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**Evolving Supply
Management Leadership**
*A Blueprint for
CPO Success*



RUSSELL REYNOLDS ASSOCIATES

Contact Information

BOOZ & COMPANY

Berlin

Nils Naujok
Principal
+ 49-30-88705-855
nils.naujok@booz.com

Chicago

Eric Dustman
Partner
+ 1-312-578-4740
eric.dustman@booz.com

Rohit Singh

Principal
+ 1-312-578-4694
rohit.singh@booz.com

Bruce Thelen

Associate
+ 1-312-578-4713
bruce.thelen@booz.com

Dallas

Dennis Cassidy
Partner
+ 1-214-746-6552
dennis.cassidy@booz.com

Düsseldorf

Detlef Schwarting
Partner
+ 49-211-3890124
detlef.schwarting@booz.com

Robert Weissbarth

Principal
+ 49-211-3890134
robert.weissbarth@booz.com

Florham Park, NJ

Pat Houston
Partner
+ 1-973-410-7602
pat.houston@booz.com

Houston

Matt McKenna
Senior Executive Advisor
+ 1-713-650-4156
matt.mckenna@booz.com

Mark Uffhausen

Principal
+ 1-713-650-4191
mark.uffhausen@booz.com

London

John Potter
Partner
+ 44-20-7393-3736
john.potter@booz.com

New York

Martha D. Turner
Partner
+ 1-212-551-6731
martha.turner@booz.com

São Paulo

Luiz Viera
Partner
+ 55-11-5501-6212
luis.viera@booz.com

Shanghai

Joni Bessler
Partner
+ 86-21-2327-9800
joni.bessler@booz.com

Sarah Butler

Partner
+ 86-21-2327-9800
sarah.butler@booz.com

Anna Mansson

Senior Associate
+ 86-21-2327-9800
anna.mansson@booz.com

Vienna

Harald Dutzler
Partner
+ 43-1-518-22-904
harald.dutzler@booz.com

RUSSELL REYNOLDS ASSOCIATES

New York

Jim Davis
Managing Director
+ 1-212-351-2000
jim.davis@russellreynolds.com

EXECUTIVE SUMMARY

In today's increasingly complex business environment—manifested by volatile commodity markets, financially distressed supply bases, and demanding internal stakeholders—the role of the chief procurement officer (CPO) has evolved and expanded. Procurement is moving from a focus on price and cost to a more holistic orientation toward value. Along with this shift have come greater expectations of the CPO—including the ability to engage with and influence a broader constituent base and to provide input on addressing the full range of value chain costs. Business unit leaders look to procurement to drive incremental P&L impact and to proactively bring solutions to stakeholders as credible partners in managing the supply chain. Given all that CPOs are contending with today, it's not surprising that the job is anything but stable: More than two-thirds of CPOs have been in their current role for less than three years.

To address this evolving dynamic, a new blueprint for a successful CPO has emerged—a blueprint in which driving sustainable value for the organization, not merely setting a plan to secure short-term price reductions, is the foundation. The CPO must lead a procurement organization in managing the supply base as an extension of the broader company—leveraging supplier capabilities to the fullest and in a mutually beneficial way. This

blueprint includes a set of traits that the new CPO must possess and actionable steps that should be implemented to transform the job and its impact on the organization.

This capability set is not innate to many CPOs, and the actions are not easy to execute. Yet they are essential to establishing an environment where sustainable value capture can be achieved in a procurement organization.

KEY HIGHLIGHTS

- The role of the chief procurement officer is evolving and expanding rapidly, with the focus shifting from price to value.
- To meet growing internal expectations and increasingly volatile external pressures, a new blueprint for the CPO focuses on driving incremental impact through four distinct traits that enable success: organizational IQ, leadership, broader engagement, and market expertise.
- CPOs can take actionable steps to apply the blueprint and transform the supply management function, including challenging their teams to be more strategic, enhancing their team's capabilities, engaging more collaboratively with internal stakeholders, and improving the internal perception of the sourcing group.

