



Global Chief Procurement Officer Survey 2010:

**Achieving sustained business value
through procurement**



Prepared and edited by

Adrian Penka	Capgemini Consulting, US
Bryan Garcia	Capgemini Consulting, US
Hamish McKechnie Sharma	Capgemini Consulting, UK
Mark van den Berg	Capgemini Consulting, Netherlands
Sanjeev Itagi	Capgemini Consulting, India
Stefan Becker	Capgemini Consulting, Germany

CTPO

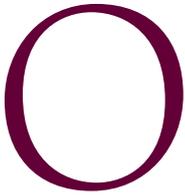
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Global Chief Procurement Officer Survey

Foreword



Over the last couple of years, the business world has witnessed unprecedented challenges due to the global economic meltdown, with many organizations across the globe having struggled to survive the tough economic conditions. With revenue

performance under pressure, companies continue to place significant expectations on driving deeper and more rapid cost reduction, as well as operational efficiency improvement initiatives to support their balance sheets.

Now, as the economy starts to show signs of recovery, particularly in some sectors, organizations are at a cross-road. They need to strike a balance between capitalizing on the initiatives that were born out of the recession and setting a strong platform for future growth once the economy has fully recovered.

Procurement at the moment enjoys a leading role in cost reduction, bottom-line improvement, and budget impacting change that continues to draw the limelight in supporting both recovery and growth alike. However, this may be short lived. As budgets become more generous, Procurement faces the risk of fading from the limelight. However, by focusing on delivering growth and innovation, Procurement can cement its leadership position and secure its place in the CEO's agenda.

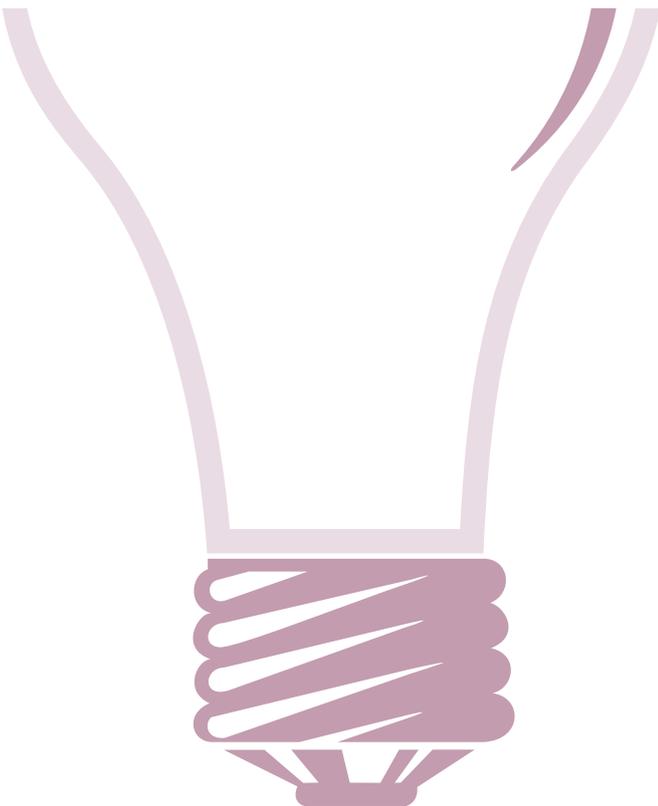
This fourth Chief Procurement Officer (CPO) survey marks Capgemini Consulting's continued efforts to

understand the trends and issues affecting Procurement executives across the globe. We have now conducted in excess of 750 interviews over the past four years, and this edition continues to provide peer-based insights for executives on macroeconomic issues and trends across the Procurement profession.

Capgemini Consulting surveyed over 150 global companies worldwide during the course of this year's research – respondents consisted of CPOs and senior supply chain leaders. These enterprises represent a diverse cross-section of most business sectors including manufacturing, financial services, energy, utilities, retail, public sector and telecommunications.

In this report, we provide insights of the survey, a perspective on the aftermath of the recent economic recession, emerging trends in the Procurement function, and thought-provoking articles on where the industry is headed both professionally and through sheer necessity. – we hope you enjoy the read.

Capgemini Consulting would like to take this opportunity to thank each participant for their time, contribution, openness, and candor regarding their issues, areas of focus, and future plans.



Adrian Penka

Global Procurement Transformation
Practice Leader
Capgemini Consulting

Roy Lenders

Global Supply Chain
Practice Leader
Capgemini Consulting

CIPPO

A note of thanks....

Capgemini Consulting would like to extend its thanks to the senior Procurement professionals who made time to participate in the Global Survey. Without their cooperation and support, research of this nature would have not been possible.



Global Chief Procurement Officer Survey

Participating Companies and Organizations

Participating Companies and Organizations

AB Svenska Bostäder

Acea

Air Liquide

Alessi

Alstom Transport

AMB Generali

APG Groep

Artsana

Astellas

Atlas Copco

AVL Emission Test Systems

AZ Damiaan

Barilla

B-Bridge (Randstad)

BD

Belastingdienst

BNP Paribas

Bouygues Telecom

Brookshire Brothers

Capgemini

Caraustar

Chryso Italia

Claas

Coca Cola

Cofely

Consip

CZ

Danone Waters

Dansoff-Bauer

Destia

Deutsche Post DHL

Duni

E.ON

ECCLESIASTICAL INSURANCE

Elisa Corporation

Eneco

Finmeccanica Group Services

GAC Antwerpen

GDF Suez

H. Lundbeck

Hewlett-Packard

HMH

Hydro One Networks

ISS Facility Services

Itella Corporation

KCOM

Kemira Corporation

KONE Corporation

Konecranes

Koninklijke BAM Groep nv

Lafarge

Lantmannen

L'Oreal

Luxottica Group

Participating Companies and Organizations

LVMH Group
Mattsson Metal
Metropolitan Police Service
Metso Oyj
Metso, Mining and Construction Technology
MITIE
Nokia Corporation
Nordkalk
NS
Numonyx
Nynas
OCMW Gent
OMV Petrom
OP-Pohjola Group
Pages Jaunes
Pirelli Tyre
Provincie Antwerpen
Provincie Vlaams-Brabant
Prysmian
RWE
Siemens Healthcare
Skatteverket
SKF
Smit
Snam Rete Gas
Sophus Berendsen
Southwestern Energy
S-Proserve Erste Bank
Stad Gent
Stad Leuven
Stadsbestuur Kortrijk
Stora Enso
Stork
Suomen Lähikauppa Oy
Swiss International Airlines
Syngenta
Takeda Pharmaceuticals
TATA Steel Group
TDF
Telecom Italia
Tessengerlo Groep
Thomas Cook
TOTAL
Toyota Material Handling
Toyota Motor Europe
Treves
Turbomeca
Unicredit Bank
UZ Gent
Vodafone
Webster Bank NA
ZNA

And many other companies and organizations that wished to remain anonymous



Global Chief Procurement Officer Survey

Executive Summary

This year's study assesses Procurement a year after the global recession took hold, to see how Procurement executives handled the demands of their sponsors to maintain the double-digit savings targets required in a failing economy.

Unsurprisingly, this was not the only task expected of Procurement since the recession began. The study also assesses how those same executives were challenged to adjust Procurement's position in the organization so as to be recognized as a key player in the strategic direction of the company, regenerate top talent to contribute to the new requirements of Procurement's role, as well as attempting to position their organization to contribute to objectives beyond cost cutting.

So what has changed since our last survey 12 months ago? What is clear is that there is still significant uncertainty over the economy's direction. Experts have diametrically opposing opinions, with some claiming that the economy is improving while others claim that we face a double dip recession. So what does the Procurement community think? When asked about their opinion on the recession and a possible future recovery, 65% of respondents felt that the economy is showing signs of recovery, although they remain uncertain as to the time it will take to move into a 'business as usual' environment. Indeed, almost 30% were of the opinion that the economy is still very much in recession and that their industry faces substantial challenges.

Let us assume for a moment that the optimists are correct. If that is the case, then the behavior of most Procurement organizations seems to be slightly misaligned. For example, our survey clearly indicates that far too many Procurement organizations are primarily focused on cost reduction through negotiations on price. One needs to look at the Key Performance Indicators (KPIs) section of the report to see that the most important KPIs are related to control and savings, e.g. spend under control (1), supplier performance (2), Procurement ROI (3) and compliance (4). Where is all the focus on innovation and bringing growth to the company's top line? If the market is on an upward trajectory, there are two key truths that Procurement must ready itself for. One is that prices will not be so easy to slash, and simple negotiations will not yield the quick savings of last year. The other truth is that Procurement organizations will not find every business stakeholder clamoring for Procurement's services. When budgets are healthier, cost savings are less of an issue for the business stakeholders that Procurement serves.

This raises a question: if Procurement is seeing the world primarily through the lens of cost cutting, rather than achieving their deeper potential to operate through a lens focused on total value, are they at least organized so that they can take on a more strategic role when the economy starts to strengthen? Our findings are encouraging and show that

Procurement is better positioned to be more strategic. From the reporting structure perspective, around 70% of respondents said that they now report to the board room within their organizations, and one out of four respondents reported directly to the CEO or head of their business. The last few years have seen a subtle trend where Procurement is maintaining their support of the CFO's objectives, while shifting their alignment to the CEO, which signals a focus on more strategic objectives.

If Procurement does not seem to be operating with a focus on value, but it has the strategic alignment to do so, is Procurement at least aware that the expectations of their organization may be changing? We have found that the answer is yes. Almost 80% of our participants responded that top management expected them to improve the overall value contribution of Procurement. This means that Procurement will need to shift the focus from short-term cost cutting to long-term value-based relationships with suppliers, in order to drive deeper savings throughout the supply chain and to bring true innovation into the company, allowing for top-line growth as well as continued bottom-line reduction. This will require new skill sets, such as the ability to understand market mechanisms and the macro- and micro-economic influences in the end-to-end product supply chain. Procurement can then translate this understanding into opportunities to reduce risks and contribute to other corporate objectives, such as growth and corporate responsibility.

In order to help executives tackle some of these challenges, we have developed a series of articles under the banner of 'Insights and Intelligence' at the end of this report. These articles examine some of the key strategies and approaches that executives can employ to ensure Procurement drives the strategic agenda. In order, they look at:

- Building a collaborative relationship with the CFO
- Establishing and delivering longer-term strategic objectives through data, technology, processes and talent
- Building the right organization and operating model
- Extending influence into service spend
- Employing procurement-as-a-service to transform the organization
- Understanding best practice in procurement performance measurement
- Using Lean procurement to remove barriers to innovation.

By tackling these issues, Procurement can redefine the value it brings to the organization.

Reading the Capgemini Consulting 2010 CPO survey will highlight how Procurement executives define value, and what they are doing to modify their objectives to deliver the new value - beyond cost cutting - that organizations are poised for a recovery desire.



Global Chief Procurement Officer Survey

Aftermath of the Global Economic Meltdown

Considering the significant impact of the global economic meltdown and the recent signs of recovery, a section of Capgemini Consulting's 2010 survey was aimed at:

- Assessing Procurement leaders' perceptions about the current economic climate.
- Formulating a view on companies who used the recession as an opportunity for growth and those who just tried to stay alive.
- Understanding the strategies adopted by these organizations to become more resilient to such global economic upheavals in the future.

We asked the Procurement executives to what extent the economic conditions affected the Procurement function. Nearly one-third (33%) saw their function highly affected by the economic environment while close to another third (27%) found their function affected to an unprecedented degree (Figure 1).

But, what does it mean to be "affected"? In order to understand, we asked specific questions related to how corporate and business functions place pressure upon Procurement. In our 2009 survey, we observed that the savings target levels had substantially increased, practically doubling in most organizations. This trend continued in 2010 with 40% of our participants being committed to additional savings of 6 to 10% of annual spend, and at least 8% experiencing increases greater than 10%. The ability to support double digit increases year after year must be questioned in light of the current economic conditions. If the economic crisis is truly in its final stages, is it possible to

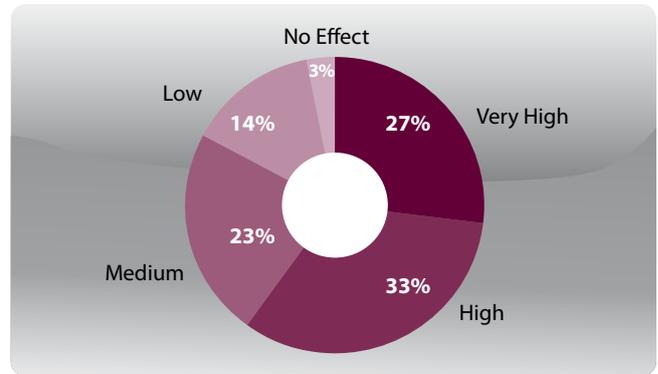


Figure 1: Effect of tough economic conditions on Procurement function

sustain such cost reductions in the face of a potential turnaround?

Beside these quantitative targets, almost 80% of our participants responded that top management expected them to improve the overall value contribution of Procurement. Nearly 60% said that they were asked to identify new sources for cost reductions, while enhancing the overall scope and control of spend. In addition, more than half of the CPOs we talked to stated that Procurement was given the task of preventing/controlling Procurement risks and limiting or avoiding the associated costs of that risk. Looking beyond the expectations of Procurement, CPOs used few key strategies to overcome the present challenges. These strategies are shown in Figure 2.

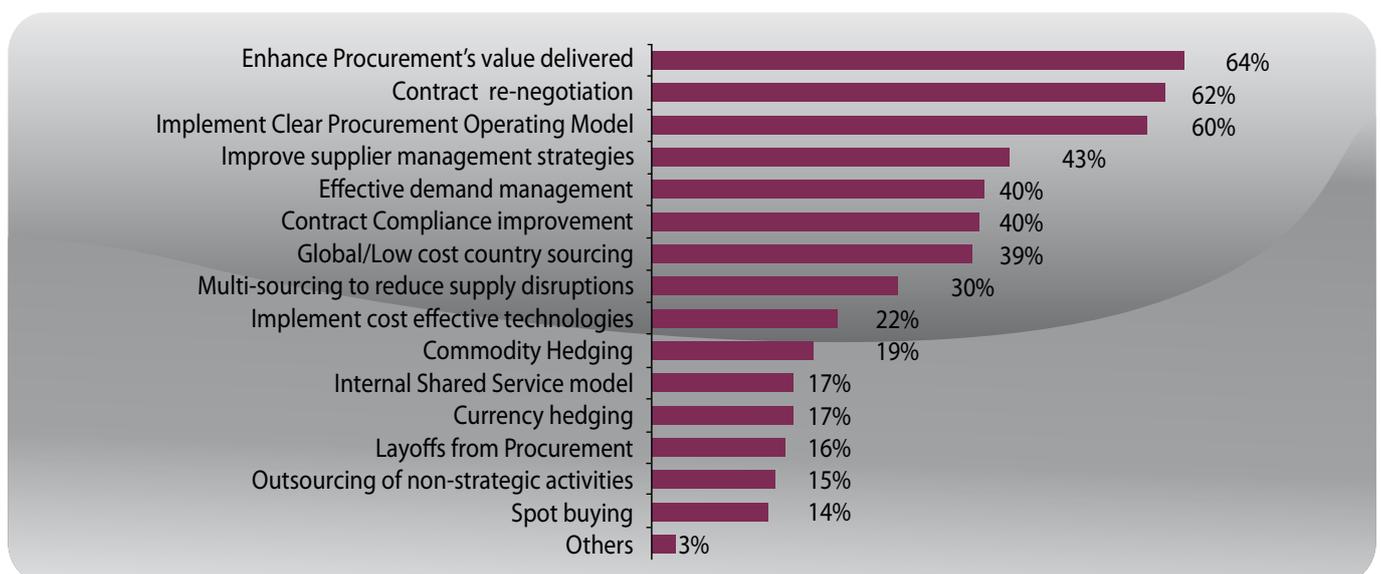


Figure 2: Procurement strategies during tough economic conditions

As was the trend in 2008 and 2009, more than two thirds of the interviewed Procurement executives continued in 2010 to substantially review and re-negotiate contract scope, prices, price indices, as well as respective terms and conditions. This is not surprising considering the continued focus on cost reductions.

However, this pressure on cost will require more innovative solutions. For example, the impact of changing commodity prices on the sourced product needs to be assessed early in the sourcing cycle in order to get ahead of the volatility and use it to Procurement's advantage.

Commodities like oil have always been subject to external factors. The price of a barrel has fluctuated significantly due to the increased demand over the last years, not to mention the impact of the recession, the growing economies in China and India, and several conflicts in the world. Bad weather has caused the price of soybeans and potatoes to rise, causing the price of beef and chips to increase. Even though these examples are very simplistic, it does demonstrate the point that fluctuation can present both opportunity and risk.

These external drivers demand a completely different way of looking at a commodity. It forces the Procurement professional to look all the way down the supply chain to understand which commodities are part of the "bill of material" of the product to be sourced, to understand how the external factors affect the price, and how Procurement can be pro-active to mitigate the financial consequences. This requires different skills and in-depth market knowledge. Oil is used in transport, energy, plastics, medication, food production; a change in the price of oil will have an effect on the cost and therefore price of these downstream products. Understanding of these commodity inter-linkages and mechanisms can not only reduce the risk of volatility but also provide opportunities since benefits can be obtained when commodity prices fluctuate in either directions.

An additional skill of the Procurement professional will therefore be required in this volatile environment. That skill is the ability to understand these mechanisms, and the macro- and micro-economic influences, in the complete supply chain of the product to be sourced, and translate this into opportunities to reduce the risks involved and to further drive down costs. But, the opportunity to drive down costs should be carefully executed. Procurement professionals should look to reduce waste introduced in the supply chain rather than reducing suppliers' margins. Uneducated demands for price concessions that result in lower margins for the suppliers will build unhealthy supply chains.

Educated reduction of waste with appropriate supplier margins will build innovative partnerships.

In addition to the contract renegotiation, two other strategies were utilized to combat the challenges of 2010. First of all, some 40% of the participants initiated further global and low cost country sourcing activities. Encouraged by top management, these companies are now prepared to take a higher proportion of risk in this area than prior to the economic crisis. Interestingly, we did not see the same tendency with regard to the organizational set up. The move to Procurement Shared Service centers, their re-location to near or offshore locations, as well as Procurement Business Process Outsourcing was instituted on average in only one out of five companies.

Managing supply risk was another strategy used to manage the tough economic challenges. Half of our participants worked on reviewing and improving supplier management to identify and manage supplier risks.

Facing a difficult economic environment and challenging targets, nearly 65% of the CPOs utilized management's attention and the ambitious targets in order to initiate a review of the Procurement operating model and the way of working with functional interface partners. Consequently, the move to central Procurement functions has continued, with more than 70% of our participants managing their spend centrally.

Looking back on the past two years, most CPOs have stated that it has been a tough environment consisting of increased pressure on Procurement, but as a positive result, over 60% confirm that economic crisis has left Procurement more of a winner than a loser (Figure 3).

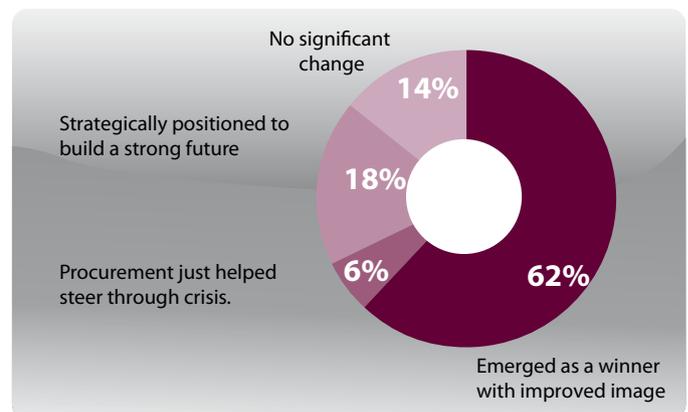


Figure 3: Position of Procurement after managing the crisis

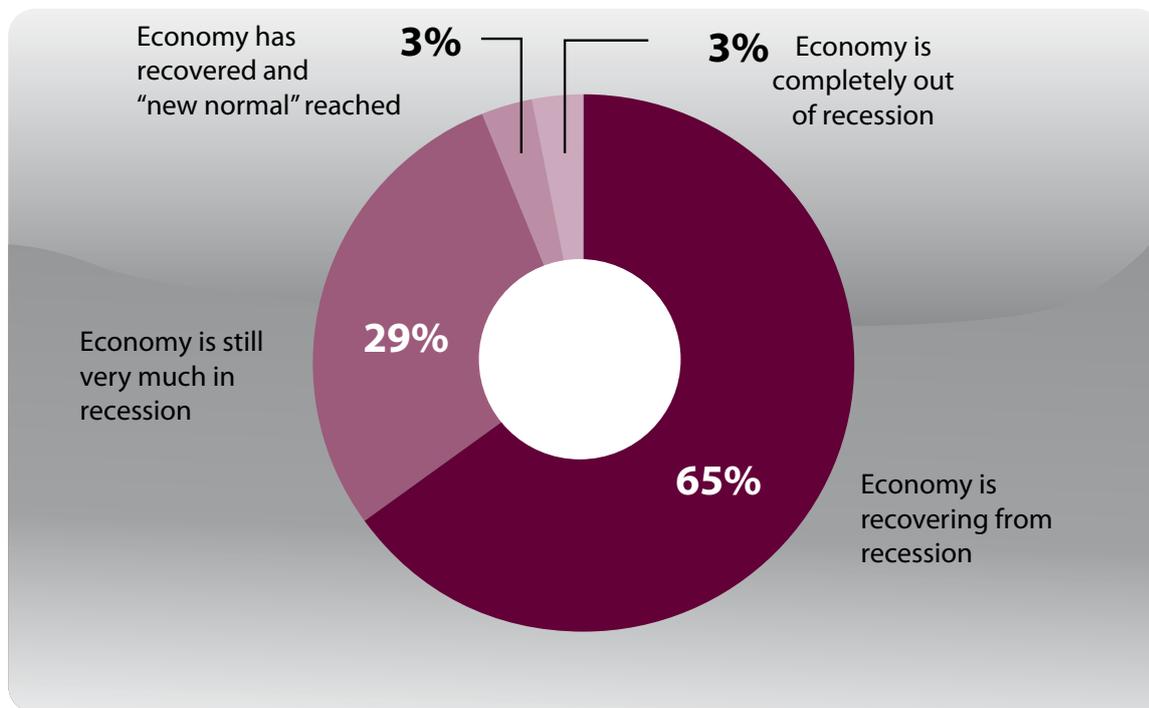


Figure 4: CPOs' opinion on the recent economic meltdown

A newfound position at the boardroom table and the need for immediate action has changed the role and recognition of Procurement and its performance capability in most companies. At the same time, a substantially high number of Procurement managers exploited the given opportunity and initiated the improvement of organizational set up to manage their spend efficiently.

