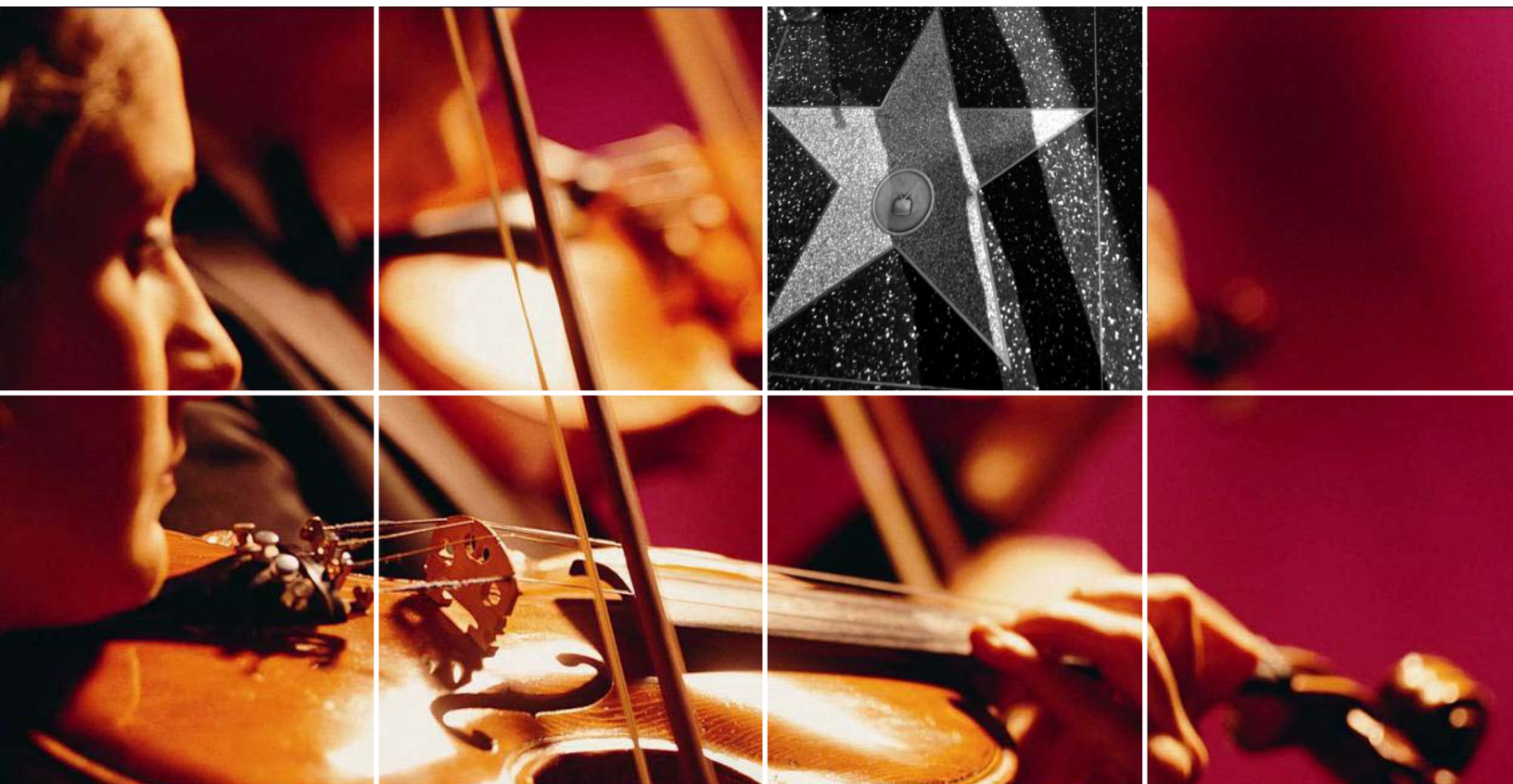


## Taking center stage

*The 2005 chief procurement officer survey*



*An IBM Institute for Business Value executive brief*

IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information.

## Contents

- 1 Executive summary
- 2 Spotlight on procurement performance
- 3 Widening the gap
- 12 Conclusion
- 13 About the authors
- 13 About IBM Business Consulting Services
- 14 References

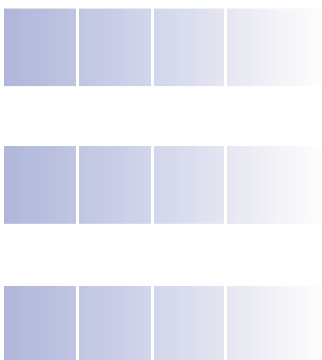
## Executive summary

Ready or not, procurement is moving to center stage, with top billing on the corporate agenda. At companies around the world, CEOs and boards are counting on procurement initiatives to keep their businesses favorably positioned in today's intensely competitive marketplace.

