

Professionalization of Procurement Function (Evolution of Procurement from Tactical to Strategic Level)

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Key Takeaways

- Understanding the concept of Strategic Procurement
- Evolution of Procurement
- Procurement Professionals as CFO in Supply Chain
- Procurement as a Strategic Asset
- Procurement Leadership
- Tools to identify & create Value
- Competencies Needed to Cope with Change
- Why Professionalize
- Role of Government , Private Sector and Association.



Key Objective: Professionalize the Procurement Function

Evolution of Procurement

- ❖ Procurement Profession now known as **“Supply Management”** has come a long way.
- ❖ In general, **purchasing entailed primarily tactical buying i.e. adhering to mechanical procedures.**
- ❖ **Price was very important factor & purchasing required very basic skills.**
- ❖ **However with increased globalization & outsourcing, much began to change in 1990s**
- ❖ **Suppliers assumed new role and performance depends on them.**
- ❖ Procurement has **evolved from “ ORDER TAKER” to “STRATEGIC ROLE”.**

Factors Driving Changes in Procurement

COMPLIANCE



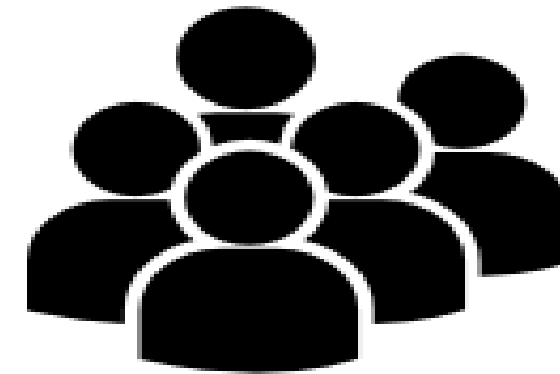
Technology



Globalization

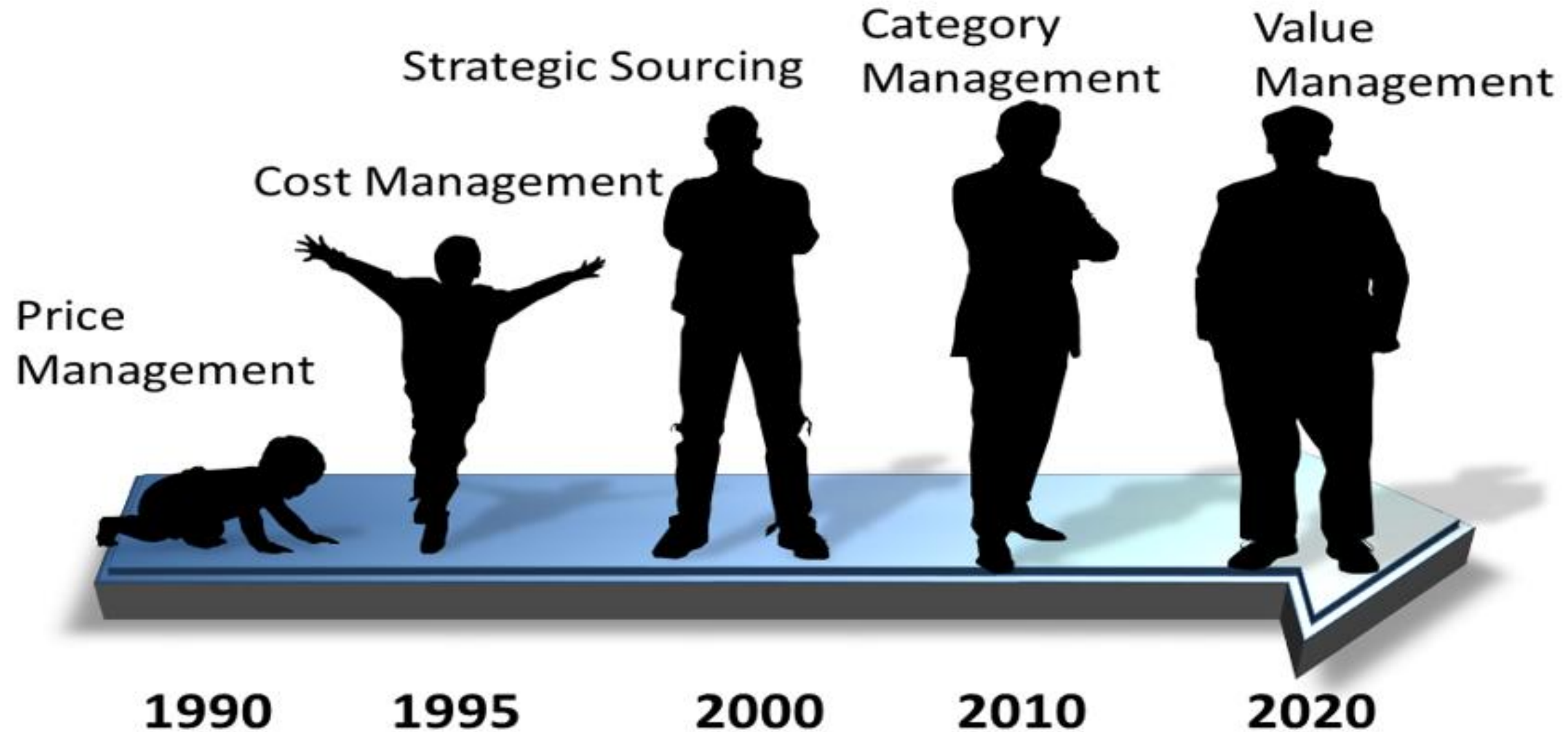


Environmental factors

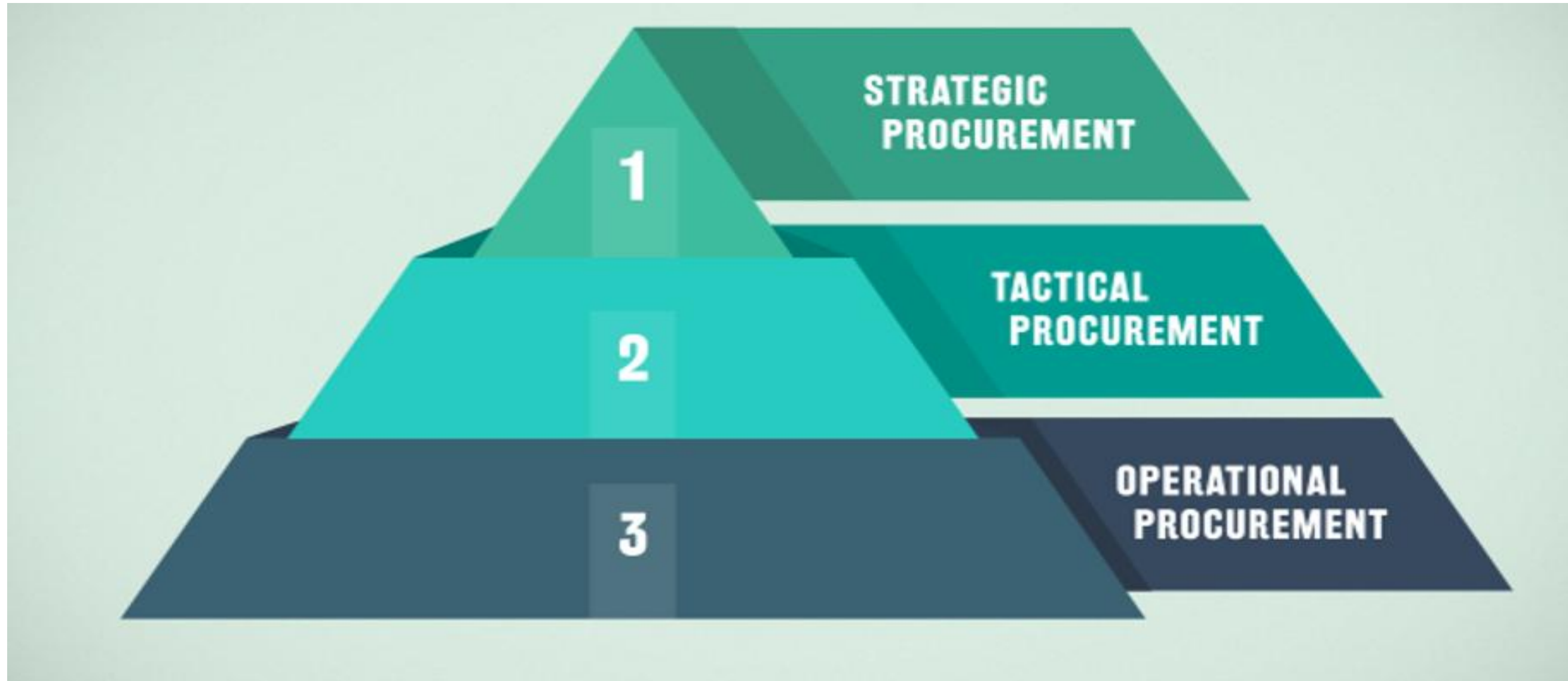


