

How to put the “strategic” back in supply management



Under pressure to produce “quick wins” in procurement? This seven-step process will help you gain top management’s support for strategic sourcing—even in a bad economy.

AS THE ECONOMY CONTINUES to undergo a painful transition and adjustment, many supply management professionals have come under extreme pressure to generate “quick wins” that cut costs in a very short time. These demands come from upper management, which itself is under pressure to take immediate action and produce quick results.

In this environment, it can be tempting to set aside projects with longer-term, strategic goals and instead focus your team’s attention on projects that could cut costs in the short term. In fact, it may be hard to avoid doing so: even though most supply management professionals recognize that quick wins typically produce only a portion of the results that could be achieved with long-term programs, they still feel compelled to respond to pressure from above, often at the expense of valuable strategic initiatives.

This kind of pressure presents a challenge for supply chain leaders. How can you do what is right for your company in the long term without putting your career at risk? The answer is to strike a balance between quick wins and strategic initiatives. The seven-step program outlined in this article will help you achieve that balance—and, ultimately, gain high-level support for maintaining a focus on strategic sourcing. It is even possible to obtain additional resources for your department, despite the economy.

Seven steps to transformation

To help you achieve a balanced portfolio of short-term and long-term initiatives—and thus, maintain corporate support for a world-class, strategic sourcing organization—I recommend a program of seven inter-linked actions.

First, you need to effectively communicate with senior management. The way to do that is to speak the language of the executive suite—that is, the “financial language” of the chief executive officer (CEO) and the chief financial officer (CFO). In my experience, learning to “speak like a CFO” is particularly important. Procurement and supply managers who understand the CFO’s perspective and can pres-

[KEY FINANCIAL TERMS YOU SHOULD KNOW]

The first recommendation in the seven-step program outlined in this article is to “speak like a CFO.” That requires understanding the chief financial officer’s perspective and being able to present your ideas in that context. Here are just a few of the financial terms that are bound to come up in those discussions.

- DIO (days of inventory outstanding): Year-end inventory divided by average daily revenues
- DPO (days of payables outstanding): Year-end accounts payable divided by average daily revenues
- DWC (days of working capital outstanding): Year-end working capital divided by average daily revenues
- EPS (earnings per share): Earnings divided by the number of outstanding shares
- ROIC (return on invested capital): Earnings divided by the capital invested in the business (long-term debt plus stockholders’ equity)

ent their ideas in that context are heading to the top of the profession. Those who don’t—or won’t—master this skill seem to end up perpetually carrying out tactical directives and are unable to gain control of their careers. (For a list of some key financial terms you should know, see the sidebar, above.)

The second, closely related step is to develop a plan with bold objectives that reflect senior management’s interests and objectives, such as earnings per share (EPS), return on invested capital (ROIC), cash flow, risk management, and so forth. Figure 1 illustrates how supply management initiatives can directly influence four major drivers of financial performance: revenue, cost, and working capital initiatives as well as capital expenditures.

Third, lay out your transformation plan and detailed “roadmap” for advancing your company’s current practices and processes based on best practices. This requires starting with a “current state” assess-

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ment; comparing the current state to best practices; and using the gap analysis to identify areas that require attention and improvement. Next, use technology as an *enabler* of your transformation plan and associated "stretch" objectives (such as a large cost-reduction target), not as an end in itself.

Fifth, based on the transformation plan, build a detailed business case that explains what you expect to deliver in exchange for the resources and budget you are requesting. The sixth step is to gain top management's commitment and support by using your transformation roadmap and business case to demonstrate that you are willing to make a commitment to deliver new, financially beneficial results. The final step, of course, is to lead the transformation effort and make the promised change happen.

Let's take a look at two of these steps and some suggestions for successfully carrying them out.

Build a credible business case

One of the most important skills needed to carry out this seven-step plan is knowing how to build a credible business case for change and for allocating the resources needed to make that change happen. This is true not just in relation to your overall transformation agenda but also for specific objectives, such as technology investments. It's best, however, to start by building a business case for the long-term, overall initiative rather than for specific objectives. In other words, start by thinking about what kind of financial improvements you could achieve if you embarked on a comprehensive transformation of your procurement department's role,

processes, skills, organization, and technology.

This broad approach is preferable to focusing on a specific area like software implementation because it is part of a logical sequence. Once you have assessed your current state and compared it to best practices, identified the improvements that could result from transforming your own practices, and designed the detailed roadmap to get you to the desired goal, why not request the full amount of resources needed to do the job well?

It might sound overly optimistic to ask for more resources when the current business outlook for your company is weak, but that is not necessarily the case. Several supply management professionals who followed the seven-step process outlined above are now receiving the bottom-line benefits of taking that bold leap—and they actually *added more resources* to their strategic procurement staffs during the recession.

The alternative to taking broad-based action is to be subject to the same headcount-reduction guidelines that often are applied to all departments in times of business stress. That's not where you want to find yourself, and, quite frankly, there is no reason to end up there.

The power of a good roadmap

How long does it take to transform procurement at a large or medium-sized company to a world-class organization? That question came up at a recent meeting I attended, where a supply chain manager from a well-known company said, "We benchmarked Company X and learned that it took them seven years to transform their indirect procurement activities to become world-class." The manager wanted to know if

that was a typical time frame.

The answer is straightforward: if you lack an organized assessment process and a properly formulated transformation roadmap, it can indeed take a long time to transform your procurement activities (including your direct and/or indirect spend). In fact, without a roadmap and the associated business case and resources, the goal is probably not achievable in any reasonable amount of time. On the other hand, with a well-constructed roadmap, it is possible to achieve a great deal within 18 to 36 months.