To better understand current procurement performance and future expectations, IBM Business Consulting Services consultants spoke, at length, with 45 chief procurement officers (CPOs) from 14 different industries and 8 countries across Europe, surveying these leaders about current performance and their views on critical procurement topics.<sup>1</sup> Working with the *Economist Intelligence Unit*, IBM also conducted an online survey to compare the European perspective with that of the rest of the world. Although they came from 64 different countries and a wide variety of industries, the 50 CPOs and 250 other C-level executives that responded electronically voiced similar perspectives in almost every instance.

Based on our analysis of the survey results, we believe CPOs can achieve success by focusing on five key areas:

- *Becoming business partners, not just buyers* – CPOs must overcome a pervasive buyer mentality and position procurement to identify and respond proactively to broader business goals.
- *Exploring new value frontiers: It's not just about price* – CPOs need to reorient organizations that are historically biased toward buying raw materials and supplies and convert their thinking and actions to fit the very different demands of capability sourcing.
- *Pulling suppliers inside: The best value chain wins* – Procurement organizations need to champion the *full* contribution potential of strategic suppliers, taking proactive steps to seek out value beyond the supply chain.
- *Pursuing low-cost sources: A world worth exploring* – Procurement organizations have to be prepared to leap hurdles imposed by borders and geographic differences and tap into more cost-effective sources around the globe.
- *Conducting the ultimate talent search* – CPOs must equip their teams with the necessary skills and expertise to address all of these challenges – and, perhaps more importantly, they must do so in record time.



As procurement influence grows, performance in these key areas will dictate the position of industry leaders and laggards. Too often, procurement organizations focus on one aspect of their role while ignoring others. For instance, it is common for procurement organizations to concentrate so intently on supplier management that they neglect stakeholder management; companies frequently end up with tremendous supply-side value that never gets realized because their internal customers decide not to leverage it.

To make the most of the limelight, procurement organizations will have to address *each* of these five key areas in a synchronized manner – and use their superior procurement performance to distance their companies from the competition.

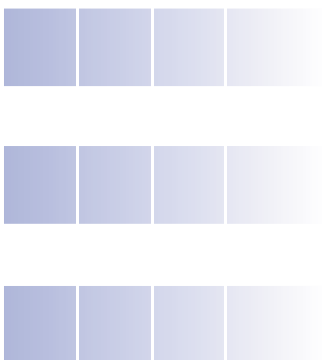
### ***Spotlight on procurement performance***

For businesses worldwide, the steady beat of market pressures continues. Budget cuts are common. Deregulation and globalization are upsetting the competitive equilibrium. Companies are feeling the squeeze from rising materials costs and, yet, find it difficult to raise prices in a “zero inflation” world.

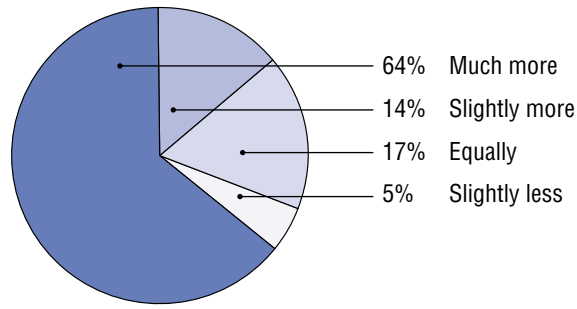
Meanwhile, the fundamental structure of the corporation is changing. Companies are spending more with third parties and, at the same time, are outsourcing many more functions that were historically performed in-house. Across the enterprise, the increased contribution of suppliers is adding more value – and more risk.

Collectively, these factors have elevated the importance of procurement. Today, perhaps more than ever, procurement has a broad and direct impact on corporate performance. And consequently, procurement performance is prominently positioned on boardroom agendas worldwide.

Our survey results suggest that CPOs are beginning to feel the heat of the spotlight. The majority of those surveyed reported procurement savings as *much more* important in the near term (see Figure 1). And many of the ones who chose *equally* or *slightly more* offered their reasoning that procurement savings were already extremely important to their organizations.



