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Leaders Can No Longer Afford to Downplay Procurement

If you were asked to identify the most strategic and valued unit in your corporation, the procurement department would probably not come to mind. The term procurement itself has a very administrative connotation: It's associated with buying 'stuff' for the lowest prices possible.

Today's corporations are directing more and more of their budgets toward a complex web of global specialist providers and suppliers to help deliver on their businesses' core strategies. A recently released global study of nearly 2,000 publicly traded companies found that 69.9% of corporate revenue is directed toward externalized, supplier-driven costs. In the last three years alone, companies have increased their external spend as a percentage of revenue by nearly 4%.

As a result, the role of procurement is magnified. Or, at least, it should be magnified. Suppliers must now be viewed as an extension of the company. Like the internal workforce, they must be incentivized, coached, sanctioned, and rewarded to help achieve corporate objectives.

However, procurement doesn't register on the C-suite's radar in a manner proportionate to its growing importance within the organization, and most procurement departments are neither ready nor empowered to take on their new responsibilities. Here are some of the reasons for this:

An unproductive fixation on cutting costs

Businesses want to increase profits to grow shareholder value, so procurement incessantly portrays savings as profit improvements. At best, this is naive and, at worst, disingenuous. Improvements to shareholder value come from delivering the corporation's objectives, not from decreasing spending. And too often, savings just represent corrections of past failures in managing supplier relationships.

There are some corporations whose objective is to have the lowest possible cost base as the primary source of competitive advantage, but even here procurement still disappoints, as it seldom owns the budgets and therefore has a much smaller impact on profits than imagined.

Organizational isolation

Procurement teams are often disconnected from the functions they serve and the markets they engage. Too often, they are not fluent in the nuances of the business and therefore lack the expertise and authority to challenge or influence spending decisions. This often frustrates sales and the revenue-generating front lines, further isolating procurement.

Glacial processes

Procurement teams tend to rely on processes that are far too slow to support the business's needs. Procurement's response to almost any problem is to run a sourcing exercise and issue a tender, which could take six to eight weeks. That's just not acceptable in today's fast-moving and interconnected environment.

Acting without inquiry

Procurement fails to ask the most basic of questions: Why? In most organizations today, procurement people are not programmed, encouraged, or incentivized to do much other than review vendors and negotiate terms, even when there might be a better way of serving the business's need. Many lack the training and skills to thoughtfully analyze a sourcing request and their aforementioned isolation makes it nearly impossible to truly understand business priorities. Instead, requests are taken at face value without second thought.

So, what can be done to improve procurement? How can we resolve a function that is increasingly marginalized, despite its growing importance to the firm?

The answers lie in four fundamental areas that need to be addressed and resolved by C-level leaders: First, leaders should reassess and clearly define the role of procurement in the company philosophy. Is it a process-oriented, savings-obsessed function? Or does it focus on customer service and helping the business achieve its strategy?

Second, they should change the way procurement is measured, connecting its objectives to those of the budget holders it is there to serve. Leaders should consider what the business is trying to achieve and design metrics around areas such as innovation, stakeholder experience, risk mitigation, improving ways of working, and spending wisely rather than less.

Third, leaders should determine whether the current cast of procurement executives has the required skills and abilities. A very broad range is needed – from consultants, with skills like rapport building, influencing, and dealing with difficult stakeholders, to analysts, process mappers, researchers, negotiators, change managers, paralegals, contract managers, project managers, and so on. Deep expertise is critical in each area. If the requisite skills are absent, the company needs a plan for acquiring them through training, recruitment, or partnerships with third parties – or all three.

Finally, leaders must give procurement teams incentives to create a welcoming atmosphere for suppliers. If procurement is operating effectively, suppliers should be beating down the door to get their goods and services sold into the organization. They should be treated as a driving force for innovation and viewed as critical partners in the company's success. ▣

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