

CPO Agenda

THE BUSINESS REVIEW FOR PROCUREMENT LEADERS

SPECIAL FOCUS: STRATEGIC RELATIONSHIPS

Supplier metrics that matter

PAGE 18

24 What makes a customer attractive?

30 Success in public-private partnerships

38 The problem with 'win-win'

13 Outsourcing to China:
beware the boomerang

15 How to become an
employer of choice

44 Board executives and
professional services

50 Merging cultures
at Sanofi-Aventis

56 Spend analysis –
from dream to reality

60 Putting business
stories in context



Contributors



Roel Bellens • Opinion, page 13

is professor and head of the financial management department at European University College Brussels, and managing director of Strategus, an independent research consultancy specialising in value creation. Roel has been an adviser to many companies, including ABN Amro, Canon, Grolsch and United Technologies. From 1978-86 he was a senior executive at Johnson & Johnson in Japan and the UK.



Betsy Harrington • How to... page 15

is vice-president, global supply, at BHP Billiton, the world's largest mining company. Based in Melbourne, Australia, she leads a function with 1,100 staff worldwide and an annual spend of over US\$15 billion. Prior to joining in 2003, she was a senior procurement executive at Alcoa in Pittsburgh, US, responsible for global processes, e-procurement and M&A integration. Betsy started her career in human resources.



Jonathan Hughes • Performance measurement, page 18

is a director and head of the sourcing and supplier management practice at Vantage Partners, a specialist relationship management consultancy in Boston, Massachusetts. Jonathan has worked with leading companies across a range of industries, including healthcare, IT, telecoms, retail and manufacturing, and has written for a variety of publications, including *Harvard Business Review*.



Andy Davies • Public-private partnerships, page 30

is head of procurement at Surrey County Council in the UK, where he leads a 45-strong function managing an annual spend of more than £480 million. Andy has recently led negotiations to establish innovative public-private partnerships in education, and earlier in his career led a team bringing private finance into the operation and renewal of London Underground's power distribution system.



Raju Patel • Professional services, page 44

is chief executive of Fulcrum, a London-based independent advisory firm on services buying whose clients have included British Airways and Colgate-Palmolive. He was previously at Accenture, where he worked on board and director-level strategies for Fortune 100 companies in areas such as mergers and acquisitions. Raju started his career in procurement at the European Space Agency in Germany.



Patrick Le Laouenan • Post-merger integration, page 50

is vice-president, corporate purchasing and real estate assets, at Sanofi-Aventis in Paris. Prior to joining Sanofi in 1994, he was purchasing director at the cosmetics firm Yves Rocher, having originally started his career as a raw materials buyer at Saint-Gobain in the early 1970s. Patrick is a vice-president of the Compagnie des Dirigeants et Acheteurs de France (CDAF), its professional purchasing body.

CPO Agenda

www.cpoagenda.com

Redactive Publishing Ltd, 17 Britton Street, London EC1M 5TP, United Kingdom. Tel: +44 (0)20 7880 6200

EDITORIAL

Tel: +44(0)20 7324 2746 Fax: +44 (0)20 7324 2791
E-mail: editorial@cpoagenda.com

Editor Geraint John
Sub-editor Adrian Dawson
Art editor Adrian Taylor
Art director Mark Parry
Editorial/web assistant Hana Yoosuf

ADVERTISING & MARKETING

Tel: +44 (0)20 7880 7662 Fax: +44 (0)20 7880 7690
E-mail: inquiries@cpoagenda.com

Sales director Justyn Gidley
Business development manager Nick Marsh
Senior sales executive Fergus Gregory
Marketing manager Dave Phillips

PRODUCTION

Tel: +44 (0)20 7880 6236 Fax: +44 (0)20 7880 7690
E-mail: production@cpoagenda.com

Production manager Gary Smith
Production executive Sara Bearman

REDACTIVE PUBLISHING LTD

Publishing director Rob MacLachlan
Managing director Brian Grant
Chairman Lord Evans of Watford

CONTRIBUTIONS

CPO Agenda welcomes ideas for articles. Call the editor, Geraint John, on +44 (0)20 7324 2745 or e-mail a short synopsis to geraint.john@cpoagenda.com. We reserve the right to edit all copy submitted for publication.

