

## READ THE REVIEWS

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“*The Procurement Game Plan* is an impressive collection of key topics that provides essential knowledge for the contemporary supply chain management professional. Real-world insights and proven strategies, presented with intentionality and a balanced perspective, make for an easy-to-read book from which every reader can gain significant value. Of particular note are the chapters on talent management and socially responsible procurement which deliver exhaustive and multi-faceted content that should be required reading for today’s procurement leaders.”

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Senior Vice President Supply Chain, Premier Inc.

“I read a lot of business and textbooks for training every year with most being repetitive and quite a slog to get through. I cannot tell you how many times I am halfway down a page when I realize that I have no idea what I just read. I did not have that problem with *The Procurement Game Plan*. This fast, easy read is complete with both real-world examples and specific implementation recommendations. Many procurement books say what should be done with no recommendation or roadmap on how to actually implement. The interviews with senior practitioners in Chapter 15 also differentiate this book from others. The authors do not reference big name consultants that never ran a procurement organization in their careers; they call on experienced senior procurement executives that have scars.

Procurement/Supply management does not have a published body of knowledge like management accounting, internal audit, or project management so *The Procurement Game Plan* can help provide a foundation for those new to the profession and a solid reference for those of us with experience.”

—**Robert Semethy**,  
CPOE, CPSM, FCIPS ExDip-Chartered,  
Chief Procurement Officer,  
Erste Group Bank AG, Vienna, Austria

“Whether you are just getting started or an experienced procurement/supply chain executive, I recommend this book to any professional seeking to learn successful strategies for a high-performing procurement organization. It’s a fun, practical guide (or game plan) that if executed will add value to your organization’s bottom line! As a former pro athlete and long-time procurement professional, I assure you this book does an amazing job of relating common sports strategies to the business environment. You’ll find yourself not only enjoying the book front to back initially, but also keeping it nearby as a reference guide to continuously support you in executing best-in-class-procurement strategies!”

—**Matt Mehler**,  
VP of Procurement,  
Madison Square Garden Entertainment

“I found this book well written and easy to read with down-to-earth language not often found regarding technical subjects. The chapters are a recipe for success in a modern purchasing concern with many good lists of do’s and don’ts, checklists, and strategies throughout the book.

It checks all the boxes of functions that can make a procurement department run well: sourcing strategies, contracts, negotiations, quoting, outsourcing, supplier scorecards, talent management, social responsibility, strategic sourcing, collaborative sourcing, supplier relationship management, qualifying suppliers, risk hedging, e-sourcing and reverse auctions, and global sourcing. The book is beneficial to big and small companies looking to improve their procurement processes.

This guide is for the corporate world—both executives and procurement personnel—to review their own purchasing practices and improve them. It’s a resource for developing your specific procurement game plan, so don’t just read it—act upon its teachings!”

—**John Russo**,  
Associate Director, Center for Excellence,  
Supply Chain Management, Duquesne University

“This book’s clarity and comprehensive coverage make it one of the best procurement practitioners’ guides on the market. It will successfully serve the needs of the purchasing professional who wants to do some serious thinking about what really does contribute value to his/her firm and why.”

—**Paulo Moretti**,  
Principal, PM2Consult

# THE PROCUREMENT GAME PLAN

*Winning Strategies and Techniques for  
Supply Management Professionals*

S E C O N D E D I T I O N

**CHARLES DOMINICK, SPSM3**  
**SOHEILA R. LUNNEY, Ph.D.**



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# PREFACE

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Why another procurement/supply management book? We raised this question when first entertaining the idea of coauthoring a book. There are many books in the marketplace related to procurement that focus on a variety of issues, ranging from customer-centric demand management to basic principles of managing suppliers' suppliers for highly effective and efficient supply chain management operations. Although these books are credible and provide valuable, up-to-date information, we did not want to write a book that would be hard to read or difficult to comprehend. To sum it up, we wanted to write a book that would be *exciting!* While many books and publications offer best practices and new methodologies in the world of procurement and supply management, they lack easy-to-follow approaches in implementing those best practices and methodologies. In other words, they offer the *what*, but lack the *how to*. We wanted to address this nagging need of procurement and supply management professionals.

As educators who have provided procurement training to professionals throughout the world, we believe in the power of using real-life examples to convey our messages and simplify complex concepts. As a result, we use many real-world examples. We have both provided consulting services for a variety of industries and gained extensive procurement experience by working in different organizations, including a small manufacturer, two educational institutions, a Fortune 500 airline, and a Fortune 100 pharmaceutical/life sciences company. Examples from consulting and work experiences are shared in this book so that readers can apply recommended, winning strategies and techniques to achieve results and be successful in their roles as procurement professionals.

Best of all, we wanted to introduce a new twist to books on procurement and supply management by drawing similarities and contrasts to real-world sports. This is due to the fact that both authors are avid sport fans who have found that many principles that victorious sports teams apply to make themselves *champions* can also be applied to the business world. We want the procurement professional, like yourself, to achieve results, prove their value to their employers, and have rewarding careers.

