

Role of Procurement: Empowering Your CPO For Strategic Gain



The traditional role of procurement is twofold: maximize cost savings and minimize expenses wherever possible.

But in a global economy where competitive strength, innovation, and longevity are derived from data-driven insights and creating value while managing costs, procurement departments and their leaders are moving into the spotlight as powerful agents for organizational efficiency and excellence.

With chief procurement officers (CPOs) moving into a more strategic role within the C-suite, it's crucial for procurement professionals at all levels to understand why this change is happening, as well as the strategies and practices necessary to provide support.

With the right tools and a proactive, strategic approach, procurement teams of all sizes and types can effect positive change and help shift procurement into a center of value creation as well as cost savings for their businesses.

Why the Role of Procurement is Changing

Companies operating in today's marketplace face many of the same challenges as their predecessors:

- Achieving and maintaining competitive advantage.
- Securing profitability while simultaneously protecting business continuity against business disruptions.
- Finding ways to innovate and grow.
- Developing strategies for optimizing business processes to strengthen performance, improve market share, and build a larger bottom line.

However, today's economy is also significantly different than its predecessors in several ways. Supply chains are complex and span the globe. Big data and digital transformation have radically altered the ways in which business intelligence is collected, organized, managed, and analyzed.

Business disruptors like the COVID-19 novel coronavirus and the Amazon rainforest fires have underscored the need for strategic, proactive, and intelligence-driven decision making in every area of business—but especially in procurement.

Disruptions that span countries and time zones have forced CPOs to leverage the tools and information at their disposal to find truly creative sourcing solutions that circumvent bottlenecks and ensure critical goods and services are available.

Organizations unable to adapt in this climate will suffer major consequences, and may even collapse.

Once reviled as a cost-cutting gatekeeper throwing up obstacles to growth and innovation, the procurement function is at last being recognized for what it is: a major value center that's connected to every part of the organization it supports.

Procurement doesn't just obtain raw materials, goods, and services for all areas of a business; when properly managed with best-in-class digital tools, it provides a font of invaluable information companies can analyze to improve everything from financial planning to operational efficiency to risk management.

And by integrating core concepts like continuous improvement and insight-driven,

real-time decision making into its processes, the modern procurement department also lays the foundations for digital transformation and business process optimization across the entire organization.

In addition, a well-optimized and strategically sourced supply chain is now seen as a business-critical investment that protects business continuity in an increasingly uncertain world.

To fulfill their purpose and support organizational goals, CPOs are moving toward a more direct role within the C-Suite, taking active part in strategic development and tasking procurement managers and other members of the procurement department with supporting the strategies so created.

Once reviled as a cost-cutting gatekeeper throwing up obstacles to growth and innovation, the procurement function is at last being recognized for what it is: a major value center that's connected to every part of the organization it supports.

A New Kind of CPO

As part of their traditional duties, chief procurement officers have managed three priorities within the procurement function:

1. **Procure-to-Pay.** Whether it's raw materials, finished goods, or essential services, the procurement function (in partnership with finance) handles ordering, receiving, and paying for what's needed. Procurement also handles and (ideally) optimizes related processes, collects and organizes all spend data, and provides complete and transparent information for analysis by management.
2. **Supply Chain and Supplier Relationship Management.** A tactical process focused on securing and maintaining good supplier relationships while also ensuring optimal pricing and terms through intelligent and informed negotiations.
3. **Strategic Alignment.** Ensuring the procurement function's goals and workflows align with and provide support for those of the organization and provide direct, demonstrable improvements as well as measurable value.

As more organizations integrate emerging technologies and pursue digital transformation as a competitive necessity, it is the pursuit of that third goal—strategic alignment—that is swiftly pushing CPOs into a more strategic, high-level role.

Beyond the need to improve supply chain resilience as a bulwark against excessive risk and devastating disruptions, the growing complexity and prominence of procurement within organizations is forcing CPOs to redefine their greatest priorities.

In a 2020 survey of chief procurement officers conducted by Deloitte:

- 38% of procurement strategies prioritized by CPOs surveyed were tactical and short-term to provide immediate access to capital to improve flexibility and responsiveness in the supply chain. However, 37% of strategies were long-term and strategic, indicating a desire to shift procurement toward value creation.
- Two-thirds (66%) of respondents said cashflow and cost management (rather than simply cost cutting) are of paramount importance.
- 43% of respondents said they planned to slightly expand their supply base, but nearly all also said they wanted to shift their global supply base and/or implement nearshoring.
- 27% of CPOs surveyed wanted to deepen supplier relationships; 25% planned to use advanced technologies to improve visibility, performance, and risk management.
- 90% of CPOs said they had only moderate to very low visibility into tier 1 and tier 2 suppliers; however, thriving, world-class organizations with high visibility were seven times more likely to expand their supply base to meet supply-side challenges, and twice as likely to make digitization and automation a priority for everyday operations.
- 80% indicated the health of their procurement teams was crucial to success in the 12 to 18 months ahead.

Survey respondents indicated a deep concern for both successfully navigating a post-COVID world *and* developing long-term strategies designed to navigate “the new normal” and support their organizations with greater agility, resilience, and efficiency.

This dovetails with the findings of another survey Deloitte conducted, focused on CEO priorities for recovering from COVID-19 in 2020 and beyond.

- 85% of CEOs surveyed indicated their organizations had accelerated digital transformation efforts in response to the pandemic.
- 70% indicated they were focusing on new partnerships and alliances.
- 40% said their supply chain needs to be redesigned as a result of vulnerabilities to disruption exposed by the pandemic.

