

Procurement Needs a New Operating Model

Part 1 of 3: Process



Organizations learned many lessons in 2020. The most important one was something that we, procurement leaders, already knew in our gut — businesses that could act quickly were better able to adapt quickly and be agile, while those tied to old operating models struggled. We learned that procurement's old operating models no longer work, and we must now transform to better support the businesses we serve.

As 2021 is likely to bring more surprises and unexpected events, procurement must evolve to support whatever lies ahead.

New Technologies for the Same Old Models Don't Work

Despite ongoing digital transformation efforts across all industries, the reality is that procurement models have barely evolved over the past decade. Many procurement functions are still operating "in the basement," where functional leaders only engage with procurement to support the acquisition of goods/services or purely to comply with internal policies. Rarely is procurement used to drive better business outcomes, let alone as a competitive advantage.

Procurement's modus operandi has remained focused on commodity-based negotiations, buying, and monitoring as a reactive, passive, and underutilized part of organizations. This makes little sense when supply chains have continued to evolve rapidly, becoming more complex and interlinked while procurement technology has advanced significantly. Our job as procurement leaders today should be to focus on helping our businesses spend smarter, safer, and faster.

To survive and thrive in this rapidly changing business environment, we need to evolve our operating models to be more activity-based and evolve to support speed, nimbleness, and empower teams.

In this three-part series on the new procurement operating model, I will address the processes, people, and technology needed to support an agile procurement environment that supports modern business needs.

A New Model: Unlock an Agile Process to Drive Value

Procurement models of the past often leave organizations short. A traditional commodity-based approach led by category experts with decades of experience may have worked in the past, but it also created silos without clear responsibility and accountability across the supply chain.

The future of procurement must be far more agile, enabling more value capture and becoming a real competitive differentiator for product innovation, managing spend categories end-to-end, and bringing groups together to encourage cross-functional collaboration.

[See the procurement maturity model](#) to measure the maturity of your procurement organization.

To fully support this new strategic position and transition from a hurdle to an enabler of value, procurement must transform its operating model. Our guiding principle must be to support businesses in a much more proactive and assertive way, to be ready for whatever lies ahead. Over the past year, I have witnessed how companies with strong Business Spend Management (BSM) processes are much more resilient and assertive, outperforming those stuck to traditional siloed procurement processes and operating models.

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To do this, we must first recognize the different options to explore. There are typically four or five organizational structures, including centralized, decentralized, hybrid, coordinated, and delegated models. Each of these structures comes with its own characteristics, advantages, and trade-offs.

For example, while a highly decentralized model allows for greater proximity to the business and can more easily establish strategic relationships with local suppliers, it also comes with larger spend fragmentation and little leverage through spend consolidation. On the other hand, a centralized organization may have more leverage, control, and efficiency but lacks local knowledge and/or speed-to-market.

It's essential for procurement to understand these organizational structures to determine how to best position itself and best support the business. As the right operating model is a moving target, the main challenge is striking the right balance between procurement's expected impact and resource requirements. It is ultimately critical for procurement to be agile and to have the ability to quickly scale when needed to support business needs.

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Getting the New Procurement Operating Model and Process Right

To get this new operating model and process right, it's essential to follow these four steps to ensure the transition to a new operating model goes smoothly:

Step #1: Align Procurement with the Business

We must ensure procurement closely aligns with the business. This means providing proper support in day-to-day operations, not just when approached to run a competitive process. You want to stay close to the suppliers' performance by managing the entire lifecycle of that supplier.

For example, when I started at Lululemon, procurement was very much transactionally focused, with limited skills and experience to handle upstream activities (i.e., Source-to-Contract) or understand strategic objectives. Breaking down silos was paramount for the company to uncover resource inefficiencies and de-risk the supply chain as we continued to scale and grow. Because procurement lacked executive sponsorship, it was solely focused on operational execution and managing categories with limited added value or expectations from the business.

Practitioners have regularly asked me over the years what “the secret” is to a successful procurement transformation. It comes down to changing behaviors and clear governance, executive buy-in, perseverance, emotional intelligence, and a thick skin. At the very end of the day it's always about people, people, and people. Some of the lessons I learned along the way are:

- Always start with non-sensitive categories that you know drive value (celebrate early wins!), aka “low hanging fruit”.
- Emphasize that procurement owns the competitive process but the “D” (decision) always lies with the business.
- Define upfront what success looks like and report on it!
- Attain clarity around roles and responsibilities.

Step #2: Manage Suppliers

It is essential to have regular touchpoints with stakeholders in their 3-5-year journey. This ensures the right suppliers are in place with the scope, scale, capability, and knowledge to continually support strategic objectives. For example, if you want to expand into North Africa and have a supplier that provides proprietary items but is unable to support you on that continent, there is a constraint that has to be resolved.

When I was in Procurement at VF Corporation in EMEA, there was considerable spend fragmentation across brands, with several suppliers for categories like office supplies, hangers, mannequins, staffing, and other areas. By comparing specifications, standardization, and leveraging spend, we could strengthen the strategic partnership with

suppliers and innovate packaging. This led to a cost reduction of 20% while reducing risk and lead time, becoming more sustainable, and improving quality.

Step #3: Develop Organizational Agility

Next, it is essential to develop organizational agility. This requires subject matter expertise in the business combined with a deep procurement-level understanding of how to drive a real competitive process enriched by people with the knowledge and insight to provide transaction-level data. Combining these functional areas enables brainstorming on what you need today, tomorrow, and next year(s).

That is going to be extremely powerful as these three functional areas together drive a much better fact-based business outcome using actual constraints and characteristics needed from the right partners that support your strategic objectives.

Step #4: Identify Required Resources

It is essential to determine resource requirements, not just from a headcount point-of-view but also the type of resources (talent — more on that in my next blog) and technological capabilities. It is always about People, Process, and Technology and identifying the required skills, resources and investments.

In my previous roles, I made several (sometimes tough) organizational decisions to reorganize my team, retrain and attract new talent, and request investments into technology that provide the tools and capabilities needed to drive maximum ROI. This included re-writing job titles, job descriptions, and changing reporting lines. Frankly, I didn't always get this right the first time, but my advice here is to make no-regret decisions quickly, be transparent, and communicate a clear vision to everyone involved.

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It's Time to Rethink our Procurement Processes

In the years ahead, procurement will act less like a negotiating machine. Instead, it will serve more as a *Scrum Master* with an agile framework for developing, delivering, and sustaining complex projects. In my upcoming post in this series, I will share why this requires different skill sets, whereby deep category expertise, analytics, and top-down decision making are becoming less relevant. Instead, procurement is evolving to become a team of all-around athletes with digital fluency and relationship skills to collaboratively drive better business outcomes.

In this series' final post, I will share how technologies can support evolved procurement operating models. This is especially important as digitization, artificial intelligence (AI), and robotic process automation (RPA) are taking over tactical and operational procurement work like running RF(x)s, spend governance, contract management, and spend analytics. Future procurement organizations will have to worry less about these activities and be more proactive in managing categories, risk, supplier performance, and driving innovation.

Let's be clear, the role of procurement is changing. No longer can we focus only on commodities or for spend to be managed by an IT Procurement Director with decades of experience. We now need adaptive people with a certain mindset and characteristics that can lead organizations to change and maximize value. Our ultimate goal is to drive better-sustained business outcomes by continuously elevating the strategic positioning of procurement!



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