People

Key Procurement Trends



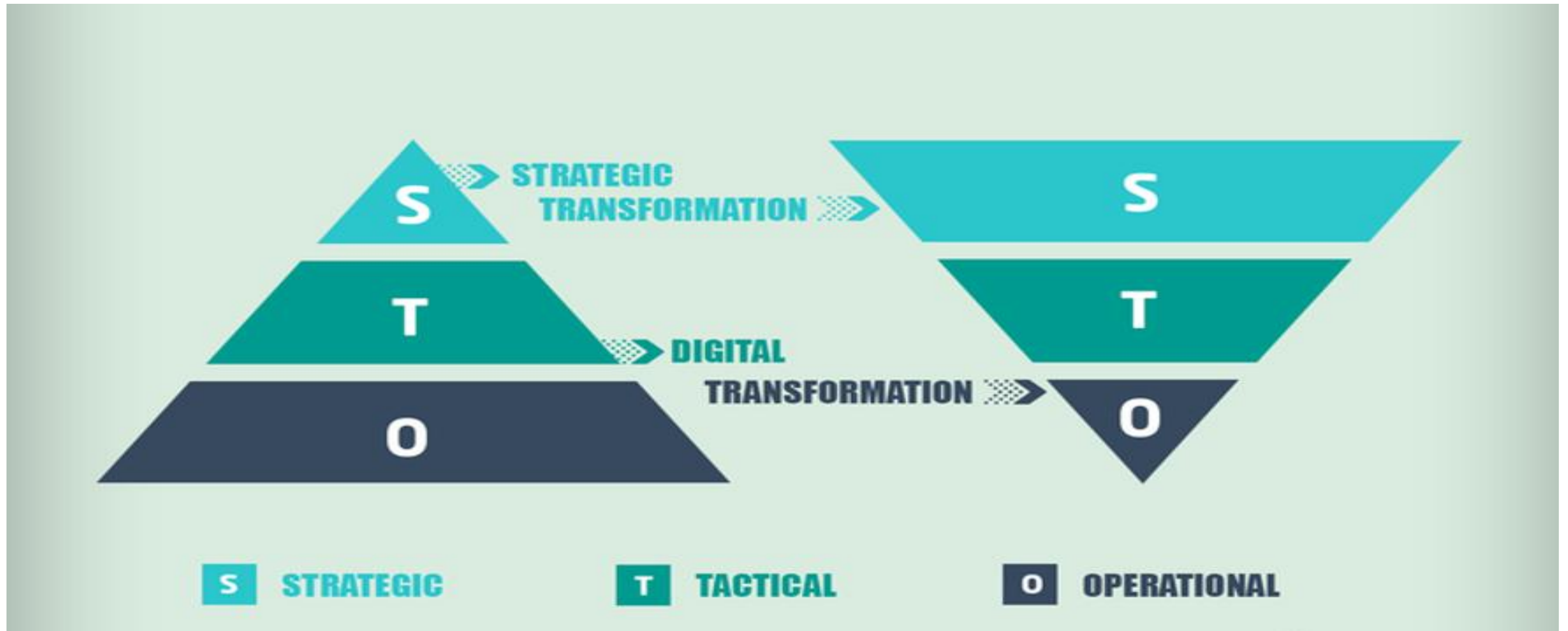
Different level of Procurement



LEVELS OF PROCUREMENT

- ❖ **OPERATIONAL** – regular interaction with the supplier in terms of proposals, orders, deliveries, invoices and complaints
- ❖ **TACTICAL** – supplier qualification and audits, RFI / RFP / negotiation activities (sourcing), supplier performance tracking, supplier development
- ❖ **STRATEGIC** – identifying business requirements, understanding supplier's market position, analyzing supplier's strategy and motivation, developing supplier strategy, risk management for suppliers and specifying concrete initiatives