Coupled with an expected continuation of remote working paradigms, these numbers show the C-Suite expects procurement to provide not just short-term savings or tourniquet-style tactics to stop the hemorrhaging of money and productivity, but long-term strategies that drive organizational excellence and value.

The new role of the CPO is one defined by strategic development, inspired leadership, and a strong emphasis on digital technologies used to optimize procurement.

Collaboration and communication are also critical priorities, since procurement's role as a central drive for organizational value requires skilled integration of workflows, data, and tools as well as open, transparent sharing of information.

In many cases, the CEO will likely need the ability to educate others on the importance of procurement's new role in order to secure buy-in from the C-Suite, internal customers, and stakeholders.

This is crucial to the implementation of business critical improvements, compliance with the policies and practices that provide complete and accurate data for analysis, and the long-term success of procurement strategies and digital transformation initiatives.

Finally, CPOs will need to develop an understanding of how critical procurement issues and opportunities mesh with their companies' overall business strategy. In the past, CPOs might have reported to the board or analyzed data received from their procurement teams and then presented a summary for review.

But as they move into a more directly strategic role, their expertise with issues such as ethical procurement, sustainable procurement, and the importance of

data-driven spend management can provide the rest of the C-Suite with invaluable context and a more nuanced and effective approach to strategic development and decision making.

How Procurement Teams Can Support Their CPOs

To execute their new duties successfully, CPOs will need to build and then rely on strong procurement teams well-versed in new and existing digital technologies, cross-functional collaboration, and support for strategic alignment.

These teams will need creativity, expertise, and a proactive approach to communication.

Let's take a closer look at some of the core competencies that enable procurement professionals to empower their CPOs.

Process Optimization and Data Management

One of the most important tools in any procurement team's kit is effective and transparent data collection and organization.

All of the insights leadership relies on for reporting, forecasting, and modeling will be derived in large part from spend data and supplier performance and compliance data.

In addition, the procurement processes that generate that data—from creating a purchase order to three-way matching—can be time-consuming, tedious, and prone to human error without digital tools.

Implementing a centralized, cloud-based procurement solution such as PLANERGY greatly simplifies data management while improving transparency, completeness, and accessibility.

Process automation greatly increases the speed and accuracy of high-volume processes, removes the need for direct human intervention in many cases, and introduces continuous improvement to your business process paradigm.

Better still, automation frees team members to focus on higher-value tasks such

as relationship building with suppliers.

Exceptional Spend Management

In many ways, the sticking point for effective procurement transformation lies in the perceived conflict between the function's strategic and tactical importance.

Bartering for immediate cost savings and/or the lowest possible price is a tactical measure, while the many interconnected workflows and protocols required to generate hard and soft value (along with maximum return on investment, or ROI) from every dollar spent is definitely strategic.

Without modern digital tools such as automation, artificial intelligence, and analytics, the (perceived) cost of pursuing strategic improvements often outweighed the potential gains from aggressively pursuing tactical cost cutting in the eyes of upper management.

However, eProcurement software greatly reduces this friction by providing complete visibility into all spend.

Guided buying, integration with vendor systems, faster cycle times, and process automation give procurement teams clean and complete spend data for analysis while also eliminating common value-sappers such as invoice fraud and maverick spend.

As a result, procurement teams can help their CPO develop and then execute strategies to secure both cost avoidance and cost savings and capture value through better workflows and reduced total cost of ownership.

Supply Chain Management and Supplier Relationship Management

In addition to acting as a nexus for all purchasing activity within an organization, the procurement department also acts as an ambassador—and in some cases, a partner—to the vendors that make up the company's supply chain.

From this position, procurement has the opportunity to work closely with suppliers and develop relationships focused on shared benefit.

For example, key suppliers can become partners in product development or market expansion.

Alternatively, if a supplier whose goods or services are crucial to operations is facing a potential problem, the procurement team can provide support—financial, technological, logistical, etc.—to protect the business continuity of both parties.

In addition, using procurement software with a built-in supplier relationship management module can simplify integration of vendor catalogs and easier monitoring of supplier performance and compliance through the use of key performance indicators (KPIs) and other metrics.

These improvements provide even more useful data leaders can analyze to identify potential partners, reduce risk by nipping small problems in the bud, or uncover opportunities to improve supply chain resilience by streamlining or expanding the supplier base.

In addition, full integration with contract management and inventory management modules provides further enhancements by eliminating the need for data entry and providing templates.

Collaboration and Communication

Beyond their responsibilities in meeting business requirements through the acquisition of goods and services, procurement professionals can support a strategic shift toward value creation by working closely and collaboratively not only with finance, but with all business units.

Centering procurement is often easier when the company's software environment is similarly centered on their chosen eProcurement solution.

Standardizing file formats, capturing all data, and providing leveled, role-appropriate, and mobile-friendly access to that data in real time makes collaboration much simpler—and encourages buy-in by folks who need to collaborate across project or department lines.

Combined with top-down support, education, and training from the CPO and the rest of the C-suite, this can help get everyone in the organization on the same value-centered page, and provide a foundation for implementing process

improvements in other areas of the business.

Embrace the Exciting New Role of Procurement in Your Company's Future

Guided by an empowered CPO, your procurement function is poised to become a powerhouse of productivity and value for your organization.

Make sure your team has the tools they need, aided by collaborative practices and a clear approach to securing demonstrable value as well as cost savings.

Tomorrow's best-in-class procurement teams are ready to step in and support their CPOs with process optimization and data-driven spend management that supports procurement's goals and syncs with those of the organization, too.

For companies of all sizes and types, success today and in the future lies in effective, proactive, and strategic procurement. Is your procurement organization ready?

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our guide “Indirect Spend Guide”

Download a free copy of our guide to better manage and make savings on your indirect spend. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts