

Whitepaper: Creating an Effective Procurement Strategy



Introduction

When talking with procurement executives about their strategic planning efforts, we hear a wide spectrum of responses regarding how formal (or informal) their procurement strategy is. Some admit to not having a formal strategy, while others have very detailed, well-documented strategies complete with roadmaps, category-specific strategies, and detailed metrics and dashboards.

From our experience, procurement organizations that have definitive strategies—with action plans and measureable goals—have much higher success rates than those that do not. Yet, some organizations still operate blindly every year. It's important to make sure you're not one of them.

At ProcureAbility™, we define procurement strategy as:

"A plan for optimizing external spend, procurement operations, and other value contributions in a way that supports and is aligned with overall corporate strategy."

The Importance of Having a Procurement

Why is a procurement strategy important? It contains your organization's roadmap for the year (or multiple years).

Without a strategy, how will you know if you're doing the right things, are aligned with your corporate strategy, and are making progress? It enables connectivity to your key stakeholders (and corporate leadership) by clearly defining your objectives as well as the key initiatives that will allow you to achieve those objectives. Having a formal, documented strategy allows procurement leadership to have meaningful discussions with key stakeholders to ensure that you are connected and in sync with your internal customer organizations.

Procurement strategies have many different flavors and, from ProcureAbility's perspective, there is certainly no single strategy that's right for every company. The correct strategy for your organization depends on many factors: the current state of your procurement organization, your company's view of procurement, current market conditions, the types of initiatives that you've already completed and, most important, your corporate strategy. The most imperative aspects of your strategy are that:

1. You have one;
2. It focuses on the right elements; and
3. You have a process for bringing it to fruition and measuring success.

Sample Procurement Strategy Contents



Procurement Strategy 2017

2017 Procurement Strategy Elements

1. **Strategy Overview**
 - a. Operating Environment
 - b. External Factors
 - c. Stakeholder connectivity
2. **2017 Goals & Objectives**
3. **Strategic Planks**
 - a. Organization & People
 - b. Process Improvements
 - c. Technology Improvements
 - d. Sourcing & Supplier Development Initiatives
4. **Strategic Roadmap**
5. **Metrics & Reporting**
6. **Appendix**
 - a. Resource & Training Plan
 - b. Category Strategies

The Process for Creating an Effective Procurement Strategy

Creating a Procurement Strategy can be a relatively straightforward process. Key steps include:

Step 1: Understand Where You Are Today

Many organizations jump into the process of developing a strategy without first understanding where they are today, which makes it impossible to measure progress toward a desired future state. This information should come from both an internal and an external view (stakeholders, suppliers, and industry leaders). From a procurement perspective, the current baseline broadly falls into two categories: understanding your current operational efficiency and understanding how you're currently adding or creating value.

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 "Value" metrics and baseline elements:

- Total Spend Being Actively Managed
- Percentage of Spend Under Management
- Percentage of Contract Compliance
- Total Savings and Savings as Percent of Spend
- Supplier Diversity and Green Sourcing Results
- Other Sources of Value from Procurement Documented
- Return on Procurement Investment
- Category Coverage
- Supplier Counts, Suppliers with 80 Percent of Spend
- Sources of Savings

In addition to quantitative metrics, it's important to understand how your practices compare to those you and others consider peer group leaders. Is your approach to category management or strategic sourcing considered best in class? If not, where are the gaps? Does your organizational structure facilitate best practices and inspire innovation? Are you delivering the maximum value to your company?

Getting external feedback regarding how well your procurement organization is operating can be very helpful. Getting continuous feedback from your customers regarding their procurement experience, from your employees regarding workplace satisfaction/morale, and from suppliers regarding doing business with your company can provide extremely valuable insight into what's working well and what's not.

A comparison against industry benchmarks is another very useful component to establishing your baseline. This allows a quantitative understating of how you stack up against industry peers (and leaders) and where you have gaps in your current performance.

Step 2: Identify What's Important to Your Organization and to Your Company

Once your baseline is established and you understand clearly where your gaps are, it's important to document the drivers and links between corporate goals and procurement strategy.

Strategic drivers and objectives can be very different across industries and companies. For example, a start-up company may value speed much more than cost savings as the most important driver for procurement, while an established company in the middle of restructuring may value cost and customer service most.

Start with gathering any background that you can regarding your corporate goals. Understand the time frames for each. List each of your company's corporate goals, then map their corresponding procurement objectives. You also may have supporting objectives unique to procurement that will support its ability to deliver corporate objectives (e.g., professional development, dashboards).

Example: Linking Corporate & Procurement Objectives

Corporate Objectives	How Procurement Contributes
Process Simplification	Streamline Procurement Policy, Processes and Procedures
Cost 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 strategy is much more than a list of objectives or metrics that need to be improved. This step involves clearly articulating your strategy. Think about how you would describe your strategy to someone who has no experience

in the procurement space (your elevator speech). Be sure to think holistically. Look at all dimensions relating to procurement—your work processes, organization, culture, technology, infrastructure, and performance management. At this phase we follow the ProcureAbility Procurement Strategy Framework:

ProcureAbility Procurement Strategy Dimensions



Organization



Work Processes

- Category Management
- Strategic Sourcing
- Supplier Development
- Transactional Procurement