A RADICALLY DIFFERENT POSITION

Chief procurement officers have come a long way in a short time. Just two decades ago, if the position even existed in a company, the CPO was generally viewed as a functional specialist, focused primarily on procurement transactions—and more recently, executing the now ubiquitous five-, seven-, or nine-step strategic sourcing process. Yet, in many instances the CPO was not viewed as a trusted advisor with “a seat at the table” among the top strategic decision makers in the organization. The CPOs or their equivalents typically reported to an operations, supply chain, or finance chief and focused primarily on sourcing direct materials.

As the notion of strategic sourcing came into its own in the late 1990s and early 2000s, the CPO's role

expanded to encompass purchasing indirect materials and services—including more nuanced professional services categories, such as marketing, legal, and IT. This enhanced breadth required a greater ability to collaboratively engage with business stakeholders to influence the front-end strategy components of the procurement life cycle. In other words, the procurement executive position had evolved into that of a leader who was more commercially astute, charged with building partnerships and alliances. The job was no longer purely about price and cost but rather about rethinking sources of supply and reliability of supply quality and continuity.

The traditional, smaller role of the CPO is no longer viable in successful organizations. As global economies have become more challenging and as foreign competition has increased, top management is increasingly looking for ways to reduce the cost of materials and services—and to do so in a more holistic end-to-end way. Responsible for expenditures that represent as much as 50 percent of a company's revenue, CPOs are uniquely critical in implementing

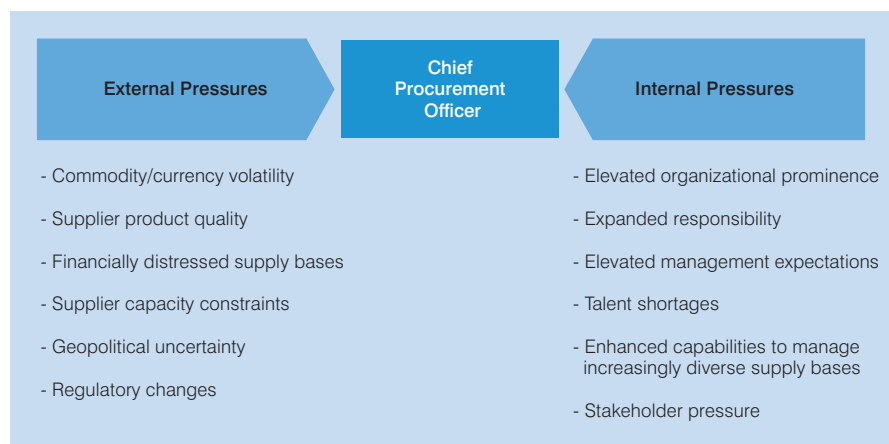
this change in direction. As a result, their responsibilities have broadened substantially to include elements such as demand and risk management and supplier relationship management—all requiring increased collaboration with (and influence over) the operational side of the business. In current business parlance, successful CPOs are rapidly becoming thought leaders, change agents, capability builders, and people developers. Reflecting

this change, 86 percent of CPOs (or CPO equivalents) surveyed by Booz & Company in October 2010 said that their company had realigned its procurement organization within the last three years.

Their elevated role has brought heightened expectations for CPOs to deliver across a broader range of capabilities, while maintaining consistent results. External forces—

such as geopolitical uncertainty, regulatory changes, and financially distressed suppliers—combine with internal challenges, including talent shortages, stakeholder concerns, and the need to build the capabilities to manage diverse supply bases, to make the CPO’s job much more challenging. All of these pressures present unique sets of concerns that must be addressed with distinct actions (*see Exhibit 1*).