When asked about their opinion on the economic recession and a possible future recovery, a healthy 65% of the respondents felt that the economy is showing signs of recovery from recession, although there is still some time before the perspective moves into a 'business as usual' environment. Interestingly, only six percent of the respondents felt that the economy has fully recovered and that the worst is behind us (Figure 4).

Both effects indicate that caution and moderate optimism is the general feeling of the CPOs. In the aftermath, Procurement has clearly increased its awareness, gained more control over spend, and proven their value to the organization. But, the main challenges in the near future for a Procurement organization are clearly marked: to sustain and further improve its position in the organization, to look for innovative ways to continue to drive costs down, and to stretch its ability to further add value to the organization.

Some organizations clearly spent the year in survival mode, paring back their organization and focusing solely on cost reduction; while other organizations used the year to get ahead of the competition by using the tactics highlighted above and in the remainder of the survey.

Using the key findings of our CPO survey, we will provide some more detail on this subject in the next chapter.



Global Chief Procurement Officer Survey

Highlights from the survey findings

1 Key Procurement performance indicators are still too narrowly focused on cost control and savings

Similar to our earlier surveys, in order to assess the health of the Procurement function, we continued our efforts to understand the development and direction of key Procurement performance indicators.

Based on the survey findings, spend under control of Procurement has increased slightly as compared to last year. For over 70% of the companies surveyed (as compared to 65% last year), spend under control of Procurement was well above 60%. This serves to demonstrate the increased effort of Procurement executives to enhance the influence of Procurement over sourcing and compliance management of non-traditional spend categories to drive down leakage and increase compliance to transactional Procurement. It is this same compliance management and transactional Procurement, which is often seen now as an area ripe for direct transition into outsourcing opportunities.

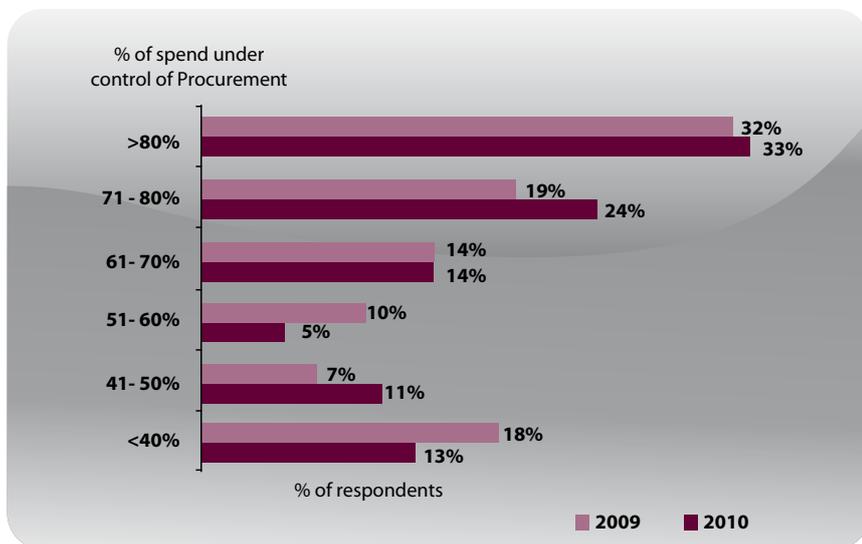


Figure 5: Spend under control of Procurement

To further understand what this increased spend under control means, we asked the respondents to name the major categories that they are responsible for managing. The results show that Procurement functions are now responsible for sourcing many non-traditional categories including services like facilities management, energy, consulting services, relocation services, contingent labor, creative services, print, marketing / promotion etc. This is an encouraging trend and in the long run will help improve the overall strategic value of the Procurement function within the organization.

Thoughts on what “value” means for Procurement executives responsible for delivering it :

“Value creation through commercial innovation, and sustainable and scaleable “Go To Market” business processes. An objective measure: Alignment to the business through supply-side, TCO, and business risk improvement deliverables.” – Head of Supply Chain, Leading Construction Company in Sweden

“Driving continuous improvement through third party relationships that contribute to company revenue/margin growth and protect the enterprise. Delivered through cost, quality, service, innovation, time to market, emerging market infrastructure, risk management, responsible Procurement, etc.” – CPO of a Large Pharma Company

“Savings, lean processes, strategic Procurement” – CPO of a large Energy& Utilities company

“Value creation is a function of the following factors: 1) delivery of the exact product or service, which is required by the internal customer to produce at the highest level of efficiency our final output: the outstanding quality of our product 2) the best possible cost of the product, while respecting the needs of our supplier (i.e. to guarantee the long-term cooperation and stable win-win relationship) 3) at the minimum risk to the business (minimizing/avoiding late delivery, poor quality, financial or social issues on the supplier’s side).”

– Business Unit Finance Officer, Automotive giant in Europe

“Collaboration Drives Value” – James Gurulé, Head of Corporate Procurement – UK, IR, ME, Africa for DHL

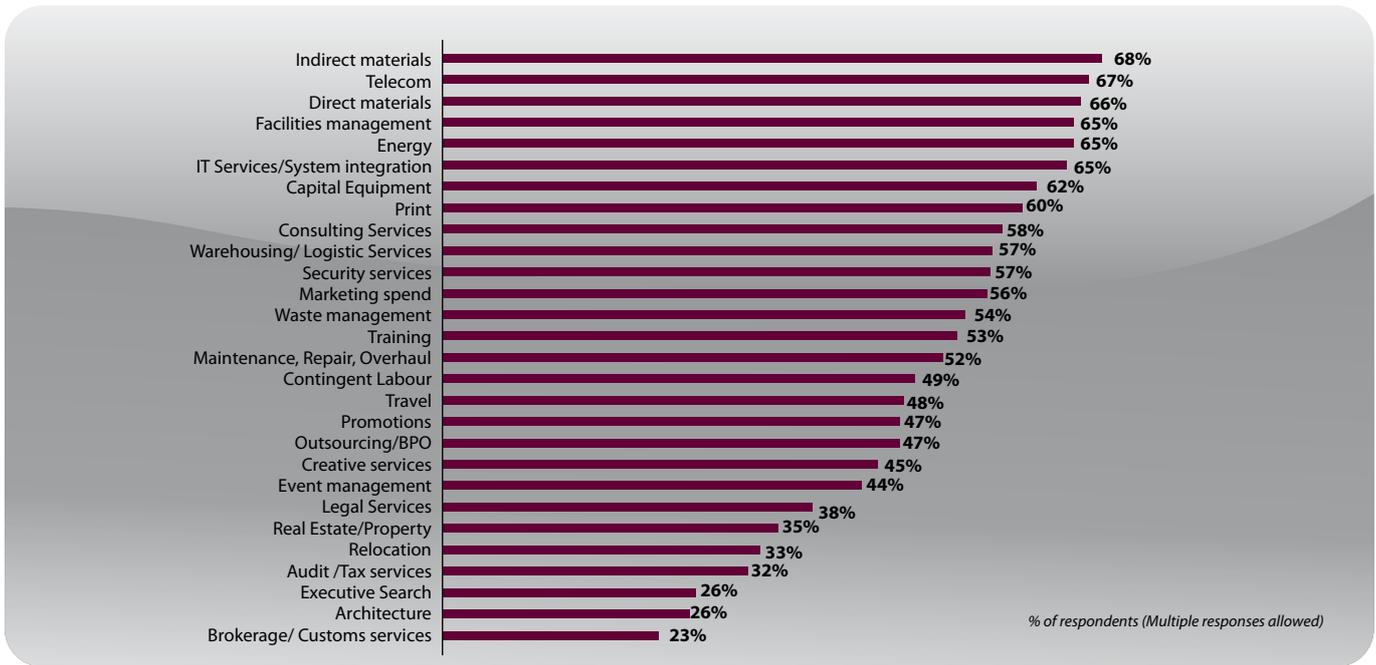


Figure 6: Major categories sourced

“Value to me is anything that helps the company’s competitive situation. It can be cost savings, securing a lower cost level than competitors (despite cost increases...), secure risk management, assisting in new product development, challenging internal mindset, etc. One of the biggest values that we have added, I believe, is to convince the board to accept (very) long term contracts. Our costs have gone up for that category but we have secured our future business and opened the door to innovation.” - Peter Løgtved, Director, Group Sourcing and Procurement, Rockwool International

“Creating an environment to allow the Supply Chain to collaborate with other lines of business (LOB’s) in satisfying their requirements will drive creative thinking when applying policy and procedure. It will make them flexible in aligning to our client’s needs and creating and adding value to the company’s bottom line. Sustainable value cannot be created for one LOB unless it is created for all of them.”
 - Head of Supply Chain Management, Large Canadian Utilities Company

It is also encouraging to see that more and more non-product related goods and services are under control. These are the categories that are traditionally purchased through eProcurement channels or subject to outsourcing, freeing up time and talent to focus on the true value a Procurement organization can deliver to its internal and external customers. In the coming years we will see if this trend continues.

However, one would be remiss in not pointing out the paradox in the data. While spend under control seems to be improving we know that spend cannot truly be under control when more than 65% of the Procurement executives state that less than 20% of their spend goes through an eProcurement application.

Spend under control is, however, not the only indicator that a Procurement organization is performing poorly or well. We already expressed the importance of an increased focus on value delivery. Procurement executives indicated in this year’s survey that the most important strategies to deliver value are a ‘focus on Total Cost of Ownership’ (73%), and ‘proactively designing business requirements through strong collaboration with business stakeholders and users’ (74%).

But what is value?

A CPO who responded to the survey describes the value delivered as: “Driving continuous improvement through third party relationships, contributing to company revenue/margin growth, and protecting the enterprise. Delivered through cost, quality, service, innovation, time to market, emerging market infrastructure, risk management, responsible Procurement, etc.”
 Costs, service to internal/external customers, innovation, risk management, etc. are therefore all indicators that can contribute to Procurement’s performance. This is in

line with the indicated strategies used to improve the perception of the value delivered (see Figure 7).

But, when Procurement executives were asked about the importance of the Key Performance Indicators (KPIs) measured, the most important KPIs are related to control and savings, e.g. spend under control (1), supplier performance (2), Procurement ROI (3), and compliance (4). And, if service to the internal customer is measured by the Procurement organization, this is mostly done by a survey. This is not surprising considering that the focus of the last few years has been on cost reductions.

However, if a Procurement organization truly wants to add value, other KPIs or elements should be included such as:

- Percentage of innovations driven by Procurement coming from the supply chain
- the contribution of Procurement in the sustainable objectives of the entire organization
- Involvement in initiatives; internal collaboration with the business or functions
- Total Cost of Ownership approach
- Or, as the Head of Corporate Procurement for a major Logistics Provider noted, his Procurement organization measures the amount of new business ideas that they develop jointly with the business.

In addition, barely 47% of the respondents mention that KPIs are aligned with business goals and consistently measured. A conclusion can be that in roughly half of the organizations, Procurement KPIs are fully aligned with and integrated in the business and its objectives. Is that a glass half full or a glass half empty view?

As a conclusion, we consider it half full and see it as encouragement for further Procurement involvement and collaboration within the organization. But to drive more value, it is desirable to include more performance indicators that support the measurement of value instead of only focusing on cost and control. Procurement executives must be a bit more bold and stretch the ability of the Procurement organization to execute the strategies desired.

“The Procurement organization measures the amount of new business ideas that they develop jointly with the business.”
Head of Corporate Procurement
 - Major Logistics Provider



Figure 7: Strategies to improve the perception of the value delivered by Procurement

2 Procurement operating models - From emerging to sustaining

Through this survey and our one-on-one discussions with the respondents, it is becoming more and more evident that the Procurement function is certainly on the verge of emerging as one of the key strategic levers within the organization. There is a paradigm shift in the way Procurement is viewed and perceived – a shift from the traditional view of Procurement as a support function that drives cost reduction to a strategic partner that delivers sustained business value.

To understand and elaborate on this further, we asked two types of questions to the Procurement executives– one focusing on the current position of the Procurement function within the actual organization and secondly, the underlying Procurement operating models and organization structures in use to support such a shift.

From the reporting structure perspective, around 70% of respondents said that they now report to the board room within their organizations, and one out of four respondents reported directly to the CEO or head of their business. The last few years have seen an increasing demonstration of the value Procurement can provide and this is clearly shown through the strategic priority that board level management gives Procurement (Figure 8).

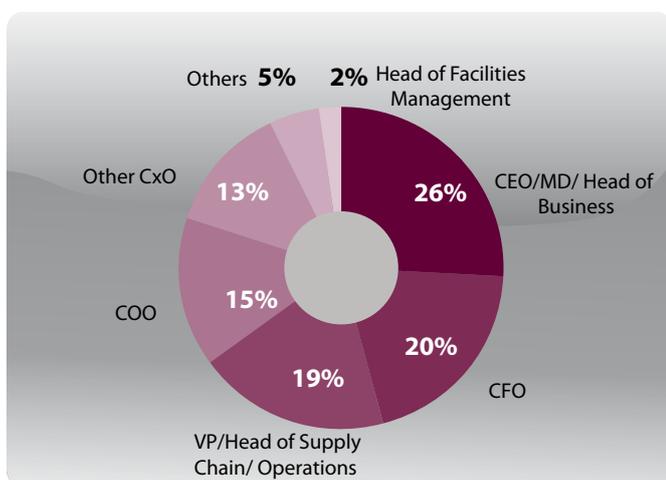


Figure 8: Procurement reporting structure

Further analysis of the underlying Procurement organizational structures and operating models revealed that over 50% of the organizations favored either hybrid or center led models to support them, which combine the features of central direction and distributed execution. However, the centralized model still remains the single major model with around 41% respondents favoring it. As compared to last year's results, Procurement organizations seem to be moving away from a pure centralized model. This trend might be a natural response to the prevailing tough economic conditions and the organizations' need for tighter control over strategies and execution to minimize the impact (Figure 9).

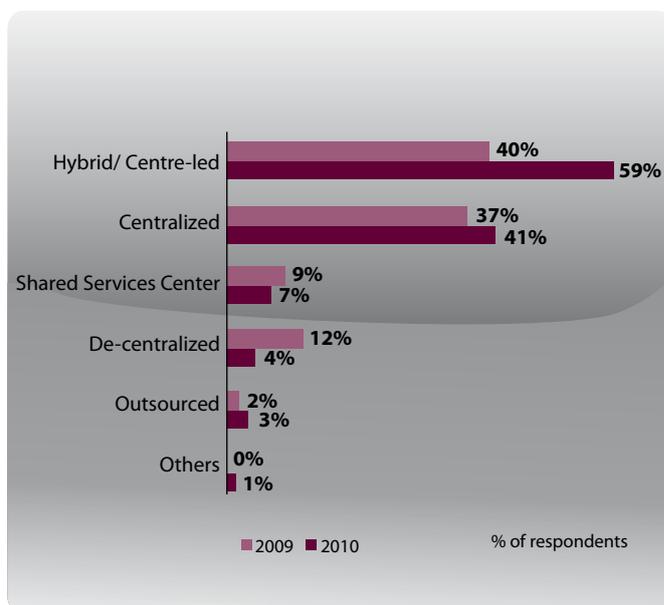


Figure 9: Procurement Organization structure

Another interesting observation, however, is that in spite of the current challenges one out of ten organizations surveyed still favored either shared services or potentially challenging, yet rewarding, outsourced Procurement models. This trend might have stemmed from the need to focus more on strategic Procurement activities and to outsource (internally or externally) the transactional activities to a specialized team to drive improvements in efficiencies and hence reduce the operational costs of the organization.

This is also evident from the fact that, on average, 55% of the Procurement staff within surveyed organizations focus completely on strategic Procurement activities and the remaining 45% focused on transactional activities. We believe that going forward the strategic component of Procurement activities will significantly increase.

3 Cost is important but value is king!

Corporations are facing the consequences of a deep economic crisis, so it is no surprise that cost reduction and cost cutting initiatives appeared at the top of CPOs' priority lists in 2009 and again in 2010.

We were interested in assessing two aspects. First, the savings target levels and their respective development from 2008 when the crisis started, to the present when most CPOs say that the recession is coming to an end. Second, the nature of savings transitioning from a focus on short-term targets to long-term sustainability.

Let's look to the first point. Our 2009 survey showed that in 2008 nearly 70% of the Procurement organizations had a saving target up to 5%, and some 20% of organizations had a more ambitious target between 5 and 10%. Less than 10% of the companies had exceptional high targets beyond 10%. As a consequence of the economic downturn, in 2009 the saving targets were stretched by the boardroom. Logically, the group with rather moderate targets of up to 5% declined to 46% while the group with ambitious targets of up to 10% increased up or doubled to 41% of the interviewed companies. The next group with extreme targets up to 15% increased from 6% up to 10%, as well (Figure 10).

In the first part of this publication (Aftermath of the Global Economic Downturn) we noted that most Procurement executives estimate that in 2010 the economic climate is slowly returning back to normal. Looking at their saving targets, it is apparent that cost reductions continue to be a major focus area as the savings targets remain at the levels of 2009. Of course, we only found extreme targets beyond 10% in about 9% of the companies, but we still found ambitious targets between 5% and 10% in nearly 43% of the organizations.

This brings us to the second point, a deeper dive into the nature of savings, especially as we see savings levels remain unchanged while the economy is showing signs of improvement.

In our 2009 survey, cost reduction initiatives were mainly driven by the immediate need for contract re-negotiations. For example, most CPOs told us that after years of exploding prices for steel and other industrial metals, it was essential to take advantage of the crisis to re-negotiate prices and price clauses for such commodities. Our present survey shows that cost cutting remains important but sustainable value is the real king!

When asked about the direction of their cost reduction initiatives, three fourths of the Procurement executives stated that in 2010 the overall optimization of product requirements in collaboration with business stakeholders is their priority, thus demand management, value based sourcing, and access to innovations. 55% of the respondents consider their suppliers as a partner to assist in enhancing product and service

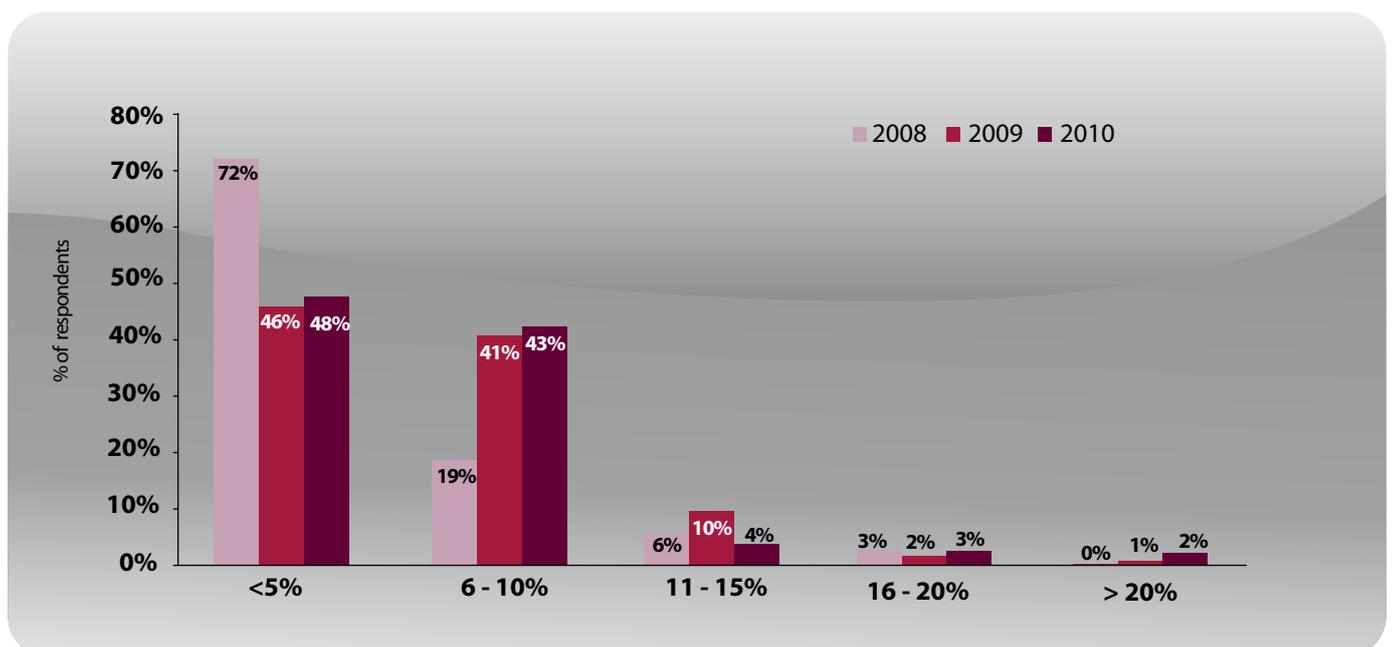


Figure 10: 2008 - 2010 savings targets of Procurement

innovations. More than 73% said that instead of looking just at purchase prices and contract terms, a broader analysis and optimization of the total cost of ownership of products and services are on the agenda (Figure 11)

Obviously, a key learning from the economic crisis in most Procurement organizations is that quick substantial savings can be expected from contract re-negotiations in challenging and competitive markets, but what happens when things turn around? Can a Procurement organization really be expected to continue a path of double digit cost savings in a turnaround market? Maybe, but one thing that also has to be learned is that a focus on long-term, value based relationships with suppliers is equally critical in order to drive deeper savings throughout the supply chain through partnerships. It is these same partnerships with external parties that are also responsible for bringing innovation into the company and growing the top line. A cost focus may be important, but bringing new value into the organization is what will make Procurement king!