**Figure 1. Importance of procurement savings over the next three years.**



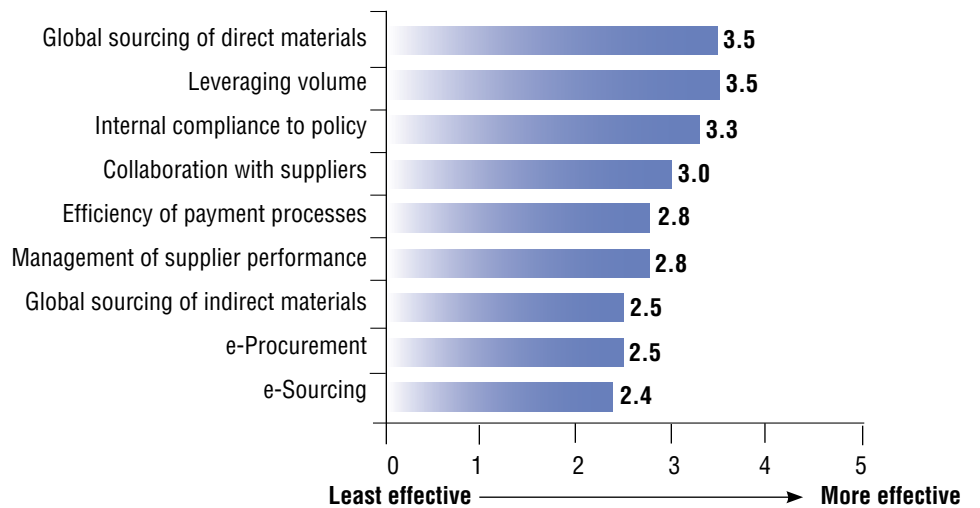
Source: IBM 2005 CPO Survey, IBM Institute for Business Value.

But cost savings are only part of what procurement contributes to the bottom line. CPOs are beginning to wrestle with bigger, more strategic questions: How can procurement become a stronger competitive weapon? How can procurement contribute to increased shareholder value?

### Widening the gap

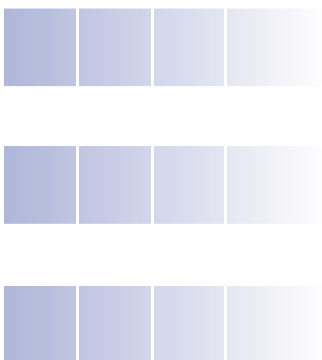
According to the CPOs surveyed, basic strategic sourcing competencies are relatively mature (see Figure 2). As business strategies evolve, procurement organizations are starting to look for ways to create additional value.

**Figure 2. CPOs rank procurement effectiveness higher in historical focus areas.**



Source: IBM 2005 CPO Survey, IBM Institute for Business Value.

**“We’ve gone as far as we can in leveraging price. Now we have to find other ways of meeting our targets.”**  
*– Industrial Products CPO*



**“Having a customer service mindset, and being able to manage change are essential parts of the new role.”**  
 – Technology Industry CPO

To give their companies a greater competitive edge, CPOs will need to focus on five key areas of change:

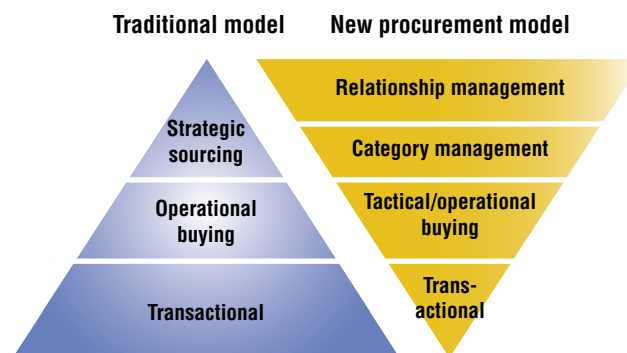
**1. Becoming business partners, not just buyers**

To break out of the buyer mindset, procurement organizations have to focus on a bigger picture: the overall objectives of the business and how they can help their internal customers to meet these objectives. Procurement strategies need to be shaped by business strategies – and need the flexibility to adapt as those business strategies change.

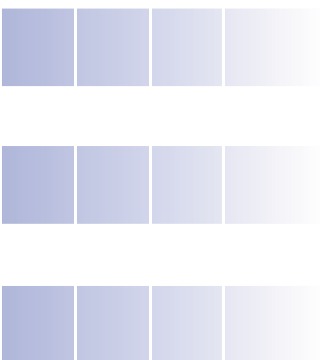
Stakeholder engagement remains a constant challenge for procurement. The value procurement provides to the corporation is contingent upon the degree of buy-in from their internal customers throughout the organization. Misalignment between sourcing strategies and business needs leads to maverick buying, causing companies to forfeit the value that procurement worked so hard to deliver.