Strategy-Ugly Duck of Transformation



Procurement Process

Procurement consists of cycles of sourcing and buying transactions, which depend on each other



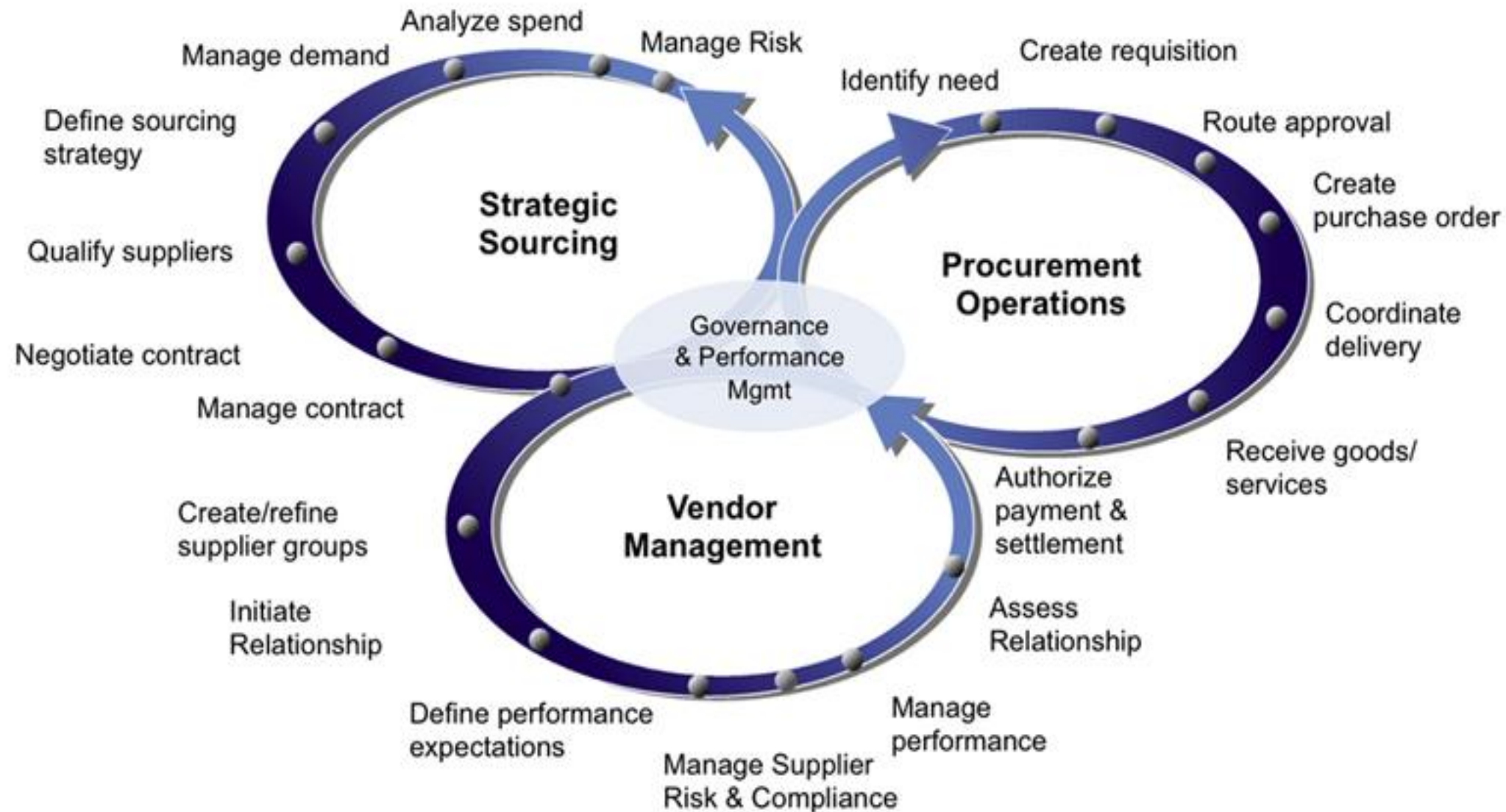
Money on the Table

- Identify a need and negotiate and manage contracts
- New or better contract creates the opportunity to save money