SUBSCRIPTIONS

CPO Agenda is available by annual subscription. Standard rates are £80/€120, with discounts for members of CIPS and other participating institutes. See the subscription card enclosed or visit www.cpoagenda.com/subscribe



redactive media group

CPO Agenda is published four times a year by Redactive Publishing Ltd, a division of Redactive Media Group, in partnership with the Chartered Institute of Purchasing and Supply (CIPS). It is a sister title to *Supply Management*, the institute's fortnightly magazine.

For more information about CIPS, call +44 (0)1780 756777, e-mail info@cips.org or visit its website at www.cips.org

For more information about *Supply Management*, call +44 (0)20 7880 6200 or visit www.supplymanagement.com

© Redactive Publishing Ltd 2005. All rights reserved. This publication (and any part thereof) may not be reproduced, transmitted or stored in any print or electronic format (including but not limited to any online service, any database or any part of the Internet) or in any other format in any media whatsoever, without the prior written permission of the publisher. Redactive Publishing Ltd accepts no liability for the accuracy of the contents or any opinions expressed herein. Printed by Stephens & George. ISSN 1745-9877.

Walking a tightrope

Board executives want procurement involved in consultancy, legal, marketing and banking services. But it's a high-risk, high-stakes game

by Raju Patel

A multinational company typically spends between £200 million and £800 million annually on professional services. So a 10-20 per cent reduction in provider fee rates can yield savings of between £20 million and £160 million, boosting share prices to the delight of boards and investors. Few procurement categories have the power to grab board attention in this way.

With such staggering savings on the line, it is no wonder that boards are focused on reducing the cost of consulting, legal, banking and marketing services. Face-to-face interviews I recently concluded with 30 main board directors at leading companies in the UK, US and mainland Europe show that 70 per cent worry about how their companies buy professional services.

The good news for CPOs is that board-level executives believe procurement departments *can* make a difference in the services arena and want them to do so. They acknowledge instances where procurement departments have assimilated knowledge and applied skills in delivering strategic sourcing savings targets.

Until a few years ago, corporate boards

relied solely on their functional heads (CFOs, general counsel and so on) to control and limit the spending of shareholders' money on professional services. This did not work well because end users were more concerned with meeting their immediate goals.

Seeing that procurement departments have successfully delivered savings in the "simple services" categories, boards have again sought the help of their CPOs in establishing a process for buying complex services. John Sunderland, chairman of Cadbury Schweppes and president of the Confederation of British Industry, says: "Procurement departments have a vital role to play in helping to improve efficiency. They have been a neglected source of added value for too long – and along the whole spectrum from revenue to capital expenditure."

Despite this, my research reveals that only a quarter of board executives think their procurement departments are doing a "good" or "very good" job of securing savings as high as 20 per cent in professional services categories. Board executives also spoke of the need to protect their key service provider relationships when poorly

prepared procurement departments have resorted to "heavy-handed" negotiations, upsetting relationships along the way.

While procurement departments are credited with enhancing relationships with consultants, bankers and lawyers, it seems they have some way to go in proving their worth in marketing services. This finding may be related to the fact that, as my interviews confirmed, many boards seem to have lost confidence in marketing.

Patrick Barwise, author of the marketing bestseller *Simply Better* and professor of management and marketing at London Business School, says: "In the face of media fragmentation and greater competitive pressures, the marketing function has struggled to deliver organic growth, thereby losing influence at board level." The message that CPOs can take from this is that procurement departments that align themselves too closely with marketing functions face being tarred with the same brush.

The conclusion from the evidence gathered in the face-to-face interviews is that procurement functions have serious work to do if they are to deliver the required results across the range of professional services categories. >>



Boards care about professional services

Unlike most purchasing categories, board executives have a vested interest in hiring professional services providers. The story is familiar: the board identifies a cross-border acquisition target; McKinsey is summoned to ratify the board's decision; Goldman Sachs is asked to consider valuation and the bid price; and Linklaters steps in to advise on issues of cross-border competition and pre-acquisition due diligence.

A main board director at a European consumer products company says: "Boards are protective of service provider relationships because 'speed to value' is extremely important. Speed commands a hefty premium. Once the board decides on a course of action, our consultants, lawyers and bankers must mobilise their teams at breakneck speed and complete engagements within impossible timescales. CPOs need to understand that fee premiums are paid because certain services providers can complete the work faster than anyone else.