Becoming a business partner involves a mindset shift for procurement – from price to value, products to solutions, inputs to outcomes. To make this transition, CPOs need to invert their traditional models, focusing more on relationship and category management where the opportunity for strategic impact is high (see Figure 3). Procurement organizations must serve as the conduit for converting supply-side potential into broad, business value contributions. Shifting to such a model is not simple; procurement organizations will need deeper relationship management and customer service expertise – attributes that are not necessarily intuitive among existing procurement staff.

**Figure 3. Model better suited to future procurement demands.**



Source: IBM Business Consulting Services.



To stay focused on what matters, procurement organizations also need the right measurements. However, among the companies surveyed, comprehensive, balanced scorecards were the exception, not the rule. Performance measures were heavily skewed toward traditional external results – the price and quality buyers could negotiate – largely ignoring how the procurement organization itself was performing or how well it was serving internal customers. To produce superior results, procurement organizations have to balance both, identifying effectiveness *and* efficiency measures that are critical to their constituency and putting practices in place to track results.

### **Changing the image – and value contribution – of procurement at IBM<sup>2,3</sup>**

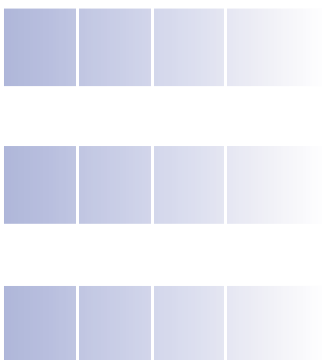
During the past ten years, IBM has been transforming its supply chain, moving steadily from static, business unit-based silos to an integrated, value-creating capability. In 2002, the company established a single Integrated Supply Chain organization – integrating customer fulfillment, global logistics, manufacturing and procurement operations. The organization has a global footprint, employs 19,000 people, handles nearly US\$40 billion in transactions (which equates to 50 percent of the company’s costs) and collaborates with 33,000 suppliers over the Web.

A key part of the makeover was converting procurement roles from administrative functions to value-adding, competitively differentiating functions. Over 3,700 procurement employees, in over 80 countries, are now aligned by a single strategy with common processes and the same governance structure. In the new organization, sourcing is no longer decentralized; it is performed by specialized sourcing councils that leverage global supplier relationships. Instead of considering buyers as clerical staff, the business units now view them as industry-experienced, qualified professionals. To keep communications clear and consistent, the organization has established a few simple metrics – measures that reward the new culture, not the old one. As this value creation culture evolved over the past several years, IBM has been able to shrink maverick buying from 35 percent to 0.2 percent and double internal client satisfaction from 40 percent to 82 percent.

“It is a real challenge to have sourcing skills related to services.”  
– Industrial Products CPO

## **2. Exploring new value frontiers: It’s not just about price**

Capability sourcing is totally different from traditional procurement – and it’s a game which CPOs feel inadequately equipped to play. Instead of simply negotiating the price of a particular transaction, procurement personnel must understand the nuances of the capability in question, and have the ability to assess a broader variety of factors. With capability sourcing, the focus turns to overall business outcomes, total cost of ownership and the potential for long-term value creation.



**“We have no real history of managing outsourcing...”**  
*– Financial Services CPO*

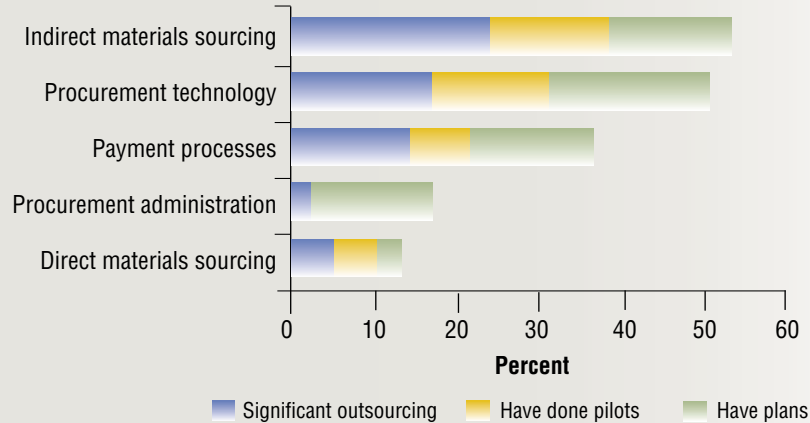
Since capability outsourcing is new territory for many procurement organizations, the CPOs we surveyed reported difficulty in developing the skills and experience required for this sort of sourcing. Because of its long-term implications, capability sourcing involves a more holistic business perspective when evaluating and selecting vendors. With outsourcing, for example, procurement must carefully assess a potential partner’s overall business health and marketplace longevity before entering what are typically multiyear agreements.

