

5 Steps to Creating a Successful Procurement Strategy



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Introduction

A procurement strategy is one of the most important tools that a procurement organization has to maximize its value contribution to the company. This strategy serves as a compass to guide the organization and should be updated at least annually to ensure ongoing alignment with the overall corporate strategy.

For the purposes of this whitepaper, let's begin with a fundamental definition of the word strategy:

“1) A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem; 2) The art and science of planning and marshaling resources for their most efficient and effective use.”

How does this definition of strategy fit into the procurement arena? A procurement strategy defines a plan for optimizing external spend, procurement operations, and other value contributions in a manner that supports the overall corporate agenda. Without a comprehensive strategy in place, it's impossible to know whether or not your procurement organization is aligned with the corporate strategy and whether or not progress is being made.

Procurement strategies have several components that make each unique to its respective organization—there is no one-size-fits-all approach to creating a strategy. A properly-tailored approach depends on the current state of the organization's procurement operations, the company's view of procurement, current market conditions, and the overall corporate strategy. However, the single most important aspect of a procurement strategy is to have one.

Creating an effective procurement strategy can be a relatively simple process if you follow these five key steps:

1. Understand where your procurement operations are today.
2. Identify what's important — to the procurement organization as well as to the overall company.
3. Define what success looks like.
4. Develop measurable targets that define success.
5. Implement and measure your strategy.

Step 1: Understand Where Your Organization Is Today

Often, organizations develop a strategy without fully understanding where they are today. This can be a serious mistake. Without first understanding—quantitatively and qualitatively—the organization's standing, it's impossible to measure progress toward a desired future state.

From a procurement perspective, this baseline falls broadly into two categories: 1) understanding how your procurement organization is currently adding or creating value; and 2) understanding your organization's current operational efficiency and effectiveness.

Common efficiency metrics and baseline elements include:

- Procurement cost-per-dollar spend.
- Procurement spend per employee.
- Procurement cycle time.
- Organizational size.
- Budget cost per employee.
- Turnover percentage.
- Number of sourcing events.
- Technology utilization.
- Payment terms.

Common effectiveness metrics and baseline elements include:

- Total spend actively managed.
- Percentage of spend under management.
- Percentage of contract compliance.
- Total savings and savings as a percentage of spend.
- Return on procurement investment.

- Category coverage.
- Supplier counts; Suppliers with 80 percent spend.
- Savings sources.

In addition to obtaining these metrics, it's helpful to gain perspectives regarding how your procurement organization is operating. Feedback from external stakeholders (customers) as well as internal stakeholders (employees) can provide valuable insight as to what's working well and what could use improvement.

Another important component to establishing a baseline that assesses where your organization is today is to compare with industry benchmarks. This allows for a quantitative understanding of how your organization measures up against industry peers (and leaders) and identifies where there are gaps in current performance.

Step 2: Identify What's Important – to the Procurement Organization as well as to the Overall Company

Once a baseline is established and gaps are identified, it's important to document drivers and links between the procurement strategy and corporate goals.

Strategic drivers and objectives differ greatly across industries and companies. For example, a start-up enterprise may value speed over cost savings, while an established company in the middle of restructuring might consider value cost and customer service to be more important drivers.

First, gather background on corporate goals and understand corresponding time frames. Next, list the company's corporate goals and map procurement objectives to each. There may be supporting objectives unique to procurement that can strengthen the ability to deliver corporate objectives (e.g., professional development, dashboards).

