

Increasing Alignment with Finance

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Emerging Trends in Procurement Conference
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Agenda

- Introduction
- Stakeholder engagement as a key requirement for today's CPO
- Aligning Procurement's needs with Finance's needs
- Sources of value creation
- Learning to speak CFOese
- The CFO 6 step
- Next steps

The Faculty's Experience

The Faculty has completed projects including:

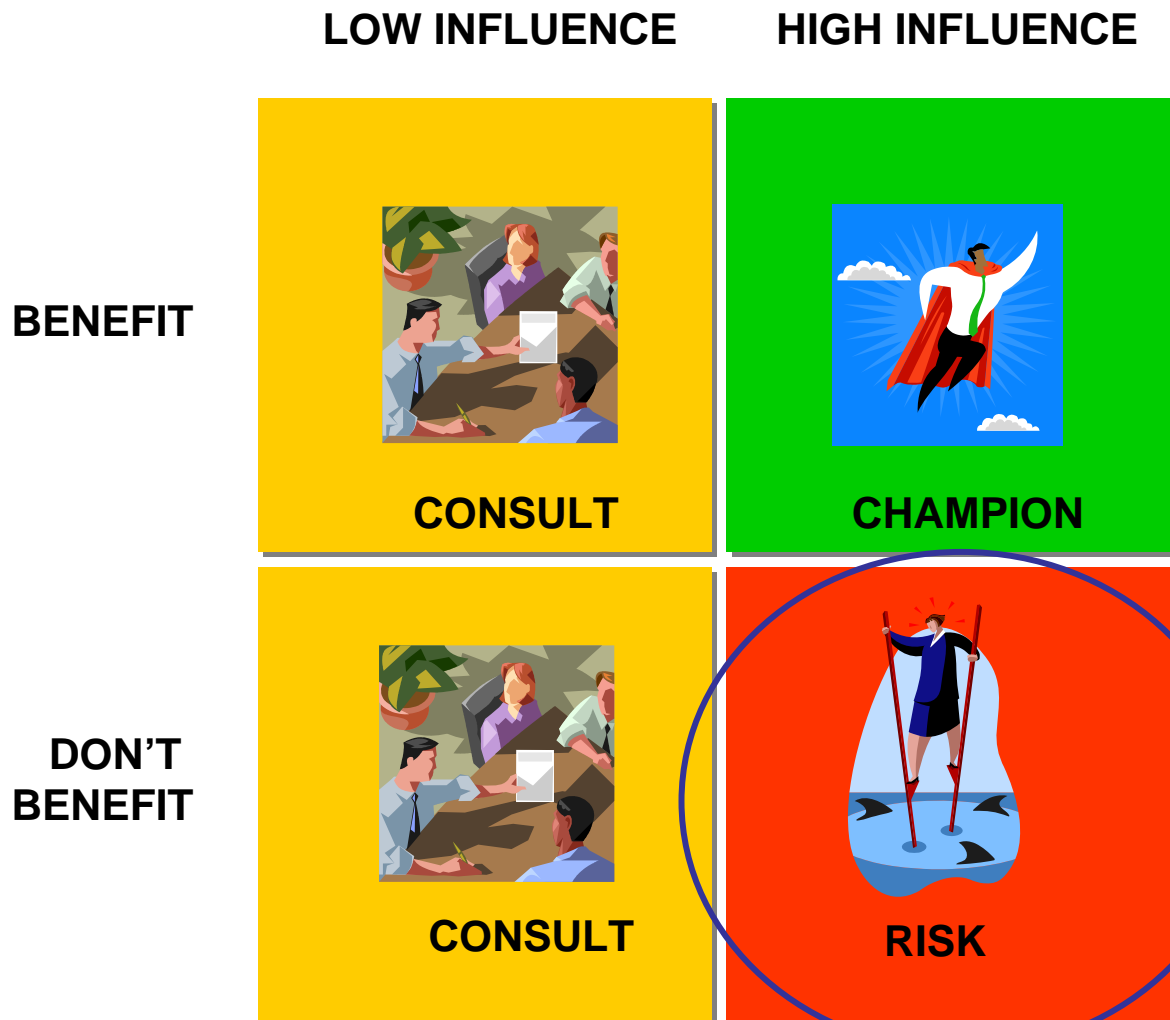
- Procurement benchmarking with many leading companies
- Project management of acquisition integration
- Development of procurement scorecards for tracking benefits capture
- Business case development for major procurement and procure to pay projects
- CPO Agenda at CIPSA National Conference
- Development of E-Procurement strategies for corporate and government clients
- Development of Procure to Pay strategies
- Frontline experience in strategic sourcing and procurement