As capability sourcing expands, procurement organizations must become more adept at forecasting the future – weighing a supplier’s future capability, not simply what it offers today. Procurement needs to understand and compare strategies, discovering new areas where a strategic supplier can add value and become more integral to the company’s operations. Equally important, it becomes procurement’s responsibility to foresee conflicts of interest that might push the parties in different directions and derail long-term agreements.

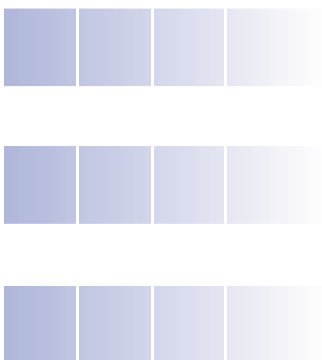
**CPO perspectives on procurement outsourcing**

With their most familiar capability: procurement, CPOs’ attitude toward outsourcing varies by process area (see Figure 4). To date, sourcing of indirect materials, procurement technology and accounts payable have been the most common outsourcing candidates. However, many companies continue to view direct materials sourcing as core to their businesses, and, consequently, choose to retain that function in-house.

**Figure 4. Status of procurement outsourcing.**



Source: IBM 2005 CPO Survey, IBM Institute for Business Value.



**“Our strategy for complex, high-tech items is clear: long-term relationships and partnerships with a small number of suppliers.”**

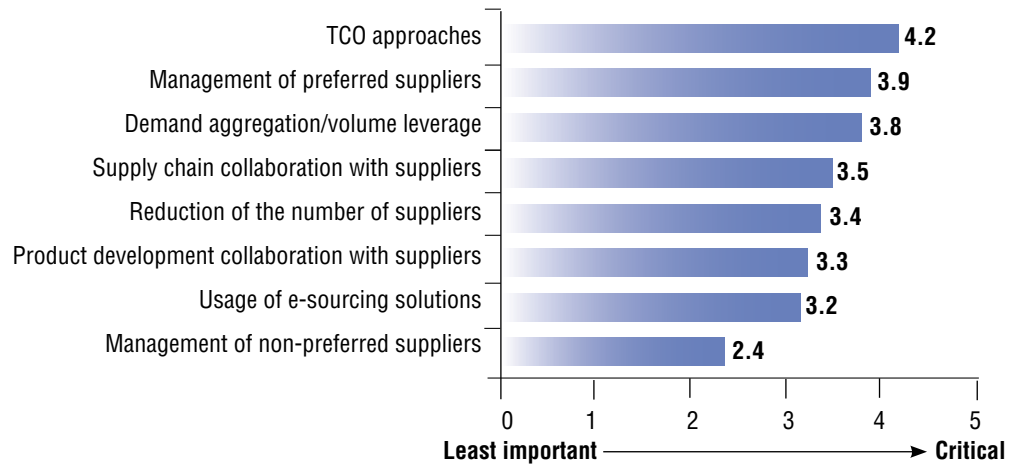
– Industrial Products CPO

### 3. Pulling suppliers inside: The best value chain wins

During our interviews, CPOs spoke of continued supply-base consolidation, leading to fewer, deeper supplier relationships focused on long-term value creation. The emphasis on value creation is key. In today’s business environment, suppliers do not just “supply” – they are participating in the full product lifecycle, moving upstream into product development and downstream all the way to disposal. Suppliers are becoming tightly integrated into the company’s value chain.

The expanding influence of suppliers makes strategic supplier management even more critical. The interviewed CPOs agree – total cost of ownership (TCO) and management of preferred suppliers were considered the top two drivers for supplier value creation (see Figure 5). Acknowledging the upstream progression, CPOs viewed product development collaboration with suppliers nearly as important to value creation as supply chain collaboration.

**Figure 5. Key drivers for value creation with suppliers.**

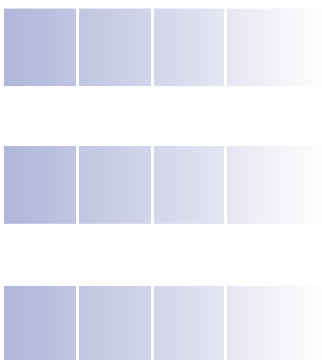


Source: IBM 2005 CPO Survey, IBM Institute for Business Value.