The topics presented in this book were deliberately selected to prepare procurement and supply management professionals to be successful, given the complexity of changes that have occurred in the past 10–15 years and what will lie ahead for the profession. As a result, this book focuses on topics of utmost importance, from the fundamentals of procurement/supply management to emerging trends that are likely to revolutionize the way procurement is done in the future. The first chapter highlights the role of procurement in an extended enterprise and explains how this role has recently evolved. In addition to setting a procurement strategy, developing a business case, and paying attention to organizational structure (Chapter 2), a well-planned talent management approach (Chapter 3) emerges as an important strategic consideration. Once social responsibility (Chapter 4) as a higher standard of procurement behavior is explored, we'll cover how to demand a higher standard of supplier behavior by discussing preventing and managing back-door selling (Chapter 5). Once back-door selling is prevented, we can walk through the better alternative to back-door selling—the strategic sourcing process (Chapter 6), and cover supplier evaluation and selection (Chapter 7). We also address negotiation in general (Chapter 8), negotiation techniques used in specialized situations (Chapter 9), and ongoing supplier relationship management (Chapter 10). Achieving supply chain resilience through contingency planning (Chapter 11) highlights the important role that procurement plays in continuous business performance in the face of adversity. Measuring procurement performance (Chapter 12) provides insight into how to maintain a scorecard on procurement performance that is credible. Technologies and services (Chapter 13) are presented as overarching factors for improving supply management performance. Specialized areas of procurement (Chapter 14), such as global sourcing and procurement of services, play an important role in today's procurement world. You will hear directly from *superstars of the game* in our penultimate chapter dedicated to interviews that we've conducted with incredible procurement thought leaders (Chapter 15). And, we'll close out this tome with a chapter on managing what we hope is a long and successful procurement career for you (Chapter 16).

This book is of interest to professionals who are engaged in or considering procurement and supply management, particularly readers who are seeking the answers to the challenges of proving their value and braving the criticism cast by nonbelievers. It will have meaning for vice presidents and directors who are looking for ways to get to the next level of performance improvement, as well as managers charged with getting the intended results and returns on assets or investments. Academics will value the content as a guide for preparing students for future work in the field of procurement/supply management.

Procurement and supply chain management continue to be hot topics as more executives realize the value of these functions. Although companies from small

businesses to large enterprises are paying more attention to these disciplines, much more remains to be accomplished. We hope that this book assists procurement and supply chain management professionals and their organizations in their quest for mastering best practices, achieving results, and making measurable contributions to the bottom line.

Charles Dominick, SPSM3  
Soheila Lunney, Ph.D.



# ACKNOWLEDGMENTS

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To Sharon, Maleena, and Carson. Of all my dreams that have become reality, having you in my life is the best dream and the biggest blessing.

—Charles Dominick, SPSM3

To the memory of my mother and to all my loved ones who have always supported me in every endeavor and have never doubted my dreams.

—Soheila Lunney, Ph.D.



## ABOUT THE AUTHORS

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### CHARLES DOMINICK, SPSM3

**Charles Dominick**, SPSM, is a serial entrepreneur who spent decades of his career as a successful procurement practitioner and thought leader. He founded Next Level Purchasing, Inc., where he created educational content that benefited procurement professionals from over 100 countries around the world. During his time at the helm of Next Level Purchasing, he guided the organization to several awards and honors, was the mastermind behind the organization's globally recognized Senior Professional in Supply Management (SPSM) Certification family, and led the company to an acquisition in 2016 at which time he successfully completed his personal exit strategy from the business. He has spoken at procurement events internationally where he earned rave reviews.



Prior to founding Next Level Purchasing, Charles acquired nearly a decade of results-producing experience in procurement at the University of Pittsburgh, US Airways (now American Airlines), and Kurt J. Lesker Company. He is currently CEO of Before and After Music Group.

A lifelong learner, Charles holds degrees in General Studies, Business Management, and Music Technology. He lives in Moon Township, Pennsylvania, with his wife and two children.

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## SOHEILA LUNNEY, PH.D.

**Soheila Lunney, Ph.D.**, is a lifetime educator, an inventor, and an accomplished procurement executive with a demonstrated history of achieving significant results as a practitioner and consultant. Presently, she is enjoying retirement while conducting highly rated negotiation seminars and serving on the Board of Directors of several nonprofit organizations.

In 2007, she founded Lunney Advisory Group LLC, a firm that provided procurement and supply chain management coaching, mentoring, and training services for

both domestic and international (Far East, Europe, and Russia) clients. She also served on the Board of Directors of the Pittsburgh Chapter of the Institute for Supply Management (ISM), and the Supply Management Advisory Board of Duquesne and Chatham Universities in Pittsburgh, Pennsylvania.

Soheila was previously Vice President of Procurement for Education Management Corporation (EDMC). Prior to that position, she was the Director/Deputy to the Chief Procurement Officer at Bayer Corporation, where she held various positions with increasing responsibilities in research and development, logistics, customer service, materials management, and procurement.

Dr. Lunney obtained her Bachelor of Science (BS) in Chemistry from the National University of Iran, and an MS and Ph.D. from the University of East Anglia in Norwich, Great Britain. After a postdoctoral assignment at Clemson University, she joined the faculty as a lecturer. In 1983, she joined the University of Arkansas as an associate professor, prior to joining Bayer in 1986.

