Procurement: Critical Factors for Next Generation Success

Dr. Jaideep Motwani
Roy McCammon
Introduction
Procurement and Supply Chain Tipping Points
Evolution of Procurement
Looking Forward
- Drivers and Challenges
Conclusion
Introduction

- Executives have realized the strategic value of procurement management.
- Effective procurement process have resulted in significant cost savings and growth in profitability.
- Managing the talent pipeline, SCM risk, and corporate social responsibility (CSR) are some of the terms that are been discussed and linked to the new SCM agenda.
Supply Chain Tipping Points: Impact on Procurement


JIT

Evolution of the PC

S&OP

Supply Chain Organization

Theory of Constraints

Internet/Email

Re-Engineering the Organization (Michael Hammer)

eProcurement

Total Quality Management

RFID

Supply Chain Excellence = Islands of Excellence + Manufacturing Excellence

Supply Chain Excellence = Vertical Silo Excellence + Efficient Order to Cash Processes

Inside-Out

Inside-Out
Supply Chain Tipping Points: Impact on Procurement

Supply Chain Excellence = Vertical Silo Excellence + Outsourcing Effectiveness

Inside-Out

Supply Chain Excellence = Value-Based Outcomes Delivered by Horizontal Processes

Outside-In

Supply Chain Insights LLC
Supply Chain Tipping Points: Impact on Procurement

Supply Chain Excellence = Value-Based Outcomes Delivered by Value Networks

Outside-In
Supply Chain Insights LLC
EVOlUTION OF PROCUREMENT

PRESENT

Digital procurement (transparency, visibility, analytics); Supplier innovation and collaboration

2000

Strategic sourcing, Automated Spend Analysis systems

1995

Focus on Supplier Relationship Management

1990

Indirect Spend Analysis and Customer Relationship Management

1980

Supplier consolidation and spend analysis of key commodities

1970

Highly transactional; focus on lowest supplier costs

http://www.cgnglobal.com/blog/69
• 79% of procurement leaders to focus on cost reduction, and 48 per cent want to increase cash flow;

• Almost six in ten see managing risks as a priority;

• 52% of procurement leaders are focused on new products, services and market development;

• Executive support for procurement change exists for 75 per cent of procurement leaders;

• 60% of CPOs do not believe their teams have the skills to deliver their procurement strategy

• 25% spend less than 1% of their budget on training

• 75% of CPOs believe that procurement’s role in delivering digital strategy will increase in the future

• Analytics will have the largest impact for over 65% of procurement leaders
Deloitte Global 2016 CPO Survey

...providing benchmark indicators in the procurement function of today and tomorrow

**VALUE**
Cost reduction remains the main focus of procurement

**ORGANIZATION**
Procurement is increasingly centralized & strongly linked to the C-Level

**TALENT**
Team qualification is becoming more critical over recent years

**RISK**
Procurement related risk increased over the last 12 months

**INNOVATION**
Supplier collaboration & innovation are turning into a key priorities

**TECHNOLOGY**
Investments in new technologies are increasing year on year
Progression of Procurement to a Smarter Future

- Transactional
- Functional Excellence
- Supplier Consolidation
- Partnerships

Future
- Networked Planning, Execution & Decision Analysis
- Optimized Flows
- Interconnected
- Instrumented
- Automated Transactions (Sensors & Actuators)
- Integrated Transactions (ERP to ERP)

- Flexibility & stability
- Effectively driving profitable growth
- Balancing risk and performance
- Managing complexity
- CPO

Adapted from IBM
Looking Forward: Drivers and Challenges

- Talent Shortage
- Corporate Social Responsibility
- Cost Reduction & Financial Pressures
- Rationalizing Your Supply Base
- Creating a Culture of Trust with Suppliers
- Supply Chain Risk Management
- Emerging Technology
- Digital Transformation
- Big Data
• In a study conducted by Supply Chain Insights, 46% of respondents stated “Talent: knowledge and availability” was their most significant business pain.
• The supply chain management workforce is comprised mostly of Baby Boomers at the moment—but they’re starting to retire.
• Compounding the looming departure of thousands of professionals from the industry is the fact that a shortage of supply chain talent already exists.
• Given these dynamics, it’s obvious attracting and retaining supply chain talent is critical.
If we are not our suppliers’ customer of choice, they will dedicate their best people, invest their best resources and offer the newest technology and innovation to our competitors – putting Ford at a disadvantage.”