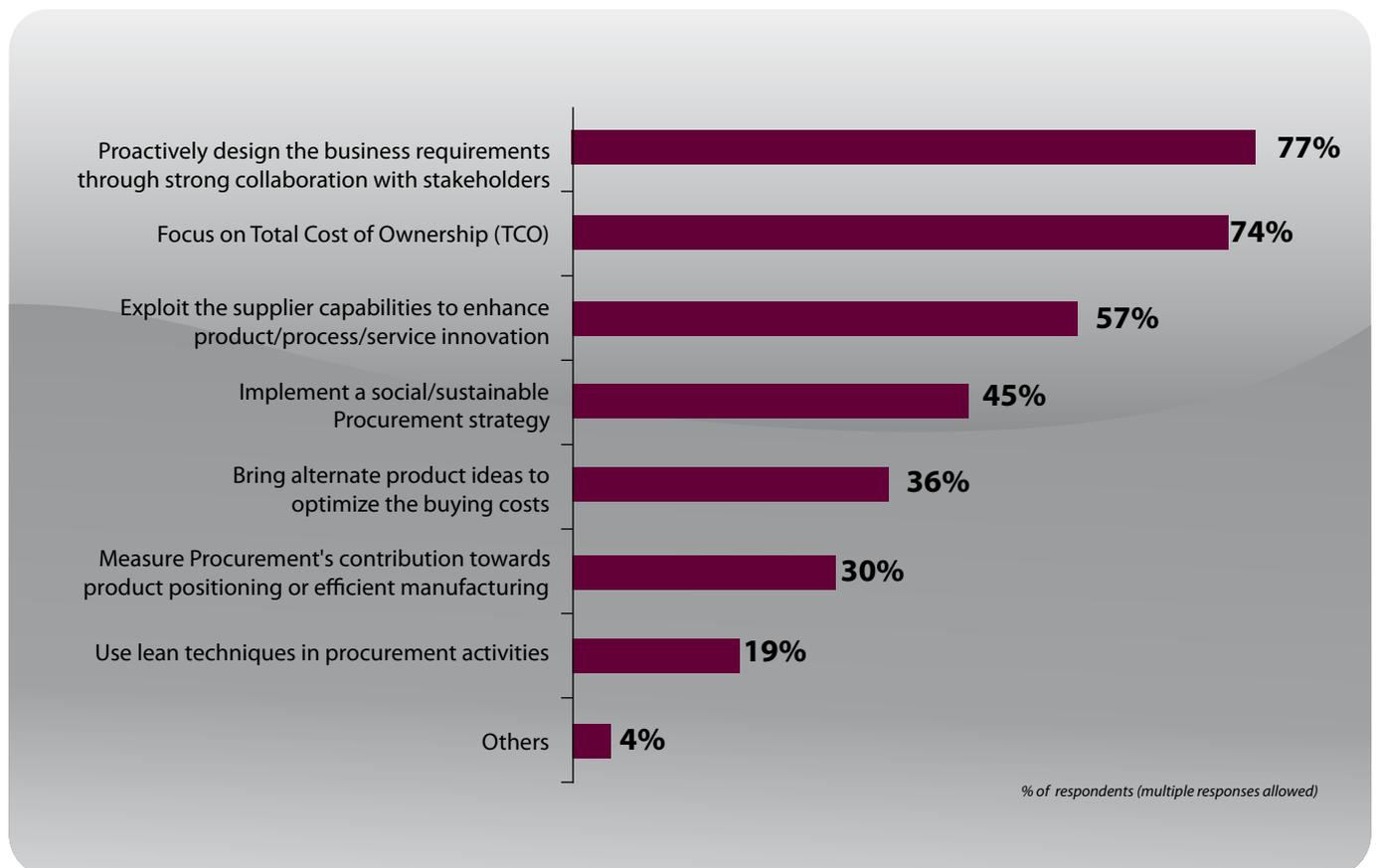


Figure 11: Procurement strategies to deliver value

4 eProcurement solutions remain elusive

Over the course of our earlier surveys we have followed closely the actual penetration, usage and success of eProcurement solutions that include eSourcing, eRFx (request for information/quote/proposal including auctioning), contract management, and transactional eProcurement platforms covering catalogues and workflow solutions.

Surprisingly, usage of eProcurement solutions still faces similar challenges that we observed over the last 3-4 years. Approximately 64% of surveyed organizations still have less than 20% of their spend handled through eProcurement solutions. Looking at the future, around 70% of the organizations confirmed that they do not expect a drastic increase in spend handled through such platforms.

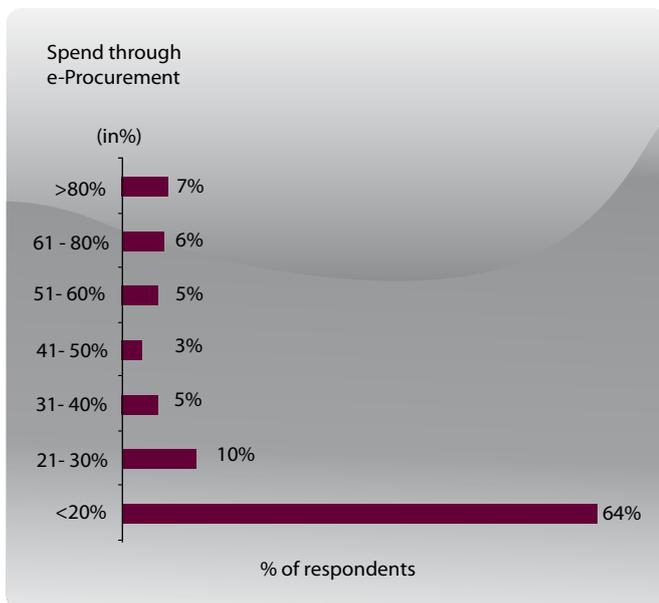


Figure 12: Spend managed through e-procurement channels

This is an interesting observation, especially if you consider the benefits of the usage of eProcurement tools:

- More and immediate visibility of expenditure, which can help in identifying potential savings
- Less maverick expenditure due to contract compliance
- By applying SRM tools in the sourcing cycle, many of the administrative activities are supported like auctions, tenders, etc.

- Optimizing the Procurement process by defining and implementing Procurement channels.

The benefits are clear and proven, so either eProcurement is implemented in organizations and not used, or organizations still use traditional ERP applications.

In the first case, it is likely that the talent or effort required to embed eProcurement into the organization has failed. In the latter case, it is likely that organizations are yet to discover the benefits of eProcurement and it is therefore not surprising that a large amount of expenditure is not being presented in a way that it is useful for the CPO and category managers to manage.

The following strategies can help organizations reap the maximum benefits out of eProcurement initiatives:

- A clear case for action, translated into clear objectives
- A proper understanding of the value of P2P in the context of the end-to-end Procurement process
- A clear vision of the future process and way of working
- Good understanding of the organizational impact
- A clear and approved Procurement systems strategy
- A set of clear P2P policies
- Alignment of all of the above for the key stakeholders of your organization.

Even if the above elements exist, change management to enhance acceptance of these applications is a very important factor as compared to just implementing a technology solution, and the ability to embed change management into both, acceptable cultural practices and 'business as usual', remains a challenge for executives. Indeed the inability to insight change continues to plague Procurement executives' desires to increase compliance and increase the involvement of the various business functions. We would advocate a continued and seeded integration of key employees, sponsors, and management throughout the lifetime of any change that is paired with such a solution.



Global Chief Procurement Officer Survey

Insights and intelligence

We understand that you are busy and have less time on your hands so we have given you an indication of how long it will take to read each of these articles so you can pick the ones that interest you.

1 Achieving sustainable results through effective collaboration of the CFO and CPO

Demonstrating the value and influence that Procurement can bring to the CFO

Hamish McKechnie-Sharma, Capgemini Consulting, UK

Reading Time: 12 Minutes

How many times do we hear that the CFO and CPO of a major organization are not forging an effective enough collaboration? The role of a CPO has now moved beyond just the pure provision of cost reduction effectiveness, compliance resilience, supplier rationalization and performance management. The role is now an integral part of any organizational strategy in delivering continued value to the shareholders, the customers and the public. With economic instability still dwindling during the latter stages of 2010, it is shareholders' appetite for stability and success that drives an increasing collaboration where the CPO's effort in delivering tangible bottom-line value serves as the foundation for CFOs to demonstrate shareholder optimism.

Do Procurement and Finance share the same DNA? To some extent they do, and Capgemini Consulting's 2010 survey has highlighted a number of observations which support the drive for a closer alliance:

- 79% of our CPO survey respondents said that Procurement pressures should be more focused on "improving the

contribution to enhancing the overall value to the organization", which provides clear indication that value from Procurement should be seen as internal through service to the client, and external in terms of widening the gap between revenue and cost.

- A further 70% of respondents highlighted the need to ensure "measurement on Procurement performance in financial terms" which demonstrates bottom line savings as well as top line growth.
- Since the last survey in 2009, 20% of the audience has highlighted the need to increase savings by at least a double digit effort year on year in order to either survive or meet base targets.

With a greater presence of CPOs established as corporate board members across most sectors and industries, the time has never been more fitting than now in leveraging integration for CPOs and CFOs to demonstrate, sustain, and improve growth.

The fundamentals to sustaining the alliance

Listening to over 150 participants from our survey, as well as our varied current client base, there are three core principles that are driving greater synergy for both functional areas: target driven partnerships; an aligned organizational structure that considers changing economic conditions; and the fact that while systems, technology and process remain a focal point, change remains the denominator.

① Target driven partnership

Embedding savings into financial based budgets as part of category and strategic Procurement based planning is critical to any form of joined-up thinking and paramount to delivering hard cash across the organization.

Rather than simply apply a focus on savings, Procurement is involving the wider organization through the customer to whom the service is provided. The targets remain those of the business, and whilst a shadow target may exist, the only reasonable and sustained manner in which Procurement can demonstrate value is through early adoption and acceptance with the customer. In some organizations, a lack of both understanding and communication as to what Procurement can bring and how it can help drive better reporting for Finance is a clear indictment of how some multinational organizations continue to operate. As one global manufacturing CPO highlighted during the course of the survey, **"I often hear that Finance owns the budget and they should determine how it is managed, so what value does Procurement provide?"**

The importance of savings transparency should not be underestimated. An approach that allows for measurable and



traceable savings from inception through to delivery is fundamental. This ensures clarity throughout the whole process for any form of saving and significantly involves Finance from the outset where the core governance principles can be agreed prior to embedding these across Procurement, Finance and the organization. Ensuring these are both flexible and adaptable to changing organization or economic conditions is important and as such it would be prudent to review these periodically, most likely at the start of each financial year.

This approach should not be seen as reducing an area of expenditure through demand management practices and plugging an area of overspend, although admittedly this is an increasingly common practice. Starting with a clear set of organizationally agreed upon definitions as to what constitutes a saving (e.g. cashable, cost avoidance etc.) and how this is budgetarily treated provides a basis for both integrity and pragmatism. In turn this ensures the portfolio of Procurement based opportunities are owned by Finance, Procurement and the business. Importantly, however, it

“I often hear that Finance owns the budget and they should determine how it is managed, so what value does Procurement provide?”

- CPO of a Global Manufacturing Company

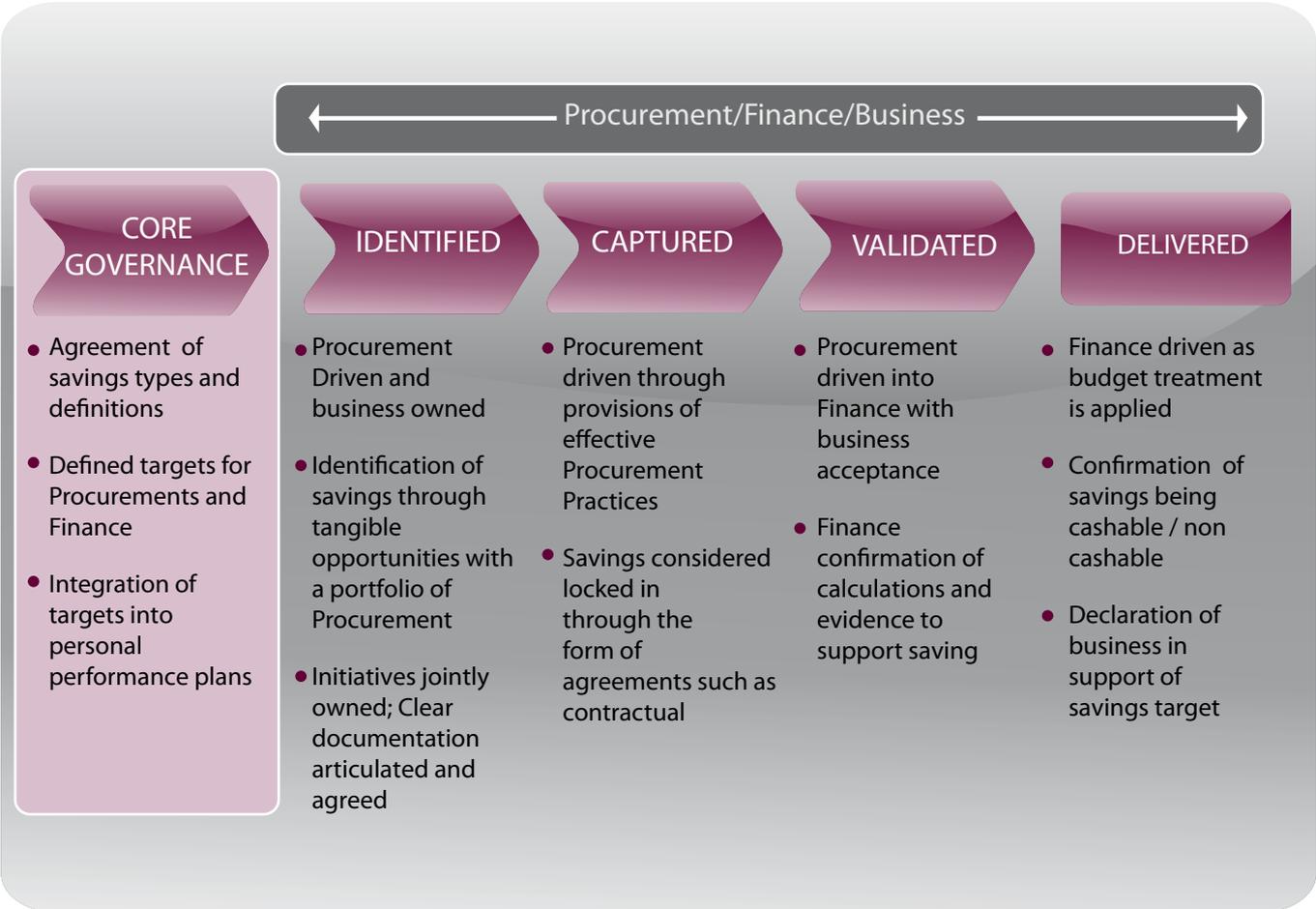


Figure 13: Method of benefits management

avoids the need to have disputes further into a financial year when all too often savings cannot be agreed or worse still are ignored and lost.

Furthermore, the need to address department performance against savings targets needs to be driven through and built into personal performance plans for employees – but how easy is this to implement in practice? Put simply; it is not. One of the more common ways in achieving this has been to drive greater discipline and rigor in how Procurement, Finance and other integrated areas operate. A recent discussion with a number of CPOs has highlighted that to do this effectively, and have this sustained, requires up front transparency in all Procurement based savings and opportunities. While Procurement can provide value, it is Finance who must agree to the savings as they apply them, and it is the business who signs them off as it is their budget that is ultimately reduced.

Just under 70% of our survey participants highlighted the need for Procurement to forge a **“greater collaboration with internal customers in order to improve the perception of value generated by the Procurement function”** including Finance.

CPOs must ensure that Procurement engages strongly with business units to allow a comprehensive understanding of business needs and encourage the development of targets, which are aligned and focused on revenue, cost, cash flow and profitability.

Conclusion:

Involving Finance in the process of defining and establishing savings from point of identification is crucial. Showing Finance exactly what the savings are and how they affect the bottom line ensures Procurement has Finance involved in the wins that it is making. The common thread of both parties is working together for the interest of the shareholders and, simply put, savings should be achievable, proactively managed and more sustainable.

② Aligned organizational structure that considers changing economic conditions

Whilst board-level sponsorship for Procurement is often represented by the CFO (40% based on survey findings), there is a growing trend to provide autonomy and leadership on both fronts to further illustrate increased value from Procurement, which is continuing to demonstrate a greater breadth of strategic input at board level. Whilst there is often pragmatic sense to have Procurement reporting into Finance in some sectors, there is a clear trend of Procurement being seen as a trusted commercial advisor who can advise across a variety of strategic solutions. As quoted in the

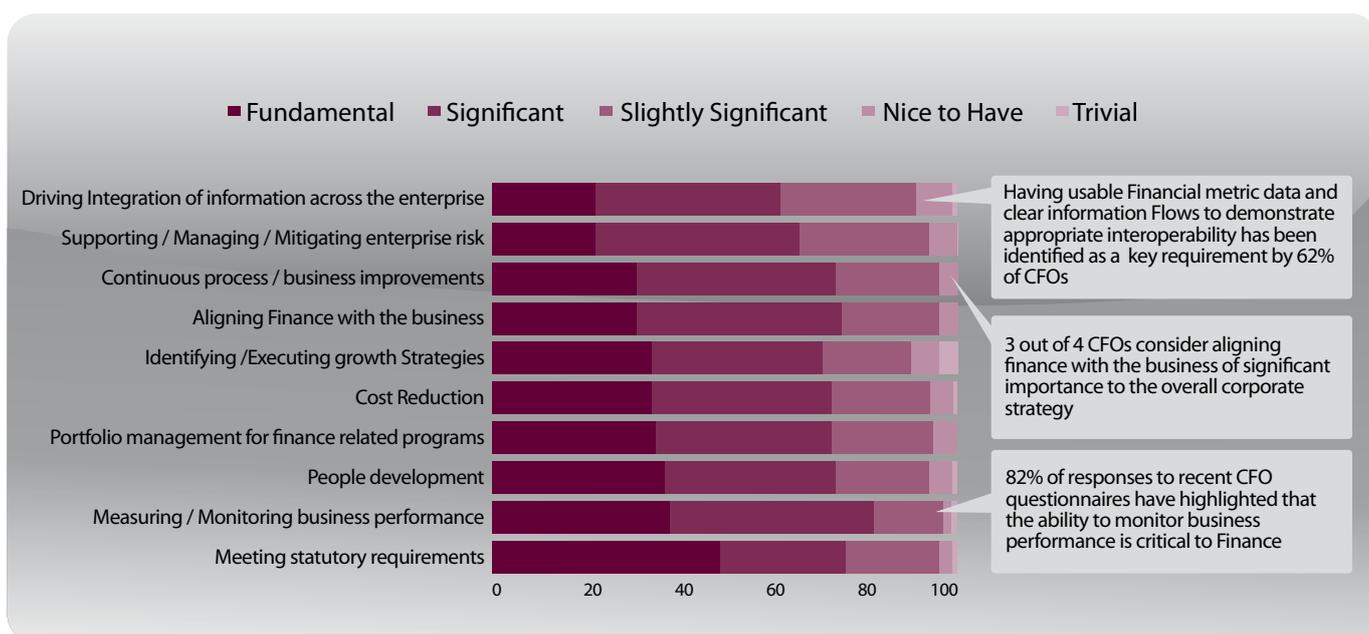


Figure 14: CFO ‘crucial agenda items’ at Board Level, Capgemini Survey 2009/10

'Director of Finance' online forum, a Director for one of the UK-based police forces concurred: "It is a shame that it has taken the current financial situation to bring Procurement to the fore, but there is an opportunity to shape the future of the public sector and bring more of our commercial knowledge into play." Granted, and this commercial presence for Procurement is invaluable if some of the more competitive strategic solutions being touted are to land more effectively and regularly across organizations. This includes areas such as Procurement centralization and outsourcing, emerging market infrastructure and deployment, responsible Procurement, effective commercial-sales models, external collaborations and innovation. Furthermore, CPOs must also work in partnership with CFOs and take the lead in providing monetary understanding across the organization to ensure that Procurement's contribution to company performance is both evident and visible, not only to customers, and the board, but externally to analysts and shareholders.

Our survey has highlighted that some of the strongest sponsors of Procurement are at board-level including the CEO, COO and CFO, where more often than not there is a mutual respect that Procurement can add value to the organization.

Considering the CFO perspective is just as critical. In a separate but recent survey with our CFO client base, the following areas of '**crucial agenda items**' were highlighted. What is evident is the increased focus on stewardship, where 75% of the CFO respondents wanted to see a greater focus on aligning Finance with the business and other departmental areas. With an additional 92% of CFOs expecting the current credit crisis to have the greatest impact during 2010, the time has never been more opportune to converge operations strategically across Finance, Procurement and even the wider supply chain at the executive level.

Conclusion:

Procurement has a part to play at the board level, and while in some cases this is more of an emerging nature, the need still exists. Importantly, however, such a platform provides Procurement with the opportunity for a wider senior audience to support the mandated bottom line cost reduction which can be governed effectively across the Organization. Only once this corporate level of governance is in play (as an integral part of the organizational DNA), can Procurement truly consider it has landed at the strategic level.



"It is a shame that it has taken the current financial situation to bring Procurement to the fore, but there is an opportunity to shape the future of the public sector and bring more of our commercial knowledge into play."

Director for one of the UK based police forces

③ Systems, technology and process remain a focal point yet change remains the denominator

Do organizations design common processes across Procurement and Finance that are then implemented into systems? We would like to think so but few succeed in involving both protagonists from the outset. Take the standard 'Purchase to Pay Process'. We all know this starts with Procurement and ends in Finance (Accounts Payable), but truthfully, are both areas of the organization actively interested in the end-to-end process, or should they be? More often than not the processes are separated out with a focus on invoicing and payment provided to Finance and the purchasing scenarios being driven by Procurement. This is ideal when considering the detail, yet a challenge when seeking to ensure integration and a more unified level of thinking.

Second-generation Procurement-based technology is upon us, whether this is ripping out one solution implemented five years ago and putting in another, or providing real end-to-end systems provision through full Source to Payment technology. Regardless, organizations have a real opportunity to ensure that CFO and CPO thinking is better merged, including ensuring systems are demonstrating integration, compliance, transparency, flexibility as well as harmonization across the respective functional areas.

Interestingly, our survey has highlighted that 70% of respondents have 61% or above of their expenditures under control yet only 67% of this is managed through a formal and effective channeled route to purchase that is system driven. There is still much to do, with one in two responses highlighting that the awareness of Procurement across the organization continues to be a challenge. This provides the base of opportunity to provide a greater understanding and demonstration of value through greater innovation and insight, quality, service, supplier mitigation and increasingly corporate responsibility, thereby allowing Procurement to springboard from the CFO's agenda to the CEO's agenda.

Final reflections

Having recently spoken to a number of CPOs there is no longer a question as to whether a CPO and CFO can work better together, it is more a question of how. Given the drivers and considerations highlighted, we would advocate organizations consider the following as the search for a greater level of momentum at board level for Procurement increases:

- **Adaptability and acceleration.** Stability is no longer a scenario for a CPO. With the volatility of commodity prices, the need to be both flexible and reactive as a

function is critical. Continued integration of processes, systems and technology can and will drive a better joined up value for the business, creating the footprint for an even wider set of supply chain Finance-based growth opportunities.