Dr. Lunney is the author of several publications, a sole holder of a U.S. Patent related to polyurethane technology, and has successfully spoken at supply chain management professional organizations and conferences.

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Downloads for *The Procurement Game Plan, 2nd Edition*, include instructor material for professors, a spreadsheet for calculating The Dominick Formula and using it in proposal evaluations, a 13-point procurement ethics checklist, a 20-point proposal evaluation checklist, a 21-point negotiation checklist, and a case study on “Business Process Re-engineering and e-Procurement Implementation at ASSET, Inc.”



# 1

## CHAPTER

# PROCUREMENT'S PLACE IN THE ORGANIZATION: WHAT POSITION DOES SUPPLY MANAGEMENT PLAY?

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Procurement—Except for perhaps sales, it is arguably the department within an organization that has the most impact on that organization's bottom line. Unfortunately, the leaders and top management of many organizations have not discovered that, yet.

Imagine a sports team. That sports team has players for every position, just like every other team in their league. But picture the coach having no idea how one of those positions can contribute to victory.

That sounds ludicrous, right? It is ludicrous. Yet, that scenario has parallels to the way that procurement is perceived in many organizations throughout the world. The management teams of those organizations are just not aware of the value that procurement can contribute.

## PROCUREMENT IS AN IMPORTANT PLAYER ON ANY BUSINESS TEAM

We have a fond memory from a business conference that we attended. At one point, we spoke to another attendee, who was a senior manager for a government contractor. Out of curiosity and to make conversation, we asked him about how his procurement department operated and what improvement initiatives they were pursuing. He replied nonchalantly that his company really didn't do much in terms of procurement training or process improvement, and he wasn't concerned. They were a *small company* and didn't spend much, relatively speaking.

We then learned that his company spends about \$20 million per year on goods and services, so we asked if the company could save 5% of that—in other words, if pre-tax profit increased by \$1 million—would the owners care? Would that be

too small to matter? We could see by the look in the manager's eyes that he had an epiphany at that very moment.

The coach came to a dramatic realization of how one of his players can contribute to victory.

Saving money is just one of the numerous ways that procurement can contribute to corporate victory. In American football terms, if saving money is *blocking and tackling*, achieving supply continuity in even the most challenging of times is *passing*. Implementing a supplier diversity and inclusion program that earns favorable press coverage for your organization is *running*. Being environmentally responsible is *kicking*. You get the idea. There's a lot that procurement can do to contribute to corporate victory.

Corporate victory through smart procurement is what this book is about. It is literally a *game plan* for supply management success, providing play-by-play descriptions of how to achieve measurable results for your organization.

## MANAGEMENT'S EXPECTATIONS OF MODERN PROCUREMENT

As stated earlier, some management teams have no clue about the value that procurement can deliver to the organization. It is up to you to demonstrate that value.

The best way to demonstrate value is by performing well and delivering real, measurable results. If you are in a procurement department that has not gotten much respect or attention over the years, you may need help in the form of new staff, technology, or training. You may need to ask management to make an investment in improving procurement performance.

You may also find yourself asking a question similar to the one we asked of the government contractor's senior manager, as described earlier in this chapter: "If you could have \$x more in profit, would that matter to the owners/investors/stockholders?"

What else can a reasonable person say? Saving, say, 5% of spend may be tough in an inflationary market if you already squeezed out cost savings in the past few years. But if the company hasn't been historically concerned with procurement, there is likely a lot of *low-hanging fruit*, a common phrase used to describe easy and obvious decisions that you can make quickly to achieve positive results.

On the other hand, management may have had its *procurement epiphany* a while ago. If so, they may have high expectations of you and they will challenge you to deliver more aggressive results. So, what does management want from procurement? Here are a few common expectations:

- **Cost savings**—Management wants procurement to save money and reduce overall costs. Please note that the previous sentence is not synonymous with

management wants procurement to get lower prices. You need to focus on the reduction of total cost of ownership, not just price reduction at any cost. Upcoming chapters will teach you more about total cost of ownership.

- **Supply continuity and risk management**—Attaining the lowest price on a product or service is absolutely meaningless if the product doesn't get delivered or the service doesn't get performed when needed. Organizations depend on an uninterrupted flow of goods, services, and information—both into the organization as well as out of the organization—to accomplish what they are in business to do. Procurement plays a vital role in ensuring that the incoming flow of goods, services, and information is happening at a rate that is optimal for the organization. This means being able to overcome foreseeable and unforeseeable challenges by maintaining a resilient supply chain. It also means being proactive in predicting demand fluctuations and mitigating any negative impact, as well as being agile and seamlessly responding to any surprising changes in the market that could pose a risk to supply continuity.
- **Productivity improvements**—Management will always expect you to do more work with fewer resources. No matter whether you are in a tactical or strategic procurement organization, there are many productivity metrics that you can choose from to track productivity gains: contracts executed per buyer per month/quarter/year, average length of sourcing cycle, man-hours per dollar saved, etc.
- **Brand/differentiation support**—Your organization's mission or vision statement should give you some clues as to how your organization wants to be perceived in the marketplace and how it wants to be differentiated from its competition, such as offering higher quality, faster cycle time, better service, lower cost, or something similar. Make sure that your decisions and metrics support your management's brand and differentiation strategy. As logical as this may sound, you would be surprised by how many organizations have a mission of being the *highest quality provider* in their industry, yet their procurement departments measure only cost savings.
- **Customer satisfaction**—Sometimes, being in procurement can make you feel separated from your organization's customers. But management relies on things that you're responsible for, like assuring continuity of supply, to keep its promises to its customers. Realize that you can personally be responsible for your organization's failure to meet customer expectations. In this era of tough competition, organizations have to meet or exceed customer expectations simply to survive, and you have a critical role in that survival.
- **Positive cash flow**—In some organizations, the timing of monetary receipts and payments is critical. Those organizations cannot afford to have more cash leaving the company than coming in during certain periods. Be

aware of that limitation and negotiate appropriate terms with your suppliers. Never pay them late and hope that they don't notice!