Example: Linking Corporate & Procurement Objectives

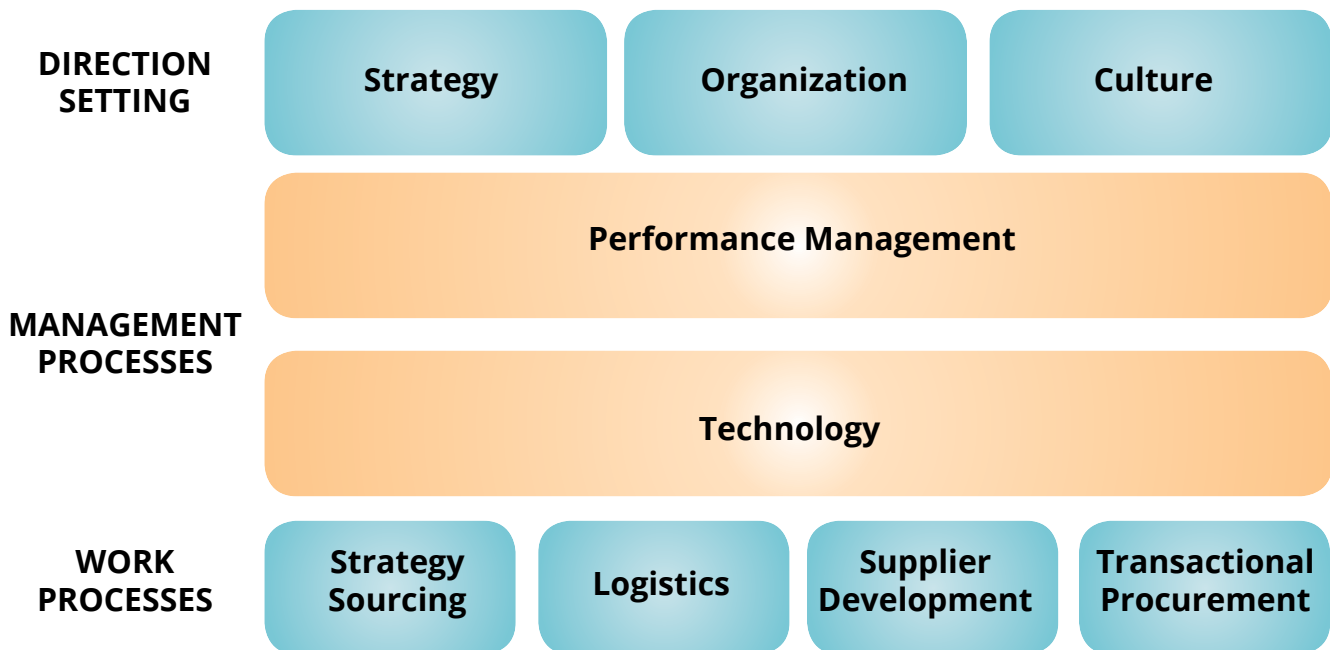
Corporate Objectives	How Procurement Contributes
Process Simplification	Streamlining procurement policy, processes and procedures
Operational Leadership	External spend reduction, operational efficiency
New Product Introductions & Product Innovation	Early supplier involvement/ innovation programs
Global Market Expansions	Establishing global supplier networks
Corporate Social Responsibility	Growing supplier diversity programs, green supply chain

Step 3: Define What Success Looks Like

A list of objectives or metrics requiring improvement must be identified. Then, a procurement strategy that will achieve those improvements must be determined. The key is to develop a strategy that reaches beyond the scope of this list. It should clearly articulate a plan to enhance the existing objectives or metrics. For example, think about

how you would describe your strategy to someone who has no experience in the procurement space, as you might in an elevator speech. Be sure to think holistically. Look at all dimensions relating to procurement: your work processes, organization, culture, and performance. A helpful framework during this phase is ProcureAbility's Dimensions of Procurement Effectiveness:

ProcureAbility's Dimensions of Procurement



Given baseline data, benchmark comparisons, corporate goals, and procurement objectives, which of these dimensions requires change in order for your organization to achieve its objectives? Clearly describe what the procurement organization of the future will look like and—more specifically—how it will differ from its current state.

Step 4: Develop Measurable Targets That Define Success

Once the objectives are defined and a procurement strategy is determined, the next step is to develop