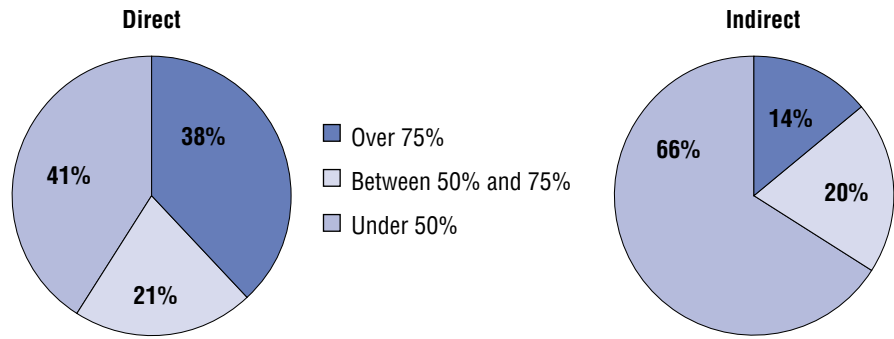
Despite the perceived importance of strategic supplier management, 41 percent of those surveyed were actively managing less than half of their direct materials supplier base – and management reporting associated with indirect materials suppliers was even less common (see Figure 6). Faced with complex relationships and sophisticated contracts, procurement organizations often find that they lack the skills needed to manage supplier performance.

**“Purchasing is not strong on supplier management and contract performance; we tend to be reactive not pro-active.”**

– Financial Services CPO



**Figure 6. Percentage of supply base covered by regular performance reporting.**

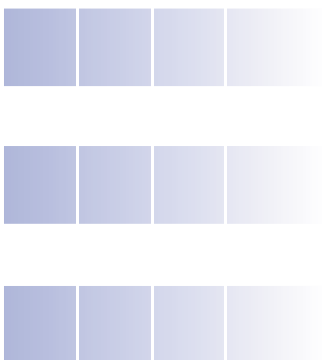


Source: IBM 2005 CPO Survey, IBM Institute for Business Value.

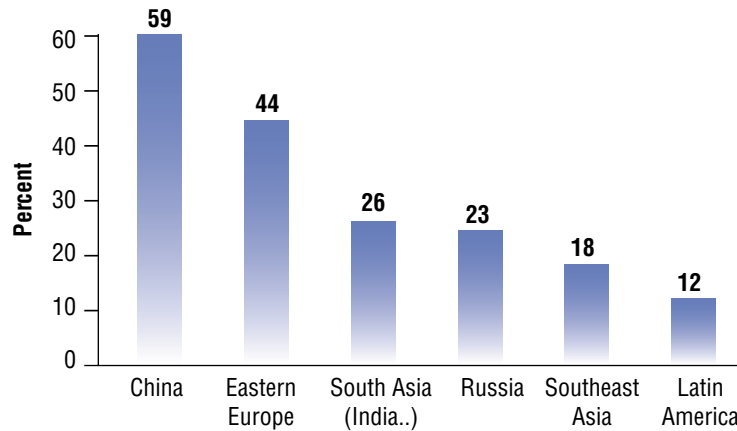
As supply chain management becomes more digital, procurement organizations must become even more vigilant about nurturing supplier relationships. Engulfed in a world of electronic sourcing, companies have a tendency to slip into event management mode, focusing more on trade processes and less on supplier relationships. Confined to this narrow view, companies can easily miss all the additional layers of value suppliers could be contributing. To stem this trend, CPOs need to insist on a more inclusive approach to supplier management, overtly and purposefully involving strategic suppliers in decision-making processes and change initiatives ranging from new product launches to cost-reduction imperatives to supply chain reengineering.

#### **4. Pursuing low-cost sourcing: A world worth exploring**

With technology bridging borders and enabling global commerce, the choice of suppliers today is truly worldwide. CPOs are taking advantage, seeking out viable suppliers in low-cost jurisdictions that can offer comparable quality and better price points. According to our survey results, finding better-value suppliers globally was the number three strategic goal for CPOs (just behind the mainstays of cost and quality). And China was their top destination (see Figure 7).



**Figure 7. Percentage planning to increase procurement volumes and upgrade sourcing capabilities in specific regions.**

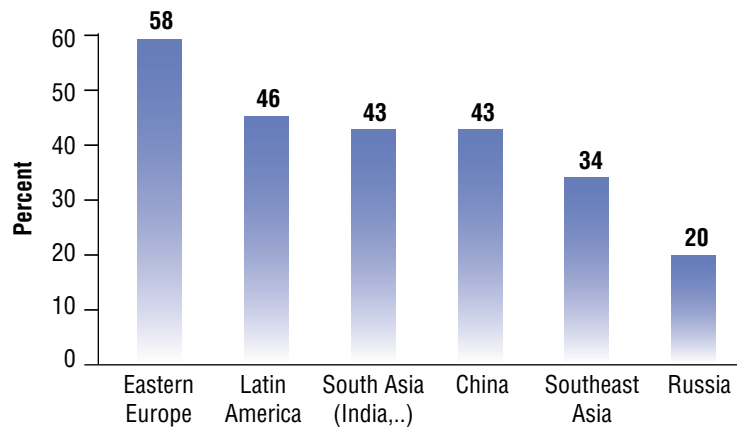


Source: IBM 2005 CPO Survey, IBM Institute for Business Value.

