

PROCUREMENT'S TRANSFORMATION FROM TACTICAL TO STRATEGIC

Retooling Your Organization for Better Category Management



A WNS COMPANY

Introduction

It's fair to call the last decade transformational for procurement as a function. Most procurement organizations are learning to break away from back-office perceptions and are moving to the corporate forefront. Slowly but surely, it's becoming more widely recognized that procurement delivers a unique strategic advantage and value to our respective companies.

While this transformation is happening at a functional level, behind the curtains most procurement organizations are still busy addressing what is commonly considered to be tactical work: responding to contract requests, managing supplier communications, running RFPs, and preparing supplier scorecards. While category management has been adopted as a principle, when it comes to practice, most organizations continue to struggle with achieving or sustaining it along with a flurry of other tactical responsibilities.

In this whitepaper, Denali discusses essential components necessary to allow procurement to shift from a tactical mindset and retool for strategic category management. We'll examine topics such as resource limitations, skills gaps, training and knowledge management, as well as procurement's overall reputation.



In conclusion: our major contract expires tomorrow, we have **no idea** what we want and **no knowledge** of the market. It is time to pass this across to the **Procurement Team**.

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Tactical or Strategic? You Just Might Try This at Work

First, let's take a look at how we think about tactical and strategic as procurement concepts as well as what qualifies as tactical work versus what qualifies as strategic work. Are the following activities tactical or strategic?

- **Executing a new multi-million-dollar contract for temporary labor services.**
- **Finding new suppliers that can participate in your RFP.**
- **Conducting spend analysis to understand the purchase-price variance in IT services you have been purchasing over the last five years.**
- **Running a competitive bidding process to create a preferred supply base for your sheet-metal purchases.**
- **Holding an impromptu supplier meeting to address ongoing performance issues.**

It's easy to get confused about the distinction between tactical and strategic work—even by their simple definitions. To help differentiate between the two, let's consider them in the context of business and then look at

“Strategy is about being different. It means deliberately **choosing a different set of activities to deliver a unique mix of value**. Strategy requires you to make trade-offs in competing — **to choose what not to do.**”

Michael E. Porter
Professor Harvard Business School

In Michael Porter's context, all of the listed activities would be considered tactical actions that support an overall procurement strategy. As procurement professionals, we sometimes don't see beyond a singular view of procurement's value: delivering savings to the bottom line. In fact, we can become so introspective that it's difficult to see the big picture. While we may bristle when stakeholders refer to us as tactical, in reality we are tactical. If we continue to think tactically, act tactically, and talk tactically, we'll never be able break away from that stigma.

Before we discuss the tactics expected of procurement, let's define what Michael Porter refers to as the "unique mix of value" that procurement can deliver to a business. Sure, savings is a given, but it's not altogether unique.

Given Porter's definition of strategy, let's look a little deeper. Are the following activities tactical or strategic?

- **Securing a global supply base that meets the organization's cost targets to manufacture a highly efficient vehicle that needs to be a cost leader in its respective markets.**
- **Developing new call-center capabilities in a low-cost South American country that meets the localization and customer service needs of your organization and grows a South American presence.**

- **Meeting with your top IT-services suppliers and brainstorming on how they can implement a variable fee structure to support your organization's unpredictable demand patterns.**
- **When renewing your next outsourcing contract, embedding some risk-reward incentive to ensure suppliers are vested in the success and outcome of initiatives that are a top 3 priority for your company.**

Now we're starting to think strategically. The common trait in this latter set of initiatives is that it takes the overall business strategy and environment into consideration. It aligns your stakeholders' business objectives and challenges with your resulting actions. It provides a different set of tactics to create unique value for your business partners and for your organization.

So that's where we're headed; now let's take a look at what this strategic future is and how we can get there.

Category Management Benefits the Entire Organization

- **Raises the strategic contribution of procurement to the business.**
- **Improves stakeholder buy-in to results.**
- **Improves TCO.**
- **Reduces risk in the supply chain.**
- **Establishes more effective use of resources.**
- **Improves service levels, quality, availability.**
- **Fosters supplier innovation and capability.**

True change is never easy because it forces people out of their comfort zones. Changing to a more strategic future requires that we take a deliberate approach to change management. If we don't, team members will revert to what they are most used to ... tactical execution.

Where Change Needs to Happen



So why do most procurement organizations still think and act tactically? Perhaps because—by design—organizations expect procurement to accomplish many tactical tasks, such as creating purchase orders, helping execute contracts, responding to supplier issues, and negotiating with suppliers. As a result, most procurement organizations are designed and staffed to respond to tactical needs. Breaking away from tactical work and tactical thinking will become increasingly difficult unless procurement is willing to reformulate its operating model and the DNA of the organization.

