior members of staff.

"I would make sure that the guys responsible for each area of the business are having discussions with their stakeholders," he explains. "It's a bottom-up as well as a top-down approach because they're far more likely to understand the individual projects that have been planned, or projects that are ongoing."

"The age-old thing for procurement is talent. So it's obviously really important to take that into account too; you need to identify any gaps and act sooner rather than later when it comes to bringing people into the organisation."

Again, its relationships, both internal and external, that will ultimately decide the success of any plan. From a budgetary perspective, the links between procurement and finance are essential, with a close tie-in not only likely

NEW SKILLS COME IN DIFFERENT SHAPES

There are some clear themes being raised by our clients in terms of planning their procurement functions for 2016, and they revolve around the need to upskill.

As we began the final quarter of 2015, procurement managers were looking to use the remaining months to ensure they begin next year with a robust and capable procurement offering, one that has the ability to take a more strategic approach, is business critical and, above all, is highly skilled.

With the need to react quickly and efficiently to organisational change, managers know that the fastest way to answer such requirements is to expand capabilities by bringing in new people. One option that can be especially effective in such a situation is the addition of interim procurement specialists.

Such individuals are highly experienced and adept at dealing with change and transformation, and often bring with them a wide range of industry expertise. While this is sometimes perceived as an expensive option, increased awareness and understanding of the considerable value such a professional will add, means that interims are increasingly seen as an investment, one that will repay the outlay quickly.

As well as gaining new skills through interims, we are seeing a trend towards talent development at a more junior level. The concept of growing one's own talent is not new, but due to its longer turnaround time, managers have tended to opt for quick-win options in recent years, perhaps driven by the economy.

Recently though, we have witnessed a rise in vacancies for bright, ambitious graduates with less experience, but no less passion, than their senior counterparts. Developing staff internally might be a slower route to up-skilling existing teams, but it is a much more prudent way of developing the next generation. And next year looks to be an exciting and fast-paced one in the world of developing procurement talent.



Zoë Wilson
Head of interim
management,
Cordant Procurement



"A lot of businesses fall into the mistake of having all their contracts in January because it's nice from a budgetary process, but it causes a bottleneck of activity"

having all their contracts in January because it's nice from a budgetary process, but it causes a bottleneck of activity when you're working on other things," he explains.

"In some cases I've been in businesses where we've taken people on short term to get through all the activity that we've had going on in January. As a CPO, you would like to spend quality time on these contracts, but the fact is that you rarely get the chance."

"In Utopia, you would spread the contracts across the whole year. If you can't, then you would like to see them run from between October and March," says Beard.

The potential increased risk can leave procurement vulnerable, with no time to properly negotiate a contract or to assess the success, or otherwise, of the current agreement.

"It's like Christmas," says Beard. "Too many procurement organisations see it coming towards them, but don't do anything about it. There's a shrug of the shoulders followed by people saying: 'we've always done it like that'."

to achieve better results but likely to provide procurement with a credibility boost.

"When I was at Tate & Lyle, I had a full-time, director-level, finance business partner working with me in procurement," says Beard. "We [procurement] never reported numbers, it was always done through this person. When numbers were reported, they were always procurement and finance's numbers, it wasn't us operating in isolation."

"In most political environments, in my experience, it takes tough people to challenge the finance people in a company. If you go in aligned with finance, you've got a much better chance of having constructive discussions."

So, with many procurement organisations looking forward rather than back, what will 2016 bring? "I think it will be about value creation, time to market, product development – more businesses than before are going to be focusing on the top line rather than the bottom," says Smith.

As an early Christmas present, most CPOs couldn't ask for more. ■