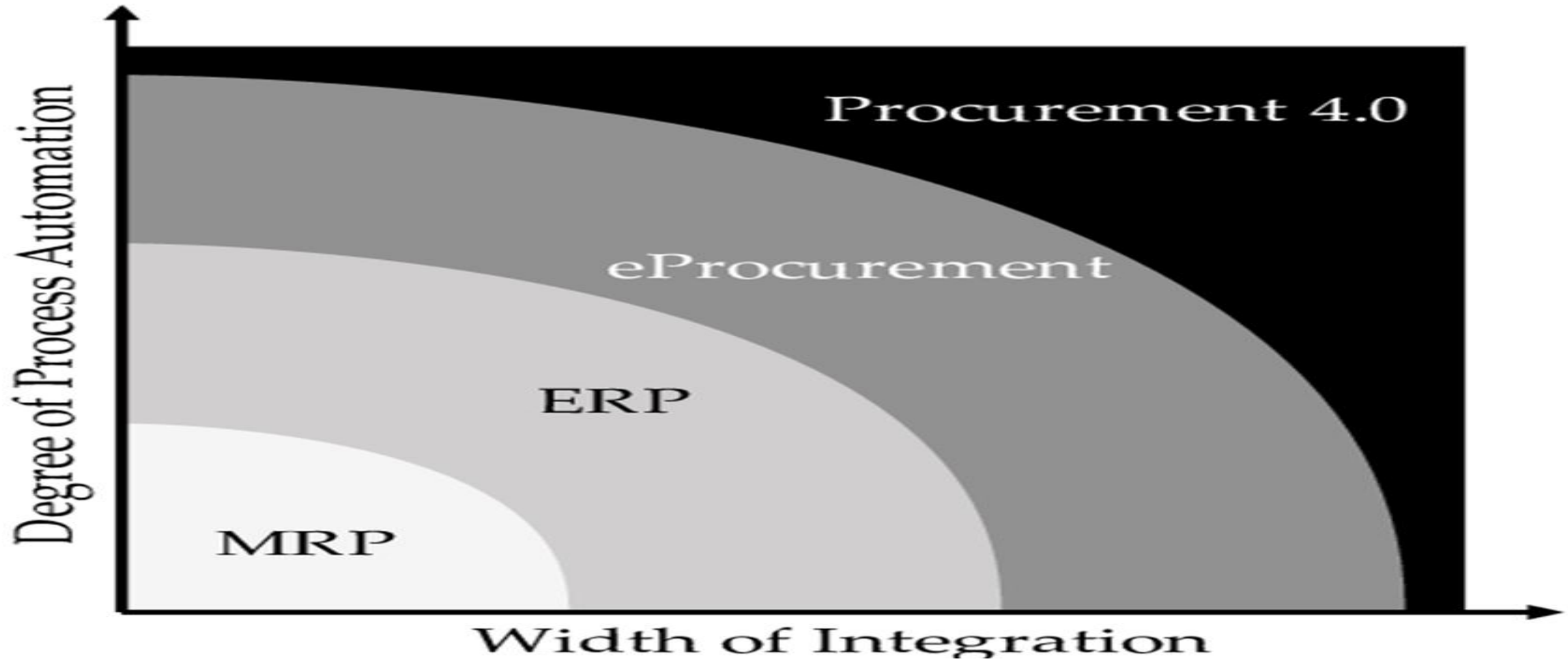
Money in the Bank

- Items are purchased based on existing contracts

Strategic Sourcing & SRM



Procurement 4.0 Technologies



Digital Procurement



Typical Predictive Process in Digital Age

In the digital age, S2C becomes predictive, with supply bases, prices, and costs all visible, empowering professionals to reach transparent agreements with high value suppliers. It calls for following steps.

- ❖ Categorize and manage spend in real time, leveraging machine learning
- ❖ Predict demand with artificial intelligence
- ❖ Know landed cost for any commodity for all alternate countries of origin
- ❖ Predict future sources of supply.
- ❖ Act on timely alerts from all negotiated agreements (e.g., indexed pricing, penalties, renewals) through smart contracts

Typical Automated Process

P2P becomes automated in the digital world. Transactions (processing purchase orders, requisitioning goods and services, validating reception of materials, paying invoices, etc.) become routinized and require minimal human intervention.