- **To be the best**—While some senior managers may have no real understanding of exactly what some of their departments do, most want the best performance possible out of each and every one of those departments. Whether they push for benchmarking or expect the individual departments to benchmark on their own, management teams want to know that departments, such as procurement, are promoting and adopting the latest best practices.
- **Efficient service to internal customers**—Every department within an organization is tasked to get something done to contribute to the success of the organization. Procurement can facilitate the timely contributions of other departments. Often, procurement is blamed for being an obstacle to timely contributions. So, management expects procurement to continually improve processes in order to better serve those who are making their own contributions to the organization's success.
- **Generating revenue**—It is no longer a secret that procurement's cost saving efforts can help an organization's bottom line get bigger. But the fact that procurement can actually generate revenue too is still in the early stages of discovery among many organizations. Through supplier rebates on employee and customer purchases, along with other innovative practices discussed later, procurement can actually bring cash into an organization. Later in this chapter, we'll talk about the emergence of the *Procurement as a Profit Center* view. The management teams that have learned about this concept and other creative approaches now have revenue-generating expectations of their procurement groups.
- **Competitive advantage**—Why do your organization's customers do business with your organization? They do business with your organization because it offers something that the customers view as being more beneficial than other organizations. Collectively, the aspects of your organization that are more beneficial in the eyes of the customer are referred to as your organization's *competitive advantage*. These days, with more functions being outsourced, the marketplace is not a war of company versus company—it is a war of supply chain versus supply chain. So, the suppliers that you select and manage often determine the relative strength of your organization, compared to its competitors. Therefore, management expects procurement to develop a stronger supply chain and, thus, for procurement to be its competitive advantage.

Experienced procurement professionals know the traditional contributions expected of them—such as faster and more reliable supplier delivery, quality

approaching perfection, and collaborative supplier relationships focused on continuous improvement—but, it is important to know how those contributions fit into the big scheme of things from senior management's perspective. Procurement professionals who do understand senior management's point of view find themselves leading *modern procurement departments*. How do you know if your organization qualifies as a modern procurement department? If you are working in a modern procurement department, your department will have all 12 of these characteristics:

1. The head of procurement reports directly to the CEO of your company.
2. Procurement is actively involved in senior management level, long-term strategic planning.
3. Procurement has established a senior-management endorsed Procurement Governance Council.
4. Procurement is involved in the early stages of new product/service development.
5. Your department is responsible for procurement in *nontraditional* spend areas, such as healthcare benefits, fleet management, facilities and construction, temporary labor, and travel.
6. The procurement staff is responsible for placing only a small percentage of your organization's purchase orders, if any at all.
7. Contract management, logistics, and inventory functions either fall under procurement or supply management on the organizational chart, or are integrated into the work of procurement or supply management staff.
8. Maverick buying—when an end user orders from a noncontracted supplier despite the organization having a contract with another supplier—is a thing of the past.
9. When dealing with large, frequently used suppliers, no paper is exchanged between the time that a need for a product or service is defined until the time that the supplier receives payment.
10. No major sourcing process is conducted without the use of a cross-functional team.
11. You are buying from a large list of global sources and measuring non-domestic spend as a percentage of total spend.
12. Your department has social responsibility goals and measurements in place.

While most procurement leaders consider their departments to be *modern*, when they compare their departments with this list, they often realize how far they still have to go to truly earn that *modern* distinction.

## TYPES OF GOALS THAT PROCUREMENT TEAMS HAVE

In analyzing procurement departments across many different industries and geographies, one thing is clear—goals can vary wildly! While this book draws comparisons between procurement and sports, the topic of goals is where procurement and sports are dramatically different. In sports, the goal is generally simple—win the game. In procurement, goals are not that easily summarized.

Let's characterize the types of goals in procurement departments across a wide continuum that spans from good, to bad, to ugly. We'll go from worst to best in a discussion of the objectives that procurement departments set for themselves:

**The ugly: no goals—Procurement departments who have no documented goals are moving in many directions without clear focus.** Their value is not measured nor communicated to management. These procurement departments are likely to find themselves being downsized or outsourced.

**The bad: vague goals—Having goals that fail to state exactly what needs to be accomplished is almost as futile as having no goals.** These types of goals make a subjective process out of distinguishing good performance from bad. An example would be: *improve control of spending*. What does that mean? Does it mean that requiring 25 signatures to make a purchase will be doing a *good job*? Could a procurement specialist think that control was sufficiently improved, yet an executive would disagree?