Culture



Performance Management



Technology



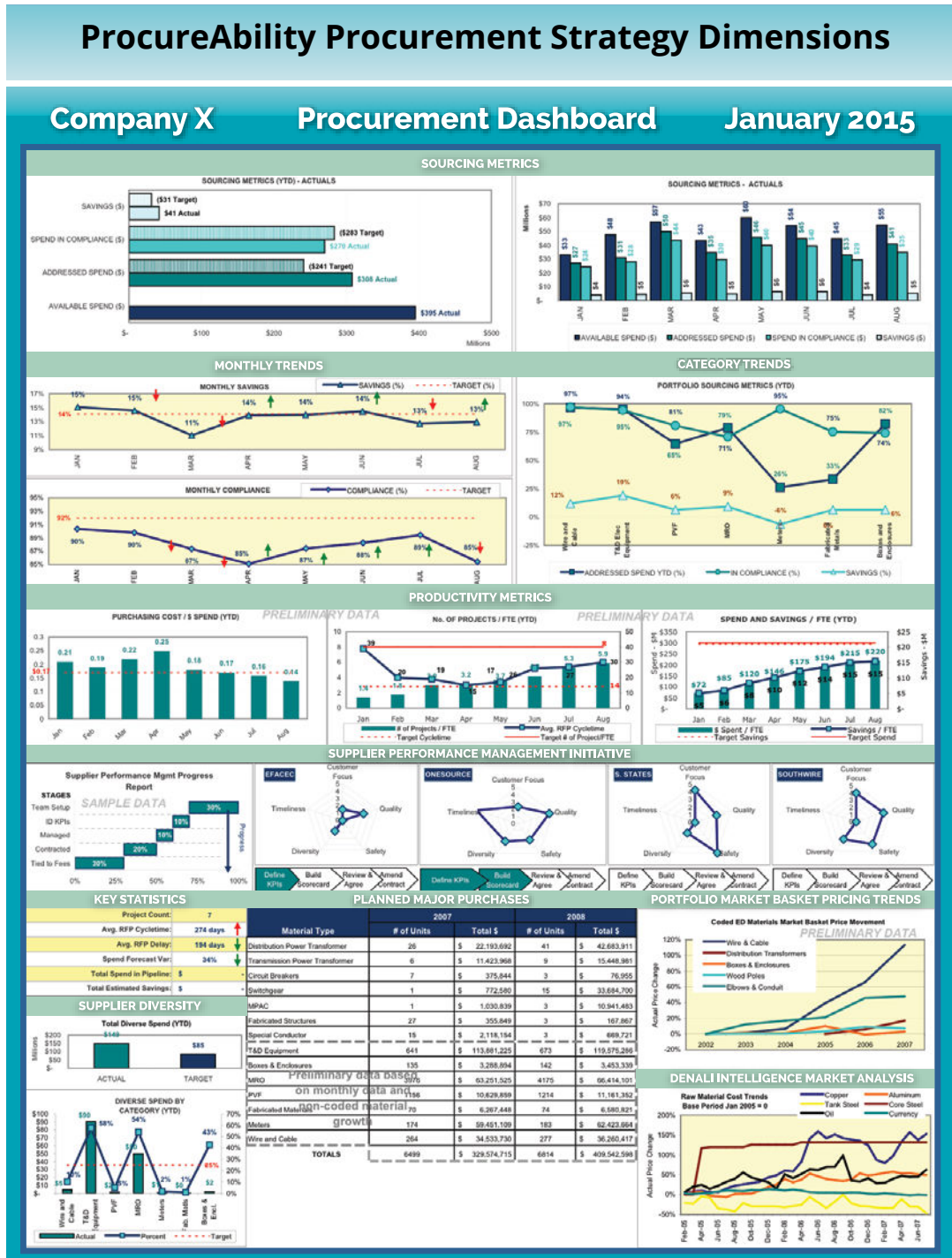
Infrastructure & Support

Step 4: Develop Measurable Targets That Define Success

Many of your objectives may naturally lend themselves to measurable targets. Other elements of your procurement strategy may require creative approaches to converting improvement initiatives into measurable targets or metrics. For example, if one element of your strategy involves upgrading the skills of your organization, a metric

might be developed to measure what percentage of your employees have a particular level of competency across a range of defined skills.

Metrics should tie to corporate goals to ensure alignment. Ideally, this suite of metrics should be assembled in the form of a procurement dashboard that is shared across the organization and visually tracked.



Step 5: Implement Your Strategy and Measure!

Ultimately, a procurement strategy is meaningless unless it results in new actions that improve your overall performance and allows you to contribute to your corporation's success. Implementing a new strategy is usually a balance between science (building the plan) and art (designing the rollout). Designing the implementation plan will require careful consideration of the similarities and synergies across initiatives.

Key components of the implementation phase include:

- Detailed implementation plan that exploits synergies across initiatives and participants. The plan should clearly articulate initiatives, assigned responsibilities, completion dates, and expected outcomes.
- A project-management team that regularly meets to review progress across initiatives, deal with roadblocks, and support participants.
- Formal and informal internal champions for providing

guidance and support.

- A change management plan/resource dedicated to communicating changes and ensuring buy-in and support.
- Executive leadership that demonstrates visible support and accountability.
- Incentives for initiative leaders regarding the success of their programs.
- Visible tracking and communication of progress to the rest of the organization (ideally integrated with the procurement dashboards).

Conclusion

In summary, a procurement strategy is one of the most important tools a procurement organization can use to ensure its success and maximize its value contribution to the company. The strategy should become the compass that guides all efforts for the organization and should be updated at least annually to ensure continual alignment with the corporate strategy, current market conditions, and other external factors.

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.**

For more information on ProcureAbility services, visit ProcureAbility.com or call **(888) 824-8866**.