Exhibit 1
Pressure on Chief Procurement Officers



Source: Booz & Company analysis

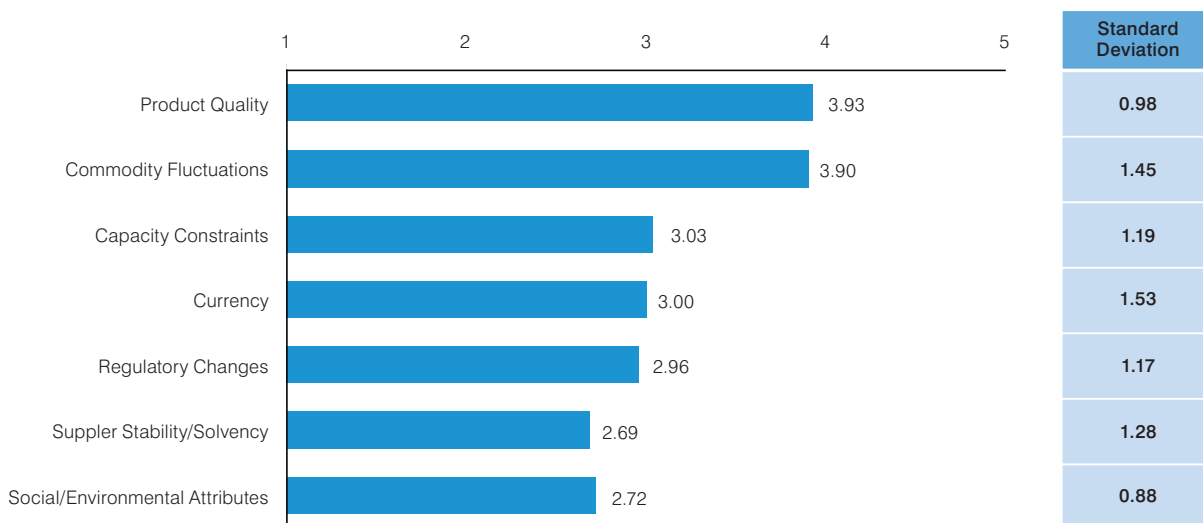
Among these concerns, the CPOs we surveyed viewed ensuring product quality in an ever more global and disparate manufacturing environment and commodity price fluctuations as the greatest risks they face (see Exhibit 2).

With all of these new responsibilities, pressures, and challenges, it's not surprising that CPO turnover is quite high now. In the Booz & Company survey, 72 percent of CPOs said that they had been in their current role for less than three years, their short tenure often the result of organiza-

tional realignment or business transformation. A primary reason for this relatively rapid turnover is that many incumbent CPOs lacked the broad capabilities required to measure up to senior management's heightened performance targets, to adequately shepherd change in the organization,

Exhibit 2
Risk Impact on Businesses

AVERAGE RESPONSE BY RISK ELEMENT (1 – LEAST RISK, 5 – MOST RISK)



Source: 2010 Booz & Company Strategic Sourcing Executive Forum pre-event survey responses, N=30

or to build credibility for themselves internally.

However, when companies seek a more capable procurement leader, only infrequently do they have an internal candidate to turn to, in part because the rapid evolution of the CPO role from transactional buying to strategic imperative has left many firms with a shortage of qualified talent. The individual who excels in “cost cutting” is often not the same executive who sits at the table with product development, engineering, and sales, or even

marketing and human resources, helping to shape the next-generation product or service. As a result, CPO positions are of late increasingly filled by respected non-procurement executives within the organization (such as operations managers) or by someone from outside the organization.

Indeed, CPOs are increasingly recruited from outside the industry. It’s not unusual anymore to see a CPO sign on at a fast-moving consumer goods outfit after stints at an automaker and a consumer

durables company. The most critical skills of the job are transportable, and global experience and prior success are attractive; further, cross-industry pollination encourages best-practice sharing as well as a fresh set of eyes to challenge the status quo. That’s not to say that hiring a CPO from another industry doesn’t represent a degree of risk—in particular, difficulties in establishing credibility and organizational networks at their new jobs. But in our experience, if no clear-cut internal successor exists, the rewards usually outweigh the downside.

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BLUEPRINT FOR THE NEW CPO

Given the recent changes and challenges, a new blueprint for success has emerged for CPOs. A CPO must possess four distinct traits to address both internal and external pressures and to establish a credible and successful supply management function:

1. Interpersonal Skills and Organizational IQ

Internally, the CPO must understand well the needs and strategies of the organization to align with the expectations of leadership and to establish trust and strong relationships with business stakeholders. Often, this involves balancing conflicting demands—delivering cost improvements and improving quality on the one hand and managing the supply chain and commodity risks on the other. The CPO must understand organizational aspirations, pragmatically evaluate challenges, and channel the efforts of the procurement organization appropriately—while also nurturing strong relationships with the

business units to best support their needs and deliver on commitments in a timely manner. This establishes the credibility of the procurement organization and the CPO.