**The good: SMART goals—A timeless buzzword relative to goals is SMART.** SMART goals are specific, measurable, attainable, relevant, and time-bound. Simply being specific and using numbers makes goals infinitely more effective than vague or immeasurable goals. Let's modify the last example: *Improve control over spending by increasing expenses under contract by 25 percent over the previous year*. Now that's better. You know what is meant by *improve control over spending*. The numbers enable you to determine whether you exceeded, met, or failed to meet your goal. If you increased the expenses under contract by only 20 percent, you came up short. If you achieved a 30 percent increase, you performed very well. A goal like this gives you a clear target to shoot at.

**The great: money-based goals—While SMART goals are good, there is the opportunity to set even better goals.** *Great* goals are not only specific, measurable, attainable, relevant, and time-bound, but they are expressed in the language of business—money! The reason you reduce inventory, increase contract coverage, or reduce lead time is to put your organization in a better financial position. So, translate other statistics into money. Continuing with the example—*improve control over spending by increasing expenses under contract by \$3 million*.

**The best: organizational strategy-based goals—The best goals go a step beyond great goals, and are tied to the strategy and goals of the overall organization.** *Improve control over spending by increasing expenses under contract by \$3 million* is a great goal, and may be the best goal if the organization's goal is to



maintain or increase profitability. But what if the organization's number one goal is to be the first to market a new item? There is a fatal disconnect between executive management and procurement management. Speed, rather than expense control, should be the priority. The best goals facilitate the accomplishment of organizational goals, are expressed in monetary terms, and possess all the characteristics of SMART goals (Figure 1.1).



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**Figure 1.1** Components of the *best* goals

## THE EXPANDING ROLE OF PROCUREMENT

Because the best goals facilitate the accomplishment of organizational goals, there needs to be an alignment between procurement objectives and organizational goals with a clear channel of communication linking procurement to the highest levels within the organization. Though earlier in this chapter we said that the head of a modern procurement department reports directly to the CEO, sometimes this direct reporting can only be accomplished after a successful transformation of the procurement department into a world-class department.

So, the question in the interim is, “To whom should procurement report?”

Our answer, “It depends.” To whom the procurement function reports can be different from company to company, and that’s okay. To simplify it, if the company sees procurement’s primary role as delivering cost savings, the company generally positions procurement under finance, reporting up to the Chief Financial Officer (Figure 1.2). If the company sees procurement’s primary role as supporting

operations (through assuring continuity of supply, reducing risk, and the like), then the company generally positions procurement under operations/supply chain management, reporting up to the Chief Operations Officer or Vice President of Supply Chain Management (Figure 1.3).

As another generalization, in manufacturing, procurement commonly reports to operations/supply chain management; in service industries, procurement commonly reports to finance. Regardless of the reporting hierarchy, there needs to be the full support of top-level management in order for procurement to succeed and secure quantifiable results.

The need for alignment with other parts of the organization has changed the qualifications for procurement leaders and those who report to them. Because of the higher-level responsibilities of modern purchasers, they must have solid fundamental procurement capabilities, analytical skills (particularly in financial analysis), advanced computer expertise, along with skills in contract execution and

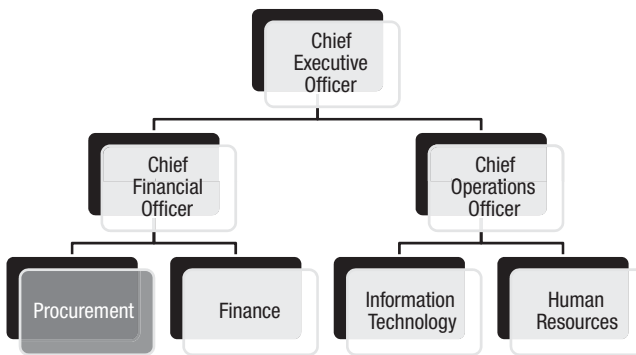


Figure 1.2 Organizational chart with procurement reporting to CFO

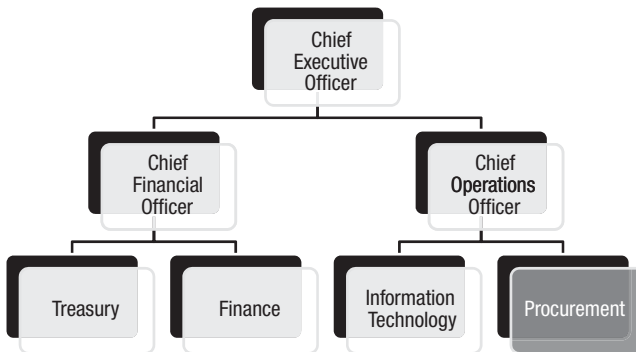


Figure 1.3 Organizational chart with procurement reporting to COO

laws, project management, relationship building, strategy development, and negotiation. The manager needs to have all of the skills of his or her employees, plus the ability to:

- Align the procurement department's objectives with the mission and vision of the overall organization
- Implement initiatives and best practices that support the mission and vision of the overall organization
- Provide effective leadership for their staff and the procurement function in general
- Be a change agent

So, it is clear that procurement is moving in a direction toward a destination, moving the ball down the field toward the end zone, as is done in American football, if you will. But where is that end zone? Does it have a name? How does one know when they've reached it?