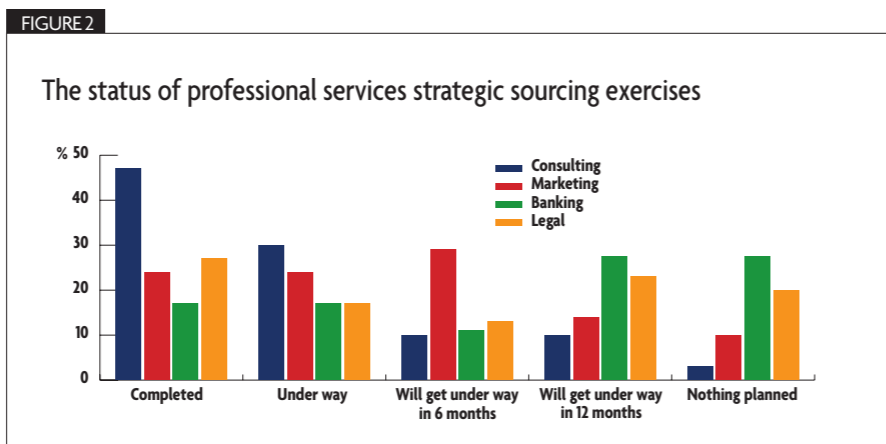
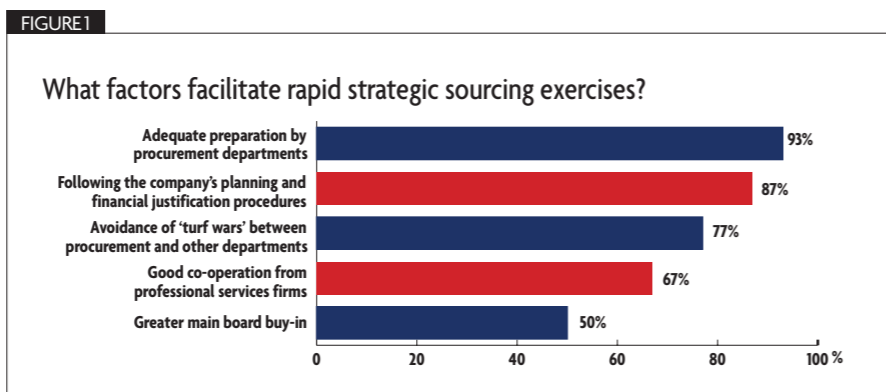
"Moreover," he continues, "I get frustrated when presented with half-baked benchmarking analyses. They are not comparing like for like. How can you benchmark Ogilvy's rates against those of Saatchi & Saatchi? Surely that is not like for like. I am only concerned with ensuring Ogilvy charges us lower rates than it charges anyone else, given the value of our account to them."

When board executives back their service providers in this way, one can guess that a "relationship" exists between the two groups – one that is immune to usual procurement logic. With relationships comes emotion and board-level politics.

Large firms are political to a greater or lesser extent. This is generally a good thing because, as political frameworks evolve, they represent one source of competitive advantage; they cannot be copied by rival companies. These unwritten rules that govern companies internally are powerful in influencing board behaviour, causing:

- rivalry among board executives, more so when CEO succession is looming;
- power struggles/resistance to authority;
- game-playing for personal objectives.

Raju Patel is chief executive of Fulcrum, an independent advisory firm on services buying (rpatel@fulcrum.com)



SOURCE: FULCRUM

Playing politics on the shopfloor and at junior- or middle-management levels in companies is easier, because employees can turn to a wide group of people for support – their bosses, peers and subordinates. This is not so easy for politically minded board executives. Whom do they trust? The reality is that board executives often have no one within their companies to confide in and so, as the saying goes, "it's very lonely at the top".

If winning games and defeating rivals are important, then the friends that can lend support to board executives are the external consultants, lawyers and bankers. Professional services providers are allowed to embed themselves in the political frameworks of client companies. There are no magic antidotes to these tough frameworks that have stood the test of time.

Relationships, whether personal or business, are relationships, after all. Some have developed over years, and a lot of emotion gets packed into them. To understand the concerns about procurement's involvement in buying them, imagine someone trying to come between two friends, hus-

band and wife, teacher and student or parent and child. Questions that immediately come to mind are:

- does this third person have a "right to interfere"?
- am I prepared to allow someone else into this relationship?
- do both parties have to consent to allowing someone else in?
- does this spell an end to many years of a mutually beneficial relationship?
- are there any compelling advantages of letting someone else in?
- what are the risks? Are these risks great?
- what impact would this person have on the relationship?
- how much do I value intimacy?