A large part of the CPO's job lies in understanding the current culture of the company, adapting management styles and implementing best practices to fit the nuances of the organizational environment. Working with global organizations, we've seen many new CPOs flounder by failing to develop an early mandate for change or neglecting to consider how fresh approaches would be received by the organization. Others have stumbled by taking a "one-size-fits-all" stance, blindly applying approaches that may have worked well in a more monolithic business to a distributed model, for example, or slowly implementing world-class "Cadillac" processes that were the accepted norm in a prior company to an organization that is more urgently focused on immediate results.

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The ability to forge strong stakeholder relationships is a “make or break” skill for a successful CPO because it allows for the development of a “pull” model for engaging with the business units and functions. In our experience, working collaboratively with business stakeholders (such as engineering or operations) in joint sourcing efforts yields better results than the more traditional model in which sourcing activities are in effect “pushed” on business units. The pull approach lets procurement influence the front end of the sourcing life cycle before too many of the variables are set in place regarding demand and requirements. This is a key to achieving top quartile procurement performance and often the differentiating factor that elevates the stature of the CPO.

2. Leadership Skills to Shepherd Transformational Change

CPOs must leverage their capabilities and experience to transform the procurement function into a high-caliber organization with not only the traditional supplier-facing procurement roles but also the new skills required to influence internal behaviors to deliver greater impact

and value. In doing this, CPOs should establish a fit-for-purpose procurement operating model tailored to the requirements of the businesses being supported.

Further, the need for a highly skilled and talented procurement team to deliver on the business commitments should not be underestimated. Skilled supply management professionals are in high demand, so CPOs must offer competitive compensation to attract talent. According to the Institute for Supply Management’s annual compensation survey, the average compensation for a supply management professional rose 6 percent from 2009 to 2011. CPOs must also tap into multiple talent recruitment approaches—among them, hiring high-caliber professionals from internal organizations, seeking skilled professionals from other industries, and establishing talent development relationships with universities.

In addition, CPOs should establish programs for career progression that elevate the supply management organization into a place where employees can have a rewarding career and where high-potential

employees can build on their experience and skills to advance within the broader organization. In short, the procurement group should be sufficiently attractive to entice top internal talent to consider joining. Creating the right balance in the team between procurement knowledge and general commercial skills is essential in building a high-performing environment.

Establishing the appropriate organizational capabilities and operating model (that is, setting up clear guidelines for roles and responsibilities and decision rights as well as implementing effective procurement processes, policies, and technologies) not only delivers value to the business, but also enables the CPO to apportion adequate time for stakeholder relationship management—both internal and external.

3. Broad Perspective to Deliver Value Beyond Price Reductions

A successful CPO today must pursue a robust spectrum of potential procurement levers to drive incremental impact and maximize value. This requires moving beyond traditional price and cost levers to

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explore demand and value levers (see Exhibit 3), which have potential to yield significantly greater returns than the right-price/right-supplier approach to procurement. Managing demand and value levers is particularly critical because they tap into the inherent and structural cost aspects of a product or service, such as product design considerations, purchasing volume, supporting supplier innovation, make-versus-buy decisions, and improved supplier development, among other things.¹

Upward of 70 percent of the total cost of a product or service is determined by inherent and structural decisions made before the procurement process even begins. Hence, to optimize the total cost of ownership, the CPO should actively work with the business teams to drive real value from these decisions that impact total delivered cost. However, to do this successfully, the CPO and the procurement team

must exhibit strong advisory and collaboration skills, a set of talents that are unfortunately not in the wheelhouse of traditional supply management organizations.