- **Joint effort – joint results.** The increased effort that some organizations are going through to ensure Finance and the wider business are joined up and supportive of true cashable savings is undeniably worth it. The transparency on the cash position and the more effective usage of revenue and capital is what CEOs, investors and analysts are really interested in.

Conclusion:

The level of change required may often seem greater than it truly is, the core essence for CPOs remains in ensuring an effective business usage of what systems and processes exist to make sure they are fundamentally 'fit for purpose' and applicable to the user base.

2 Maintaining a leading practice Procurement organization – four key pillars for success

Illustrating the continued importance of data, technology, process, and talent in the Procurement function.

Dan Zoltowski, Capgemini Consulting, US
Zach Ettner, Capgemini Consulting, US

Reading Time: 20 Minutes

The world is changing fast. The economy is volatile and the position of companies within their sectors can shift in weeks, not years. Every nation has their examples of disappearing banks, multinationals disposing of less profitable businesses, lay-offs and cost reductions throughout every sector. So what's new you may ask? Well, CXOs need to continuously adapt their organization to the new playing field in order to enable growth in terms of money, competitiveness and competency. And CPOs have a real part to play.

CPOs are also facing these challenges. The constant pressure to deliver cost savings has been the number one priority in the last few years. Quick realization of cost savings may be a short-term fix, but the focus is slowly shifting towards adding value in terms of talent, innovation, sustainability and serving the external customer.

How can one cope with these different drivers? How can the Procurement organization evolve to successfully meet the long-term as well as short-term objectives?

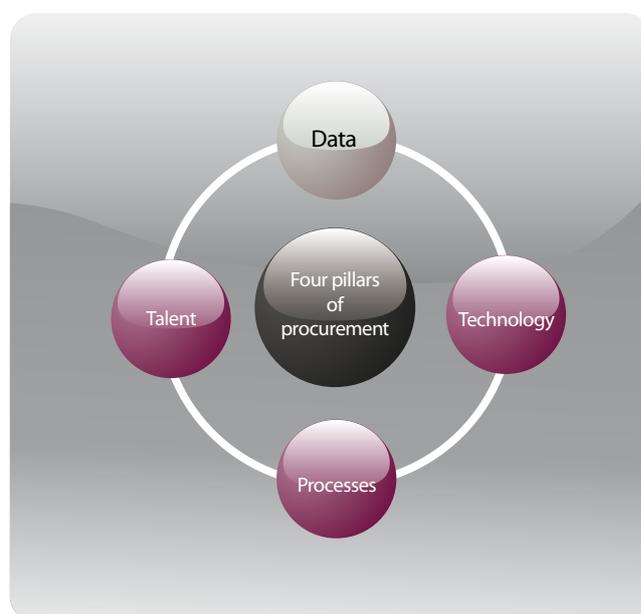
This point of view will explain four pillars which are necessary to successfully operate a leading practice Procurement organization: data, technology, processes, and talent. These focus areas are highly interdependent and, when well integrated, can be pivotal in demonstrating the value of Procurement, delivering costs savings, and aiding top line growth.

Data

“Knowledge is power” – Sir Francis Bacon (Religious Meditations, Of Heresies, 1597). This quote directly applies to a Procurement organization: without proper knowledge on items purchased, the supply market, or spend, you can try to execute a strategy but you will no doubt fail. The ability to collect, organize, and access data is a common challenge within Procurement organizations, but a necessity. Successful data management enables a company to develop accurate and flexible Procurement strategies, identify improvement opportunities, and monitor progress against Procurement objectives. Inadequately

“Quick and accurate data was the key to establishing a clear reporting culture measuring the service provided (e.g. vendor information, delivery against objectives and targets etc.)”

CPO from a facilities management organization



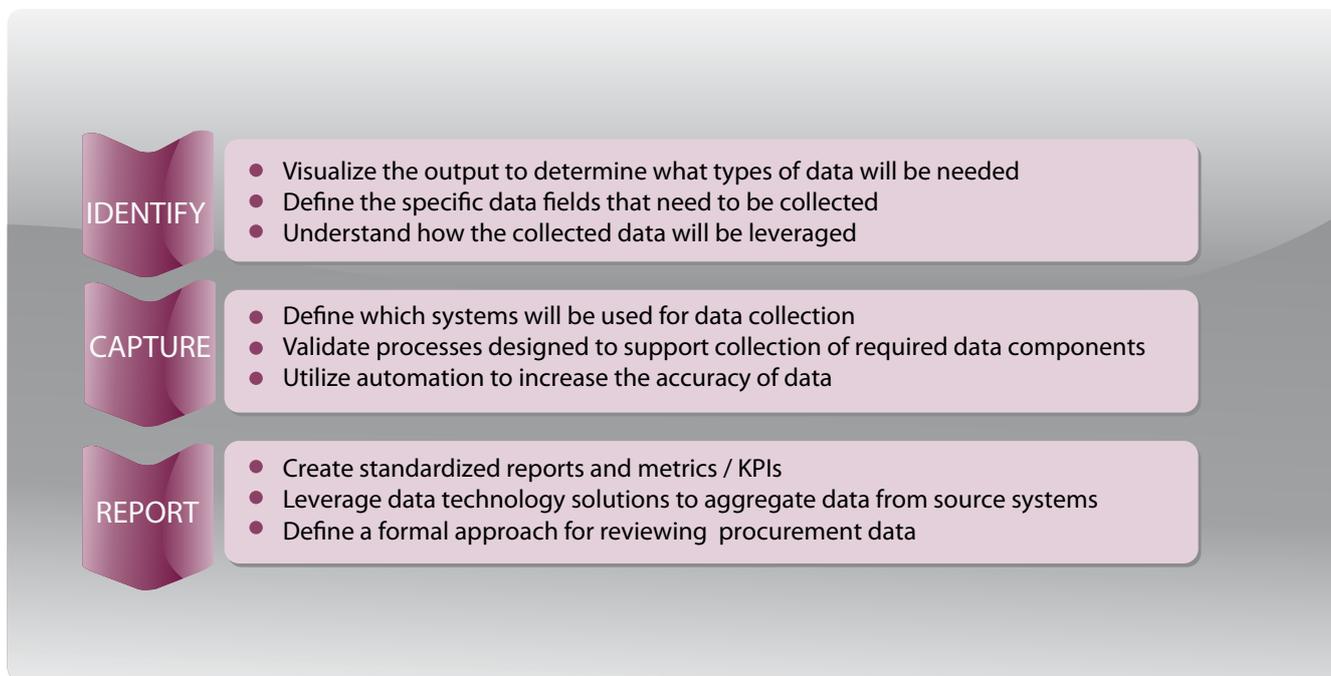


Figure 15: The pivotal three data considerations

managed data can result in lost opportunities to service the business, and to identify and realize cost savings for the company.

Procurement leaders who responded to the CPO survey indicated that improving spend information and availability was the second largest area of focus for their organization during the past year, just behind cost reduction initiatives. The survey results indicate that this is also a key component of 2010-2011 Procurement plans. One Procurement leader from a facilities management organization cited that “quick and accurate data was the key to establishing a clear reporting culture measuring the service provided (e.g. vendor information, delivery against objectives / targets, etc.)”

There are three key areas that Procurement leaders should consider when developing strategies related to data, as illustrated in Figure 15: identifying what data needs to be collected, understanding how the data will be captured, and defining the structure of the data for reporting and review. Figure 15 shows the most important aspects of each of the three key areas.

You could consider this straightforward, so why do organizations continuously fail to develop proper data management? Why does this come back as a point of attention in the CPO survey year after year?

One explanation can be the changing business and technological environment; Companies are merging and

re-organizing frequently and this has consequences for the data sources and who in an organization views the data. Another explanation is the lack of invested time, money and resources in data management due to alternative priorities.

However, knowledge is power and CPOs acknowledge that, so apart from the required investments, what are the key areas of improvement to unlock that knowledge?

Key improvement opportunities

Whilst not exhaustive, the list below contains six critical success factors for effective data management within a Procurement organization which, if considered collectively, will start to address the ability to manage data more effectively across the organization:

- **Stakeholder alignment** – meet with stakeholders within and outside of Procurement to confirm the data fields needed to support future analysis; ensure the necessary data is collected to support Procurement strategies and activities.
- **Data integration** – integrate data from multiple sources to minimize the level of effort required for data analysis. Consider using a data warehousing tool to eliminate design issues that allow data to be maintained in silos. Consider the end-to-end picture while identifying data integration opportunities.

- **Qualitative data collection** – collaborate with other functional areas and suppliers to gather qualitative data to support data analysis.
- **Development of data standards** – create Procurement metrics/KPIs and reports to facilitate efficient data output and analysis; consider reports that can be used to demonstrate the value of Procurement or data that may be useful for other departments.
- **Formalized data review processes** – implement and document a formal structure for reporting and reviewing data - this can help minimize ad-hoc data requests.
- **Ample personnel support** - ensure ample resources are available to support reporting and data analytic initiatives; identify individual responsibilities and incorporate them into job descriptions for Procurement personnel.

Conclusion:

The provision and subsequent ease of access to data remains imperative for any Procurement decisions. In part it is no different to other core functional areas for an organization., however the difference is that Procurement data is often the most critical information to make cost reduction choices, which demonstrates the need to make sure this is duly achieved.

Technology

Technology continues to drive enablement that allows us to focus on what should be deemed 'business as usual'; executing a Procurement strategy, not necessarily just operational activities. It is therefore surprising to see the lack of adoption and usage of Procurement technology (whether Purchase to Payment or Source to Contract) by Procurement organizations and the companies they support.

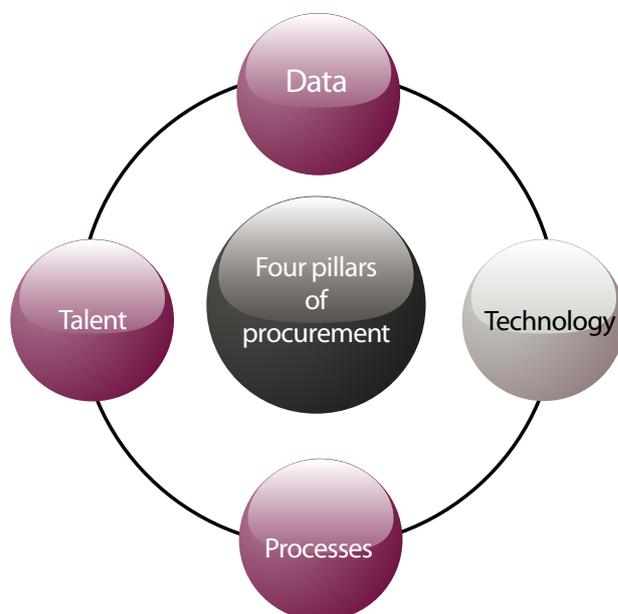
Over 82 percent of respondents to this survey indicated that they expect the total spend handled through e-Procurement channels in their organization to increase in the next year. Additionally, our experience shows that more and more organizations are placing an increased focus on imaging and source to contract management tools, as companies look to streamline processes and enhance data gathering capabilities.

But better spend visibility and source to pay tools are the story from years past. Procurement needs to look towards the future to determine optimal ways to leverage common technology to support Procurement. Ideas that the Procurement department should explore, and meld into the operation, are the use of:

- services such as LinkedIn for networking and recruitment
- Microsoft communicator in order to stay tied into key suppliers, who buyers depend on day-to-day
- web communities (globally within a company's intranet or external to the company on the internet) to share information between a tight web of suppliers and buyers
- blogs in order to trade insights and push your company's agenda (e.g. sustainability, or social responsibility)

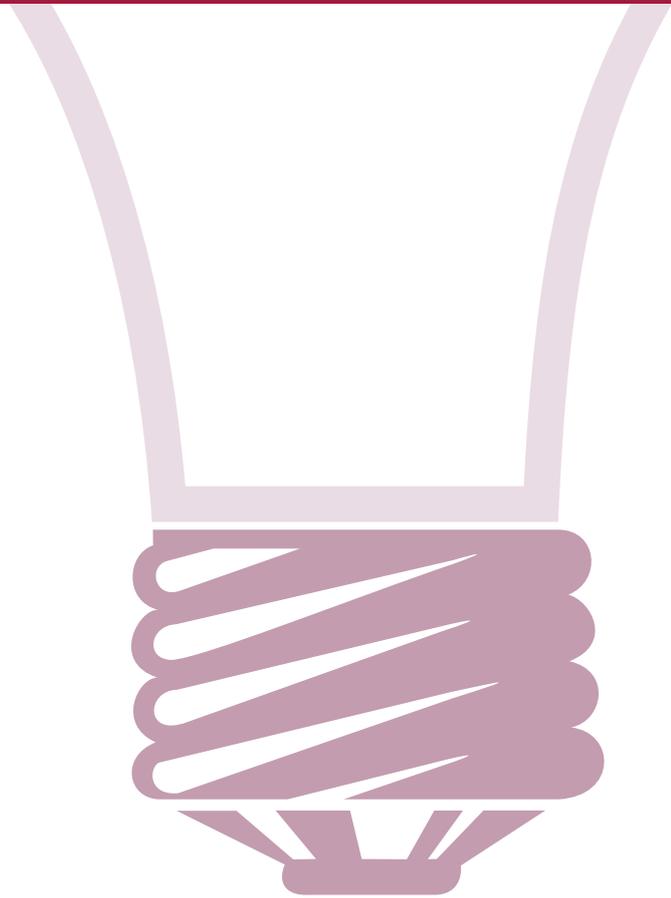
These tools, which may be less frequently found in the Procurement domain, provide an opportunity to drive value across the organization. It will further Procurement's agenda and bring back the argument that the CPO needs to be represented on the executive board for a cross functional view of demand and new corporate requirements / strategies.

It is imperative for Procurement organizations to remember that technology itself is not the sole answer for successful Procurement improvement initiatives – it is without question a very critical enabler, but often only the last part of the puzzle. The correct data needs to be available, the correct processes need to be in place for data collection and analysis, and the right resources need to be trained in order to support and comply with what the system is intended to enforce against. The table on the next page highlights recent trends and common opportunity areas for several Procurement technologies in various stages of adoption.



Below are four common challenges related to technology solutions that we continue to witness across Procurement departments in organizations:

- **Disparate systems across locations and business units** – maintaining multiple systems to execute similar tasks can be costly and typically increases the amount of effort required to aggregate data and monitor compliance. Consolidating Procurement systems, when appropriate, can help enable the standardization of processes and provides a good opportunity to evaluate the benefits of existing systems utilized to support Procurement activities.
- **Poor definition of processes** – a technology solution is only as good as the set of processes defined to facilitate the use of the solution. Any new technology solution should have the appropriate processes defined prior to implementation. Early engagement and buy-in from impacted functional areas will help drive user compliance on the implemented Procurement solution.



Technology Solution	Recent Trends / Common Opportunity Areas
eProcurement	Enable Supplier self-service (e.g., entry of invoices, receipts, etc.). Streamline approval processes for purchases. Utilize purchasing catalogs to further drive compliance (e.g. office supplies).
Imaging/Invoicing	Leverage optical imaging solutions to streamline invoice entry (e.g. Optical character Recognition). Implement invoicing solutions in conjunction with suppliers.
Contract Management	Expand data capture and reporting capabilities to facilitate contract compliance reviews. Leverage additional system capabilities (e.g. clause libraries, version control, and workflow).
eSourcing	Increase use of auction capabilities to drive down costs and extract additional savings. Leverage RFx capabilities to centrally store sourcing related data.

Figure 16 : Common technology solutions and trends

- **Underutilized or mis-utilized technology** – the full capabilities and functionality of a Procurement solution are often not clearly understood or utilized. A clear mapping of business processes to system capabilities and proper business and corporate sponsorship will help ensure that the appropriate system functionality is leveraged. Reporting capabilities should be addressed prior to the system implementation.
- **Insufficient knowledge of implemented solutions** – limited internal knowledge of systems and supporting processes can lead to the ongoing use of a solution that does not meet the business and IT needs of a company. Identification of internal system “champions” can help validate that the appropriate system-related processes are being utilized and the necessary support structure is in place to support Procurement operations.

Conclusion:

As Procurement organizations implement technology solutions to facilitate process improvements, it is absolutely critical that the appropriate considerations are taken into account to mitigate potential issues associated with implementation and ongoing support.

Processes

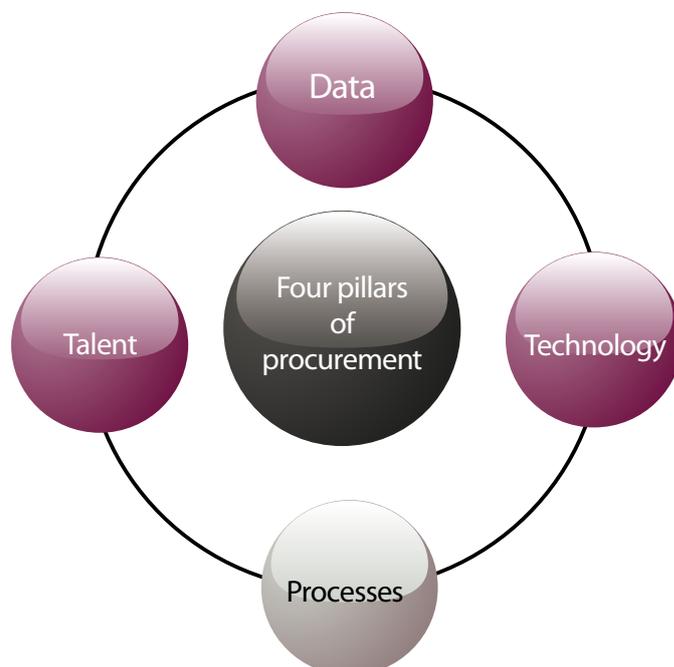
With the data available (to provide knowledge) and the technology to be able to focus on strategic and tactical activities, the next pillar of a Procurement organization is a well defined, clear and efficient process. They provide a strong foundation for an efficient Procurement organization that aims to provide value for the company as a whole. Conversely, poorly designed and implemented processes can lengthen the time required to execute Procurement related activities and can lead to negative impressions throughout the company regarding the value of Procurement. Evolution of a Procurement organization means the continuous adaption to meet internal and external requirements. Therefore, developing and improving processes is a core component of a successful Procurement organization.

Based on experience, there are four key strategies that should be leveraged to develop and successfully utilize robust Procurement processes, as outlined below;

Four key strategies for maintaining robust Procurement processes

1. Engage the appropriate users and stakeholders during process design: It is absolutely critical to engage the relevant stakeholders from all impacted functional areas during process design. Early involvement will improve the alignment between the various stakeholders and functional areas, and will increase the likelihood that stakeholders will contribute and support the designed process. This is a common change management strategy that must not be underestimated. You can prepare the most detailed processes for months, but fail to make it a success if the right people have not been involved. From experience, this is dictated by those individuals that use the processes the most and those that similarly have the right degree of influence across the business. The CPO survey shows the most common strategy used (or planned to be used) for continuously improving the “value delivered” by Procurement is the collaboration with business stakeholders/users to proactively design business requirements. Clear business requirements will facilitate the development of clear and efficient processes.

2. Streamline and integrate Procurement processes whenever possible: As noted previously, technology should make things easier so the Procurement manager can focus on value adding activities. While technology supports a process, if the process itself is not streamlined, effort is often wasted. Any processes should be thoroughly reviewed to ensure each step is a value added activity. Additionally, Procurement is not a standalone function. Demand comes from the internal customer (sales & marketing, production, etc.). R&D may look at innovation



opportunities from the suppliers, Finance looks to control the costs, a shared service department might deal with the invoices and communication, or the PR department may be eager to communicate how sustainable the Procurement organization is purchasing. It is therefore important to look at the Procurement process beyond the boundaries of the Procurement department and see how the organization can streamline and integrate processes whenever possible (e.g. the “Leaning of Procurement”). For example, it does not make sense if Procurement has invoice arrangements with suppliers that do not fit the standardized process of a shared service center. Only by looking at the Procurement process as a whole, can one truly look at the added value of the Procurement department and each associated process. Technology can enable the flow of processes from one system to another (e.g. passing data between contract management and e-Procurement tools), but integrating processes across systems not only creates efficiency, but also links stakeholder involvement with the strategy.

3. Effectively train resources and monitor compliance: It is imperative that suitable training is delivered, especially for Procurement processes that engage other functional areas. Training should contribute to the understanding of why the process needs to be executed and how the process benefits the company as a whole (e.g. upstream and downstream from Procurement). Compliance issues can be directly linked to poor training. If you don’t know how to conduct a certain activity, it is very likely you will not see it through. The Capgemini SRM survey (2008-2009) highlighted that the lack of usage of Source to Pay tools is not so much the result of poor design and implementation, but more a lack of knowledge around the tools and processes themselves. Therefore, compliance should be closely tracked to understand when Procurement processes are not followed (e.g., contracts not generated in the contract management solution, purchases made outside of the eProcurement tool, etc.).

4. Continuously review processes for improvement opportunities: Finally, Procurement processes should be constantly reviewed in order to identify improvement opportunities. The business environment that we are facing requires continuous adaption and therefore an organization should evaluate their processes to determine how they may be updated to better suit new business needs (e.g. the recent legislation brought on by the financial crisis has impacted lease vs. buy decisions). Frequent review will allow Procurement leaders to identify existing pain points and develop strategies to become more efficient.

Conclusion:

Obtaining feedback from all impacted functional areas will ensure that any process changes will positively impact the entire company and not just Procurement.

Talent

The fourth and the most important pillar of Procurement is centered on the quality of Procurement personnel. Without talented people to execute the Procurement strategy, the value obtained from the other pillars may be minimized. How does one attract and keep talent? The CPO survey responses from recent years show that it is a continuous point of attention and does provide some challenges. This section will give some tips on how to manage talent.