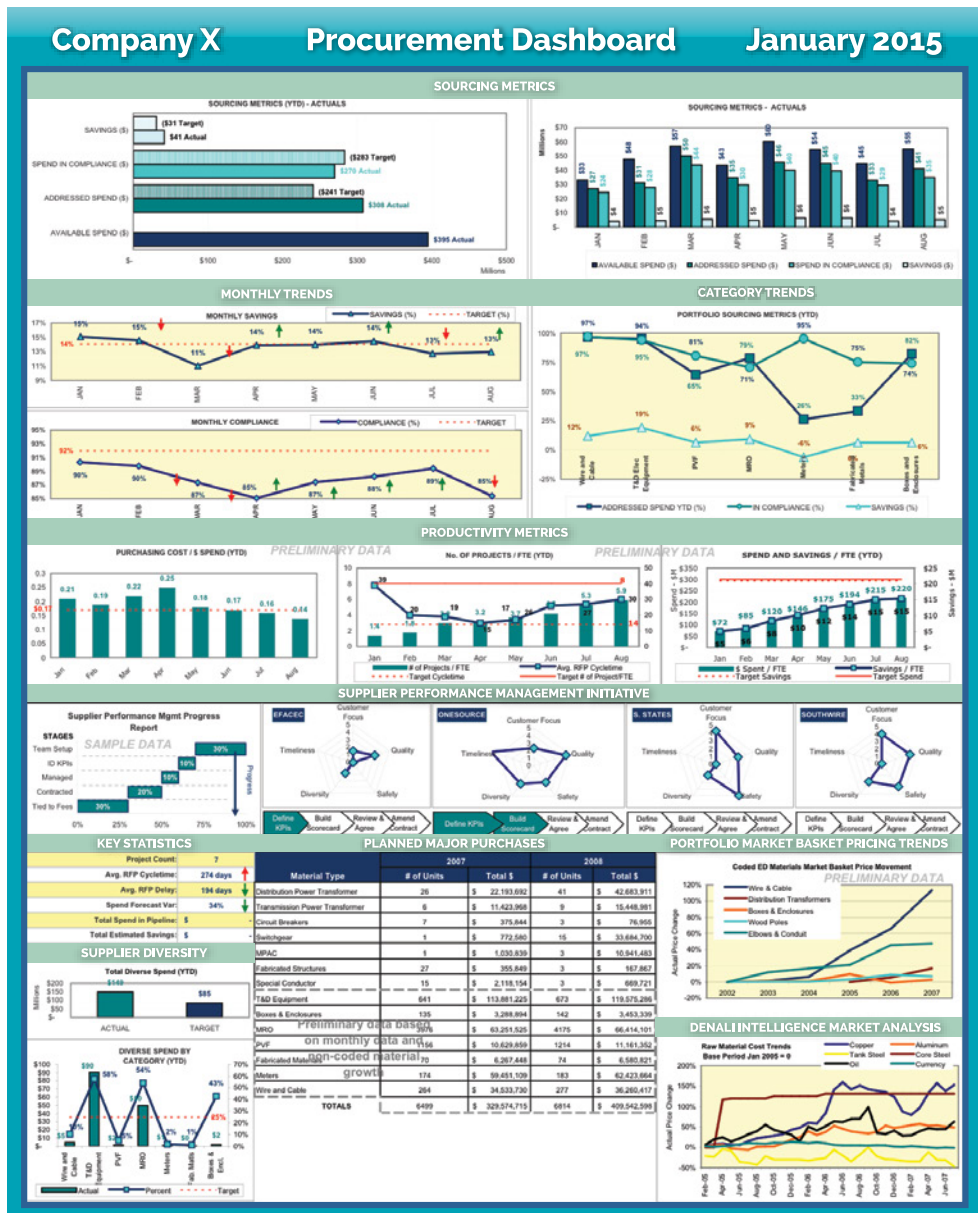
measurable targets that define success. Many objectives may naturally lend themselves to these targets. Others may require creative approaches to converting improvement initiatives into measurable targets or metrics. For example, if one element of the strategy involves upgrading the skills of the organization, a corresponding metric might be developed to measure the percentage of employees within the organization who have a certain level of competency across a range of defined skills. These metrics should then tie into overall corporate goals to ensure alignment.

Ideally, a suite of metrics can be assembled in the form of a procurement dashboard, which can be visibly tracked and shared across the organization. A sourcing dashboard helps to create visibility of key sourcing performance and operational information. Other benefits are that it:

- Helps to ensure linkage of corporate objectives to category-specific savings targets
- Allows for visibility of key cost, quality and service performance at various levels

- Provides a consistent tool to track total sourcing savings
- Ensures the sourcing organization is focused on mutually-agreed upon, consistent performance metrics
- Provides the basis for a formal continuous improvement approach to strategic sourcing

Procurement Dashboard Model



Step 5: Implement and Measure Your Strategy

It's difficult for a procurement strategy to be considered effective unless it brings about change that improves the organization's overall performance. Implementing a new strategy is usually a balance of science (building a plan) and art (designing the rollout). Developing a strategic plan that articulates clearly the various initiatives, responsibilities, due dates, and expected results will help ensure success.

Key components of the implementation phase include:

- A detailed implementation plan that blends synergies across initiatives and participants. The plan should clearly articulate initiatives, assigned responsibilities, completion dates, and expected outcomes.
- A project management team that meets regularly to review progress across initiatives, to manage roadblocks, and to support participants.
- Formal and informal internal champions who provide guidance and support.

- A change-management plan and resources dedicated to communicating new changes.
- An executive leadership that visibly demonstrates support and accountability.
- Incentives for initiative leaders to champion the success of their programs.
- Visible tracking and communication of progress to the rest of the organization — ideally integrated with the procurement dashboard.

Conclusion

Does your organization have its procurement strategy defined, with implementation underway? If not, it's not too late. Use these 5 steps to create a procurement strategy that will help your organization ensure its success and maximize its value contribution to the entire company.

Contact ProcureAbility today for a No-Cost Procurement Strategy Assessment.
Call **888.824.8866** or email **info@procureability.com**

About ProcureAbility

ProcureAbility™ transforms traditional, outdated consulting and staffing models by offering our clients advisory and resource support on their terms.

Our delivery model is unique. We give clients access to unbundled resources, plus the ability to selectively add value through leading-edge methodologies, the latest best practices, and specialized insight and advice—an approach unheard of in traditional consulting and staffing firms.

ProcureAbility's customer-focused delivery model allows for a wide range of flexibility:

- **Working with strategic or tactical experts** who can deliver a wide range of solutions, from consulting to staffing
- **Scaling a team your way**, from individual resources to complete project teams
- **Adding value as needed** from a deep and broad library of procurement insights
- **Choosing remote or on-site support options** — or both

Since 1996 we've focused only on procurement's success. **It's all we do.**

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