4. Market Savvy and a Keen Eye for Mitigating Risk

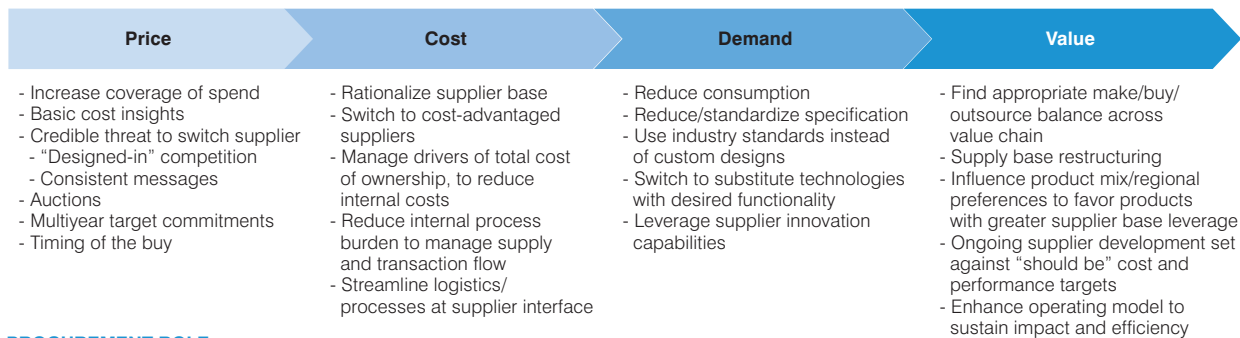
Today's extended global enterprises are susceptible to risks in ways that go well beyond those that have traditionally affected strictly local and regional businesses. Furthermore, products and supply chains have grown increasingly complex and highly interdependent, making active risk management a top corporate priority. The sourcing area of the supply chain is particularly important to monitor, given that most of the risks to a company pertain to truly external factors, such as suppliers and market movements. As a consequence, CPOs must understand and actively manage a range of potential risks from third-party suppliers of

materials and services, including market risks related to pricing and supply capacity, business risks related to specifications and brand, operational risks related to quality, and natural risks related to supply chain disruptions due to natural disasters.

Successful CPOs should work with their teams to understand commodity exposure, supplier risk profiles, and the potential impact on the business of supply disruptions, pricing changes, quality mishaps, and environmental and political disturbances. The CPO can then collaborate with the broader organization to develop appropriate mitigating strategies for these risks—for example, by directly managing price risk for major commodities or collaborating with the CFO's organization to develop risk mitigation strategies in alignment with the business objectives.

Exhibit 3
Procurement Value Levers

PROCUREMENT VALUE LEVERS



PROCUREMENT ROLE



Source: Booz & Company

APPLYING THE NEW BLUEPRINT

In our work with leading companies, we've observed a set of actions that CPOs can take to bring incremental and strategic value to their organizations through the procurement function:

1. Put Strategy Back into Strategic Sourcing

CPOs must eliminate historical procurement weaknesses by challenging their teams to move beyond the tactical execution of price-focused sourcing events to a more holistic approach to managing total cost across the entire supply chain. In many organizations, strategic sourcing has become commoditized with variations of the “five-, seven-, or nine-step” strategic sourcing process. Getting the entire

organization (procurement and business units) to proactively design lasting strategies and engage in creating procurement and sourcing value against those strategies can be a remarkably lucrative approach. Maximizing and unlocking potential value in procurement requires the creation of deep commodity-level insights that can be used to develop category strategies that address both inherent and structural costs. These strategies also must be supported by a cross-functional operating model that drives ongoing effectiveness and sustainability of results.

2. Enhance the Capabilities

The characteristics of the new CPO—business acumen, strategic capability, global perspective,

Deep commodity-level insights can be used to develop category strategies that address both inherent and structural costs.

analytic skills, and a deep understanding of commodity markets, costs, and operational drivers—must be mirrored in the procurement team. A proper succession and team development plan should include regular “skills and wills” assessments to determine who is able to change as the nature of the job changes and who is willing to put in the necessary effort to do so. Unfortunately, many organizations do not have time to groom a “promising up-and-comer” even if one exists, so bringing in talent from the outside is often a good short-term solution. One of the primary expectations of a CPO recruited from the outside should be the creation of a plan to ensure that such a search is never again necessary.

A procurement organization is only as good as the talent it can deploy. CPOs need to focus on building out functional and commercial capabilities within the organization

by shifting from a pure purchasing skill base to a more diversified talent portfolio including engineering, finance, risk management, and strategy. This can be done through a number of strategic talent imperatives: blending high-quality external talent with existing internal knowledge; creating rotational stops in procurement for the organization’s top general managers; and building a robust training program to enhance the current talent.

This talent development process doesn’t come without cost. Improving capabilities takes time and money to accomplish, but it is an essential component in elevating the procurement organization and delivering sustainable value to the company.