Traditional procurement principles point to drastically consolidating the supplier base to leverage spend. But this is likely to send panic through services provider and board executive. At best, the services provider is likely to see a reduced income and a regulated relationship. At worst, the relationship will be severed. While the board executive may appear to be neutral about this, underneath they feel embar-

assed, angry and helpless. Not only that, but they may also feel they are betraying a much-valued business partner. After all, both parties have been through thick and thin over the years and perhaps not just at the current company.

The chairman of a multinational Dutch dairy company admits: "I rely on my consultant to tell me what's going on in my organisation, and he helps me to prepare the performance appraisals for the business unit heads. I don't know whether our CPO realises this, but if he comes seeking 'buy-in', I expect assurances that he will be 'firm but fair' with my consultant. I do not want the embarrassment of having to bail the CPO out if he trips up."

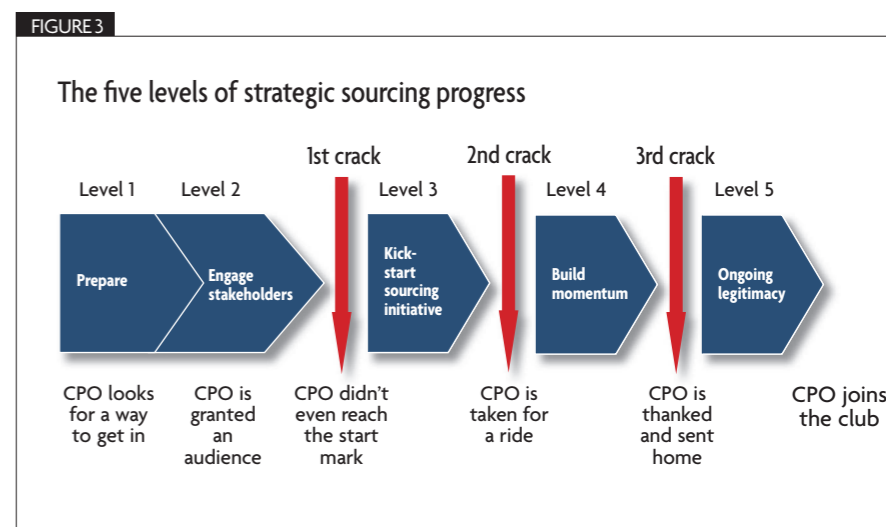
With political goals and long-nurtured relationships on the line, CPOs are walking a tightrope in the quest for big savings. So, will a board executive's pet consultant, lawyer, banker or advertising agency become a casualty? Not if the board executive is given a say. And who gives board executives a say? CPOs do, unwittingly.

As the chief executive of a US telecoms giant puts it: "The marketing, finance, legal, IT and HR functions don't ask the board's permission for their initiatives. Why should procurement be different? Is it not a legitimate group in our company? If our CPO wants a hand to hold, we will give it, and we will speak up when asked what we think about the CPO's professional services strategic sourcing initiative. That is not to say the board shouldn't be consulted. But if I were the CPO, I would get on with the job and act as though I already have the authority."

Contrary to received wisdom, my research found that "greater board buy-in" is rated as the least important factor contributing to the success of strategic sourcing exercises. It scored only 50 per cent, while "adequate preparation by procurement departments" came top with 93 per cent (see figure 1, opposite).

The 'chasm' conundrum

Eager CPOs that overlook the value of "adequate preparation" at key stages of a strategic sourcing initiative never win big prizes, according to an adapted version of



© 2005 FULCRUM

the "chasm theory". In his *Business Week* best-seller *Crossing the Chasm*, author Geoffrey Moore described how high-tech products initially sell well, but then fall into deep cracks as they try to cross the "chasm" to mainstream buyers. Many professional services strategic sourcing initiatives have met with a similar fate.

To make big savings, CPOs must progress through five successive levels of the model, without falling into three dangerous cracks (see figure 3, above).

Level 1: Prepare for the sourcing initiative by identifying what the value-add is that the CPO can provide to stakeholders.

