

SAMA Conference London 2010

The five burning issues – questions put to the panel.

Moderated by Tony Hughes, CEO Huthwaite International

Procurement leader speakers:

Stephen Wills: *Director of Group Procurement at AXA UK.*

Martin Webb: *Procurement consultant who held Procurement Director roles at British Airways, Orange and T-Mobile International.*

Larry Beard: *Interim Procurement Director at BAA. Prior to this role, he was the Purchasing & Supply Chain Director for Severn Trent Water.*

Robert Maguire: *Rob is a director of Performance Consulting. His previous roles include: CPO at Reckitt Benckiser; sourcing manager at Black and Decker.*

Geraint John: *A consultant at State of Flux, former editor of Supply Management, the UK's leading procurement magazine and the founder of CPO Agenda.*

1. Our pre-conference survey identified that being treated as a commodity by procurement is a serious or very serious problem for 85% of SAMs. No supplier in the room would identify their products and services as a commodity – Why does it always feel like procurement views them as one?

Steve: Well, who wouldn't want to be in the 'top right hand box' and be seen as strategic and 'added value' – but is this really saying that we (SAMs) don't want to be taken through tough negotiations?

For me, there will always be a big element and focus on cost. If you think that moving away from the commodity space then than means you avoid 'cost out' pressure then you are mistaken. Whatever space you are in there will always be an element of 'cost out'.

If you don't want to be seen as a commodity supplier then you have to change the perception. 5 years ago, print and paper was seen as a commodity. But the vendor, along with their Total Cost of Ownership (TCO) changed our perception of this category and now 'document management' is now seen as a strategic relationship. It's down to you to change that perception.

Larry: In the tendering cycle, buyers will always move things into a commodity. I'm continually amazed that companies cannot explain their unique selling point. That is, their differentiators other than technical specifications.

Geraint: There has been a movement to dress things up with solutions/added value. If you are being treated as a commodity it's incumbent upon you to engage with procurement early. It's your job to work with them. I recognise the temptation is to try and avoid them. You should engage early and say how your service is going to help their organisation. Procurement is not just interested in price.

Audience question: Todd Snelgrove SKF. "The time to have a discussion with procurement about it not being a commodity is not when the RFP comes out. How willing are you to you to talk with suppliers before this time?"

Larry: It's down to the maturity of the purchasing department. If you are on a three year contract, three months before contract expires, procurement will listen to any new suppliers who say, "I can help you drive out cost." If you want my time, you must give me a good reason to talk to you.

Steve: Supplier Relationship Management (SRM) is a big part of the business for us. In the vendor management space we have a tool that looks at four factors: at risk, service quality, cost and innovation (balanced score card).

Martin: But it's important to identify what you are dealing with. How enlightened is the buying organisation? Look at the indicators. You can have a whole spectrum from a guy that says. "Sharpen your pencils (I want prices lower) right across to a procurement leader who's strategy is integrated with the business.

You will get a complete spectrum of procurement people. Those integrated within the organisation to people simply viewed as overheads. At this level procurement may seem disconnected and mechanistic. You need to know: "What sort of organisation am I dealing with?"

Larry: You may see inefficient buyers with low maturity but at the other end you see buyers who are really powerful. If they ask you ten questions, it's important to answer them! I'm amazed at the number of suppliers that don't answer the questions – or those that write 200 pages and we have to hunt and search for their answers.

Martin: What are the indicators that SAMs can look at to determine if the buying organisation is mature and enlightened (powerful)?

1. Look at the public procurement mission statement. Who is it signed by – the CEO or head of procurement? Look in the annual report – does it mention procurement/purchasing?
2. Do procurement have as good relationship with their stakeholders? A good way to tell is if they are involved early on, way before the RFP process starts. Where is purchasing positioned? If they are valued they'll be involved right upfront. Is procurement in the first scoping meeting, long before the tender process? Are the stakeholders willing to involve them at this time?
3. Where is procurement positioned? If they report to the IT director, they will be subservient to the IT director. If they report elsewhere it's good practice.
4. Are they involved in long term business planning?
5. Are they measured on cost savings or total cost? You get different behaviour with these groups.

If the procurement organisation is immature then that's not the best route. But you must not ignore them, as at the end of the day they will be involved and slow things down.

Audience: How do you get 'immature' procurement departments involved in the planning? Would a one day quarterly meeting with SAM help?

Rob: I'd be amazed if you could find something that I would want to talk to you with for one day. Procurement wants to understand the business and understand the challenges.

Steve: There is often a victim mentality in immature procurement organisations – find the levers to pull - and engage us for the day. Things that might be inspirational for the buyer – how procurement could make an impact internally for their business. Help procurement step out of doom and gloom and victim mentality.

Geraint: Procurement teams don't have the information – incredibly defensive, but don't have the information. An incredible opportunity to work with procurement who might value your help!

Rob: Run business awareness session at CIPS ISM etc – agenda's open for grabs.

Larry: ABB are good at procuring on a TCO methodology. But the TCO methodology must be brought in before the tendering process. An important part is to get the buy in from Finance because the initial price goes up even though overall cost goes down over three years.