3. Change the Engagement Model

It’s critical for CPOs to quickly build stronger and more strategic relationships with their internal stakeholder base and be viewed as

true partners in achieving business unit objectives, in part by showing that success in supply management has a direct correlation to business achievements. CPOs need to deliver value in a way that business stakeholders understand, recognize, and value.

Changing the engagement model cannot be done by procurement alone. It requires business units to have “skin in the game” in procurement initiatives and actively collaborate across functions. For example, at an automotive company, setting a category strategy for steel cannot be done by CPOs in isolation; stakeholders from engineering, quality, logistics, and manufacturing must be involved both in the project and in the ongoing management of the category. With other functions, such as marketing and legal, CPOs and their teams must take more of a backseat or advisory role due to long-established relationships with existing vendors in these functions.

Leadership in those groups should be allowed to manage the procurement effort while the CPO oversees the activity to ensure a beneficial and robust application of sourcing processes has been implemented and that demand and value “opportunity” levers are jointly explored.²

4. Change the Brand

CPOs must shift the internal perception of the sourcing organization from a necessary evil needed to manage spending to a key business enabler and a destination for talent. The internal brand is defined by the interactions the group has with stakeholders and is driven by capabilities and communication.

The capabilities—both sourcing and commercial—drive the performance of the organization and the internal perception. To be successful, there must be an attraction model for internal and external talent. This can happen through cross-training employees in managing cost and by moving future leaders through sourcing to develop critical cost management skills. Communication is also essential in strengthening the brand. The messages that CPOs communicate and how and when they are communicated drive internal perception.

Looking forward, CPOs must also fulfill the “promises” they’ve made to stakeholders, which can serve

as a platform for communication and capability-building efforts. Stakeholders should have a clear understanding of the CPO’s vision for the future as well as how he or she plans to carry out that vision. And stakeholders should be informed about achievements toward procurement goals each step of the way. Changing perceptions—the CPO’s brand—takes sustained effort and time. However, it is essential to build an organization that drives sustainable results and necessary to instill resiliency in the chief procurement officer position. As one CPO told us, “Nothing breeds success like results.”

Stakeholders should clearly understand the CPO’s vision for the future, as well as how he or she plans to carry it out.

CONCLUSION

In a few short years, the chief procurement officer's role has shifted radically from a price- and cost-focused function to a more holistic value- and strategy-oriented position. In the process, the CPO's sphere of influence within the organization has expanded; procurement teams must now provide credible leadership and partnership with internal businesses to drive incremental impact and value. This evolution is expected to continue as the CPO takes on broader supply chain management functions and greater responsibility across the company's total value chain.

Simply put, the CPO today must take the difficult steps to lead a procurement organization in managing supply as an integral part of the business unit agenda—leveraging supplier capabilities to the fullest and aligning the supply chain closely to corporate strategy. At forward-thinking companies, the CPOs are no longer simply asked to “show me the money.” Instead, they are required to drive nothing less than incremental and sustainable value. The expectations for them are clear; whether they meet these expectations could depend on how successfully they follow the blueprint for the new CPO.

Endnotes

¹ “Manufacturing’s Wake-Up Call,” by Arvind Kaushal, Thomas Mayor, and Patricia Riedl (*strategy+business*, Autumn 2011). www.strategy-business.com/article/11306?gko=c3e5f

² “Getting Creative: Efficient Sourcing in Marketing,” by Harald Dutzler, Patrick W. Houston, and Martha D. Turner (Booz & Company, 2009). www.booz.com/media/uploads/Getting_Creative.pdf

About the Authors

Martha D. Turner is a partner with Booz & Company based in New York and co-lead of the firm’s sourcing offering and team. She specializes in driving operational and organizational transformation, with specific focus in sourcing for consumer, media, and retail companies.

Rohit Singh is a principal with Booz & Company based in Chicago. He specializes in supply chain transformation for the energy industry.

Bruce D. Thelen is an associate with Booz & Company based in Chicago. He is a member of the firm’s operations practice specializing in sourcing transformation and cost reduction across a variety of industries.

Jim Davis is a managing director at executive search firm Russell Reynolds Associates and leads its supply chain practice in the United States. He conducts senior executive and board director recruiting efforts for clients in industrial, manufacturing, and distribution industries.

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