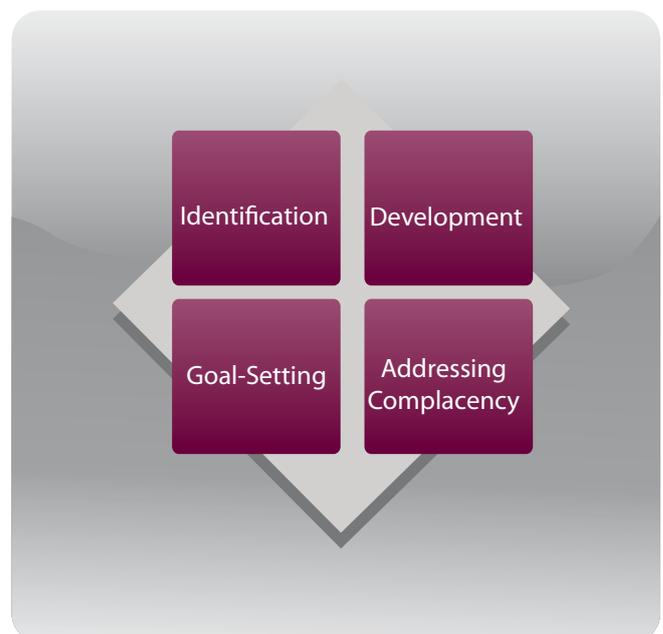
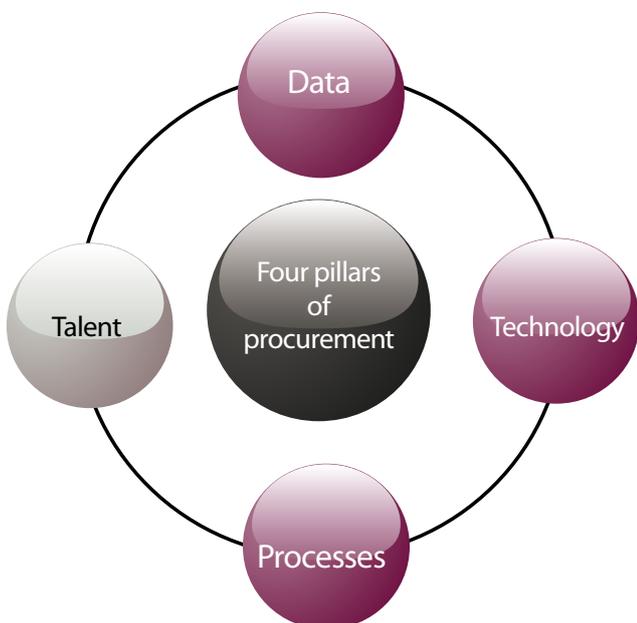
Initially, the required skill set for each role should be defined in order to support “smart” hiring processes. The overall Procurement strategy (e.g., centralized, de-centralized, outsourced, etc.) should be defined in order to clearly identify the required skill set for each job position. Procurement organizations can benefit from hiring resources that have a strategic mindset, regardless of whether their function is tactical or data intensive. Over 65 percent of respondents in the CPO survey indicated that building a strong Procurement team is an important piece of the strategy used to improve the value generated by Procurement in the organization. Use of social networking tools (e.g. Linked In) or Procurement focused job search companies can help identify talent with the best and most fitting skills.

Each organization responds differently to the ebb and flow of business. However, when emerging from an economic period that may have required downsizing, companies must be decidedly selective when reconstituting their talent pool. The appropriate talent pool needs to be in place to ensure that the organization drives continuous improvement.

Listed below are four areas in which a Procurement organization can develop and improve Procurement hiring practices/ talent management:

Identification. First, it is common that there are outdated or unsuitable job descriptions for the position being filled. Prompt steps should be taken with hiring managers and recruiters to properly identify and tailor the skill sets desired for each position. As Procurement leaders look to build relationships with additional stakeholder groups and increase purchasing compliance, it may be appropriate to hire resources that have specific skill sets to support a more complex functional area. This will demonstrate that Procurement is committed to employing resources that can address the needs of the stakeholders, thus demonstrating how Procurement can add value to that area of the business.

Development. Companies need to invest in their employees. We find many inadequate programs to develop employee skill sets in Procurement, regardless of whether there is an already defined training curriculum. This could be related to the fact that the Procurement function was fragmented in the organization, or that a purchaser is only focused on negotiating a good price. We have already established that the world is changing and the Procurement function is evolving into a professional, integrated, value-adding function. This cries out for a training curriculum in which purchasers not only learn how to negotiate, but also learn how to support innovation, control demand and manage suppliers. Investing in training activities and tools to expose employees to best practices will help develop capabilities throughout the Procurement organization. Consider sending an employee to a Procurement



related conference or an external training course; or even better, implement programs where your Procurement professionals can serve a tour of duty in the business areas that they will support. Employee development and training not only helps improve the capabilities of Procurement employees, but it will also demonstrate that the company values professional growth, which in most cases lowers attrition levels. Another opportunity for employee development, which also ties into the Procurement operating model governance, is to set the decision rights and responsibility at the right level to enable empowered Procurement professionals. Getting this wrong can create frustration, leading to organizational churn and negatively impacting Procurement's ability to retain and develop people. There is a clear intrinsic link between the two components that must be managed carefully.

Goal-Setting. In many instances, an organization lacks or deploys inadequate structured goals or Key Performance Indicators for their Procurement professionals. A clear definition of resource goals will facilitate performance improvement discussions and result in the identification of capabilities requiring development.

Addressing Complacency. Finally, in many situations the organization has permitted its longer-term personnel to rely on outdated practices and it has reduced the compulsory skill sets for the job. Strategic change is necessary for maintaining an innovative organization. Long-term, content employees tend to be resistant towards change. It is too easy to become at ease in relationships within Procurement, thus adversely affecting the bottom line.

Conclusion:

Talent is the single largest challenge facing organizations in 2010, where the need to attract, nurture and maintain Procurement professionals continues to be a differentiator for departments. Failure to take this seriously will undoubtedly leave organizations seriously under resourced with the right capability and competence to deliver effective Procurement solutions.

Final reflections

Data, technology, processes and talent, as the four pillars of Procurement, represent key areas that should be evaluated by each Procurement leader. They are interlinked, and if the Procurement executive loses his or her focus in one of the areas, the entire value added by the Procurement organization will decrease. Each one of these pillars can be the weakest link. Evolution is necessary in order to survive, and by keeping these four key elements balanced, you can establish a sustainable, continuously growing, and truly value-added Procurement organization.

3 Procurement organization in a global context: emerging needs, design considerations, and current models

The organizational structure and operating model for Procurement continues to play a critical role in defining the efficiency and the effectiveness for Procurement functions

Marco Alberti, Capgemini Italy, Graham Skinner, David Reid and Stephen Hemmingsley, Capgemini Consulting UK

Reading Time: 14 Minutes

What effect has the downturn in the economy had on the current initiatives taken by senior management? What structure will your company have after the downturn? Then ask yourself: What will Procurement's role be in that future? Will Procurement get the current recognition that 61% of the respondents to the 2010 CPO survey state - 'as a winner of delivering sustained value and strategic cost reductions' - or will Procurement still be seen as a tactical, undervalued entity of the business?

When asked; 'What strategies do you use to strengthen the Procurement organization structure and model?' 71% of respondents replied 'develop a clear Procurement operating model to support the overall business strategy' while 58% of respondents stated 'identify the right Procurement model (centralized/ de-centralized/hybrid etc.)' From this information,

it is evident that a well structured Procurement organization and operating model is on most CPOs' agendas in achieving successful Procurement integration with the rest of the business. Over the last few years Procurement operating models have come back into vogue through a combination of economic conditions driving the need to provide greater efficiencies and extract maximum value from budgets, as well as by providing the promise that operational issues and challenges can be addressed through the core introduction of the right organization and operating model.

A great deal of thought and time has gone into many organizations implementing what they believe is the optimum operating model for their Procurement organization. This is often based on detailed research and real life experience that has validated a model. However, a simple truth is often ignored in the application of pre-conceived models and consulting approaches to this area, which is this: that the fundamental components of a Procurement organization do not change regardless of the model that is trying to corral them into something more meaningful and value adding.

The aim of this article is not to promote which Procurement organization and operating model is the best one, but rather to better understand the complexities of the current market, how they impact the organization and operating model, and the relationship between the various components so that their combined value to the CPO can be articulated, regardless of how they are finally packaged up and communicated across the organization.

At the simplest level the operating model building blocks, which support to the four key pillars of Procurement (data, technology, processes, and talent), can be represented in Figure 17.

Conclusion:

Significant investment has been made across all market sectors over the last 15 years to establish specific capabilities across the individual components highlighted above, some with greater success than others. What cannot be ignored is that regardless of how effective these discrete components are, one issue that constantly exists is who has the decision rights across these components within the organization? The number of stakeholders involved in Procurement tasks and activities is greater now than ever before, even with

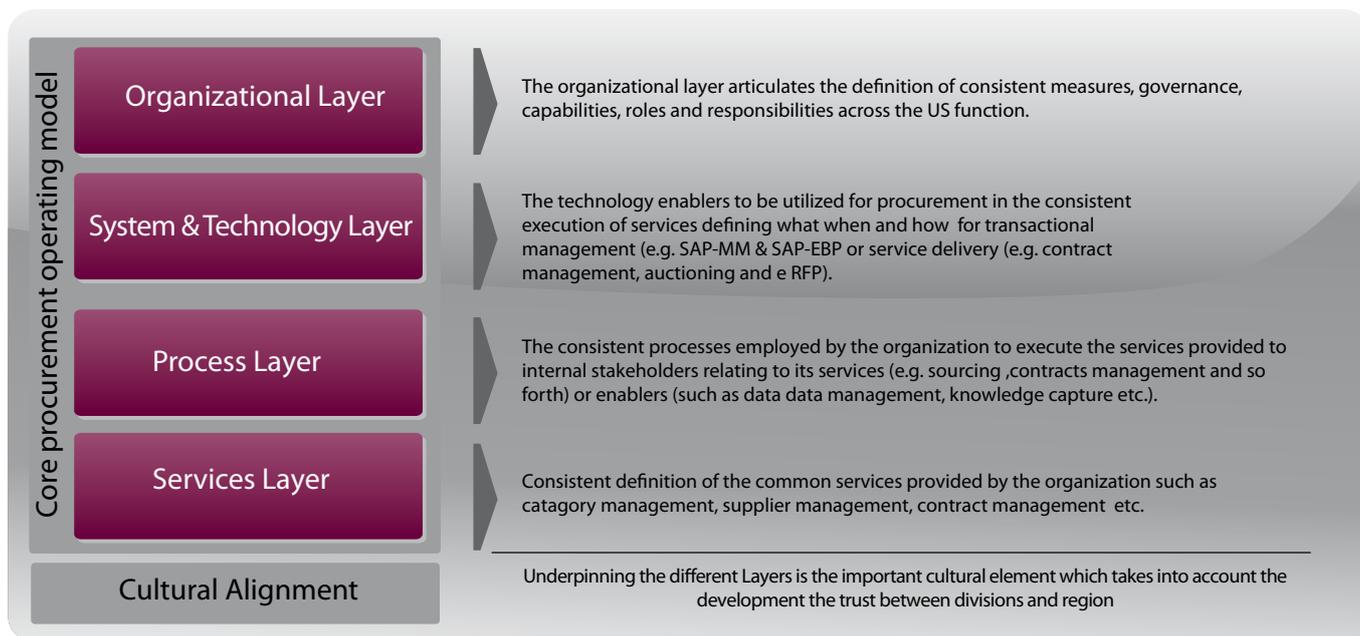


Figure 17: Procurement operating model building blocks

centralized organizational models. As stated, with Procurement’s current focus being on driving greater efficiencies and providing unique value to the business, the collaboration required is more complex and time dependent than previously understood in many cases, supporting the importance of the Procurement organization and operating model to clearly articulate these relationships and the unique requirements that each organization inevitably has.

- The consolidation of sectors and convergence of merger and acquisition activities.
- The evolution of “make or buy strategies” and the emergence of a high degree of outsourcing.

These challenges have a direct impact on the operational structure of the Procurement organization and its activities. More activities are distributed on a global scale and are impacted by people, cultures, laws, and systems. In addition, organizations are expected to take a presence in new areas providing new opportunities for the organization as a whole. Consequently, these challenges have a major impact on the evolving relationship with business partners such as competitors, suppliers, and customers.

Changing requirements and continued innovations in today’s market challenge the CPO’s ability to be impactful

As a result, purchasing decisions have an increased strategic and board-level importance with CPOs now more regularly reporting to CEOs, and being responsible for driving clarity through defined business objectives.

In the advent of continued uncertainty, organizations are facing an increasing number of new challenges with the evolution of both market dynamics and management practices that drive Procurement decision making, amongst others:

- The emergence of new markets and more agile competitors.
- The evolution of more complex competition models (joint ventures, partnerships, ...).
- The globalization of manufacturing and logistic structures.
- The materialisation of new geographies as potential supplier and buying-based markets.

However, despite the propensity to be impactful, purchasing organizations remain unable to realize or deliver the full value from their operations. This can be largely attributed to the inability to drive greater synergies through aggregation on a geographical level or across business units, the lack of exploitation of cost savings and sourcing decision through low cost countries, poor leverage of supplier innovation, a burdened interface with business users, and the slow adaptation and exploration of a new business environment.

Operating model design principals guide the organization transformation

With these challenges still constraining the drive for a better and more connected supply chain with Procurement at its core, there are a number of key principles at the heart of any Procurement transformation set up:

- **Strategic direction:** A defined organization model where Procurement is integrated into the strategic direction of the business areas it supports.
- **Strategic cohesion:** A coordinated governance model to support the Procurement Organization.
- **Tactical delivery:** Definition of the operating model (business rules, services, and tools).
- **Efficient processes:** “Maps” of purchasing activity that are “Lean” in design and standardized.
- **Formal Roles and Responsibilities:** Roles that link the organizational model, its principals, and the operational activities.
- **Optimal resource sizing and critical competencies analysis:** Staffing that considers supply base fragmentation/location, geography and business dimensions, automation of the process.
- **Integrated information systems:** Systems that automate the bulk of the process and the operating model.
- **Tactical application:** Definition and tracking of the direction and effort required by the organisation to support the delivery (time, cost and people involved).

Experiences across most sectors, coupled with the survey findings has highlighted that, regardless of the size and scale of an organization, the ability to deploy the above principles remains a challenge for any Procurement group. In order to radically drive down costs through innovations and new initiatives, top tier Procurement organizations should not only have a working organization in place but also an appropriate balance of managing demand and delivering fit for purpose goods; engaging with internal clients through an infrastructure which supports information sharing and rapid decision making; and subsequently they should drive a more connected end-to-end supply chain allowing buyers to understand the supplier’s market and their key drivers for profitability even through second and third generation sourcing.

Conclusion:

These items provide an element of decision making to ascertain where to establish sourcing units/hubs; how to deal with demand generation; how to deal with delivery and quality issues; how to deal with R&D and new product development specific needs; and how to deal with suppliers along the entire cycle of cooperation.

An established governance and a focus on the four key pillars of Procurement are required for a sustained organization

For a Procurement organization to respond to these basic questions, a number of building blocks are often in place as part of a purchasing organization's core components (see Figure 18).

Excellence within supporting functions to provide specific capabilities and knowledge - Human resources ensuring competency and policy development; demand planning and performance management providing the interface with the company's operations in demand consolidation, target setting and tracking; product development ensuring the best, consistent supplier contribution within the R&D activities, with defined sourcing strategies and approaches; supplier quality assisting the evolution of supplier capabilities and tracking their performance.

Global category leadership - Developing the category strategy at a global level; exploiting global leverage and supply base rationalization.

Regional leadership - Ensuring consistent and coordinated deployment of the global strategy within regions and effecting change.

Regional sourcing units - Implementing the defined category strategies; executing negotiation (and new product development allocation) leveraging category management strategies; interfacing with supplier markets (both in traditional geographies and in emerging countries).

Operational Procurement structures (delivery management and local purchasing units) - Providing the interface with the company's operations in addressing eventual technical, quality, and delivery issues; acting as the interface with business units (sales, brand, central manufacturing); managing local specificities within identified plants, ensuring coverage of spending needs.

Successful low-cost country sourcing organizations - that focus on ensuring that they have the appropriate processes and structures in place to execute each of these capabilities and to do so within a framework that identifies and mitigates the risk associated with a significant change in market factors.

