September 2015 - Article - Supply Chain and Procurement Interface Trend

It’s great to speak with you again, Julio. Today I’m looking forward to hearing your views on supply chain and procurement interface trends. My first question is regarding procurement and supply chain. Right now there’s some controversy whether procurement should be part of the supply chain. Others say it should be a standalone function. What are your experiences and advice on this subject?

Thanks again for having me here. I think it’s a good question. It’s a controversy in the market. In my view, it’s not an either-or solution; it’s more about how your business is structured and the key priorities in your business.

I would say, first and foremost, it’s important that supply chain and procurement work very closely together and definitely on the organizational structure. Having said that, I see benefit in having procurement reporting directly, for example, for a CEO level or for the board of the company, especially in two moments: when you have a high need for rapid and significant cost cutting. For example, as we had in 2008, 2009; in the downturn of the economy, we had quite a number of organizations moving CPO directory reports into CEO.

At the end of the day, these guys are managing anywhere from 50 to 60, 80 percent of the cost of the company when you consider direct and indirect materials, including services from low-cost sourcing, final outsourcing, and so forth. Having said that, I think cost cutting is not the only reason. I think there’s also a different setup where you have suppliers being so much into the core business, your business strategies, then you have CPOs who are intermittently managing or leading directly the relationship with suppliers, reporting to the CEO as they are suppliers as expected to bring or add value to the business.

You can think about a new product development coming from suppliers who, in some or most of the cases, they know more about a specific technology, packaging technology, for example. These guys know more than the clients, the ones who are buying the goods. And then there’s a high need for these guys working very closely with R and D at the top level in the business. Value generation cannot only be through R and D, but you can have new market ideas, new differentiated solutions and even if you think about outsourcing parts of the business or, in extreme cases, keeping only the really core marketing sales development, all of that and all the rest of that is then managed directly by CPO or chief supply chain officer, who is in this extended supply chain.

Procurement is often seen as a cost-cutting machine, but on the other hand, there are some significant expectations in terms of how to enable procurement to deliver top value to the business. What’s your advice on this?

I don’t think it’s, it builds on the previous question; it’s not necessarily an either-or question. Procurement leads are now expected to continue to do cost cutting because they’re responsible for the majority cost of the business, so let’s not forget that any movement they’re doing cost cutting, so for every 2 percent of what you’re doing in cost reduction, you improve return on net asset (RONA) by 12 percent. Any marginal improvement, can generate a very significant value creation to the business.

That definitely is a long while, and it’s going to be the primary responsibility of procurement, of cost cutting or cost reduction.

What I’ve seen that’s been changed over the past few years is that more than cost cutting, constantly cutting the meat—the fat, the meat, and bone—I see procurement leaders more has the fewer reducing optimizing cost but balancing the right value equation. It is about optimizing the cost by reducing it, but working cleverly and in partnership with the right suppliers at the right place, with the right categories, integrating the value chain from an end-to-end point of view, starting from logistics, which is something quite obvious, but going to R and D, development, finance, and even sometimes aligning strategies as per discussed in last question, you have more and more packaging suppliers being business partners now, as being part one of the external part, as being part of developing the business’s strategy. If you think about three years straight to bring it to life, but if you think about what you see, how you sell the product, at the end of the day, if you move the packaging technology, which will present sometimes 60 to 70 percent of the total procurement cost, it’s quite an improvement you can do in cost, but also into a value generation, consumer perspective. That’s what more and more procurement leads are being challenged and are dealing with.

The other big thing here is about there are some conditions that you have to respect to do business: sustainability, respecting environment, respecting societies, not using child labor, and then it’s all about not cost cutting. If you go to some parts of the world, in some type of suppliers, definitely, you can have the lowest-possible cost. The challenge now is what the optimum cost is rather than the minimum cost, that you’re still respecting societies, environment, and supporting and driving and financing the innovation and the business growth.

More and more procurement directors are taking wider roles in the business outside the traditional procurement and supply chain scopes. What do you think is happening here? What are your views on this?

I completely agree. I think procurement moved over the past few years from local to regional, to global levels. These guys, the procurement leaders, CPOs, are now managing big teams, virtual teams. The span of scope now typically is over 15, so you can think about a CPO managing 10 to 15 VPs or procurement directors, and each one of them then respectfully managing another 10 to 15 professionals. It’s actually big leadership roles. It’s quite similar to big roles in manufacturing. These guys developed quite sharp and globalized leadership skills, leading and developing teams on a global base, of course with challenges of time zones and terms of culture differences. And in addition to that, they’re also dealing with many suppliers from many parts of the world and being involved in many businesses, technology, services, products.

At the end, I don’t see, necessarily, these guys developing procurement strategies; I see them getting the business strategies and developing strategies on how to best source and to best develop the sourcing solution for that specific category or service. To do that, they really need to go to an end-to-end understanding of their suppliers’ business, which is the P and L, the balance sheet, growth, marketing environment, competition, laws and regulations. By doing that, they are nearly on a day-to-day basis, analyzing different business models, combining the big leadership roles with these clear end-to-end understanding of the business, they are more and more prepared to lead parts of the business or even, in extreme cases, become CPO or leading a significant portion of their business.

This is reality now. In a few industries now, I see this happening in electronics and consumer goods and pharmaceuticals as well. I think this is a trend that is here to stay. I’ve been working recently with an insurance company, and they’re looking for the first CPO to leverage volumes and optimize value generation. I was involved in the hunting, not as hunting, but as technical consultant in charge of the whole end-to-end program. And then the candidate that has been chosen was a guy who had no previous procurement experience, but was a quite recognized business leader. In order to drive this change, it also works the other way around. If you are outside procurement but you’re looking for a leadership role that will leverage you into the next level of the business, then procurement might be the place to be.

Thanks. Can you provide a brief background of yourself?

I’m a managing consultant for nine years. I work for Spin Consulting, a small, boutique consulting working worldwide with clients, consumer goods, anywhere from insurance to pharma, to baby products. Spin is not only in charge of designing change, but we also work very heartily and closely to implementation and delivering results which are sustainable over time, and the results are also tangible. Prior to that, I worked ten years in the consumer-goods industry for Unilever, and then I had many supply chain roles in various parts of the world. I’m now based in Munich, but as any consultant, I travel two to three weeks per month. That’s a bit about myself.

Thanks again for sharing.

Excellent. Thanks a lot, Dustin, it’s good stuff.