2. The second biggest area of interest is identifying how procurement determines the exact decision criteria. Is it really all about price? Could you share some insights?

Steve: I'm a 'cost out' addict. Hands up, it's true. That's what we do. I'm quite proud of that.

I want cost out. Can you come to me with a proposal of how you can take cost out over the next 3-5 years? That's the only way you can avoid a competitive bid situation.

Larry: It's never about price it's cost.

Martin: If the decision criteria or weighting criteria aren't in your favour then you have failed in your SAM job.

3. At the RFP stage, bidders are often blocked from engaging with the client executives and stakeholders. How should SAMs behave when access is blocked to key client stakeholders? Should they be 100% fully compliant? Will they be disqualified if they bend the rules or circumvent the process?

Steve: We want to run a fair process. We're not trying to be unhelpful. We are just trying to run a fair process and don't want to disadvantage any supplier.

We do have opportunities for suppliers to differentiate their offering. We do have a "free" text box on the RFP form.

Note – none of the panel members have ever disqualified a SAM for going outside the rules- but they suggested that you might be marked down for this.

Geraint: It's not procurement's job to be the gatekeeper. If they are being brought in to the end of the process they don't have a good relationship with their client stakeholders.

The smart procurement leaders don't want to be seen as a gatekeeper or policeman. But if the internal stakeholders get procurement defensive and pissed off by leaving them out until the last minute, when finally involved - when procurement have a bit of the process that they have control over – then they come alive in the RFP process and have control. But it's not where procurement people want to be.

If it is an RFP – don't circumvent the process – if you have been engaged in the right way you should have already had those discussions and know the business requirements and should have a good relationship with the procurement team.

Steve: If you haven't engaged procurement early on, when you are inches away from the deal, it gets dragged back to procurement and slowed down.

4. The pre-conference survey identified some huge knowledge gaps. Just 9.8% of respondents have good, very good or excellent knowledge of the factors that affect procurement's bonus. Can you explain how procurement is target and compensated? Are procurement professionals really remunerated on delivering cost savings or is this part of supplier conditioning?

Steve: 30% of the salary for my procurement team is a bonus. And 40% of this bonus depends upon hitting cost savings targets. Our number one objective is cost savings.

The remaining 60% is based upon KPI's about the effectiveness of procurement in the business (stakeholder management) – the level of internal customer (stakeholder) satisfaction, stakeholder management, internal percent compliance with the procurement process, internal influence and stakeholder perception of procurement.

Larry: Everyone has cost savings target on an annual basis. 25–75% of a bonus is based on annual cost savings target. Only very senior procurement leaders have a bonus attached to performance of business.

Steve: KPI's – Influence in the business – 98% of all categories, compliance to process, Procurement in my experience defines cost as price as they don't have any influence on cost down the line. But when cost is reduced by 30% procurement can't/don't measure. Therefore procurement are only interested in price reduction by X% within 12 months.

Geraint: One third of procurement heads report to finance. Even CPO's – want to be seen as strategic but not incentivised if reporting into finance.

Larry: Procurement love rebates as they can bank the savings every year. It's amazing the amount of suppliers that don't offer rebates. "Can we bank it" when selling TCO when the cost savings of the project is measured over years, then the supplier should give a rebate.

5. Another very significant problem arising from the survey is that SAMs say they face aggressive negotiations with procurement professionals. Any stories from the panel on their favourite tactics? How should SAMs best address this?

Steve: It comes across as "poor me". Poor sales SAMs that are facing procurement with their aggressive negotiations.

Larry: what are my favourite negotiation tactics? How about e-auctions. But seriously a better question might be: "How well-trained or un-trained are buyers in negotiations. When I came into BAA out of the team of forty, just one had any training in the last five years.

Audience member: There is a female procurement manager in the NHS. She won't see anybody face or speak to suppliers and will only communicate on email. She is incredibly vitriolic, but on the rare occasions when I meet her face-to-face she is a pussycat!

Larry: The weaker buyers prefer to be a policing function within the organisation. What comes out in the negotiation is aggression and tricks.

Geraint: procurement, in general, are very poor in communication. Very poor at interacting at a human level.

Steve: Early engagement. (Jokingly said) "Procurement are people. We want to be your friend. We can save you a lot of time. If you've got a long way down the process and haven't engaged procurement it can all go horribly wrong. If you've engaged the IT director and the FD and they say – Let's do it, we just need to send to procurement to 'rubber stamp' it" – but if you've not engaged procurement by this point then we have to start right back at the start and can seriously slow it all down for you.

Help yourself and help us. It's all in your benefits for early engagement.

Rob: I'm astonished at how rarely that SAMs take the opportunity to come in and say hi to the head of procurement when in the building.

We miss things as we come across as defensive. But not easy to fix when the profession is so mechanistic and process oriented. It's not personal – just a difficult process. Procurement have such a process orientation – it's like a form of professional asbergers. I don't need a relationship. Procurement just need the process! A competition based mechanistic process will get me to the least worst cost.

We are number phobic – set up regular number reviews three times per year with procurement – make sure you are producing information that's relevant to us.

Steve: We recognise everything you are saying and the traits of the buyer –the table thumping Rottweiler. Clearly education and development of procurement is a goal for the panel.