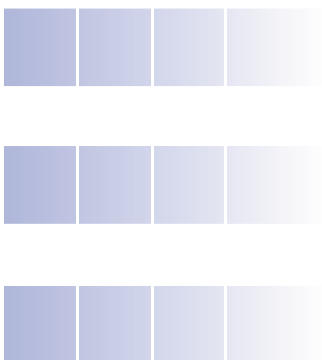
**“We just can’t find skilled people capable of doing global sourcing...we have to provide training for our team on emerging markets.”**  
 – Financial Services CPO

With its financial potential, procuring globally also brings challenges and risk. Even if a company can overcome the language and cultural obstacles, the average procurement organization typically lacks the expertise required to establish and manage contracts in different countries – particularly emerging markets. CPOs recognize these shortcomings; while just over half believe their organizations have the right knowledge and skills to address sourcing in Eastern Europe, their shaky confidence dwindles even further when considering Southeast Asia or Russia (see Figure 8).

**Figure 8. Percentage currently equipped with the right knowledge and skills for procurement regions.**



Source: IBM 2005 CPO Survey, IBM Institute for Business Value.



Although CPOs' skill concern is justified, based on our experience with clients, a general, paralyzing fear of global sourcing is unfounded. In most geographies, pioneers have already tackled many of the anticipated issues, and effective risk mitigation and management approaches exist. For instance, because of their small size and relative obscurity in Asia, many large Western companies are adjusting their procurement approaches. Without the purchasing volume or reputation to command deep discounts individually, they are pooling their leverage and sourcing jointly. With such great potential for cost savings, CPOs owe it to their businesses to evaluate sourcing options outside of their traditional purview.

**“We need to find and integrate new personnel with fresh views and different backgrounds... rotation of our procurement staff into other departments is also in our plan.”**  
 – Consumer Goods CPO

**5. Conducting the ultimate talent search**

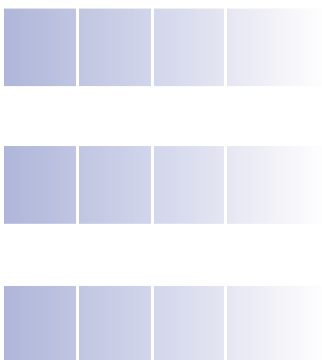
While conducting interviews for this study, a persistent theme came across in nearly every discussion: *a fundamental need for new skills and expertise*. Greater use of outsourcing, more strategic supplier relationships, expanded sourcing in emerging markets, virtually every avenue that CPOs are counting on to boost procurement performance is pushing their personnel into unfamiliar territory.

With the corporate role of procurement changing so radically and so quickly, CPOs are scrambling to build enhanced skills and change behavior patterns across their organizations. In fact, the top three performance improvement strategies among the CPOs surveyed were all people-related (see Figure 9).

**Figure 9. Top strategies for procurement performance improvement over the next three years.**



Source: IBM 2005 CPO Survey, IBM Institute for Business Value.

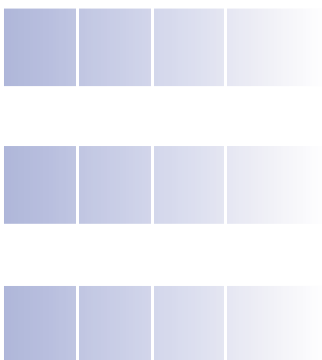


In the end, transforming procurement into a competitive advantage depends on winning the battle for talent. With the marketplace's shallow talent pool and internal financial constraints, companies cannot depend on hiring to fill all of the gaps; businesses have to develop expertise among their existing staff. And, with today's economic and competitive pressure bearing down, companies do not have time for traditional staff development approaches. The reoutfitting of procurement personnel must happen in months, not years.