Let's take a look at each of the challenges that often stand in the way of becoming more strategic and discuss how to help meet them.

Stakeholder Engagement Challenge

If procurement is seen as the tactical execution arm or as "optional," it can't reach its full potential. It is imperative to align more closely with business goals and get involved earlier with stakeholders.

It's incredibly difficult to sell an idea or to fully understand stakeholder challenges from a distance. To maximize your value and contributions to an organization's initiatives, you need to be embedded in its business—listening to needs and challenges, participating in staff meetings, attending brainstorming sessions, and understanding business strategies.

Ultimately, stakeholder engagement underscores the need to align overall corporate and business strategy with your procurement goals and initiatives. A big step toward this alignment is to be involved during the planning stages. The amount of research and preparation that goes into partnering with stakeholders should not be underestimated. This is often a good first step toward becoming strategic. Read more about creating more strategic, value-driven stakeholder relationships in Denali's whitepaper ["Procurement Is from Pluto; Stakeholders Are from Saturn."](#)

To help launch you on the journey toward becoming strategic, Denali has identified four basic rules. The first applies to the stakeholder engagement challenge.

Ground Rule No.1: Understand your organization and business partners' (stakeholders) goals and develop a category strategy that is aligned with those objectives.

Resource Challenge

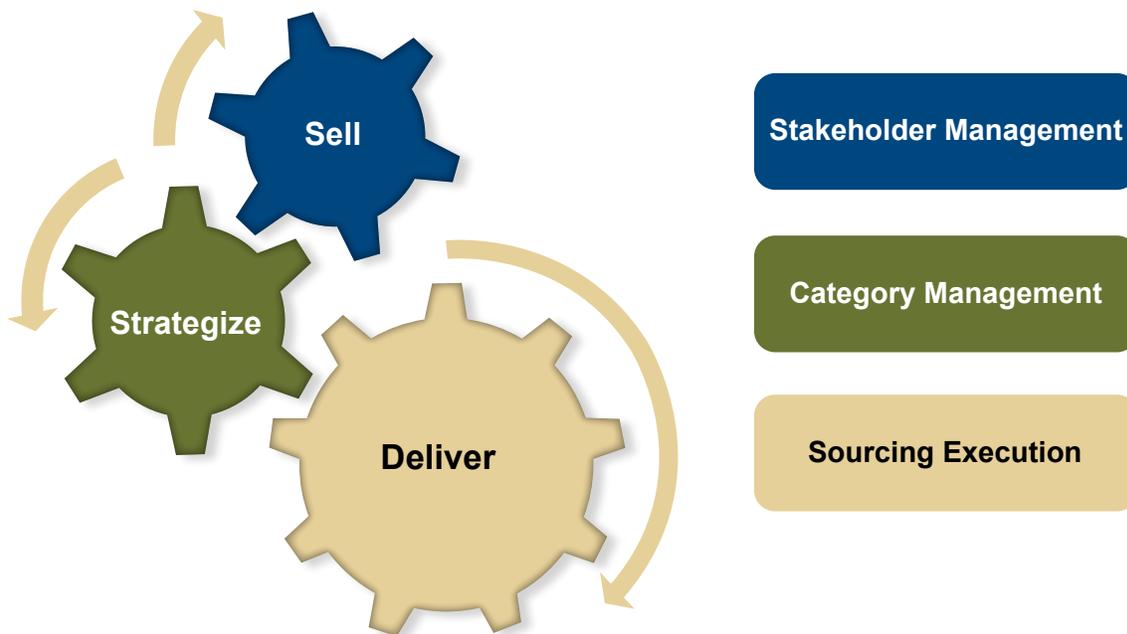
Most procurement organizations today are busier than ever. The complexities of the business are ever increasing and always changing. Organizations typically rely on a larger number of external resources along with a growing level of tactical work, whether it's the sheer volume of orders or new/existing supplier contracts that need to be executed and maintained. The need for suppliers to be on-board is continually increasing. Most of us know that throwing resources at a growing volume of work is not a sustainable solution in the long run.

Clearly, it's time to re-evaluate the operating model and find more efficient ways to address the tactical needs of the organization. Lifting and shifting the workload to

a third party is not a viable option. A better solution is retooling the operating model to include centralizing work, simplifying processes, eliminating rework and waste, and arming resources with the right skill sets and tools to become more efficient.

Depicted below are models of three separate functions/teams—stakeholder management, category management, and sourcing execution—that address the various tactical and strategic needs of the organization. More information is available about these in our whitepaper [“Unleashing Procurement Value with a Service-Oriented, On-Demand Organization.”](#)

The New Operating Model for Procurement



Separating tactical work from strategic responsibilities alleviates bottlenecks by shifting the tactical work to an execution-focused team based on the strategy and relationships built by the stakeholder management and category management groups. In the past few years, we've seen more than a dozen client organizations successfully accomplish this with benefits such as increased capacity, accelerated results, and better responsiveness to their stakeholders' tactical needs.