Level 2: Engage with stakeholders. The CPO tries to align stakeholders towards a vision for professional services.

● If the CPO misses their "hot buttons", the sourcing initiative never takes off. They fall headlong into the first crack – a graveyard full of other CPOs who failed to do their homework well. The next few years are spent trying to build "board buy-in".

● If the CPO hits the right hot buttons, he or she is given a helping hand across the first crack. Time to open Microsoft Excel and revise those savings targets upwards!

Level 3: Kick-start the sourcing initiative. Can two heads lead the exercise – a stakeholder representative and the CPO? "Joint governance" appears to be an easy option as it is "democratic". But the CPO reads too much into the affirmative nods around the table at the bi-monthly progress meetings, as questions are asked

about tinkering with any of the following:

- the consultants providing confidential counsel to the chief executive;
- the lawyers recently appointed to defend a class-action lawsuit against the company in the US;
- the investment bankers who are in the middle of a "road show" trying to raise much-needed funds for the company;
- the media buyers bidding for that much-coveted television slot before the 10 o'clock news.

As a result, the scope gets curtailed and the procurement team is forced to turn its attention to the numerous secondary services firms that account for only 20 per cent of the total professional services spend. Thereafter, the team gets bogged down issuing RFPs and keeping track of communications and the daily flood of documents arriving by e-mail and courier.

A year later, the CPO emerges, exhausted but happy that negotiations have ended and "contracts are in place". But savings are another matter. He or she went after the "small" spend and achieved only modest savings. Momentum is lost as the successor group to the "joint governance" team debate, over a period of several months, the question of "who will bell the big cats". The CPO acknowledges the big prize was never claimed as he or she descends into the second crack.

Level 4: Build momentum. The really big prize is only a whisker away when CPOs think strategically, demonstrate strong leadership and execute fearlessly. They act as

CHECKLIST

How to be a high performer

- 1. Take note.** Professional services is a people business and board executives have, over many years, built-up enviable high-performing relationships with service providers. Hiring decisions are made with “hearts and minds” rather than with “procurement logic”.
- 2. Prepare well** for strategic sourcing initiatives. “Winging it” will almost certainly be your downfall. If investments have to be made at this stage, then don’t skimp. Take on additional resources if you need them. Assimilate the requisite skills and knowledge to a high standard – after all, this is a high-stakes endeavour.
- 3. Recognise** that as a legitimate function within your company, procurement already has plenty of authority. By all means “consult” with stakeholders, but do not unnecessarily badger the board with “approval” requests.
- 4. Think strategically** at all times and build a commanding reputation for executing with precision.
- 5. Act professionally** – don’t get heavy handed with suppliers or upset relationships: you won’t make it to the end that way.
- 6. Get ready** for the trauma your initiative will create with board executives, suppliers and the organisation as a whole. Remember: you are not immune to this trauma.
- 7. Be aware** of the subtle traps at every stage of the process. Even the most experienced CPOs have fallen through the cracks, and it has taken them years to climb out again.
- 8 Keep the momentum going.** don’t let it slow down after modest wins – you will lose the weight of urgency required to carry the initiative through to the end.
- 9. Make yourself part and parcel** of the political framework of your organisation.
- 10. Remember what makes boards tick** – peer rivalry, power struggles and game-playing. Factor these into your procurement strategy.

though they already have the authority and they generate a “buzz” around them – an excitement for the “unrestricted” sourcing initiative. They can sell the benefits at all levels, not just with robust business cases, but also through charismatic leadership. Stakeholders and board executives see the CPO as someone who:

- is a “safe pair of hands”;
- if let loose will not get heavy handed with key services firms;
- will avoid unnecessarily upsetting relationships;
- will not cause embarrassment to board executives by making silly mistakes;
- prepares well for the journey ahead.

At level 4, both strategy and execution are equally important. The CPO must exe-

cute with military precision. This is no easy feat to pull off, but if he or she succeeds, the big prize will follow. However, while basking in the glory, the CPO may fail to spot the forces reshaping the landscape. Such a victory will undoubtedly have created trauma within the organisation, particularly with board executives who may have felt they were on a roller-coaster ride. It is at this point that stakeholders will want the CPO to retreat. Unfortunately, the CPO has lost precious time that could have been used to build the case for an ongoing legitimate involvement in professional services categories.

It is too late for this CPO – they are given ovations and politely sent on their way into the third and final crack.