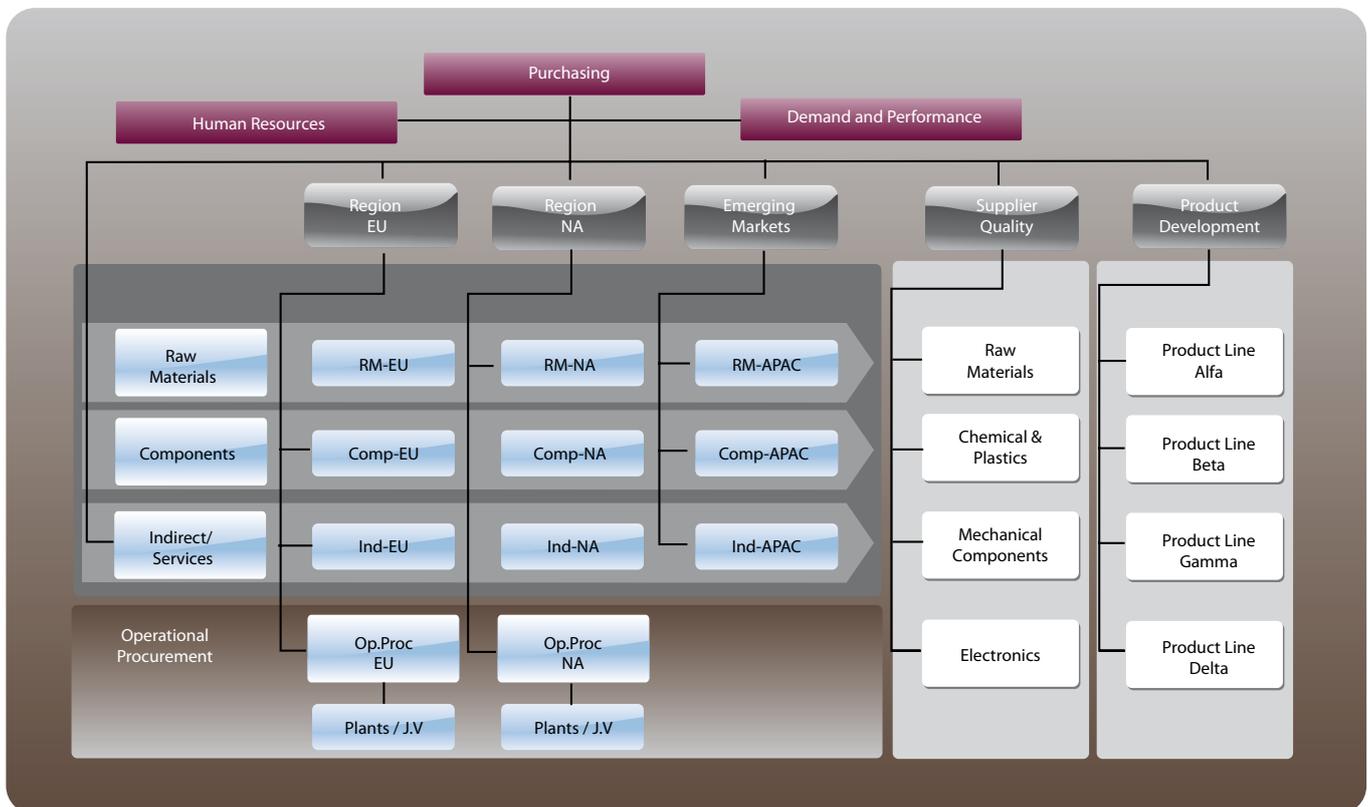


Figure 18: Purchasing organization- building block

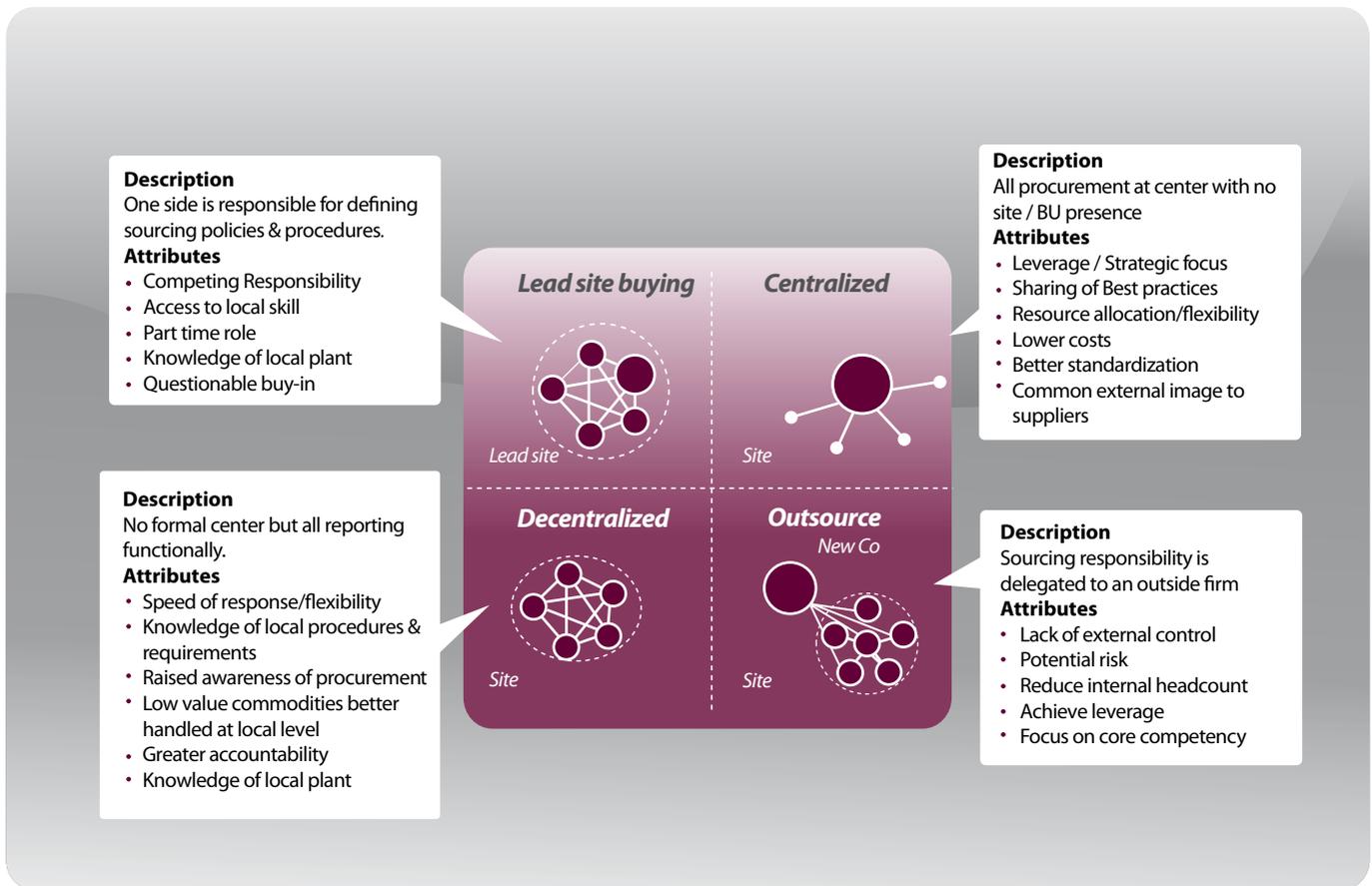


Figure 19: Purchasing organization- Co-ordination Model

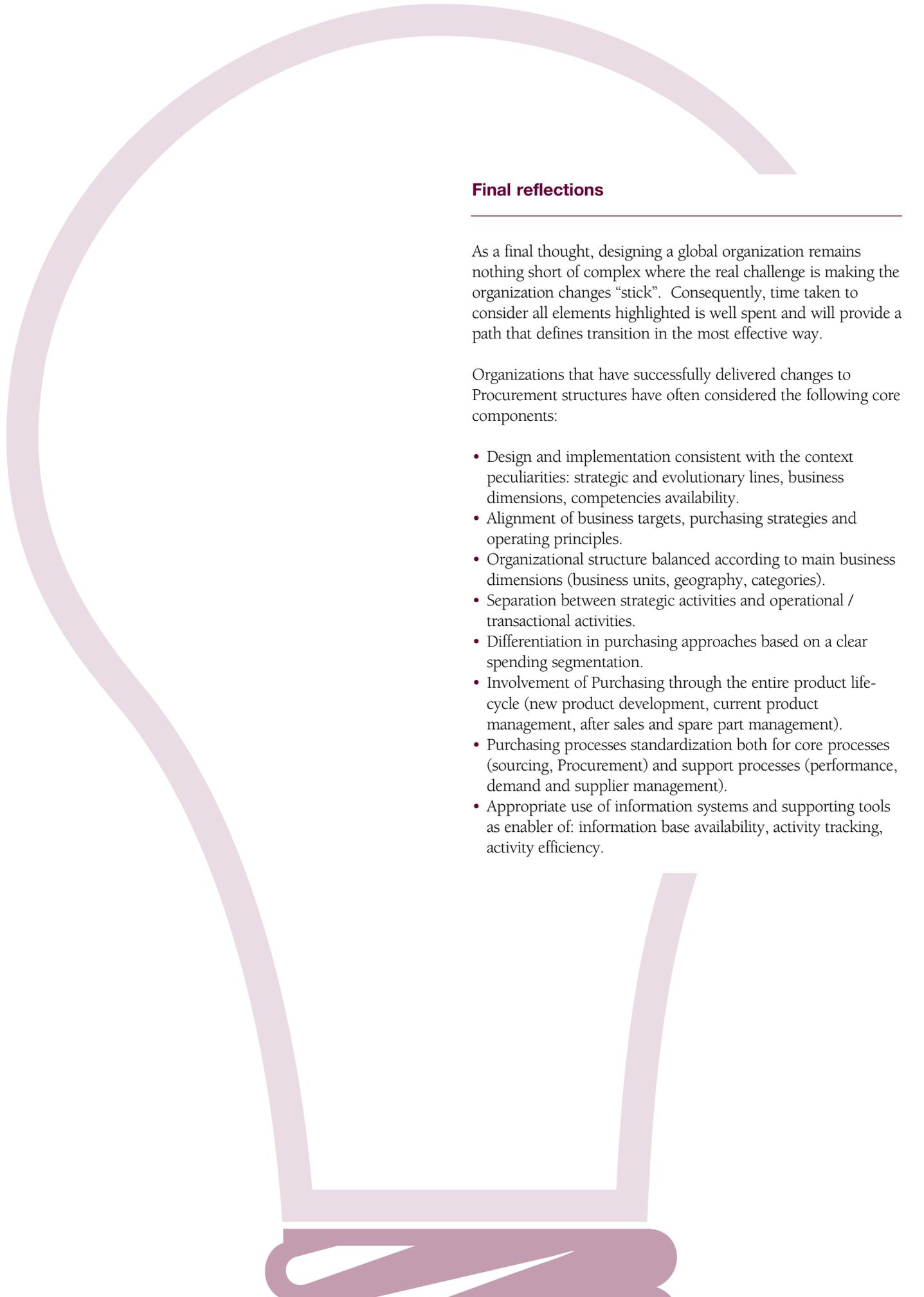
Once established, these “building blocks” provide the base for addressing the governance of how the proposed operating levers interact with each other, particularly across categories, regions and business units. From a Procurement perspective, categories will often be a way in which to drive governance from a people, process and system perspective, and is more often that not the most common approach in organizations. However, when considering how best to manage multi regional and geographically diverse organizations, this approach does not lend itself to sustainability or success. The ability to effectively balance strategic oriented decision making and effective delivery will often be driven through a hybrid of organization set up and structure; one where common targets can be set across global category roles and regional leaders, which will additionally support the ability to consistently manage and coordinate supplier level based initiatives in order to meet stretched KPIs. This approach appears to be the most effective, but still requires significant effort in defining the operating model to enable

people to work successfully together in driving the four key pillars of Procurement:

- Intelligent data
- Information systems integration
- Purchasing processes design and standardization
- Roles and responsibilities formalization, resource sizing, and critical competencies assessment

Conclusion:

With an effective organization model, the focus is on sustained evolution with an edge on growth that includes driving energy through defining roles, processes, resources, data and systems, which represent the “Rules and Tools” of a “Living” organization, deeply interconnected and deeply influencing one another.



Final reflections

As a final thought, designing a global organization remains nothing short of complex where the real challenge is making the organization changes “stick”. Consequently, time taken to consider all elements highlighted is well spent and will provide a path that defines transition in the most effective way.

Organizations that have successfully delivered changes to Procurement structures have often considered the following core components:

- Design and implementation consistent with the context peculiarities: strategic and evolutionary lines, business dimensions, competencies availability.
- Alignment of business targets, purchasing strategies and operating principles.
- Organizational structure balanced according to main business dimensions (business units, geography, categories).
- Separation between strategic activities and operational / transactional activities.
- Differentiation in purchasing approaches based on a clear spending segmentation.
- Involvement of Purchasing through the entire product life-cycle (new product development, current product management, after sales and spare part management).
- Purchasing processes standardization both for core processes (sourcing, Procurement) and support processes (performance, demand and supplier management).
- Appropriate use of information systems and supporting tools as enabler of: information base availability, activity tracking, activity efficiency.

4 Services Procurement – essential success factors to achieving sustainable benefits

Focus: Transforming externally purchased services into a category managed service through Procurement

Authors: Stefan Becker, Elmar Holschbach, Capgemini Consulting, Germany

Reading Time: 16 Minutes

Non-traditional service based categories such as marketing, complex services, travel, real estate, temporary labor or consulting are generating a greater focus with management and Procurement departments given they are often outside the direct management and influence of Procurement.

Does Procurement have the full control of external spend? Based on the findings of our 2010 survey the answer is uncertain. A mere 30% of the CPOs felt they had control of more than 80% of the external spend. Yet the landscape is ready for change and service Procurement has an important role to play:

- 74% of the respondents stated that Procurement is striving to increase the control over major spend categories – namely indirect materials and services – as they were traditionally not in the focus of Procurement but of functional or business based departments.
- Another 70% of participants highlighted that Procurement has recently taken control over important service spend categories such as marketing, travel, training, IT services, consulting, etc. Most CPOs

highlighted that their top management is expecting them – and supporting them – to continue this process in order to explore further benefit areas for an Organization in these service based category areas.

- A further 74% tend to professionalize service Procurement through the implementation of traditional category management and strategic Procurement processes for service categories.

The target is set, but can the implementation follow the same way as product and material Procurement? This article addresses the main success factors in the Procurement of complex services.

Specifics of service Procurement

Purchasing services are more complex due to the underlying characteristics. Services as we know are typically heterogeneous and are often difficult to measure and dynamic in nature. These specifics make it very difficult to control and evaluate the received service, and thus increase the perceived risk for Procurement. The production and consumption of services are mutually exclusive, implying that the buying company is both the consumer & co-producer and cannot store services as a result. This makes a clear specification of the service prior to purchasing more crucial but also complex, and highlights how closely connected the selection of a vendor is to the post-purchase quality evaluation. Finally, services are delivered in interactions between representatives of the service provider and the buying company and are consequently difficult to produce with consistent characteristics and quality. This further complicates the process of standardizing, counting and valuing them, and requires an assessment of the interaction process by various stakeholders – often too many to involve for a straightforward Procurement sourcing plan. Together, the intricacies of service based categories often imply that a greater performance ambiguity is very likely.

However, this should not be a reason for discouragement, as there are proven and tested ways to overcome these difficulties in the purchasing and delivery of services.

Figure 20 illustrates the two phases of service demand and service delivery. The successful measures to achieving this are described below.

Procurement as a partner in strategic sourcing

To improve the quality and prices of services ordered from suppliers, Procurement should seek to position itself as a partner of the consumer. It is important for Procurement to

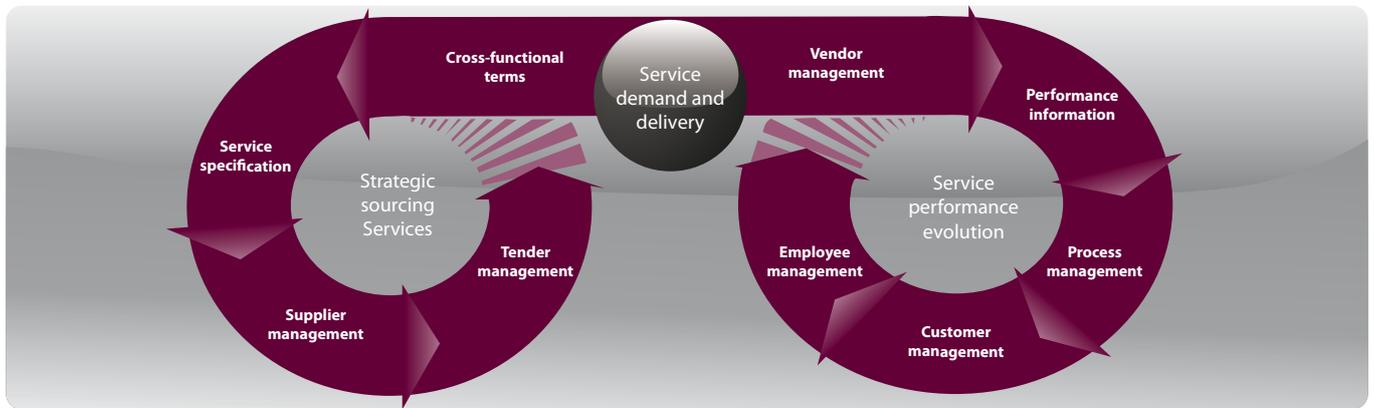


Figure 20: Service Procurement phases and components

support the consumer throughout the entire Procurement process as well as during the provision of service;

① Early involvement

Procurement gains a significantly higher level of autonomy in demonstrating improvements through early involvement as requirements are being defined. As a result, the opportunity exists to identify appropriate suppliers up front, offer the consumers an appropriate list and volume of capable service providers and thus ensure competition during tendering. Taking into account the scope of Procurement, the Procurement department can advise consumers to limit or avoid additional costs by specifying the desired services completely and precisely; ideally describing possible variants as appropriate and where possible. The service specification and, in particular, the close integration of the wider business stakeholders in its definition are particularly important during the tender phase. Specification is necessary in order to develop a clear requirements model for the service providers and thus contribute to improving the quality of the provided services. The integration should ideally take place through cross-functional teams (i.e. comprising members from Procurement and functional departments), which organize and describe the required services using defined standard service catalogues by scope, type, and amount of the individual items.

② Service specification

When specifying the service, Procurement should ensure that applicable industry norms and standards are applied or are drawn on, e.g. VOB, GAEB, DIN SPEC 1041 in Germany. Wherever specifications are unavailable or inadequate, buyers and technical experts should derive specifications by breaking down the service delivery process or the deliverables themselves into individual items, identifying price drivers and hidden costs. This directly helps to separate standard service items from individual or highly customized items and to leverage saving potentials. Standard service specifications ensure the transparency and comparability of

services. If difficulties continue to exist in relation to the service specification, it is possible to make use of the service provider's creativity and knowledge in specifying services. Unlike with clearly prescribed specifications, in this case a description of the desired deliverables by the procuring company plays an important role. By using standard service specifications, purchasing can guide requestors to preferred vendors or also involve more cost-efficient providers in the tendering phase.

③ Contractual design

It is always important to test the services before using them at the procuring company. This can be organized through contractually defined testing phases lasting several months, after which the procuring company has the option of ending the contract prematurely. For individual services (e.g. marketing, fleet management, IT maintenance) a team of the procuring company can involve through management support the service provider and inspect the quality of the required services before they are contracted. During tender preparation, Procurement should seek to advise the consumers in designing the contract, i.e. selection of contractual alternatives such as time and material, service with fixed price components, purely fixed price contracts or hybrid forms depending on the service packages. Finally, it helps to define the scope of services, the expected level of quality as well as the selection of key performance indicators.

④ Tender management

During the actual tender, Procurement supports consumers in compliance related topics and manages the end-to-end process. This includes creating, releasing and sending the tender documents and publishing it on the purchasing portal of the company (where available). Purchasing collects and responds to clarifications and ensures services providers are informed equally during the entire process. In terms of provider selection, Procurement ensures a criteria-based functional and commercial assessment of all offers and the

comprehensive preparation of negotiations, safeguarding that all relevant points are clearly addressed and become part of the contractual agreement.

Once the contract is signed, Procurement assists the business department in the vendor transition activity, in order to provide all necessary and relevant information for a smooth start to service provision.

Conclusion:

To control service spend effectively, Procurement must engage regularly with the functional departments from an early stage of the sourcing process. As a business partner it ensures that the required services are specified in service catalogues to identify capable suppliers. Furthermore, Procurement advises with regard to contractual design and pricing structures and facilitates the tendering process by handling compliance topics, compiling and distributing tender documents and finally guaranteeing a structured and transparent bid evaluation.

Service performance evaluation

Purchasers find it difficult to evaluate the performance of service providers and individual service providers after the order has been released. Although understandable, this should not be cause for concern, since most e-Sourcing based tools provide performance evaluation. They are described below;

① Vendor management

Procurement should maintain or establish vendor assessment for service providers. The difficulty here is often that services are perceived as too heterogeneous to cover them with one kind of vendor assessment. Here, it does make sense to define standard main criteria for vendor assessment (e.g. value for money, quality and innovation) for all service providers and to allow the same weighting to ensure comparability at a later stage. The sub-criteria should be adapted individually to the service and defined between Procurement and the respective consumers of the service. Moreover, it is important to associate specific measures with the vendor assessment, as it is common for assessing suppliers of production material. Such measures can, where there is insufficient assessment, range from additional

discussions with the service provider, quality audits, to issue-specific 'get well' action plans and the definition of contractual terms for financial penalties. As far as possible, such assessments of service providers should be managed through clear, consistent and transferable Key Performance Indicators (KPIs) which are administered centrally by the main service consumers, so that the results are easily comparable, readily available at all times and can be represented pictorially for ease of understanding.

② Performance measurement

Strategic sourcing and performance evaluation are closely linked, since the required performance level of a service provider is largely defined in the tender phase itself. For all services, Procurement should propose the weighting e.g. price and quality during the assessment of services. This applies as a basis for assessment while selecting a vendor, but also during the later assessment of the provided services. Clear KPIs and SLAs should also be established to the extent possible at the time of selecting the vendor. They should represent a mix of process and performance parameters, e.g. productivity of the service provider (earned hours/ used hours), accuracy of planning (actual hours/ planned hours), average operating period between breakdowns, e.g. for maintenance services, first-time-right rate or level of service. The results of performance assessment should be discussed in structured meeting cycles, facilitated by Procurement and resulting in clear actions agreed with the service provider.

③ Process management

To prevent a purely subjective assessment of service providers dominated by the perception of the most recent events, Procurement should promote regular and structured service inspections, as services are not regularly inspected in many companies. However, where assessments take place, they are usually only done in the form of timesheets and in a paper based manner. The number of delivered service hours tells nothing about the quality of the individual performance or the performance capability of the vendor. It is therefore necessary to inspect the individual performance in a standard form and with system support as far as possible. ERP systems already offer these functionalities today. In some systems, the service provider can pre-record the activities performed, so the procuring company only has to confirm these inputs. Some of our clients link electronic acceptance with a brief satisfaction survey among the service users. This survey should not include more than 3-4 questions. However, the advantages are enormous: over time, Procurement receives mass data on satisfaction at the level of individual services delivered by the provider. Although this information is also based on subjective evaluations, it has great statistical significance and is not dependent on any data manipulation or time constraint. These results can also be included as a fixed component in the service provider assessment.

④ Customer management

All efforts towards clearly specifying services and thus enabling an efficient assessment of their quality should, however, not lead to neglecting the subjective component of performance evaluation. Notwithstanding, it is important to determine this subjective component of the quality assessment in a structured form. Procurement should hence survey the satisfaction of their internal or external customers with the quality of services delivered at regular intervals. Naturally, this cannot be executed for all services procured externally, but only for selected ones. Criteria for selecting the services in focus could include the risk linked to a poor performance or use of the service by the procuring company. For instance, customer satisfaction surveys should be conducted on the topic of service quality, especially for services associated with a high risk which is passed on to end customers. Here, Procurement should look for direct contact with internal service users and end customers to better understand their level of satisfaction.

⑤ Employee management

To enable an organization's own employees to increase the quality of procured services in the medium term, training should be conducted that illustrates the nuances of complex services. Such training can often be well integrated in existing quality management training. Training on methods and functional competencies, where employees are made familiar with the newly established tools for monitoring the service quality (e.g. satisfaction analysis, service evaluation), are of special significance. Setting up quality circles is equally important for procured services. Thus, successful companies regularly discuss the service quality in joint teams comprising purchasing, functional departments and service users, and often find surprisingly pragmatic solutions for increasing service quality in this manner. Procurement managers should not only assign their buyers clear targets related to quality development for procured products, but also for procured services. For instance, conducting the service assessments can be an effective goal to improve the quality of the service in the medium to long term.

Final reflections

According to our 2010 survey, Procurement officers are striving to increase the strategic control over major spend categories, namely indirect materials and services. Both were traditionally not a focus for Procurement as they were directly managed by the respective functional departments more or less professionally. Procuring services continues to represent a greater challenge for Procurement departments due to the special characteristics of services; the service category diversity and high number of transactions as compared to the amount of spend. These challenges are related to the phase of strategic

sourcing before the actual order as well as to the phase of performance evaluation after service delivery. However, these difficulties can be addressed through a professional and structured process in both phases:

- During the strategic sourcing process, stakeholder involvement is crucial to ensure a service specification as concrete as possible through cross-functional teams and, if necessary, the involvement of the service provider. Furthermore, Procurement ensures a professional tendering process by handling compliance topics, compiling and distributing tender documents and finally guaranteeing a structured and transparent bid evaluation.
- A successful performance evaluation during the service delivery phase is driven by a consistent and permanent management of service providers and service delivery, targeted performance information, and system-enabled process management. Finally, well trained Procurement employees able to manage supplier performance during the execution phase ensure high quality service delivery and is the requirement for future service supplier selection and contracting.

Conclusion:

Beyond strategic sourcing, continuous performance evaluation is a key element for professional service Procurement. A successful performance evaluation phase is characterized by a structured management of service providers and service delivery, targeted performance information, and system-enabled process management. Finally, sufficiently trained Procurement employees able to manage supplier performance during the execution phase ensure high quality service deliverables.

5 Procurement as a service – IT and business strategies that quicken the pace of the CPO’s transformation

Trends in business and IT outsourcing and how they are providing the CPO a competitive edge

Andreas Bernhard, Capgemini BPO Germany

Reading Time: 16 Minutes

How often is a CPO truly provided with a genuine competitive position to transform the organization? The recent evolution of on-demand Source to Pay applications and the structures by which they are governed, as well as the proven results provided by Procurement delivered as a service, are examples of the secret

weapon available to many CPOs and Procurement organizations alike.

Is now the time to deploy that secret weapon? The answer is, “what better time than now?” Against the backdrop of the global financial downturn, cost-cutting measures moved to the forefront of the corporate world - and with it, inevitably, the subject of purchasing. And although a Procurement organization cannot make a name solely by cutting costs, mastering this basic is a prerequisite step to full transformation.

Many organizations clearly have targets that align with the basics of cost-cutting, confirming that it is still a major task being requested by the companies that Procurement organizations support. In fact, 45% of the CPOs questioned in this survey had a savings target higher than 5%. While the goal is rudimentary, it is still a significant challenge, especially considering that as the downturn comes to an end the majority of analysts expect rising prices.

But how can a Procurement organization continue to shave costs from the same categories year after year while contributing arguably to more strategic goals such as growth of the business and innovation of product or solution all while continuing to cut the costs of their own organization? The answer is that they cannot. The only way that Procurement can continue to drive significant double digit reductions, focus on bringing innovation into the company, all while decreasing operating costs is by employing two secret weapons – On-demand Source to Pay solutions, and Procurement as a Service

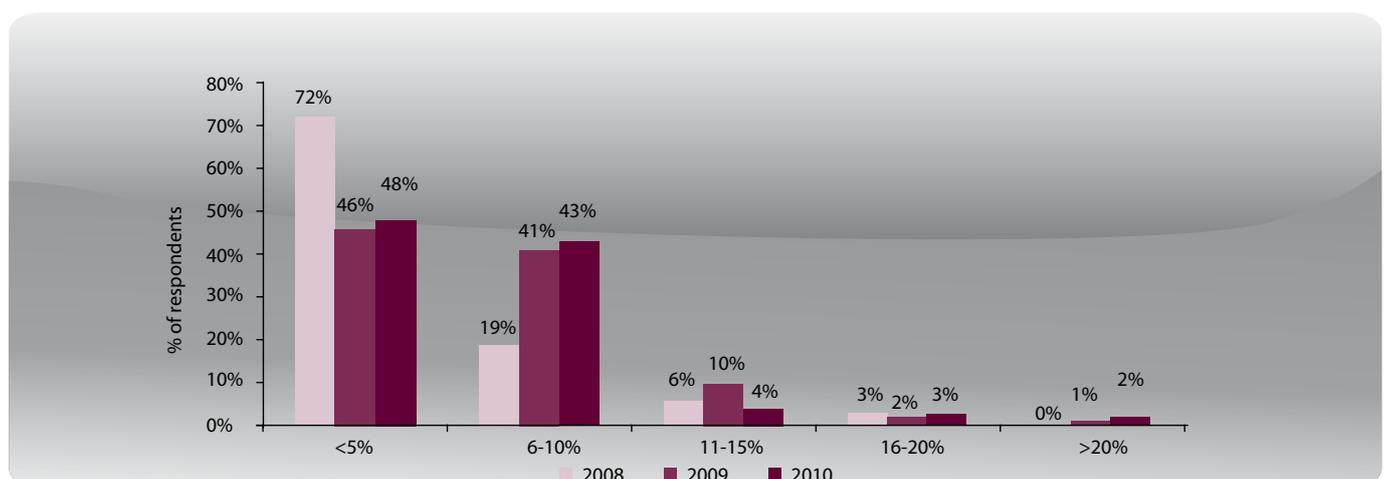


Figure 21: Planned 2010 savings target

On-demand is on the rise due to broader spend coverage at a lower cost of operation

As in the past, the CPO is still facing a major challenge. According to the CPO survey results, about two-thirds of all organizations channel less than 20% of their spend through Source to Pay tools.