## STRATEGIC VERSUS TACTICAL PROCUREMENT

Many consider a transformation to *strategic* procurement to be the desired end state. Most procurement departments aspire to be strategic. But what does a *strategic* procurement department look like?

A common thread of strategic procurement departments is the fact that they seek to minimize their tactical duties and spend more time on initiatives that are more closely aligned to the long-term goals of the organization, in order to produce measurable, positive results. Here are 12 characteristics of strategic, in contrast to tactical, procurement:

1. **Spend analysis**—Strategic procurement departments examine the amount of money they spend in each category of goods and services with different suppliers and use this analysis to identify opportunities for improvement in *traditional* and *nontraditional* areas of buy.
2. **Strategic sourcing process**—Strategic procurement departments have a systematic approach of building cross-functional teams and applying the principles of strategic sourcing for selecting suppliers.
3. **Supplier relationship management**—Strategic procurement departments monitor and measure supplier performance and regularly spend time meeting with their key suppliers to review their scorecard and plan for improvement initiatives.
4. **Technology implementation**—Strategic procurement departments frequently update and add technologies that measurably reduce costs, decrease cycle time, and make the procurement process more efficient.

5. **Developing project plans**—Strategic procurement departments use project management techniques to map out both recurring activities and one-time projects. Project timelines are well defined to assure timely completion of different initiatives.
6. **Enterprise-wide contracts**—Strategic procurement departments consolidate spend across all parts of their organizations and enter into contracts with a limited supply base to serve the needs of the entire organization.
7. **Forecasting**—Strategic procurement departments regularly document changes that they foresee in price levels, availability, and markets to ensure a competitive advantage for their organizations.
8. **Involvement in spec development**—Strategic procurement departments are involved at the early stages of product and specification development, lending specialized knowledge in material availability, cost drivers, standard parts, and reliability of supply.
9. **Process optimization**—Strategic procurement departments analyze existing processes and then optimize them for maximum efficiency and effectiveness. Part of this involves developing tools (e.g., request for proposal and contract templates) so that repetitive tasks can be done more quickly and error free.
10. **Supplier development**—Strategic procurement departments don't blindly accept the suppliers and products that are currently available. They work with suppliers to develop new capabilities or products that will improve cost or quality.
11. **Work responsibility refinement**—Strategic procurement departments constantly identify ways to automate, delegate, or eliminate tactical, non-value-added work.
12. **Garner stakeholder support**—*Stakeholder* refers to anyone who has a vested interest in a product or service being procured. Stakeholders can include end users all the way up to senior executives. Strategic procurement departments secure stakeholder support. Procurement strategic targets, cost reduction goals, and initiatives are routinely communicated with internal customers for their participation and buy-in. Best-in-class strategic procurement teams use an intranet site within their company network to communicate and reach out to stakeholders.

You can see that there are quite a few characteristics of strategic procurement, not just one or two. If you want your procurement department to be more strategic—and who doesn't?—you can work on steadily adding more of these characteristics over time.

## PROCUREMENT AS A PROFIT CENTER

With procurement focusing on strategic initiatives, delivering results, and demonstrating value, its legacy as being considered a cost to the organization is being shed. Procurement is increasingly recognized as a contributor to the profit of an organization. This transformation has resulted in some individuals referring to old-fashioned procurement departments as *cost centers*, and modern procurement departments as *profit centers*.

The *profit center* term sounds great, but is somewhat ambiguous. We've seen procurement departments with different approaches from each other all called profit centers. Here are four distinct procurement profit-center models used today:

- **Model 1:** This most simplistic model merely recognizes the fact that procurement savings contributes to higher profits. The procurement department may report corporate net income and illustrate how it would have been lower if it were not for procurement's actions.
- **Model 2:** This model also recognizes savings but, in addition, sets procurement's budget (for supplies, equipment, salaries, etc.) based on savings per year. In addition, procurement may negotiate volume rebates from suppliers and use those rebates toward its budget.
- **Model 3:** This model is used where a parent company has several subsidiaries or franchises. The parent company's procurement department *markets* itself to the subsidiaries or franchisees who pay for the procurement department to execute projects such as spend analyses, requests for proposals, negotiations, and so forth. The subsidiaries or franchisees have a customer/supplier relationship with procurement and are not obligated to use their services.
- **Model 4:** This is the most controversial model. A procurement department will work on initiatives for the success of its own organization, and develop techniques, tools, and technologies in the process. Then, after successful internal implementation, it will sell to other companies those techniques, tools, and technologies in the form of training, software, or consulting services.

Why is Model 4 controversial? First of all, organizations have been following a trend to focus on core competencies and divest the rest. Therefore, if a pharmaceutical company wants to focus on selling medications, it may choose to abandon the selling of procurement software. Second, if your responsibilities are split between executing the procurement function and developing and selling services, your interest in doing an excellent job at procurement may be diluted to the point of being dispensable. Third, can you imagine the result if you taught your suppliers your own negotiating secrets?

Model 4 may work for some. Our advice? Don't try Model 4 *at home* unless you have an inseparable relationship with your organization's top management.