### **BP: Building capabilities for complexity**

As part of BP's transition from inorganic to organic growth, procurement has been identified as a key value lever in delivering the business strategies. In order to capture this value, the focus has been on taking Procurement from a somewhat reactive, internally facing, service function to a proactive, market-facing, business capability. As the organization and accountabilities have progressively moved toward market-facing lines, attention has shifted toward building the capabilities necessary to capture and deliver the increasingly complex sources of value. The first priority has been to build category strategies in support of the business strategies. These were developed in 2004 in consultation with stakeholders using a common framework. Performance management within the function is progressively shifting toward category lines as these strategies become operational.

The next priority has been to build both the skills (leadership, strategic, financial, program management, technical and communication) and the knowledge (business strategies and supply markets) within the organization necessary to capture complex sources of value. BP is using recruitment and coaching to achieve this objective. Recruitment covers sourcing commercial talent from within BP, expanding its graduate programs and finding experienced professionals from outside BP who can fill key gaps (for example, market knowledge/experience or strategic process expertise). Coaching helps develop the key talent already existing within the organization. BP has taken an innovative, programmatic approach to capability development which it calls the "Capability Accelerator." The approach is designed to compress three years of development into six months through expert, on-the-job coaching. Individuals are independently assessed against "role model" job profiles, and receive a tailored, blended learning plan that covers the full set of skills required – not just technical ones. The program is being delivered in waves to 140 key members of the global procurement community between July 2004 and October 2005. Program management is being driven internally by BP, with expert coaches coming from both internal (such as BP Finance) and external sources (such as IBM), depending on the module. The program's impact has been encouraging so far, and many of its features, including blended learning and expert coaches, are likely to form part of BP's ongoing learning program beyond this "Accelerator" phase.



## Conclusion

As they reflect on current capabilities and the challenges ahead, CPOs have to ask themselves whether their procurement organizations will bask – or bake – in the spotlight of increased corporate attention. Undoubtedly, procurement performance can have a significant impact on a company's bottom line and strategic positioning in the marketplace. As an organization, procurement must master each dimension of change – not just excel in one or two areas.

### Key changes ahead – Speed is critical

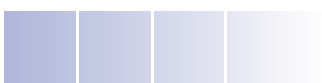
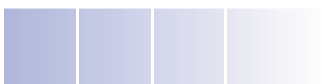
- *Becoming business partners, not just buyers.* Focus on business value contribution by enhancing customer service capabilities and category management skills and establishing measurements that track procurement efficiency *and* effectiveness.
- *Exploring new value frontiers: It's not just about price.* Explore additional capability sourcing options and develop the expertise to evaluate suppliers in a broader, future-state context.
- *Pulling suppliers inside: The best value chain wins.* Nurture supplier relationships to more actively manage supplier performance and seek broader value contributions from key suppliers.
- *Pursuing low-cost sources: A world worth exploring.* Gain the expertise required to evaluate sourcing options, establish agreements and manage contracts in different geographies and use co-sourcing or similar arrangements to reduce risk and increase buying power.
- *Conducting the ultimate talent search.* Equip the procurement organization with the new capabilities needed to achieve all of the above.

*And most importantly, accelerate the development of more sophisticated procurement capabilities.*

- *Establish an education program.* Develop a formal program to provide tailored education, training, coaching and knowledge transfer activities to staff and drive projects through a structured schedule.
- *Leverage specialized external expertise.* Draw on the strengths and experience of external partners to help the organization reach the desired level of performance more quickly.
- *Integrate the portfolio of capabilities.* Combine in-house and external capabilities to establish a procurement organization that differentiates your company in the market.
- *Capture value from the strategy.* Realize business value from procurement strategy, strategic sourcing and supplier management through the introduction of processes, tools, techniques and best practices that translate performance into financial results.



In companies where procurement offers a true competitive edge, we expect to find CPOs that have won the talent contest, have turned buyers into business partners, consider capability sourcing routine, take suppliers deep inside their operations and constantly explore low-cost sourcing options wherever they emerge.



To learn more about the IBM CPO study or discuss how to better prepare your procurement organization for these key changes, please contact us at [iibv@us.ibm.com](mailto:iibv@us.ibm.com). To browse through other resources for business executives, visit our Web site:

**ibm.com/bcs**

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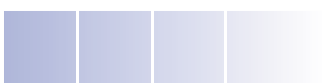
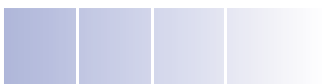
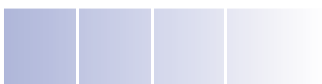
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### *About IBM Business Consulting Services*

With consultants and professional staff in more than 160 countries globally, IBM Business Consulting Services provides clients with business process and industry expertise, a deep understanding of technology solutions that address specific industry issues, and the ability to design, build, and run those solutions in a way that delivers bottom-line business growth.





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