

Strategies to Transform Procurement for Competitive Advantage

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Companies need to integrate with partners in ways that distribute risk, share accountability and create new business ecosystems.

Whether you're a global automotive manufacturer or a locally based retail chain, the goal of procurement is to deliver value as a core element of the supply chain. With IBM Global Procurement, we have integrated this concept into our core values and into our strategy. The value of procurement derives from people, processes and technologies that secure goods and services in support of internal partners in the development and delivery of products and offerings. The resulting benefits from this activity include increased profit, improved internal partner and customer satisfaction (from improvements in supply continuity, quality and value of goods and services received), and optimized cash flow. We've experienced this firsthand at IBM, where procurement has contributed to over \$6 billion in cost savings while delivering leading-edge technology and services in an on-demand world.

To turn procurement into a competitive weapon, companies need to reassess their existing procurement strategy and continuously validate its effectiveness based on the current and future business environment, and not fall into a trap of simply repeating what was done in the past. The three key elements to focus on, which apply to all organizations, are:

- Strategic marketplace drivers — customer, supplier and competitive landscapes
- Corporate strategic intent — including driving growth and profits consistent with your business's principles and strategic imperatives
- Procurement business design — increase procurement leverage, year-on-year productivity improvements, and facilitate strategic growth and value

Today, businesses see increasing competitiveness and accelerating globalization. This presents new challenges to achieve increased profit and revenue. At the same time, to remain competitive, many companies are driving fundamental business transformations to provide on-demand solutions with high value-add. To achieve this, one U.S.-based Fortune 100 company has recently appointed a new chief procurement officer who will move procurement from the individual business units to an integrated, cross-enterprise organization. They expect this to drive further improvements to their \$14 billion global procurement enterprise by increasing operational efficiencies and streamlining costs.

Similarly, IBM has developed a set of strategic actions to address these same types of challenges to take full advantage of opportunities in this fast-paced marketplace. The key to our strategy is the alignment of these strategic actions into four imperatives, which can be applied to almost any procurement organization. Below is a brief description of these imperatives.

Imperative 1: Transform supplier relationships to be On Demand extensions of the company. Procurement should deliver "On Demand" solutions through a unique set of supplier relationships which can deliver exceptional value to customers. To sustain a competitive advantage and move toward an On Demand model, organizations need to redefine their fundamental supplier relationship model and develop a proactive plan to reach interdependence with key suppliers. This will require a new level of supplier relationships ("premier suppliers") and an approach to certify On Demand suppliers. These premier relationships will be differentiated by the commitment to a true "win-win" relationship between both the organization and the suppliers. Underlying this redefinition will be the continued drive toward collaborative and integrated processes, systems and IT infrastructures, and unique governance structures with these suppliers.

Imperative 2: Influence and provide leadership to internal partners in the delivery of On Demand solutions. This imperative drives collaboration and focuses on the business strategy of suppliers, internal partners and customers. By seamlessly integrating suppliers with the needs of a corporation's individual business units, procurement will help mold and influence product strategies, solution development and life-cycle management. This can be a key competitive differentiator.

Imperative 3: Achieve best-in-class operational efficiency and functional excellence. The procurement unit must be committed to driving operational efficiency by leveraging best-of-breed practices across the enterprise and automating or eliminating low-value-add activities. Organizations need to take advantage of global resource capabilities and dynamically optimize the placement of workload across all worldwide locations.

Imperative 4: Transform the global strategic sourcing process. The focus here is to leverage global opportunities, supplier optimization and full integration of supplier relationship models. Procurement organizations should have a consistent sourcing strategy that will enable them to support a world-class On Demand supply chain capable of providing industry-leading performance in end-to-end cost, quality and supply across the value chain.

To increase corporate buying power and supply chain optimization, procurement managers will need to implement a disciplined sourcing methodology that supports the buying strategies of every business unit. In the case of IBM, this includes all of our brands in hardware, software and services. This methodology must be integrated and applicable to all spending categories worldwide. For example, these categories include services such as travel or technical subcontractors, raw materials and office supplies.

To achieve the greatest benefit, this process should begin very early in the product/service/solution design or development stage. Starting early will provide a structured and integrated framework for deciding what to source, not only for selecting sources of supply. These decisions will be based on emerging supplier capability, cross-category leverage and aggregation opportunities or other factors.

Foundation: People, Business Information and Business Intelligence

The objective of the foundation is to support the four imperatives with superior skills, resources and tools to deliver value in an on-demand world. People are integral and a workforce that fosters innovation, effective problem solving, and the ability to handle complex negotiations that deliver a total solution to internal partners will be a prerequisite to success.

The effective management and responsive sharing of business information plays a crucial role in optimizing processes and cooperation across the supply chain. This means real-time access to information from anywhere at any time with the ability to integrate that information across the supply chain to react to challenges and opportunities with speed and precision.

Lastly, with real-time business information at hand, teams can facilitate better decision making for internal partners by providing competitive advantage; by simplifying access to business and marketplace intelligence through a "single point of entry"; and by applying knowledge management techniques to leverage data that exists, to determine filters for relevance, and to organize trends for data sharing.

To conclude, similar to any large-scale implementation, particularly one that is going to change the way a business operates, these imperatives and the foundation require executive management sponsorship as well as ownership to ensure they are executed.

In order to gauge the progress of the transformation, the senior leadership team, typically led by the chief procurement officer, needs to establish a rigorous set of strategic metrics and a supporting management system to validate the execution of the strategic roadmap and its success. This is no overnight task. This is a journey that started for IBM as part of our larger transformation in 1994. And although we are 10 years into this journey, we still have much more to accomplish. But when you can report to your CEO and your shareholders that you saved millions of dollars for your company, you are clearly adding value and providing a competitive advantage that transforms the traditional procurement role into a driving force for business success.

**EXAM ALERT
MODULE 4**

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