Level 5: Ongoing legitimacy. Derived from the Greek word “strategos”, the term “strategy”, with its military roots, was seen as the “art of the general”. CPOs who recognise the dynamic nature of strategy will succeed not only in embedding a procurement discipline within their organisations, but also with creating an ongoing legitimate role for themselves in helping to buy professional services. At this level, CPOs will routinely be invited by board executives well in advance of, say, an acquisition bid to assist with engaging consultants, lawyers and bankers on the right terms.

The strategically agile CPOs will take all due credit for the hard-earned savings while easing themselves into the “political framework” of the organisation. This is essential if they are to address the biggest savings opportunity of all – namely, not using external providers in the first place. The irony is that large companies often already have the skills they need in-house and do not always need external help.

HSBC, the world’s third-largest banking group (after Citigroup and Fortis), is known for rebuffing the approaches of services providers – not because the bank is arrogant, but because it has a cohesive board that values the skills and capabilities of its own staff. When acquiring other firms, for example, Sir John Bond, its chairman, says: “HSBC is very experienced at merger integration; generally we do not need external consulting resources. We allocate responsibilities to individuals and not to committees; we have a clear plan and measure the results. This is all common sense.”

Nevertheless, senior executives in many other big companies continue to engage expensive services providers for reasons that help advance wider board agendas. Professional services providers thrive where political activity at client companies is high, and some consultants earn a fair proportion of their revenues by serving their clients’ need for “messengers” – helping board members to “socialise” or “sell” their ideas to the rest of the executive team.

Unless CPOs fully appreciate this and are politically skilled and well positioned to influence board executives, then the prizes to be gained through the shrewd management of professional services categories will never be claimed. ■

Summary of key research findings by category

Consulting

Role of procurement:

The overwhelming majority of board executives (87 per cent) believe there is a role for procurement departments to play in buying consulting services (including general, IT and HR consultancy, accounting and tax).

Sourcing initiative:

More than three-quarters of board executives confirmed that a review of their consultancy buying arrangements would be complete within 12 months (see figure 2, page 46).

Relationships:

Procurement departments are universally credited with having delivered “quick-win” savings and enhanced relationships with consulting firms.

Opportunities:

The challenge going forward is “to embed a discipline” within the organisation without recourse to stringent compliance initiatives.

Going forward:

Procurement professionals will therefore need to get much better at strategic thinking and strong leadership.

Marketing

Role of procurement:

Procurement departments assisting with marketing services purchasing do not enjoy the same success as their colleagues who look after management consultancy or legal services purchasing.

Sourcing initiative:

Contrary to received wisdom, pitches result in incumbent marketing firms being reappointed.

Relationships:

One-third of board executives interviewed believe “beauty parades” fail to enhance relationships with marketing and advertising agencies.

Opportunities:

Some of the world’s largest companies need better skills to procure marketing and advertising services.

Going forward:

Avoid making board executives nervous – do not unnecessarily upset relationships with marketing services providers, and do your homework well.

Legal

Role of procurement:

More than two-thirds of board executives want procurement involved in the legal services space, and they should lead (rather than simply support) panel reviews.

Sourcing initiative:

Many panel reviews (a concept supported by 80 per cent of board executives) will get under way in the next 12 months.

Relationships:

Procurement departments are being credited (69 per cent) with enhancing relationships with law firms – chairmen and chief executives acknowledge the contribution made by their professional procurement teams.

Opportunities:

63 per cent of board executives interviewed believe potential savings are still locked up within the legal services category.

Going forward:

Procurement departments are here to stay – boards believe they have an ongoing role to play in legal services procurement and will sit side by side with in-house counsel, rather than retreat when panel reviews are complete.

Banking

Role of procurement:

60 per cent of board executives believe there is a role for procurement professionals in buying banking services.

Sourcing initiative:

More than two-thirds of board executives reported that a review of banking arrangements will either be complete or get under way within 12 months.

Relationships:

Where procurement departments are involved, more than three-quarters of board executives confirmed that relationships with banks were significantly enhanced.

Opportunities:

Where procurement is involved, it leads rather than simply supports the review of banking arrangements.

Going forward:

Unlike legal services, board executives believe there is no formal ongoing role for procurement departments to actively manage the supplier base of banks. They expect procurement to review banking arrangements and then retreat.