--Ford COO
Millennials & The Internet

On average, 18-33 year olds each send out 3,853 texts every month.

As a whole, millennials account for 2 million hits on Google every month.

As a whole, millennials share 3,600 photos on Instagram every minute.

As a whole, millennials upload 72 hours of video to YouTube every minute.

5 Traits of Millennials That Are Driving Change in the Workplace

- Connected
- Mobile
- Transient
- Tech Focused
- Goal Oriented
The Great Divide: Workplace Perceptions That Millennials Need to Rise Above

**How Millennials Describe Themselves**
- People-Savvy: 65%
- Tech-Savvy: 35%
- Loyal to Their Employers: 82%
- Fun-Loving: 14%
- Hard Working: 86%

**How HR Professionals Describe Millennials**
- People-Savvy: 14%
- Tech-Savvy: 86%
- Loyal to Their Employers: 1%
- Fun-Loving: 39%
- Hard Working: 11%

Source: A Beyond.com survey of 6,361 job seekers and veteran HR professionals, from April 12 - May 9, 2013.
How can we simulate a real-world 24/7 environment and keep a balance between theory and practice?


Seidman’s SCM Program

Kolb’s Experiential Learning Model

Concrete Experiencing
   Feeling

Active Experimenting
   Doing

Reflective Observing
   Watching

Thinking
   Abstract Conceptualizing

How we perceive ↔
How we process ↔
Uniqueness of Our Program

- Holistic/Broad-Based Integrated Curriculum – covers the entire Supply Chain
- Focuses on both the technical and non-technical aspects
- Industry/University Partnerships – CSCMP, APICS, etc.
- Annual course review and changes by SCM Advisory Board and faculty.
- Know-Do-Be Model.
Critical Elements of Our SCM Program

- Cutting Edge Concepts
- New Tools
- Emerging Technologies
- Supply Chain Networking Exposure
- Integrated Curriculum
- Practical Applications
- Global Perspective
- Applicable, Quantifiable Experience

Velocity

Visibility

Value
Experiential Learning Component: Key to Aligning Boardroom Needs

- Industry Speakers
  - Real-World Simulations
  - Internships
  - Supply Chain Technology Lab
- Case Studies
  - Real-World Projects
  - Integrated Professional Certifications
  - Competition and Conferences
- Field Trips
  - Global Experiential Learning
  - Job Shadowing and Mentorship
  - Consulting Course
“Companies that make real commitments to corporate social responsibility (CSR) with programs that are focused, meaningful, consistent over time and branded enjoy the financial rewards that come with the hard work”

Slyest 2016

- CSR leadership helps procurement gain
- CSR is a critical component of managing risk
- Categorize suppliers based on CSR qualities
- Proactively monitor supplier performance on CSR criteria
- Marry CSR initiatives with supplier development and collaboration
- Make CSR a priority in supplier risk management
- Supplier intelligence is the key to supplier CSR programs
Cost Management as a part of Strategy
Financing in the Supply Chain

Buyer-Supplier Payment Dynamics

Suppliers need cash to pay for raw materials, manufacturing labor and operating expenses.

Buyers prefer to extend payment terms and hold cash to optimize working capital.

Supply Chain Finance attempts to relieve buyer-supplier payment tension, by enabling both parties to set the terms they prefer.
Supply Chain Finance Example

1. Buyer issues purchase order
2. Supplier delivers goods
3. Supplier invoices buyer
4. Buyer approves invoice for payment and sends confirmation to bank
5. Supplier offered early payment discount
6. Supplier accepts early payment
7. Bank funds early payment to supplier
8. Buyer makes payment on original due date or extends payment terms
STANDARD VERSUS DYNAMIC DISCOUNTING

Standard: 2% 10 Net 30

Dynamic Discounting with Sliding Scale
PURCHASE - TO - PAY CYCLE
PROCUREMENT TO PAYMENT PROCESS

ORDER - TO - CASH CYCLE

SUPPLIERS ➔ COMPANY ➔ CLIENTS

FINANCIAL WORKING CAPITAL
ACCOUNTS PAYABLES

FINANCIAL WORKING CAPITAL
ACCOUNTS RECEIVABLES

PHYSICAL WORKING CAPITAL INVENTORY
Who Is best positioned to perform activity?

Remove redundant and less efficient suppliers.

Streamlined Supply Base = Competitive Position
- Lower unit prices
- Reduced overhead through simplified purchasing
- Greater visibility of supplier operations and capabilities
AlliedSignal’s automotive sector saved $28 million.

