CREATING YOUR 2019 PROCUREMENT STRATEGY:
Roadmap to Results

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INTRODUCTION

As your Procurement organization prepares for the year ahead, what are your objectives? Do you have a roadmap or strategy for 2019? How will you measure success? Unfortunately, many organizations do not have the answer to these questions, which could very well be the most important ones asked.

In this paper, we will discuss why having a formal strategic plan is critical to procurement’s capacity for delivering results as well as how to develop a plan that will make those results a sustainable reality.

WHY DOES PROCUREMENT NEED A FORMAL STRATEGIC PLAN?

Without a comprehensive procurement strategy in place, it is impossible to know if your organization is aligned with the overall corporate strategy and if progress is being made. The plan, therefore, becomes a “rudder,” allowing procurement to navigate a straight and purposeful path through the turbulent waters of corporate spend management.

Despite the advantages of having a strategic plan, procurement organizations don’t consistently put them in place – at least not formally. During a recent Sourcing Industry Group webinar, participants were asked how often they develop a formal procurement strategy. Only 40% of the respondents said they do so on an annual basis, and only 60% would characterize their strategy as “formal” (Fig. 1).

The formality of a strategic plan has more to do with what is invested in its development than with graphic polish and presentation. Formal strategic planning takes a holistic approach, incorporating as many relevant inputs as possible.

These inputs include corporate objectives, marketplace dynamics, stakeholder buy-in, supplier partnerships, and procurement’s current state. As a result, the “outputs” of the planning process also take more than one form. Although traditional procurement objectives – such as savings and spend under management – absolutely make an appearance, so do goals regarding procurement talent development, speed to market, product quality, and long-term vision (Fig. 2).
Although it may be easier – and even more expedient – for procurement to develop a plan in isolation, without input from all parties, the result will be neither strategic nor effective.

Planning formality is achieved by thinking broadly about the complete scope of what procurement can accomplish, selecting a subset of opportunities that are possible given procurement’s resource capacity, and ranking them in priority order. These decisions affect what procurement will evolve into over the coming year and how procurement will be able to impact operational health. The trade-offs that are made in the process represent the strategic portion of the planning process. Brainstorming ways to realize more savings is not a strategic plan, and neither is just responding to the most vocal stakeholder groups in the company. To be strategic in a planning effort, procurement must balance their objectives with those of the company as a whole and make tough decisions as needed, creating a guidance framework that provides clear direction once the work begins and the landscape inevitably shifts.

GETTING STARTED

Creating an effective procurement strategy starts with understanding where the organization is today and where there are gaps that may prevent the organization from accomplishing its objectives (Fig. 3). Conducting assessments that address talent, technology, knowledge, and processes further define these gaps and how to bridge them. Because assessments can incorporate both qualitative and quantitative inputs, it may be prudent to involve a third party to improve and validate the results. Procurement has many data sources at their disposal, both internal and external, and they should all be incorporated. These include ERP data, supplier data, and stakeholder data, but also market intelligence and social media.

Just as the strategic plan should draw on many inputs before being refined down to a select number of outputs, procurement assessments must compare capabilities to best-in-class organizations. Without a “big picture” comparison to industry benchmarks, procurement may know where they stand but have no idea how to improve their current position. It is through a larger context and industry comparisons that procurement gains objectivity and develops a vision.

Once procurement have grounded themselves in corporate objectives and conducted an objective self-assessment, the plan will begin to take shape through the assignment of timing, tracking metrics, and the designation of responsible parties who will see the effort through.

OPTIMIZING THE COST OF PROCUREMENT

For most companies, the fully-loaded cost of a procurement organization is less than 1% of their total spend. So, for example, if the company spends $100 million annually on materials and services, the total budget for their procurement organization would likely be less than $1 million. Procurement must operate as efficiently as possible, making careful decisions about which spend to manage with each resource, taking into consideration all levels of ROI. The cost of procurement’s work should be a factor in strategic planning.

FIGURE 3: Creating an Effective Procurement Strategy

1. Determine what’s important to the procurement organization and the company
2. Understand where your procurement operations and value contributions are today, then identify where you have gaps
3. Design strategic planks to close gaps and achieve your vision
4. Develop a strategic roadmap, metrics, and dashboard
5. Implement and track your progress

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BENEFITS OF HAVING A FORMAL PROCUREMENT STRATEGY

We’ve already touched upon the why and how of strategic planning, but what comes of it? Improved results and increased visibility into those results are expected benefits, but a formal plan can also lead to the creation of a shared vision and a mindset focused on driving continuous improvement. One of the most important outcomes is that the following year’s strategic plan will be even better formed and lead to even greater performance. Regular refreshes of a plan are important for keeping it in sync with procurement’s priorities; they also make it easier for procurement leaders to solidify, refine, and take inspiration from their own long-term vision.

Watching change take place, both in terms of procurement’s results and through the improvement of mindset and visibility, should further motivate the entire workforce. Articulating objectives that are clearly tied with corporate priorities and measuring progress against a shared vision allow procurement to become more inclusive in their spend management efforts.

Doors may be opened to new categories of spend or previously off-limits supplier relationships. Non-compliant spending may lose its appeal. By investing in a formal strategic plan, procurement will create momentum for their efforts and benefit from the increased influence wielded by a confident team walking a path towards a known future point.

CONCLUSION

The most common challenge facing procurement organizations without a strategic plan is the overwhelming load of the “day-to-day” work. Thinking higher level and longer term requires a different perspective on the role procurement plays in the organization, even as resource constraints threaten to bog the team down in tactical efforts. Everyone in a procurement leadership role needs to appreciate the importance of a strategic plan if the organization is to achieve their full potential.

Follow these tips for successful procurement strategy planning:

- **Be objective** when assessing your current state – incorporate input from stakeholders, suppliers, and external providers. Procurement will need the support and involvement of all of these parties to achieve their objectives.
- **Don’t overcommit** to results, but don’t “sandbag” either. Determine procurement’s capacity for leading change and the organization’s readiness to engage in the process. Develop a realistic roadmap that allows procurement to deliver measurable wins.
- **Develop a formal, action-oriented strategic plan** to support procurement’s initiatives over the defined timeframe. The strategy should include a mix of value-contributing and infrastructure-building initiatives and be reviewed and refreshed on a regular basis.
- **Monitor, measure, and adjust.** Use a formal project management infrastructure to keep your strategy on track. For every goal there should be a plan for measuring progress through a dashboard placed in a visible location or format.

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