Ground Rule No. 2: Separate tactical work from strategic and structure a team of resources (internal or third party) for execution only.

Organizational Expectation Challenge

Procurement organizations that attempt to offload tactical work to existing team members and shift focus to category and stakeholder management are faced with a significant organizational expectation gap.

The internal team that was ever-busy responding to the organization's tactical needs becomes confused about what to do next. Team members might ask:

“If I can't work on a contract or manage an RFP, what am I supposed to do?”

“My CPO still expects me to track and report savings, the number of projects I work on, and the contracts I execute.”

This is why a transformation needs to start with the leadership of an organization, including business partners—to transform what is expected of procurement. From day-to-day conversations to staff meetings to performance metrics, perceptions must be readjusted to better measure the procurement team's strategic contribution and the unique value they bring to the organization. To begin modifying perceptions in your organization, take the following steps:

- 1) Align and integrate your objectives with the objectives of your business stakeholders. You cannot better serve the needs of your stakeholders if you do not share common objectives.
- 2) Define your expectations for the team to become more strategic and provide guidance on the new activities and expectations.
- 3) Set performance metrics to properly incentivize these new activities. Remember, you cannot change behaviors if you don't change how you measure and reward your team.

It's essential to take a deliberate and programmatic approach to change management. Instead of tracking savings, start tracking how many stakeholder discussions the procurement team has held this week. Assess what changes the procurement organization has made to its category strategy that support the overall business strategy of the partners or organization. Consider a balanced scorecard approach to your team's performance metrics that can include:

- **Traditional performance measures, like savings.**
- **Team member-specific objectives that align with specific stakeholder strategic initiatives.**

- **Stakeholder satisfaction scores.**
- **Metrics to reinforce category management activities, like the number of stakeholder discussions and/or category plan/playbook development.**

Ground Rule No. 3: Performance expectations and metrics need to be adjusted to measure and value the team's strategic contribution and the unique value they bring to the organization.

Skill-Set Challenge

This is a big one. While it might seem an easy fix, in reality adapting team members to new roles is quite a challenging endeavor for several reasons. Procurement leaders need to understand that this requires unique characteristics and personalities and need to select appropriate team members for this vital role.

First, you must pick the right team members to transition into a category management or stakeholder management role. Second, adapting new skill-sets takes time and a concerted effort on everyone's part. The entire team must change mindsets and attitudes; team members who are tasked with category management must also shift their day-to-day focus.

Third, the means to transfer new skills to team members is often ineffective, especially if it involves traditional methods of training. Instead, procurement training should go beyond traditional means of methodology training, focusing on mindset shifts (soft skills like stakeholder engagement, communication, and business-case development), and should provide a context for participants to relate to their daily environment.

To help bridge the skill-set gap, introduce a category management game to test new skills and present management with a work product. Rather than sending team members back to work when they don't know where to start, apply reinforcement through game play and involving management. This applied-learning technique has proven effective for our customers who have participated in the Denali Academy*.

Ground Rule No. 4: Adapt your skill sets as well as your mindset toward approaching complex business problems. Find ways that procurement can contribute to resolving those problems in a unique way.

Conclusion

Shifting a procurement organization from tactical to strategic can be a daunting task that requires attention to a number of issues. Below are some of the common pitfalls organizations experience when becoming more strategic:

- **Engaging business stakeholders remotely.**
- **Throwing more resources against the same operating model.**
- **Changing your procurement strategy without changing the way you interact with the organization.**
- **Ignoring the skills needs of your team.**
- **Doing nothing.**

Often, internal and external forces can work against this transformation, possibly resulting in frustration and turnover in your organization. Transformation from tactical to strategic needs to be addressed as a change-management effort and carefully planned and executed by addressing essential gaps and paying close attention to ground rules.

About Denali - A WNS Company

Denali, a global sourcing and procurement solutions provider, is now a **WNS** (Business Process Management leader) company. Denali – A WNS Company supports Global 1000 companies by offering an array of best-in-class procurement solutions, including Category Management, Analytics, Strategic Sourcing and RFx Management, Supply Market Insights, Contracting, Supplier Management and Procure-to-Pay. With a team of more than 2,000 procurement specialists worldwide, we have helped our clients source and procure more than USD 75 Billion worth of materials and services across direct and indirect spend categories. For more information, you can visit us at www.denaliusa.com. You can also contact us directly at **844.633.6254**.

Learn more about [Denali Academy](#) and how it can help your organization address the Skill-Set Challenge in becoming more strategic.