- ❖ Automatically sense material demand and requisition replenishment deliveries from suppliers .
- ❖ Eliminate repetitive processing through RPA.
- ❖ Trigger payments utilizing real-time signals of material delivery.
- ❖ Execute automated secure payments .
- ❖ Exchange goods through validated and trusted decentralized ledgers.

Proactive Process: Supplier Management

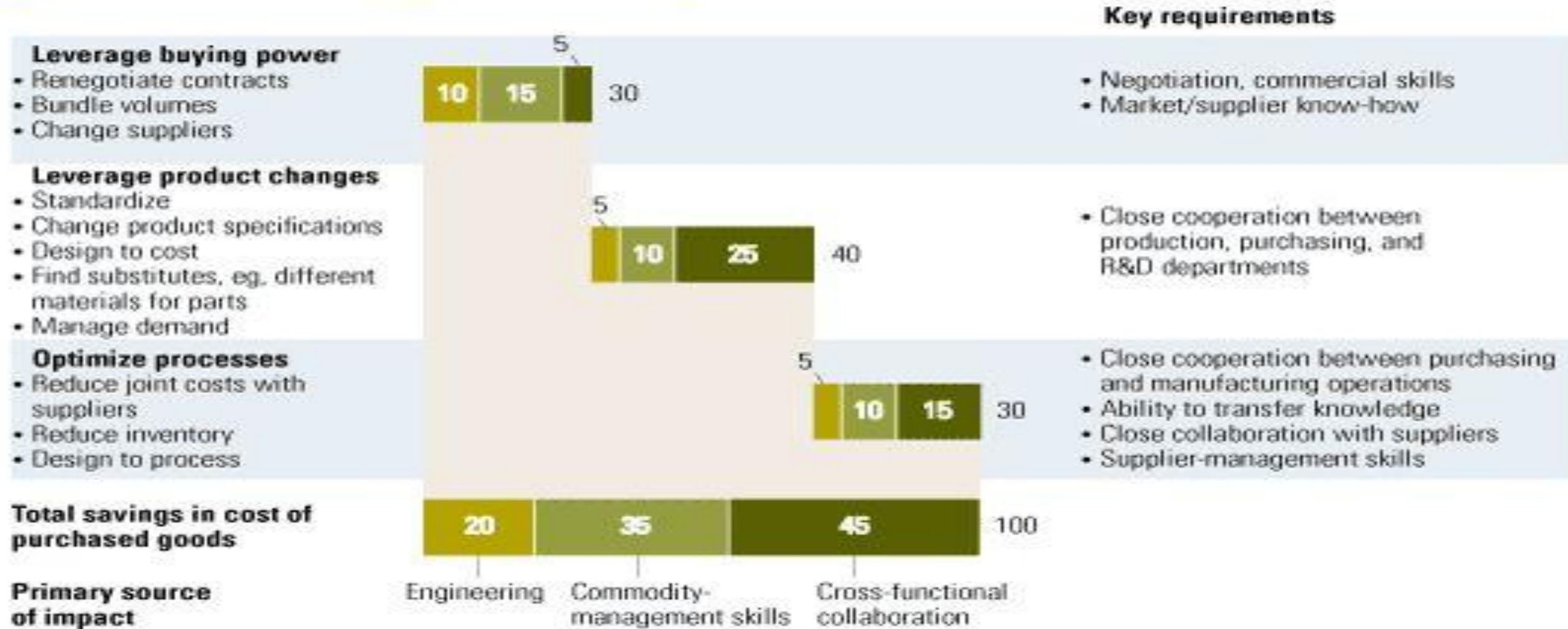
SM becomes proactive, as supplier performance and risk mitigation is now pre-emptive, allowing professionals to focus on continuously optimizing operations, as opposed of conducting damage control.

- ❖ Monitor potential supplier risks in real-time through the aggregation and visualization of third-party data feeds
- ❖ Conduct supplier visits from their own office utilizing augmented reality
- ❖ Enhance supplier audits through crowdsourcing
- ❖ Collaborate through supplier networks

Power of Cross Functional Teams

Distribution of potential savings by source, %

■ Engineering/internal customer
 ■ Sourcing manager
 ■ Cross-functional sourcing team