Creating an effective transformation roadmap starts with an independent, candid, and comprehensive comparison of the current state at your company versus best practices in supply management across all industries. This exercise will allow you to identify opportunities for improvement and prioritize initiatives. It will also provide input for constructing a roadmap that is tailored to your company's specific situation and to your desired speed of progression. Pay special attention to the sequencing of your roadmap's elements; this extremely important task is part art and part science.

Done well, the assessment and roadmap process will create understanding, excitement, and support among your company's top executives. And if you approach and communicate this subject in a way that makes sense to the CEO and CFO, then you can indeed achieve what might seem like an impossible goal: getting senior management to commit to world-class supply management regardless of the state of the economy.

A balanced plan

Now, back to the original challenge: what to do if you are under extreme pressure from above to deliver some quick results.

As discussed earlier, a credible and effective approach is to build a balanced plan comprising both quick wins and strategic, long-term projects. The quick wins generate the immediate results that your management might be looking for while buying time for you to properly carry out the strategic projects. The quick wins also help to fund the strategic projects that clearly offer the best, long-term, sustainable value to your company. Ideally, this "hybrid" plan will reflect the overall plan of transformation that you envision, helping you to obtain management's buy-in for your strategic direction as well as the resources you need.

Here is a real-life example of how this approach can help you. With one client, we developed a plan comprising about 10 quick win projects and 20 strategic sourcing projects. We produced a schedule that projected the financial benefits of those projects over the next 6 to 18 months. That schedule also showed the costs associated with adding three, full-time strategic procurement positions related to the proposed projects.

[BALANCING "QUICK WINS" AND STRATEGIC INITIATIVES]

Following these seven steps will help you achieve a balance between short-term cost-cutting and long-term, strategic programs—and, ultimately, gain high-level support for maintaining a focus on strategic sourcing.

1. Communicate effectively with senior management by speaking the "financial language" of the chief executive officer (CEO) and chief financial officer (CFO).
2. Develop a plan with bold objectives that reflect senior management's interests and objectives.
3. Lay out a transformation plan and detailed "roadmap" for advancing your company's current sourcing practices and processes based on best practices.
4. Use technology as an enabler of your transformation plan and associated objectives, not as an end in itself.
5. Build a detailed business case that explains what you expect to deliver in exchange for the resources and budget you are requesting.
6. Gain top management's commitment and support by demonstrating that you are willing to make a commitment to deliver new, financially beneficial results.
7. Lead the transformation effort and make the promised change happen.

The compelling ROI of both the short- and long-term initiatives quickly convinced the company's executives to proceed with the projects as well as the additional staffing—and the results lived up to expectations.

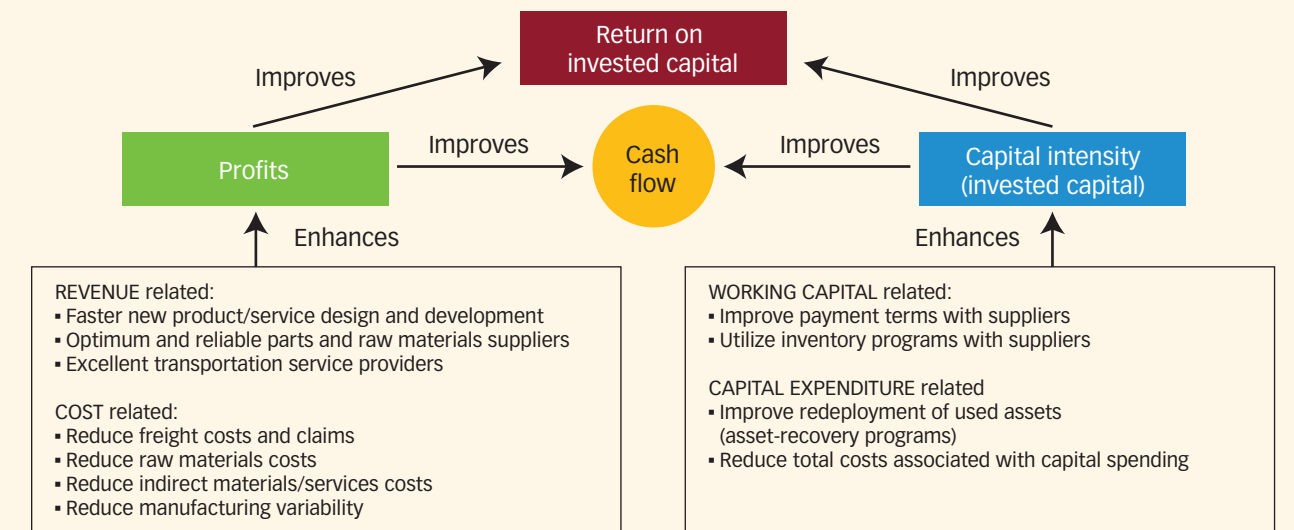
It has been said that no rational senior executive will consciously impede projects that have clear, strategic value. If that's the case, then make it easy for your executives to support you by following the seven-step plan outlined in this article. Within that framework, lay out a hybrid plan of specific projects in two categories—quick wins and strategic initiatives—and estimate when executives can expect to see results.

A final point: Putting "strategic" back in supply management doesn't have to involve a lot of time and money. A full assessment and transformation roadmap—including a detailed business case—can be developed in less than 10 weeks. Δ

Note: More information about building a transformation roadmap for procurement organizations can be found in the white papers located in the "Resources" page of Greybeard Advisors' website: www.greybeardadvisors.com/white_papers.

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[FIGURE 1] SUPPLY MANAGEMENT'S EFFECT ON FOUR DRIVERS OF FINANCIAL PERFORMANCE



[SOURCE: GREYBEARD ADVISORS LLC (2005)]