## PROCUREMENT'S PIECE OF THE SUPPLY CHAIN

We get asked the following question a lot. "What is the difference between procurement and supply chain management?" Though many different and conflicting definitions of supply chain management abound, in our definition, procurement is a subset of supply chain management. Procurement deals primarily with managing all aspects related to the inputs to an organization (i.e., purchased goods, materials, and services), while supply chain management deals with inputs, conversion, and outputs.

A supply chain consists of three types of entities: customers, a producer, and the producer's suppliers. The extended supply chain includes customers' customers and suppliers' suppliers (Figure 1.4). Supply chain management oversees and optimizes the processes of acquiring inputs from suppliers (procurement), converting inputs into a finished product (production), and delivering those products—or outputs—to customers (fulfillment).

Under this definition, supply chain managers decide where to locate manufacturing and distribution facilities, how to route goods and materials among those facilities, and from which parts of the world to source the inputs. Supply chain management organizations unite disparate functions that historically reported to different executive positions with different, and sometimes conflicting, priorities.

What does this mean for individuals who have a procurement-related title? One myth is that procurement will become less important. To the contrary, analyzing spend information for cost savings opportunities, negotiating, and selecting reliable sources of supply will always be critical. These functions fuel profit and provide competitive advantage for the organization.

However, the procurement professional can expect to see his or her role expand to include the management of functions that were separate in the past. These functions include inventory management, internal logistics, warehousing, and other functions that are more related to the *input* or *preproduction* side of the supply chain. In some cutting-edge cases, procurement is even being invited to be a significant part of a customer collaboration team.



**Figure 1.4** The extended supply chain

## PROCUREMENT AS A SERVICE TO THE ORGANIZATION

In talking about procurement's expansion, it is clear that today's procurement department interfaces with other departments more than ever. Unfortunately, procurement's new involvement is not always greeted with open arms.

### The Procurement Manifesto

Because it can be difficult to gain *buy-in* from functional departments when trying to get them to accept procurement's involvement, it is important to have a list of reasons why it will benefit them to work with procurement. We encourage you to develop such a list—a Procurement Manifesto, if you will—to aid in your efforts to *sell* the value of working with procurement.

Here is an example of four points you can include in the Procurement Manifesto. Because the Procurement Manifesto is a document that you will provide to your stakeholders, *you* refers to those stakeholders—the readers of the document:

1. **Procurement's involvement allows you to focus on your core competency**—You have an important role in the organization. Your expertise in your function makes you valuable. With procurement handling your purchasing activities, you will be able to spend more of your time on what you do best.
2. **Procurement's involvement helps you avoid last minute crises**—Your department is busy with numerous competing priorities. In many departments that meet the same description, purchasing activities are often put off until the last minute. This results in a failure to find the best value in the market, paying expediting shipping charges, or, worst of all, not obtaining goods and services on time. Procurement can help you avoid these headaches.
3. **Procurement's involvement gets the most out of your budget**—Unless your department invests in negotiation training for its staff and gives them the daily opportunity to negotiate with suppliers, suppliers may have an advantage in bargaining. Because the procurement staff regularly receives negotiation training, negotiates daily, and keeps up to date with the latest market trends and cost saving techniques, procurement can help save your department money and alleviate some of your budget constraints.
4. **Procurement's involvement can uncover unforeseen obstacles**—Whether noticing the warning signs of a supplier in financial trouble, identifying a material in short supply, or just knowing the typical timelines associated with getting the goods or services you need, procurement reduces risks to your department's operations.

A key takeaway of the Procurement Manifesto concept is that you have to communicate to your stakeholders what is in it for them; and saving money is not always at the top of their list.

You see, stakeholders often scoff at the notion of saving money because they (rightly or wrongly) feel that you are going to sacrifice quality, service, delivery, and the like by finding the lowest price. It is up to you to explain to them how they will benefit by working with you. More than anything, you must have credibility in the eyes of all stakeholders. It will take time to gain trust and become credible in the eyes of your counterparts. However, the outcomes are rewarding for you personally as well as for your organization.

Careless procurement professionals don't spend much time trying to gain or sustain credibility. Yet, they constantly wonder why procurement gets no respect.

### **Service Principles for Procurement**

In the procurement world, another term for stakeholders is *internal customers*. End users of the products you buy—management, engineers, the shop floor—these are all examples of your customers, and they want good service. They expect to be treated like patrons at a restaurant, guests at a hotel, or shoppers at a store.

Rather than being reactionary, procurement professionals need to reach out to their internal customers in a proactive manner. Meeting regularly, sharing information, and discussing goals, requirements, and concerns can help procurement professionals to plan ahead and proactively address the needs of their customers. When you are in a proactive mode, you have more time for doing your job more efficiently.

Sometimes, procurement professionals find benefit in being *tough* with their suppliers. Thus, it is difficult for them to turn around and exhibit a customer-friendly persona to their internal customers. However, remembering the following seven service principles will help you delight your internal customers.

#### ***Principle 1—Involve your internal customers***

Involving internal customers from the beginning of a project and soliciting their input as part of your regular communication is invaluable. Involved internal customers will be valuable partners and resources for implementing new agreements. They can champion the roll out of a new agreement or program which, ultimately, makes your job easier.