Chrysler Reduced its supply base from 2500 down to 150 with 20-40% lower cost of developing a new vehicle.

Donnelly’s centralized purchasing activity saw a 5.2 percent reduction in projected material costs, a 25 percent improvement in supplier quality measures, and was on target for a 50 percent reduction in the size of its production supply base.

Harley-Davidson reports it cut its supplier base from 4,000 to 800 and shaved $40 million off its materials costs since 1996.
John Deere – Horicon Works reports that it studied its $70 million annual MRO spend across 40 North American units, and reduced the number of suppliers from 1675 to 20 and cut costs by 13 percent.

Tennant has deliberately whittled down its supplier base from 1,100 suppliers to 250 active suppliers, with a relative handful (50) enjoying the lion’s share of Tennant’s business.

Since 1998, Whirlpool reports it has reduced its supply base by about 50 percent to leverage volume, improve procurement efficiencies, and reduce overall costs.
An optimal procurement strategy likely involves creating different commodity based strategies that employ a range of relationships along a continuum. Segmentation helps to identify key commodities and the level of relationship that should be employed. The goal is to have the right relationships with the right suppliers. The intensity of relationship increases with the amount of spend, as well as the commodities strategic importance to the firm.
The probability of occurrence multiplied by the consequences.

The implementation of strategies to manage everyday risk and disastrous risks along the supply chain based on continuous risk assessment with the objective of reducing vulnerability and ensuring continuity.
Creating a Culture of Trust with Suppliers

A continuum of trust

- Little activity beyond this stage
- Co-creating
- Collaborative
- Strategic alliances
- Cooperative
- Operational partnerships
- Strategic partnerships
- Compliant
- Confrontational

Value created vs. Mutual trust
Emerging Technology (IoT)

- **Predictability – Demand, Maintenance, Service**
  - Oil Pipeline: Monitor run time of motors and generate preventive maintenance after X hours
  - Oil and Natural Gas: Monitor compressor runtime, meter readings and filter changes
  - Oil and Natural Gas: Meter Readings of offshore platform

- **Adaptability – Visibility, Responsiveness, Agility**
  - Power: Monitor assets in remote locations such as electrical substations, collect data for monthly reading such as pump/motor hours or temperature
  - Mining: Truck speed and fuel consumption

- **Innovation – Product, Process, Service**
  - Medical Device Manufacturer: Embedding IOT products to alert of patient issues
  - Automobile: Embedding sensors in cars to alert of needed service

- **Alignment – Goals, Measures, Performance**
  - Health and Beauty: Production rates, completions, meter readings
  - Natural Gas: Monitor equipment usage to determine performance

- **Sustainability – Energy, Safety, Regulatory**
  - Food and Beverage: Temperature of the HVAC for safety of finished products
  - Consumer Products: Regulatory and environmental monitoring
Many world-class procurement organizations are investing in cloud-based applications and services.

Cloud-based infrastructure and applications, virtual business and technology networks, and business analytics are coming together.

This convergence is creating opportunities to apply digital technologies to transform service delivery.

The research found that world-class procurement organizations spend 23 percent more on technology per staff person, and the investment yields productivity gains at world-class procurement organizations, including 71 percent lower cost per order than typical companies.

A high use of automation also allows procurement staff to devote more time to talent development and business performance-related activities.
“If you can’t describe what you are doing as a process, you don’t know what you’re doing.”

– W. Edwards Deming
3 Basic Strategies

- Working innovatively and collaboratively with suppliers and stakeholders/business partners to identify opportunities for supply chain improvements.

- Measuring every aspect of procurement from source to pay and where possible, benchmarking against similar organizations.

- Creating a formal Continuous Improvement Team / Working Group to regularly meet and review on-going initiatives and identify new opportunities.
Conclusion

Procurement is at an exciting juncture. The figure below summarizes the complexity and reality of the current and future procurement. Are we as Procurement Professionals and Academicians ready to accept the challenge?

We wanted to gain insight into the challenges facing procurement executives around the world… to learn what strategies and initiatives they are undertaking.

Key Questions

• What is your procurement strategy? Are you working towards a common goal or are you driven by what you’ve done in the past?

• Are there opportunities for greater coordination, integration and collaboration between your supply chain functions and with your global network of partners?

• Are you facing a talent shortage in your organization? How are you dealing with it?

• Is our supply chain at risk? How are you mitigating your risk or managing it adequately?

• How are you exploiting data and technology to its fullest extent?