Developing the Competency

The Evolving Procurement & Supply Chain Role

TRADITIONAL SCM



THE NEW PROFESSIONAL

Knowledgeable about Procurement & SCM

Disconnected from business strategy

Less technology knowledge

Transactional Negotiation/T&C skills

One-dimensional supplier relationships

Short term benefits

Priorities driven by technical community

Forecasting



Multi-dimensional knowledge manager

Center of Expertise on business/markets

Understands evolution of technology

Acts as consultant

Holistic relationship management

Strong analytic/financial/cash management understanding

Complex deals

Influence/lead change

Professionalization

- ❖ Professional buying is a **new specialisation** emerging in the same way that accountancy or the law has.
- ❖ The **modern role of professional procurement is a complex** one demanding a wide range of **business skills and commercial expertise** to succeed.
- ❖ The **job is as broad and as deep as the practitioner** makes it and their organisation requires.

Procurement Leadership

- ❖ Perception depends on **what is being procured**.
- ❖ The organisational hierarchy: **If procurement has no identity, it has no perception.**
- ❖ Style of the **functional leader and their direct reports**
- ❖ General approach of procurement as a function
- ❖ Representation (or lack of representation) of procurement at the top table.
- ❖ Approach to engaging with the business
- ❖ Procurement has been seen as **cost cutting rather than value adding or bringing additional quality.**

What We Can Do?

- ❖ **Building procurement as a business function i.e. align ourselves to the business and engage more with internal and external stakeholders.**
- ❖ **Procurement needs to be seen as a source of innovation rather than a blocker.**
- ❖ **Need to present a more balanced view of outcomes.**
- ❖ **Maximise the outcome & not minimizing the cost.**
- ❖ **Start thinking in Different Terms.**
- ❖ **When you do look at price, focus on the total cost of ownership.**
- ❖ **Build your capability against what the business needs**

“PROMOTE PROCUREMENT AS A FUNCTION AND PROFESSION”

Understanding Procurement Terms

- ❖ Procurement is the process of getting the materials you need.
- ❖ Sourcing is finding and vetting the suppliers of those materials.
- ❖ Strategic approach involves a longer-term focus & procurement decisions are based on multiple factors. It's not as cut-and-dry as the tactical approach.
- ❖ Tactical sourcing is a short term, transactional activity.
- ❖ Strategic Sourcing is Long term sourcing process. It is organized, collaborative and structured process (7 Steps)
- ❖ Strategic Procurement aligns all procurement decisions with corporate objectives.

Overview

- ❖ The amount of **disruption in today's business climate necessitates** the ability to **respond in real time**, which can only be done if the entire Procurement Chain **is resilient & agile**.
- ❖ There is a need to address **key points of volatility** where revenue and costs are at risk by **transforming the Procurement**.
- ❖ To address above issues, there is **need to focus on strategizing** the procurement process and digital transformation.
- ❖ This change can't be **driven alone by procurement or technology** but in a **collaborative approach**.
- ❖ The **pace of procurement is fast changing**, with new technology developments shaping the way that procurement teams **interact with stakeholders** and deliver results for an organisation.

Supply-Chain Digitization Is No Longer Optional

- ❖ As we enter the fourth industrial era with discussions around block-chain, artificial intelligence and robotics, other digital enablers.
- ❖ There is urgent need to have Professional Procurement staff.