Without the structure and visibility of spend that these tools provide, as well as the enhanced ability to drive out cost, quality, and delivery factors during bidding, a company will struggle to achieve any significant dent in double digit savings goals. Well planned change management, a solid Procurement transformation project, and getting the stakeholders on board are the key success criteria to get more spend under control. Similarly, and with equal importance, an on-demand solution can be leveraged to enhance adoption and spend under Procurement's control. First of all, on-demand tools require less implementation resources, freeing them up to be applied to adoption initiatives (e.g. communication, training, etc.), which on most projects are left for the end. Another reason on-demand tools can be leveraged to increase spend under management is because these tools tend to be best-of-breed, giving the Procurement organization immediate access to leading-edge functionality like the ability to effectively procure services, or to access archives of standard category templates in bidding, or to produce harmonized reports for analysis.

So if we can agree that on-demand tools give the CPO an ability to broaden their spend coverage, then the real power comes from their ability to allow companies to recognize a large savings opportunity through a reduction in the cost for internal source to pay IT solutions. In his book, "The Big Switch", the American IT lateral thinker Nicholas Carr challenges corporation's IT and heralds the end of IT departments. He compares the trend towards Cloud Computing, and away from business computing, in the company's own data centers, with the transition from self-generated to centralized power supplies by service providers at the start of the 20th century. Cloud computing is represented by the so called on-demand or Software as a Service (SaaS) solutions.

There are reasons why on-demand has been on the rise for a number of years in Procurement, a significant reason being that the classical licensing models are having a hard time defending their price level. According to a study by the Aberdeen Group, on-demand models are faring significantly better than licensing models. One reason is they can be implemented more quickly and provide a faster Return on Investment (ROI), especially since the company no longer needs to implement the solution itself. If a company, on the other hand, acquires a software license, it is generally dependent on the expertise of a consulting company for the implementation and customization of the software. Many of the company's own resources are also taxed in the process,

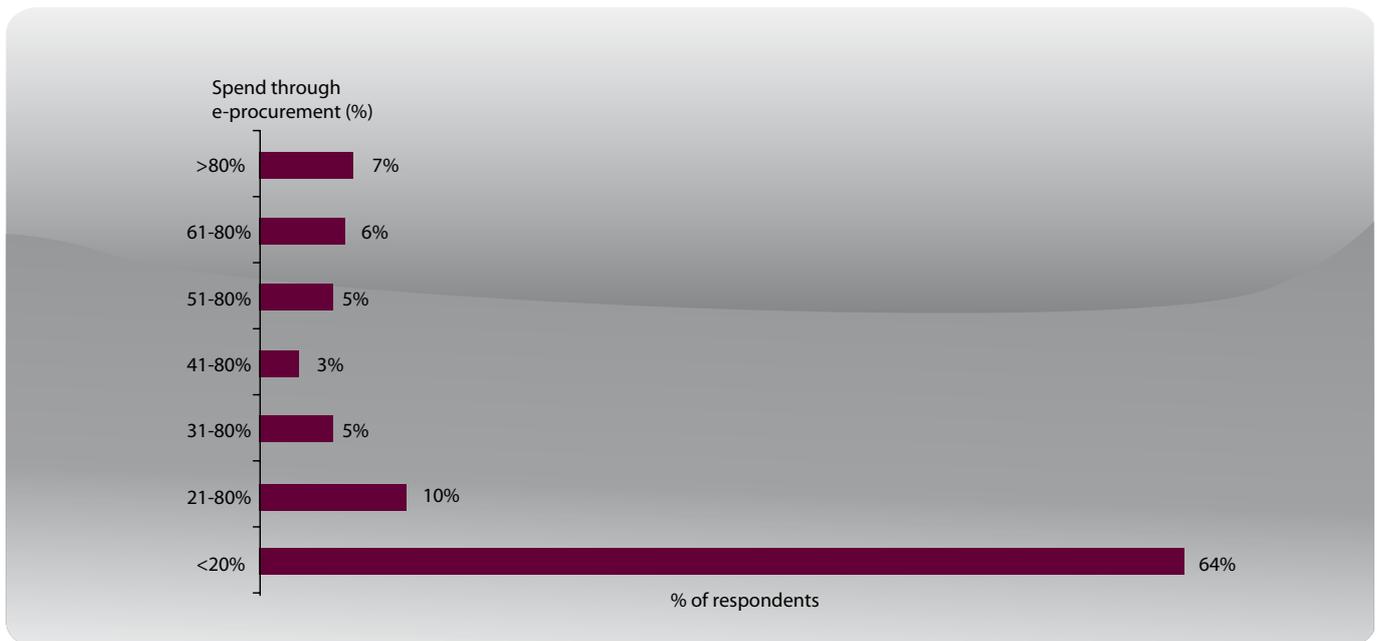


Figure 22: Spend through e procurement channels

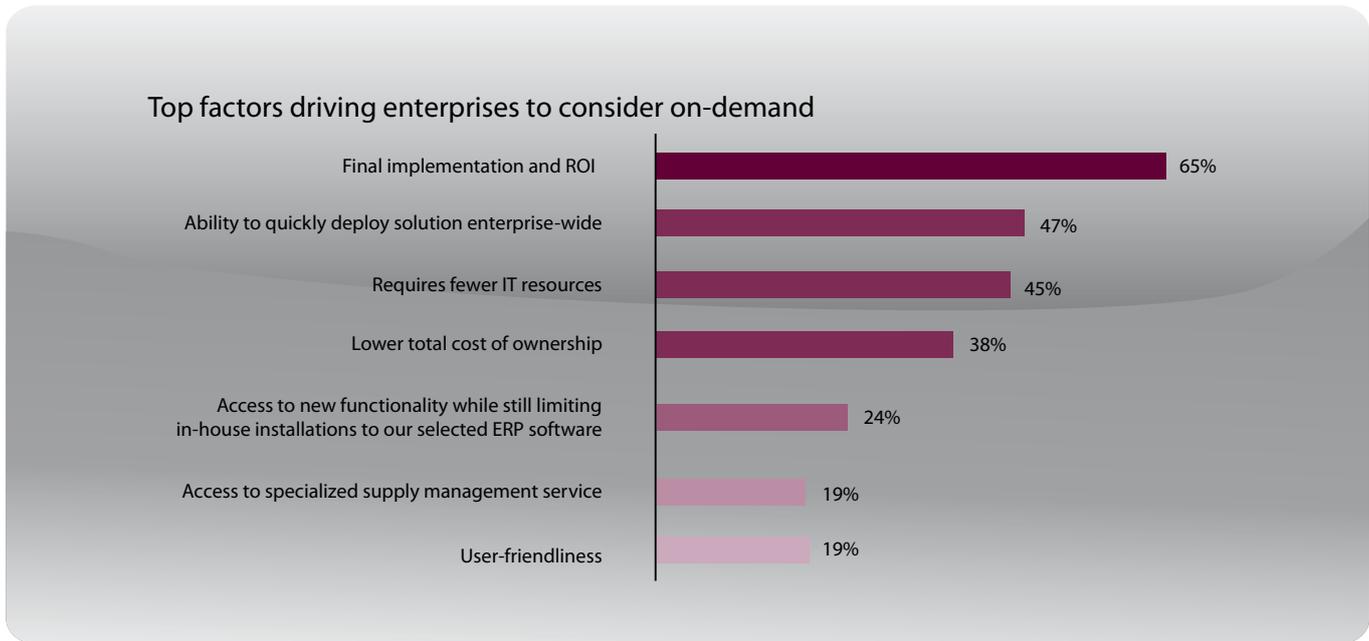


Figure 23: Factor driving on-demand

Source: Aberdeen Group

and high additional costs are incurred. When solutions are installed human resources, operational, and hardware costs are found to be hidden cost drivers.

With an on-demand solution for purchasing, the company pays only for the modular service elements it needs. The usual pricing model is per active user, close to the classical licensing model; however, other alternative pricing models exist such as concurrent users and transaction based.

A second big driver for the rise of on-demand solutions is the quicker implementation. The company has easier and more rapid access to the modules, since the solutions already run on the service provider’s platform and are being used by numerous customers – each with their own individual customizations. All the users need is a popular Internet browser.

Conclusion:

An on-demand offer is essentially of interest to all companies that want to profit from broader spend coverage and better functionality at lower overall costs, faster implementation, and with a smooth upgrade process.

A practical application of the on-demand offering

The vision of Carr has existed for quite some time in many different industry sectors outside of software. For example, professional drilling machines. The Harvard Business Review analyzed the rapid change in business model for Hilti, the biggest and most successful supplier in Europe for drilling machines. The review found that Hilti had consistently differentiated itself with high quality. Seeing that this might not be enough in the future, due to growing competition, they brought a completely new offering to the market. Hilti rented out their machines to construction sites and included in their offering the bare machines as well as a guarantee that if for any reason the machine were not available (e.g. a defect, machine was stolen, etc.) it would be repaired or replaced within several hours. This model in its simplest sense is on-demand. Within the given construction project, the project manager has the security that the necessary drilling machines will always be available. Hilti understood that what its customers wanted were drilling machines when they need them. The customers did not need to own the actual machine itself.

Why Source to Pay systems often fail!

So, if nobody wants to own drilling machines, then what about Source to Pay solutions? The advantages of a successful implementation have been extensively discussed

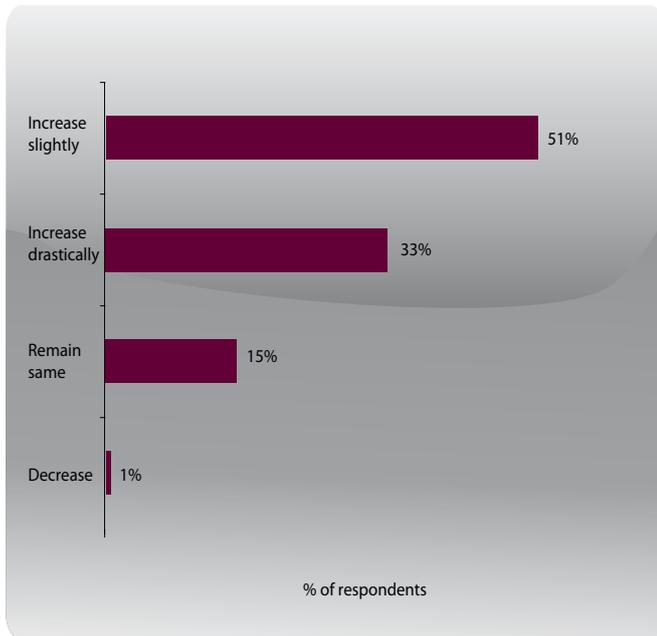


Figure 24: Expected spend through eProcurement channels

and proven: reducing process costs, automating sign off processes, capturing all spend through one channel, and getting out better agreements with higher savings. But is buying the Source to Pay application outright the way to go? To build one's own hardware environment with the redundant servers and the staff maintaining that environment means for a single company significant cost and effort. Also critical to the success of an owned solution is the necessary service infrastructure to support it. For instance, a support center for the end users and suppliers is needed. Furthermore, the suppliers have to be connected to the solution, and the catalogue quality has to be ensured in order to enable the end-users to find the right products.

Leaving the cost aside for a moment, all of this effort eventually pays off in the form of higher compliance to contracts and better prices due to higher volumes. For this reason it is no big surprise that according to the CPO survey, more than 80% want to increase the usage of their Source to Pay systems.

However, the small detail of supplier activation and customer care often materializes as the big show stopper when it comes to an in house solution yielding high adoption, as neither IT nor the Procurement department have developed the competence. And that is a primary factor of why Source to Pay systems often fail, leaving more than two-thirds of the CPOs managing less than 20% of their spend through a Source to Pay solution.

Enhancing on-demand solutions with Procurement outsourcing

For most CPOs indirect spend is a headache. 80% of the orders account for 15% of the spend, while taking up 50% of the Procurement department's resources. According to a study by Germany's purchasers' organization BME (Bundesverband für Materialwirtschaft und Einkauf) the average cost of processing an order is still around €200 /PO, while "Leaders" in the study achieved €30/PO. The aviation company Deutsche Lufthansa AG, which covers more than 90% of its spend with a hosted Source to Pay application, has been able to reduce its cost per PO down to €9. Regardless of the economic surroundings, spend needs to be under control in order to make the Procurement strategy real and this often takes tactical execution more than strategic mindset. Indirect materials have a very high complexity and involve many stake holders. The administrative burden can be overwhelming. And, yes, it takes a massive Procurement transformation program, to bring a company from €200 to €9 per order covering more than 70% of its spend. The reward at the end of the day is that organizations can use their resources on driving growth or reducing cost instead of administering them.

This brings us back to the initial question: who wants to own a Procurement system, or maybe even a Procurement operation? Enter Procurement operations as a service, which offers a CPO the ability to give the tactical elements of indirect spend to an external specialist. As the CPO for a major publishing company put it: "One of the key reasons that we outsourced indirect Procurement is that it would have cost us too much to staff up in order to source all of these categories, and we couldn't move with the velocity that was required under an in-source model. Outsourcing brings you the skills you need (e.g. BPO brings you 5 experts in Category X), and your organization doesn't have to maintain the overhead".

Combining Source to Pay software with business process outsourcing (BPO) of the Procurement function guarantees a level of savings (most of the time double digit) at a limited and recoverable cost. This combined solution also minimizes the tactical work that a Procurement function takes on, and ensures a proper level of service through clearly defined SLAs.

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What services are included in a BPO-Procurement deal?

BPO Procurement deals typically have one or more of the following components:

- **Strategic sourcing:** the negotiation of new contracts with suppliers and the associated services, generally in accordance with the commodity or the overall Procurement strategy.
- **Category management:** the development of category strategies, subsequent management of the category after sourcing, and management of the contracts to ensure that the benefits identified are delivered through active compliance management. Typically any supplier management is undertaken in this area.
- **Tactical Procurement (spot buying):** the management of spot buying for high value and unusual items through a buy desk. This is usually augmented with a front office which supports employees and supplier contact in local languages.
This is typically provided regionally from regional delivery centres in Eastern Europe, Latin America and Asia Pacific.
- **Transactional Procurement:** the management of the requisitions and PO process plus master data management and query management that supports employees and supplier contact in local languages.
- **Compliance management:** active reporting on and management of compliance. Often involves interaction with Human Resources to drive changes in compliance to HR policies.
- **Reporting:** provision of management information for sourcing category, compliance, and supplier management. This is typically managed from a low cost Far East location.

Final reflections

Procurement professionals around the globe proved their value in the last year and especially during the downturn. For some CPOs increased transparency and spend under management paved their way to the board rooms. CPOs in general are conquering more seats at the strategy table. This changes not only the power map, but also the view of the entire organization on Procurement and vice versa.

It is not acceptable that one order produces internal costs of €200. It is also not worthwhile that valuable resources spend time with orders and invoices instead of being productive and even strategic. Indirect spend often feels like a burden to the CPO, and the earlier the Procurement function gets this matter under control, the faster the organization can focus on other value added services to the business such as top line growth and innovation.

6 Raising the value of Procurement through Procurement performance

Insight into how Procurement performance can enhance the perception of Procurement across an organization and elements to be considered

Sreekanth Venkata, Capgemini Consulting, US

Reading Time: 10 Minutes

In today's business climate, companies are facing an ever increasing challenge of ensuring that the Procurement organization is aligned to the overall corporate objectives, meets evolving market requirements and demonstrates clarity in how to work effectively with the business in order to implement robust business processes which drive continuous change. Highlighting where leading practice is progressing towards and demonstrating the core principles for success in this domain are critical.

Market observations

Our survey findings have illustrated a number of pressures that Procurement organizations continue to feel relative to the performance of Procurement:

- The ability to improve Procurement's contribution in enhancing the overall value for the organization is not always evident
- Reducing the overall risk of supply continues to be difficult

- Ensuring the focus shifts from a cost savings mode to a growth focused mode
- The difficulty of maintaining innovative approaches to cost reduction
- Raising the awareness and profile of the Procurement organization
- Demonstrating the value-add Procurement can bring to the business
- Becoming aware of key initiatives early enough to get involved in the process

These challenges reinforce the need for a Procurement vision, which aligns with corporate objectives and goals. Also, continuous measurement and effective monitoring of the Procurement organization against these objectives is necessary to ensure the overall sustainability and viability of a Procurement organization.

While the survey reveals continued challenges, it also raises areas where progress is being made:

- Proactively designing the requirements of the Procurement organization through strong collaboration with business stakeholders
- Continuing to align the Procurement strategy with the overall corporate strategy
- Focusing on 'back to basics' total cost of ownership
- Continuing to exploit supplier capabilities to enhance product/process/service innovation
- Implementing a social, sustainable and responsible Procurement strategy to promote brand value and reduce costs
- Measuring Procurement performance in financial terms to show bottom line savings and top line growth

Conclusion:

Good performance management enables the Procurement organization to collaborate with the business stakeholders in designing robust business processes, driving continuous improvement and enhancing overall value created by the Procurement group.

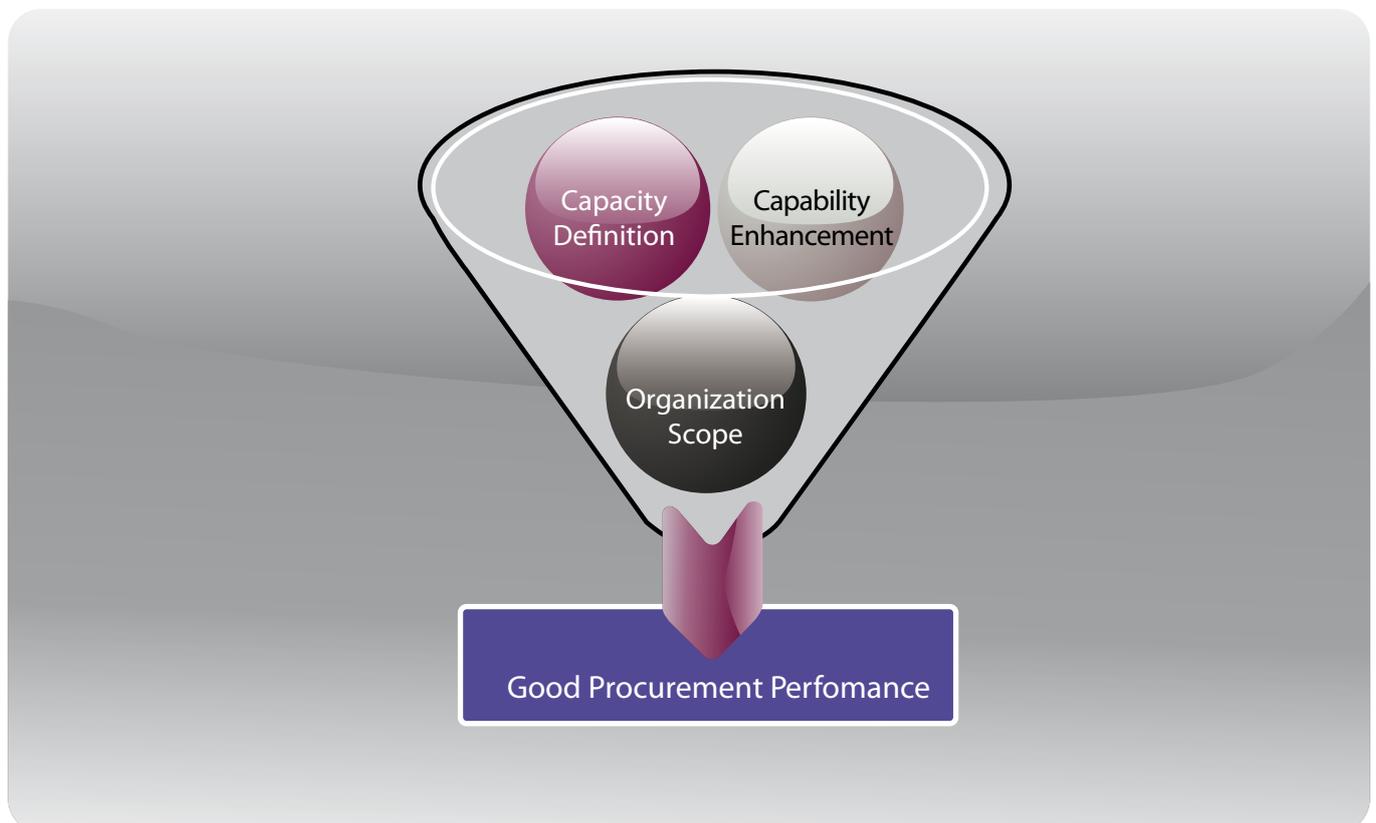
So what does good Procurement performance need to consider?

To really deploy an effective Procurement performance management system we would recommend the following:

- **Enhancing the capabilities of the Procurement group:** The capabilities of individuals in the Procurement group determine whether they are capable and competent enough to meet the organizational objectives. This includes measuring the capability of Procurement staff against their ability to meet business requirements, ensuring Procurement staff are directly involved as part of the bigger organizational objectives in order to keep them motivated, and establishing a continuous training program to re-skill the Procurement staff against the overall competency models.
- **Defining the capacity:** This criteria seeks to measure whether the Procurement organization has enough capacity and knowledge to deal with fluctuation in market and changing customer requirements. Given the challenges presented to all industries, the capacity of a

Procurement group should be flexible enough to adapt to changing business requirements.

- **Developing the Procurement organization scope:** Another key element of a proper Procurement performance management system is to better develop the scope of the Procurement organization relative to the organizational objectives – What is in scope for the Procurement organization? How does the Procurement organization's objectives align with the overall corporate objectives? What is the spend being influenced by the Procurement organization as a percentage of total spend?



