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Build \$1million FTEs

One of the leading figures in the North American purchasing community is Robert A. Rudzki, who from 2001 until recently was the Senior Vice President and Chief Procurement Officer, NAFTA Region, of Bayer Corp. Prior to that Bob had been in the finance and purchasing departments at Bethlehem Steel for 24 years and held leadership positions including Chief Procurement Officer and Vice President, Business Development and E-Business. Today, Bob is President of Greybeard Advisors LLC. He is also Board member of a software company, and an advisor to several other companies. Below he offers his thoughts on leading a purchasing transformation process in an interview with Doug Smock, editorial director of globalcpo.com.

Q. Bob, you have been the CPO of two major corporations in the past 10 years, how do you feel the role of the chief procurement officer has changed in that time?

Purchasing has become both more strategic and more operational. It's become more strategic in the sense that it has expanded its focus from price to a focus on total cost of ownership (TCO). That TCO focus has, in turn, further expanded to include Return on Invested Capital (ROIC), by striving for improvements in working capital and capital intensity. And that ROIC perspective, in turn, has further evolved into increased attention to the effectiveness and efficiency of the entire supply chain.

Procurement in the most advanced organizations is being viewed as a strategic weapon. For procurement to truly be a strategic weapon requires several factors to be present: the right leadership throughout the purchasing organization, the right stretch objectives, the right talent and resources, the right tools and systems, and intense collaboration with your internal stakeholders.

I mentioned the role is also becoming more operational. Procurement has to take the lead on spend analysis and spend investigation: understanding what we buy in our companies, from whom and why. Procurement has to take the lead on spend control to eliminate maverick spend and ensure that all relevant spend is channeled through negotiated supply agreements. In a sense procurement can be much more than a strategic weapon for the company. It can be a protector of corporate assets.

As a result of these dynamics, the CPO must be a strategic thinker and a broad-based business leader, able to lead transformation across the organization, build internal networks and alliances, and speak the language of top-line sales, bottom-line profits, and ROIC performance.

Q. Purchasing has made big strides as a corporate change maker. What needs to happen to get to another level?

Several things. One, procurement needs to be part of the most senior-level strategy group of the company. In addition, the CPO should report directly to the CEO, or if that's not practical, to the COO or the CFO. Procurement needs to be truly involved very early in key decisions, such as location of new facilities, capital projects, and acquisition and divestiture studies. Procurement needs to attract more cross-functional personnel and be willing to rotate its best talent out to other functions for their continued professional development. And finally procurement needs to take the lead in establishing with key suppliers true partnerships that involve joint planning, information sharing, mutual objectives and risk sharing. Relating to this latter point, if corporations are going to be serious about their community obligations, initiatives such as supplier diversity will have to rise to the top of the list of corporate objectives. Procurement must take a leadership role in directing meaningful new business to women and minority-owned suppliers.

Q. Where do you think companies could make the most progress in optimizing their costs (organizational change, implementation of technology, additional resources, etc.)?

The area for most significant and immediate impact is to increase the spend that purchasing is actively involved with. That doesn't necessarily mean that purchasing "owns" all areas of spend, but purchasing should at a minimum be involved very early in the process, and before any external discussions take place. In areas where someone outside of purchasing "owns" an area of spend, purchasing should have an official facilitating or advisory role. After all, we have best practices for sourcing and negotiations – why not use them in all areas of external spend to add value?

A second major point is that we need to be willing to invest in people. We need to identify and put in place the best talent and skills, and enough of the best talent to do the job for our stockholders. That involves being willing to invest in ongoing training, no matter what the budget environment might be. And, that also involves sticking our necks out and presenting the business case that adding strategic resources may be the right thing to do because the return on investment is compelling.

With regard to organization design, one of my favorite quotes is that the ideal organization design has every department reporting to purchasing. Wouldn't that simplify the world, from procurement's perspective? While that's an amusing thought, the reality is that virtually any structure can be effective. In fact, purchasing needs to be sensitive to the overarching organization design of the company itself, and find ways to be effective in every situation. In my personal experience managing within centralized, decentralized and hybrid systems, purchasing can be effective in any environment if it focuses on the right dimensions for success. Those dimensions include: the right leadership team; alignment around common, stretch objectives; significant incentives for achieving objectives, and consequences for failing to do so; a commitment to best practices; and a passion to do what is right for the whole company, even if it may be politically awkward on occasion.

Q. What advice would you give to a corporation just beginning the journey of making sense of their supply-side technologies? What are the lessons learned?

The most important lesson is that transformational change need not take five or ten years. It used to be conventional wisdom that major transformations would take that long. Today, the available tools include both strategic best practices (like sourcing, auctions, contracts management) and operational tools. These features are now available in integrated software suites that are fairly intuitive to use. With the right leadership, and the right gameplan, it doesn't have to be a long-term process.

Q. Where do you start?

The initial steps relate to opportunity assessments. The first step is a straightforward opportunity assessment for cost reduction and working capital improvements (the ROA perspective I mentioned earlier). That's not an easy step, but it is a crucial one because it drives everything else. Spend analysis is an important part of that process. Understanding benchmarks for cost reduction opportunities, by category of spend, is another essential component. Understanding what can be done on payment terms and with inventory programs is a further element.

The second opportunity assessment relates to the talent and resources that are present in your organization. I have a chart from my Bethlehem Steel days that plots new annual cost reductions versus resources committed. It shows a line with a slope of almost \$ 1 million per strategic person or FTE. If you knew for certain that you would achieve \$ 1 million for each new strategic FTE devoted, would that make your business case easier? Of course it would. The challenge for each of us in leadership positions is that to do our job properly, we must present a business case that involves some uncertainty. A global CPO should not be afraid to set ambitious targets for business objectives or for resources. In fact, we are hired to do just that: do our homework, set the right targets, take some risk, and lead the organization to success.

I personally subscribe to an approach I refer to as the tsunami wave. After you establish initial credibility with your new process, be it a few traditional sourcing efforts or some high-tech reverse auctions, you embark on a tsunami wave. The tsunami wave is so-named because it is a massive, enterprise-wide effort

designed to effect momentous change in a short period of time. The tsunami wave attracts a lot of internal attention, support and interest and it builds an unbeatable momentum that carries itself forward. Just like the real tsunami wave, it tends to obliterate obstacles.

The tsunami wave requires exceptional leadership and also does not fit every situation. The alternative is to start small and grow slowly. But that approach has to be managed carefully because it has the potential of being displaced by other corporate initiatives that pop up.

And where will purchasing be five years from now?

As far as the function goes, purchasing should be involved in all external areas of spend and all external relationships. This includes establishing and managing strategic partnerships with suppliers. It could also include purchasing support of the selling function. Why shouldn't purchasing help the sales department to understand what modern procurement means? Among other initiatives, this could involve helping sales prepare for RFPs or reverse auctions. Fundamentally, purchasing should be intimately involved in managing supply chains and optimizing the company's business model – from top-line revenue-impacting initiatives to bottom-line cost reductions.

Purchasing will also be a key facilitator of cross-functional teaming within organizations, building on the team leadership experience of strategic sourcing.

Within any particular company, in the next five years purchasing will either be a strategic weapon (and will be given the internal support to achieve that vision) - - or it will become a candidate for outsourcing. My belief is that searching for some middle ground (something less than strategic weapon, but more than being outsourced) is not a sustainable position in the highly competitive world of the future.

Thank you Bob and good luck in your new career.