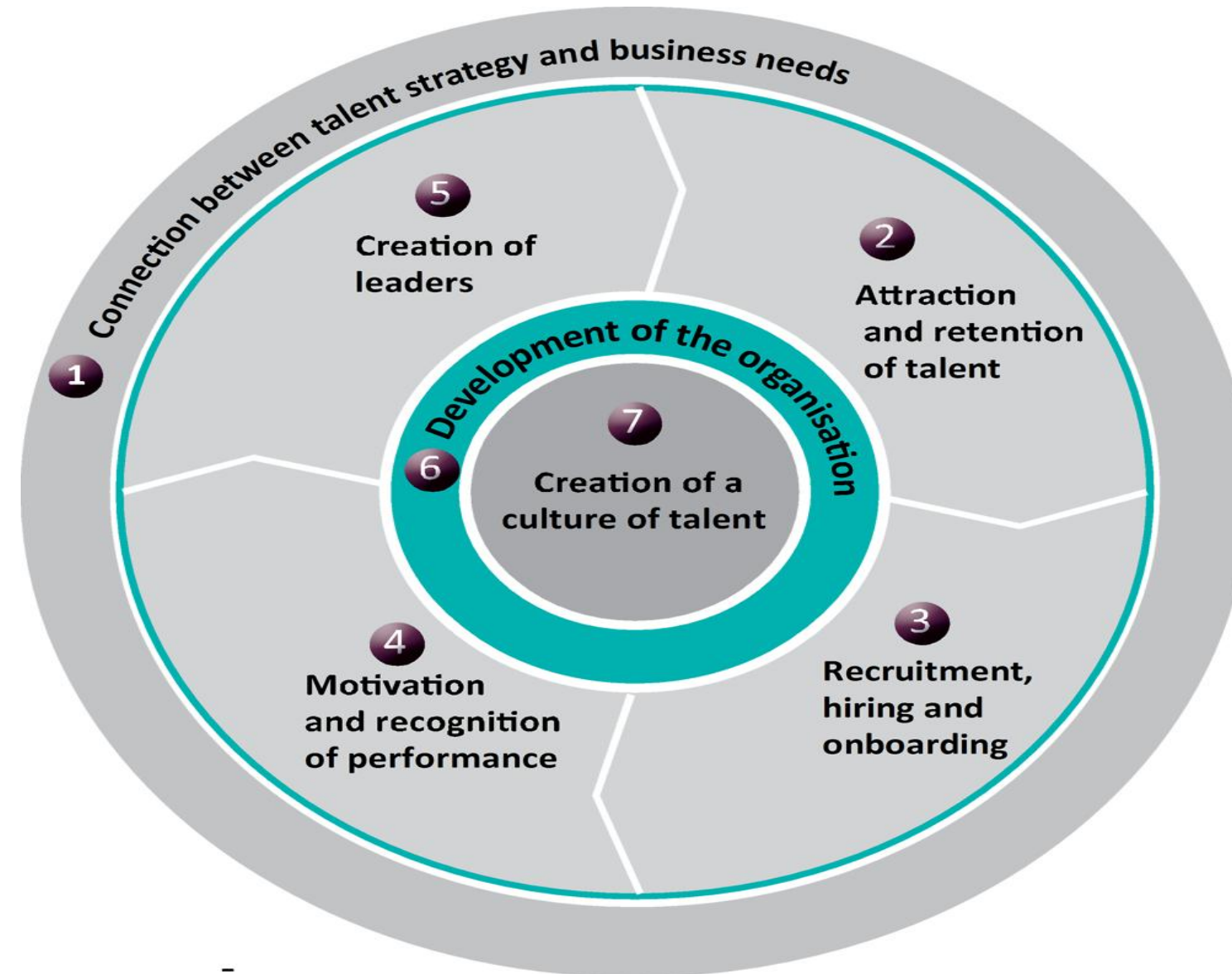
The importance of public procurement for achieving value for money in public purchases - thus obtaining important savings in the use of taxpayers' money and effectiveness in meeting citizen's demand for public goods of a given quality - is widely recognised, as made clear. by framework for public procurement at large. But how can these goals be met? Professionalization is a necessary condition and thus represents a key part of the final answer. But what kind of professionalization is really needed? In what environment? With which results? These questions are rarely answered with real life examples.

e objective of professionalisation of public procurement as “the overall improvement of the whole range of professional skills and competences, knowledge and experience of the people conducting or participating in tasks related to procurement”¹⁰. The definition is based on a holistic and strategic approach to be embedded in national policy architectures that foster the professionalisation of public administrations in order not only to attract, but to develop and retains skills

recommends the creation of both initial and lifelong training programmes which benefit from the cooperation with academia. It also recommends the sharing of knowledge and good practices among practitioners as well as the creation of fora and social networks.

e creation of defined career paths that allow not only for continuous training and improvement of skills and experience but also for incentives linked to the level of responsibility of the procurement personnel.

Seven Pillar of Talent Development



Measures to Build Professional Capacity

1. Coaching and Mentoring
2. Distance Learning
3. Degree-Level Study
4. E-Learning
5. Knowledge Management
6. Partnership and Network (CoP)

Key Competencies

1. Procurement process:
2. Negotiation:
3. Strategy development and market analysis:
4. Financial:
5. Legal
6. Results focus:
7. Systems capability:
8. Inventory, logistics and supply chain:
9. Organisational awareness:
10. Self-management:
11. Leadership:.
12. Communication:
13. Relationship management



THANK YOU!



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