#### ***Principle 2—Document and share your action plan***

After involving your internal customers and getting an understanding of the outcome desired, communicate, in writing, what you are going to do, what is expected from them, and when you will be done. This helps customers understand all of the



work involved in meeting their needs and sets their expectations for what constitutes a timely completion.

***Principle 3—Under-promise and over-deliver***

Imagine this scenario: A pizza shop promised to deliver your pizza in 30 minutes, but delivered it in 40 minutes. Another pizza shop promised to deliver your pizza in 45 minutes, but actually delivered it in 40 minutes. Which pizza shop would you be upset with? Certainly not the one who performed better than the expectations that it set.

When you communicate timelines to your customers, you should under-promise. Give them a date that you can not only meet, but beat. They will think you're excellent when you over-deliver (i.e., perform better than expected). If you do the opposite—over-promising and under-delivering—you'll quickly gain a reputation of incompetence.

Sometimes, internal customers are impatient, and their impatience may negatively impact your quality. While you do need to learn how to work both quickly and effectively, you don't want to allow an artificial deadline to dilute your ability to contribute to the organization's success. You may need to negotiate for the appropriate amount of time.

To ensure that internal customers give you enough time to do your job well, you must communicate:

1. What you actually do after getting a request for your action
2. Why your work is valuable and has measurable benefit to the organization
3. How you do care about productivity and how you've improved your productivity/cycle time over the past few months/years
4. What the consequences are if you are not given enough time

***Principle 4—Update customers regularly***

When there is a significant amount of time between the communication of your action plan and completion of your work, give your customers regular updates of your progress. Without periodic communication, your customers will fear that you have forgotten their needs. Simply sending your customers a brief weekly email will give them comfort in planning their work, while avoiding any impatient, ill-timed calls to you.

Those first four principles were designed to be followed at the beginning of a project in order to deliver excellent service to your internal customers. If you follow those tips and all goes as planned, you have provided excellent service. But what if things do not go as planned? You could have a customer relations disaster if you're not careful. The next three principles will help you handle adversity when serving an internal customer.

***Principle 5—Express concerns immediately***

Sometimes it may not look like you're going to meet a deadline. Don't avoid speaking with your internal customer, fearing their wrath and hoping a miracle will turn things around. Be honest. Give them time to plan in case things don't turn around. They may be upset that their project is not on schedule, but their fury will be minor compared to the anger they would feel if they found out *at the last minute* as opposed to well in advance. Assure them that you will stay on top of the project to try to get it back on track.

***Principle 6—Don't make excuses***

If something negative happens with the project, accept responsibility. Tell your customer what you are going to do to minimize the impact of the issues. Don't displace blame by saying that your supplier is incompetent or that your boss took too long to review your work. People don't like to hear about problems. They like to hear about solutions. Take responsibility for whatever actions are required to satisfy your internal customer. Let them know you have something personal at stake.

***Principle 7—Follow up***

After you've met the project goal, touch base with your internal customer. Find out how your work is affecting them after the fact, and ask them about your service. It is rewarding to hear someone compliment your efforts—it doesn't happen too often for many of us! Plus, their words may give you ideas on how to improve your service for them and other internal customers in the future. It will be best to solicit feedback in writing, such as a simple email, when projects go smoothly and they get completed on time. Such positive feedback from internal customers can come in handy when you have your performance reviews, or when you hear the question, "What is procurement doing?" Testimonials from happy customers are the best justification for procurement's existence.

**Procurement's Role in Specification Writing**

An underlying theme to good service is that the walls separating procurement from its internal customers need to be taken down. No longer is it acceptable for either the customer or procurement to blame the other. Procurement perfection is a team sport and both sides need to work together for success. We will close this chapter with one more example of how the team concept can apply.

A requisitioner sends you a requisition describing an item that he needs. You get bids from the major suppliers of that item, qualify the most attractive ones, and collaborate with the requisitioner on a mutually agreed supplier selection. You place the order; the item arrives. The requisitioner refuses it, says it isn't what he

wanted (though it matched the description on the requisition), and behaves like a disgruntled fan booing the home team.

Sound familiar? It's a common procurement situation. The problem is clear—the specifications were poor. So that's the requisitioner's fault, right? Not completely. Requisitioners have their areas of specialty, and specification writing usually isn't one of them. Procurement deals with specs daily. It's not your job to write specs, but helping requisitioners write them well is.

The first step in helping them is to add a questionnaire to your requisition template, whether that template is paper or electronic. This questionnaire should help requisitioners provide commonly omitted information. For a sample 14-question requisition questionnaire, see Exhibit A in the back of this book.

The detail harvested through the questionnaire should be built into the specifications provided to bidders. Then, before awarding an order to the top bidder, review those details with that supplier and the requisitioner. Obtaining the requisitioner's sign-off on the specifications will eliminate finger-pointing and blaming procurement for ordering the wrong item.

These additional steps will decrease the risk of buying the wrong thing, and you won't have to fear being booed by your internal customers!

## CLOSING REMARKS

Procurement is an important department in any organization, large or small, and can have a dramatic impact on the financial performance of an organization and the efficiency of its internal operations. The moral of this chapter is: *Procurement has to take a total strategic approach to exceeding management's expectations, embracing a broader supply chain role, and delighting its internal customers.*



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