

# What **business leaders** should know about the **value of procurement**

After leaving college with a BTEC Higher National Certificate (HNC) in Business and Finance, **Jocelyn Hedley** joined Blyth-based Welwyn Systems, a small electronics manufacturer, on a YTS Purchasing scheme. She has since enjoyed a 20-year procurement career across a broad range of sectors.



Jocelyn Hedley

Now back in the electronics sector and working for a world leading organisation; in this article, she gives her perspectives on how the procurement discipline has evolved during the last two decades, as her career has weaved through a variety of senior procurement roles in the pharmaceutical and technology sectors. Jocelyn also outlines her thoughts on what good procurement practice is and the positive impact it has on business success.

In Jocelyn's view, the procurement discipline didn't exist in the early 1990s. Procurement, she highlights, is a term that has become prominent in line with the gradual professionalisation of the function during her career. "I started in purchasing, which is 'buying stuff'. Procurement is more strategic and encompasses a broader range of responsibilities. There's been a big change in remit and scope of the role which has required a more diverse set of skills." Yet, despite its evolution into a specialised practice area, many businesses still don't value the role it plays. To understand why, Jocelyn finds it helpful to look back to her early career.

Based on her experience of purchasing in the early stages of her career, Jocelyn outlined that the purchasing team only got involved with direct cost negotiation and reduction: i.e. buying materials related to final products. "It was all about getting the product out with no attention given to other types of costs savings." She added that purchasing wasn't always classed as a proper role either. Departments often consisted of people who didn't fit

anywhere else. Supplier relationships were also driven by a "treat them mean, keep them keen" approach.

The legacy of purchasing, explained Jocelyn, means that a lack of understanding of the positive impact modern procurement has on cost savings as well as service exists. The tendency, in her view, is for divisional leaders to see procurement as the "gatekeeper" or "the last fix." "If someone in another department can't get their own way in a negotiation they pass it to procurement to secure a better price." When this attitude prevails, procurement becomes marginalised when it should play a key role in all business areas from the outset.

Strong leadership is the driver to removing these negative perceptions. Jocelyn explained, "The value of procurement is diluted when it's not driven by someone on the board. If you've got a good director, whether they're in the supply chain, operations or finance, they'll push to get procurement recognised in the business." Directors, she noted, also tend



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to get procurement involved in wider strategy planning, leading to a “shared methodology” across the business. In these scenarios, the role is less one of a gatekeeper and more a “value business partner”, working alongside budget stakeholders to instigate change.

When asked about her experiences working in different sectors, Jocelyn was clear that good and bad management of procurement isn't industry specific. Positive and negative experiences are reported by procurement professionals from a broad spectrum of industries and Jocelyn reiterated that they're usually relative to procurement's place in an organisation's structure, and the strength of leadership and support afforded it. “When the value is understood, then procurement is given the support it should have and you can thrive in your role.” Examples of enabling behaviours include setting KPIs around savings targets and awarding bonuses, as well as investing in training and events.

Even with the backing of a board level director, Jocelyn highlighted that influencing stakeholders and changing perceptions of what procurement delivers is a guaranteed part of any procurement role. She explained how, in the management positions she's held, positive change within the business has occurred over time through a focus on three core areas: centralisation of spend, supplier reduction and supplier relationship management.

Starting with the centralisation of spend, Jocelyn noted that the first action a procurement professional should make in any organisation is taking spending control away from budget holders. In her words, “sense check all spending” and identify “maverick spend” by analysing budgets and invoices; talk to finance and “get oversight of everything that's going on.” Where once purchasing would only get involved in direct spend, modern procurement is (or should be) involved in all outsourced purchasing, with an “open policy to speak to suppliers.” In businesses with large facilities and no centralised procurement function, maverick spend, in Jocelyn's experience, is usually rife. “Often, especially when the supplier base is limited, most gains can be leveraged through the cost savings associated with the control of maverick spend in an organisation”.

The inevitable knock-on effect of centralising all contract negotiation is supplier reduction. As Jocelyn pointed out, “If everyone in the company has been a buyer, there will be too many unnecessary suppliers.” The benefits of supplier rationalisation are far-reaching. Not only does it allow procurement to better control spending, it also opens doors for more cooperative internal and external relationships. For example, working alongside budget stakeholders from the beginning of a procurement process, Jocelyn reveals, leads to a “stronger understanding of needs, greater leverage for negotiation





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with suppliers, and delivery of more effective solutions.” It also minimises a business’s exposure to bribery and fraud.

Once rationalisation and consolidated spending are achieved, Jocelyn indicated a robust supplier relationship management strategy can be implemented. “You become a bigger fish in a smaller pond enabling you to get better value from suppliers. Value, in her view, should be at the forefront of negotiation to secure long-term relationships. Introducing governance around contracts, doing tenders, establishing KPIs and benchmarking suppliers creates healthy competition leading to increased service. Relationships turn collaborative too because there’s a “realisation that to get the best arrangement you must work together.” Regardless of size, Jocelyn added, every supplier is important because they’re “part of the bigger picture.”

A strong and valued procurement function, Jocelyn argues, can be a key differentiator for business. Remarking how the emphasis is usually placed on the roles of sale as the driver of growth, however, she argued that evidence

points towards procurement savings as being far more impactful. “The value of procurement is always overlooked; if there were more focus and investment in procurement, sales targets could be reduced.” One recent study shows that for every 5% reduction in costs achieved by procurement sales must increase by 6.75% to match them.

Returning to the discussion of the professionalisation of the procurement discipline, Jocelyn said she is enthused by the greater importance given to CIPS (Chartered Institute of Procurement & Supply) qualifications





today. In the late 90s, when Jocelyn qualified, employers didn't consider it compulsory when hiring in purchasing. That's changed now, with more businesses specifying it on applications. Though, she admitted, it's still not as widely acknowledged as other more established accreditations such as CIPD, CIM etc.

While CIPS is pushing for more recognition - raising the profile of procurement as a profession through initiatives such as publishing success stories - e.g. CIPS qualified people getting board level positions - more needs to happen, in Jocelyn's opinion, to convince businesses that procurement is a skilled profession that deserves investment in training and talent acquisition. "In terms of budgets, companies still seem less willing to invest in high calibre people. In today's competitive global marketplace there is more pressure to manage costs, so the need for higher calibre people working in the procurement function is greater than ever."



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