In order to provide an effective and sustainable Procurement performance management system the following key principles should be enacted:

- Procurement performance evaluation criteria should be focused, practical and actionable.
- Procurement performance KPIs should provide inputs on Procurement efficiency (such as spending per full time employee and Procurement organizational costs as a percentage of spending) and effectiveness (including savings and cost avoidance, cost index performance, percentage of spend under purchase orders and percentage of spend with Procurement influence).
- Procurement performance metrics should reveal trends. Metrics should not only highlight absolute spend and

savings, but more importantly throw light on trends in cost and performance drives for that category. Metrics should additionally be limited in number and within the scope of the Procurement organization to impact.

- A good Procurement performance system should also incorporate supplier satisfaction scores, diversity initiatives, environmentally sustainable Procurement plans, quality measures and cash management methodologies. Although these principles provide a framework for design of performance criteria, the key metrics any Procurement organization must consider are outlined in Figure 25:

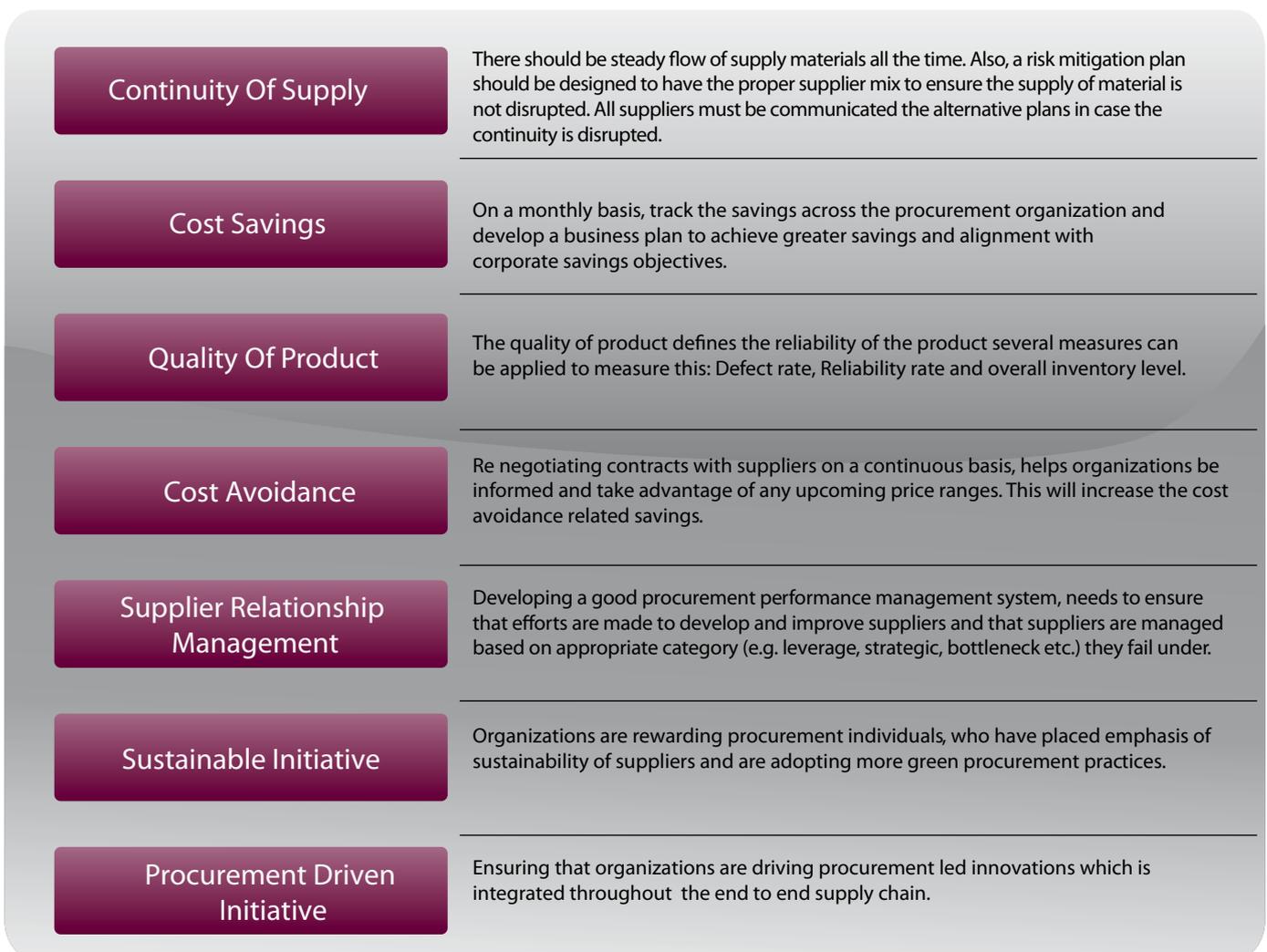


Figure 25: Performance criteria framework

How are these core principles sustained as part of delivering continuous improvement for the Procurement function?

The Procurement performance metrics help evaluate and understand any changes that need to be made to the Procurement organization. However, they do not clearly measure the effectiveness of a Procurement organization (i.e. current practices in Procurement group) relative to best Procurement practices in the industry for other organizations nor identify the necessary actions to be taken. The development of any approach to Procurement performance involves the following in order to ensure regular and continuous improvement:

- Benchmarking the Procurement practices against leading industry standards across the different measurement categories such as customers, organization, business processes, Procurement organization employees, IT tools and suppliers.
- Provide a rating for each of the sub-categories and identify relative weightings to ensure that a total rating for each measurement category can be derived.
- Perform a gap analysis and based on the difference between best practice and current practice to identify whether the gap is significant or not.
- Plot the Procurement organization along six pre-defined levels of Procurement performance score: laggard, average performance, Procurement as an optimized function, Procurement as a value-add, Procurement as a strategic and core-competency.
- Identifying and prioritizing measures to improve overall Procurement performance score.

Final reflections

As the marketplace has become more competitive and companies have started focusing on long-term growth strategies, Procurement performance measurement has been realized as a key vehicle to being ahead of competitors and providing more value to customers and key parties within the supply chain. A successful Procurement performance measurement program goes beyond the metrics design. It is about establishing a continuous cycle of monitoring overall business strategy and goals of the organization and ensuring that the Procurement organization is able to evolve and meet the changing needs of an organization.

7 Lean Procurement – removing barriers to innovation

How Lean techniques adapted to Procurement can improve stakeholder satisfaction, remove barriers to efficient processing, and release the creativity and innovation of a Procurement organization

Jean-Gabriel Padovani and Christian Westarp, Capgemini Consulting, France

Reading Time: 15 Minutes

Many readers have directed, formed, or participated in one or more large company Procurement organizations, that evolved in a manner that required a brutal, disjointed or even imperious approach.

Many of us have witnessed that the implementation of a competitive purchasing organization can double operating margins. To achieve such rapid gains, strict processes need to be imposed across existing practices. Such strong-willed process-based initiatives were often widespread in industry, particularly in the automotive sector, where the level of excellence in Procurement has become a base reference for many other sectors.

Partly as a result, large scale purchasing organizations have become overly complex, with excess layers of resources and structure to ensure an orderly process operation. A number of the most sophisticated practitioners, at the higher end of the purchasing competency spectrum, have begun to think that it is possible to dedicate less people to this process and yet maintain and even exceed performance levels. More significantly, they have developed the conviction that the Procurement process has become too rigid, onerous, and indeed bureaucratic, ensuring that Procurement professionals do not have the time to deliver value to the business. The innovative capacities of their own companies have been blocked, and suppliers constrained, within a set of controls and repetitive negotiations harmful to the industry as a whole.

The question which a growing number of Procurement specialists are posing is: Can Procurement processes be simplified, can collaboration with internal clients be improved, and can the search for performance in the broadest sense be promoted?

As one CPO said: “we want our peers to move from viewing Procurement as a largely administrative function to one involved in all major strategic commercial programmes; we achieve this by losing the ‘burden’ of P2P activities”.

Can Lean thinking help answer these questions and reinvigorate even the most advanced Procurement processes?

Inefficiencies at the best Procurement organizations

Let us first consider how such inefficiencies were able to develop in Procurement organizations of even the highest calibre. It is remarkable to observe that it is in the largest purchasing organizations that this is now being questioned. The approach taken to supplier selection and consideration as part of good Procurement practice only 15 years ago, is now being seen as only a benefits hungry approach. This is particularly true in the automotive sector where certain experts maintain today that it was “global sourcing” which led GM to neglect to manufacture cars that customers actually wanted. At the time GM established an effective worldwide Procurement organization which made substantial contributions to the group. Yet, it is widely recognized now that this also blocked the potential innovative capability of its suppliers, and ultimately of the entire company itself. On the other hand, FIAT has reinvigorated its automotive activities through a burst in creativity. Similarly, in the retail sector powerful buying platforms have stifled stores by removing their means of opportunity to adapt the market.

We can make three clear observations from this alone:

Some Procurement organizations may have become too large. These organizations, having achieved their objective of improving purchasing conditions, may appear today too unwieldy to executive level management, which drives the

“We want our peers to move from viewing Procurement as a largely administrative function to one involved in all major strategic commercial programs; we achieve this by losing the ‘burden’ on P2P activities”

CPO of a General Manufacturing company

question - what is an appropriately sized Procurement Organization? For instance, a global leader in energy with a Procurement Organization consisting of 850 professionals and managing an annual spend of 9 billion Euros has decided to entirely review its Procurement processes and better adapt its resources to its needs, as managing an average of €10 million in professional is unsustainable.

Internal clients are persistently dissatisfied with the service provided by Procurement.

A company that is a leader of its market in Europe discovered upon analysis, that the average sourcing process lead time (from need identification to contract signature) was 56 weeks – even without a public sector orientated set of regulations! Whilst this process is clearly not fit for purpose, the Lean approach allows us to distinguish between those activities that add value and those that do not.

Procurement often slows, or even hinders, the innovation process of companies.

Due to its constant market surveillance and close relationships with suppliers, Procurement is at the heart of the innovation process within industry. Internally, Procurement often plays a key role in the development of new products through participation in the tight project teams that develop those products. A variety of reasons, often complex, leads to the negative impact on Procurement. These reasons include excessive rigidity in supplier contacts, the exclusion of Procurement from development teams, and in return the imposition of rigid rules to ensure a rigorous selection of suppliers. For instance, many companies institute a rigid bidding process focused around price, where suppliers have no

avenue by which to differentiate themselves or to submit innovative proposals. In this way the buying organization’s process stifles innovation.

Indeed, Toyota has realised that the constant adjustment of terms and technical variables generated indirect costs that, especially as a result of quality problems, exceeded the limited and instable savings achieved through these renegotiations.

Lean Procurement: the elimination of waste

To begin to answer some of the challenges raised, we should consider the core Lean Principles illustrated in Figure 26.

The basic concept behind Lean thinking is the elimination of waste with the goal of creating excellent processes – processes that are effective and efficient, simultaneously improving the three dimensions of cost, quality, and time.

There are three guiding principles of Lean. The first is to define value. Anything that doesn’t contribute to value is thus waste, which needs to be eliminated. The second is to ensure the involvement of the very people who are the actors of the process in the entire approach to improve the process. The third is to have the ambition to radically transform the process, advancing step-by-step so as to guarantee the long-term sustainability of any changes and improvements introduced. The whole approach to Lean is to aim for the ideal process. The ideal process is a process composed solely of activities that add value (known as doing the right work). It consists of a “one piece flow” of activities without any waiting, work in progress or batch operations (known as doing the work right).

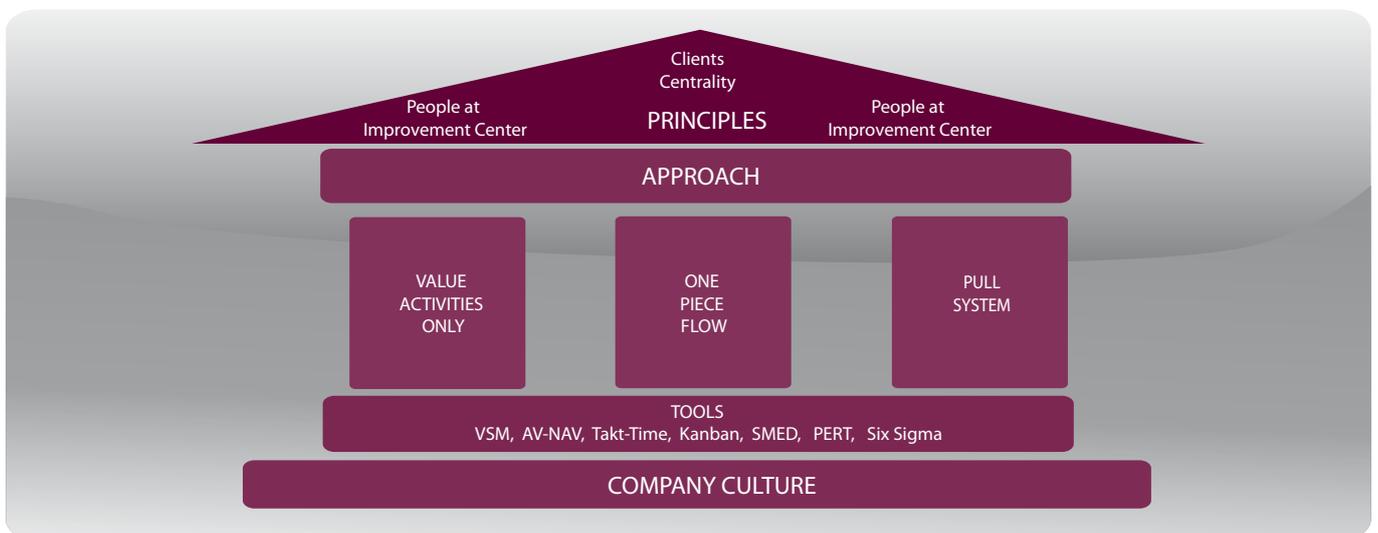


Figure 26: The pillar principles of Lean

It consists of activities that are pulled by the client, where only the right amount is produced at the right time.

Conclusion:

The successful application of Lean requires a change in the culture of the people and the organization. This must be achieved through training, communication and the involvement of those directly involved in the process and a conscious overcoming of vertical organizational logic to ensure the adoption of an overall process logic.

Lean Procurement: enabling innovation

Lean Procurement initiatives aim at one or several of the following objectives:

- Reduce both Procurement lead times and dedicated staffing requirements
- Eliminate unnecessary complexity via a re-examination of existing processes
- Place client satisfaction as a core objective, since this demonstrates Procurement's ability to create value.

As with most reviews, to achieve these objectives, it is first necessary to analyse the existing process. Such an analysis provides a detailed evaluation of the currently established ways of working. Weaknesses as well as strengths of the existing process can be highlighted. A key Lean indicator is the ratio of value added to non-value added time consumed by the process. An essential condition of

Importance of alignment and support

- **Align the actors of the purchasing process as well as management so they provide their full support:**
 - Groups: purchasers, requisitioners, legal experts, management hierarchy
 - Content: scope of project, goals target
- **Gather key data from the people most closely involved in the purchasing process via interviews:**
 - Feedback, experience, performance indicators
 - Good practices that can be replicated
 - Levers to reduce lead times
- **Engage the chain of command to ensure activation of levers for the reduction of lead times**
- **Provide answer to concerns raised, especially those regarding career implications**

How to obtain alignment and support?

- **Gather individual points of view through interviews:**
 - Points of view on strengths and best practices/ improvement potential of purchasing process
- **Jointly develop Value Stream Mapping workshop segment tasks, perform root cause analysis:**
 - Complete the data gathering and confirm the segmentation of tasks
 - Analyze standards and possible root cause of variances in cooperation with involved persons
- **Share and enrich results through a feedback session:**
 - Share As-is in terms of process, levers to reduce lead times, goals and target
 - Share underlying predictive factors for lead times, priorities the improvement levers

Figure 27: Alignment and support necessary for the successful introduction of Lean Procurement

success is to obtain the backing and involvement of management and the internal clients, as outlined in Figure 27.

The Lean approach, as shown in Figure 27, is directly applicable to Procurement. By way of example, a major European energy firm, set on establishing a irrefutable baseline, chose to survey 450 buyers and perform a detailed analysis of 7000 purchasing activities it performed. Focus interviews provided a better understanding of how the organization actually worked. Next, a series of workshops were undertaken to determine the root cause of the most significant problems. All levels of the Procurement Organization provided their point of view through these workshops, which double up as an effective forum where the project leadership teams formally committed to the implementation of the agreed-upon changes. With six workshops in total, and 24 involved participants per workshop, roles and responsibilities were defined and agreed, the ratio of value added to non-value added time consumed by the process was established, and most importantly, the benefit-effort ranking of ideas generated by the participants during the workshops was completed. It is these collaborative workshops that launched KAI (change) and ZEN (step by step implementation) in this large corporation. Implementation and review make up the final two steps of the methodology.

Final reflections

Successful introduction of Lean Procurement is dependent on two tools in particular: collaborative workshops and statistical analysis of the process.

Collaborative workshops represent the pivotal moments of the Lean Procurement approach. Sponsored by the Procurement leadership and attended by internal clients, workshops are a crucible that generates a very effective form of commitment. All relevant points of view are obtained, often with a degree of frankness not previously observed, which results from the willingness and necessity to address all relevant concerns. Furthermore, these workshops provide the stage for the launch of the subsequent steps.

Powerful statistical tools, as embodied by “six sigma”, are used by various companies to irrefutably demonstrate existing underperformance. Conditional upon taking enough time to create a reliable database, these companies are able to isolate the factors generating excessive lead times so as to identify focused corrective measures. For example, such an analysis can highlight activities that need to be treated differently – such as activities that require legal expertise that involves extra steps and more time.

The results attained by Lean applied to Procurement remove the barriers of excessive rigidity and inefficient processes, and enable the innovation that is associated with an effective Procurement process. Through Lean Procurement, Procurement becomes an efficient enabler instead of a stumbling block to growth.

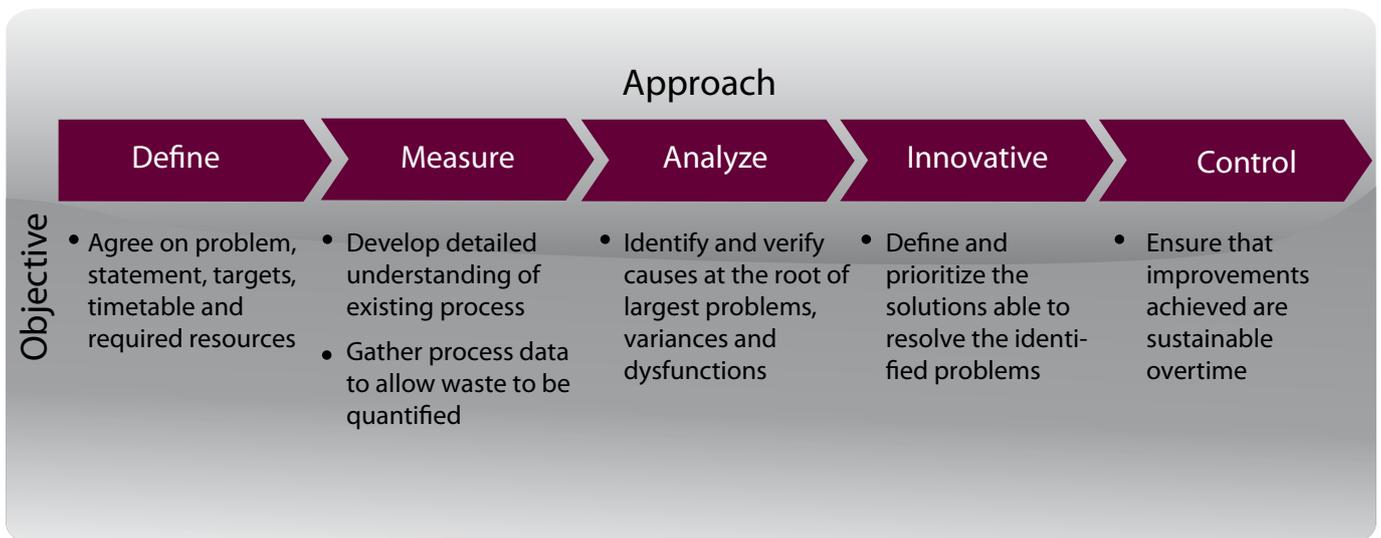


Figure 28: Lean Approach

Australia

Susan Stuart

Email: susan.stuart@au.capgemini.com
Tel.: +61 2 9293 4055

Dave White

Email: dave.white@au.capgemini.com
Tel.: +61396133222

Belgium

Philip Van Gasse

Email: philip.vangasse@capgemini.com
Tel.: +32 2 7081111

Filip Paenhuysen

Email: filip.paenhuysen@capgemini.com
Tel.: +32 2 708 13 63

Central Europe

Martin Raab

Email: martin.raab@capgemini.com
Tel.: +49 221 9126 44150

Stefan Becker

Email: stefan.becker@capgemini.com
Tel.: +49 89 9400 1126

Finland

Markus Karki

Email: markus.karki@capgemini.fi
Tel.: +358 9 4526 5612

France

Jean-Gabriel Padovani

Email: jean-gabriel.padovani@capgemini.com
Tel.: +33 1 49672140

Jean-Pierre Pellé

Email: jean-pierre.pelle@capgemini.com
Tel.: +33 1 49675159

India

Sanjeev Itagi

Email: sanjeev.itagi@capgemini.com
Tel.: +91 984 545 3017

Italy

Marco Alberti

Email: marco.alberti@capgemini.com
Tel.: +39 02 414931

Netherlands

Ton van Dolder

Email: ton.van.dolder@capgemini.com
Tel.: +31 30 689 1323

North America

Matthew Shull

Email: matthew.shull@capgemini.com
Tel.: +1 312 395 5805

Spain

Pedro Provedo

Email: pedro.provedo@capgemini.com
Tel.: +34 91 657 7521

Sweden

Bo Karlsson

Email: bo.x.karlsson@capgemini.com
Tel.: +46 8 5368 4065

Michael Skordby

Email: michael.skordby@capgemini.com
Tel.: +46 8 5368 4021

UK & Ireland

Graham Skinner

Email: graham.skinner@capgemini.com
Tel.: +44 870 366 0704

Hamish Mckechnie-Sharma

Email: hamish.mckechnie-sharma@capgemini.com
Tel.: +44 870 366 0435

Global (all other queries):

Adrian Penka

Email: adrian.penka@capgemini.com
Tel.: +1 404 806 5082



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Capgemini Consulting

Adrian Penka
Global Procurement Transformation Lead
Tel.: +1 404 806 5082
Email: Adrian.penka@capgemini.com

Roy Lenders
Global Supply Chain Management Lead
Tel.: +31 (30) 68 90328
Email: roy.lenders@capgemini.com

76-88 Wardour Street
London W1F 0UU
UK
Tel.: +44 20 7734 5700
www.capgemini.com/consulting

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