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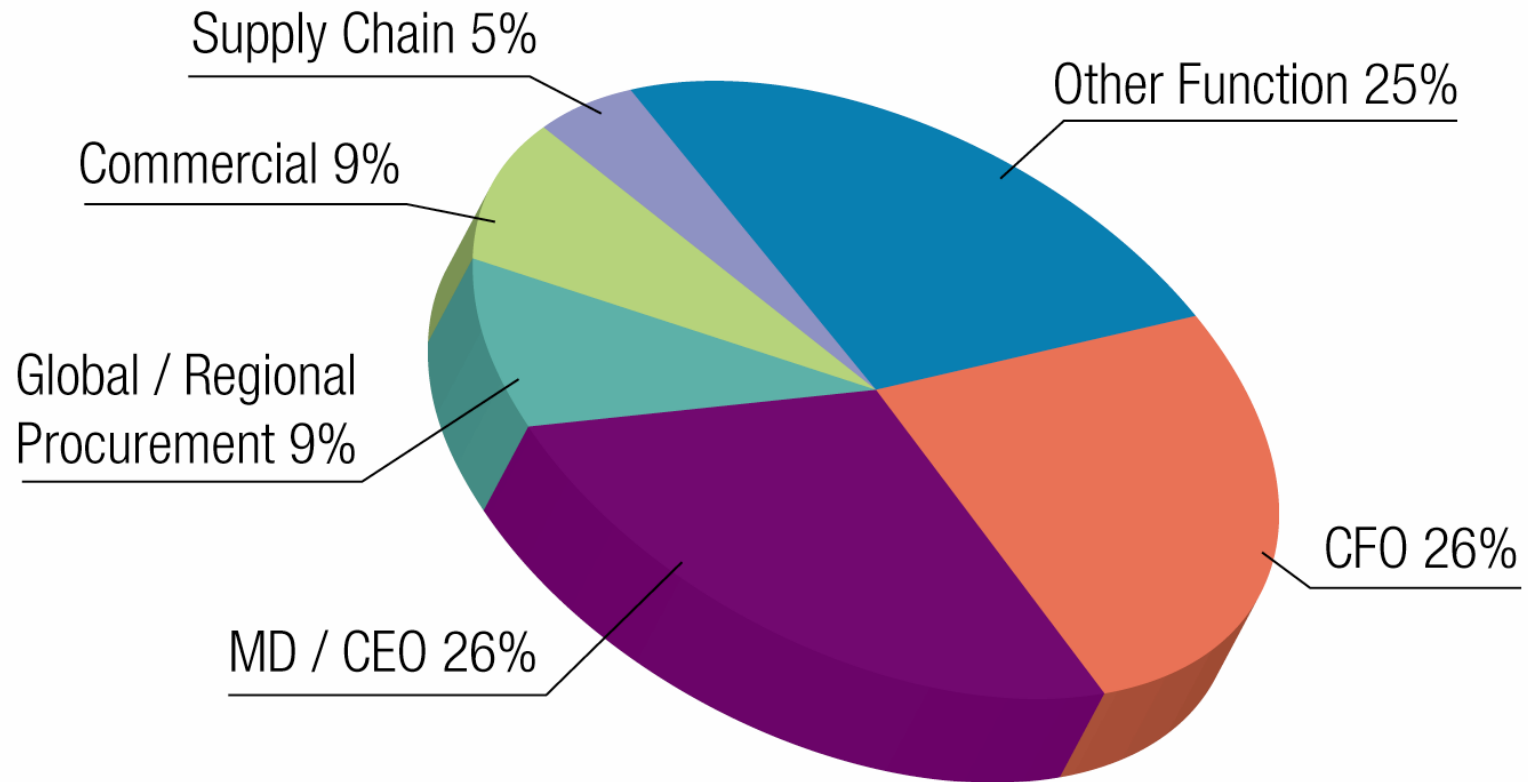


A strategic approach to stakeholder engagement is critical for today's CPO



No matter where Procurement reports, Finance is a key stakeholder

Procurement Reporting Line



Source: "Winning the Talent War"- The Faculty Management Consultants 2006

CFO concerns

- Credit rating – on balance versus off balance debt, including supplier's cash
- Extracting synergies from acquisitions
- Running the company effectively – operational execution
- Trimming waste and running a tight ship
- Stock price perception - reputation risk
- Managing market expectations – particularly in rising commodity markets

Procurement has many tasks:

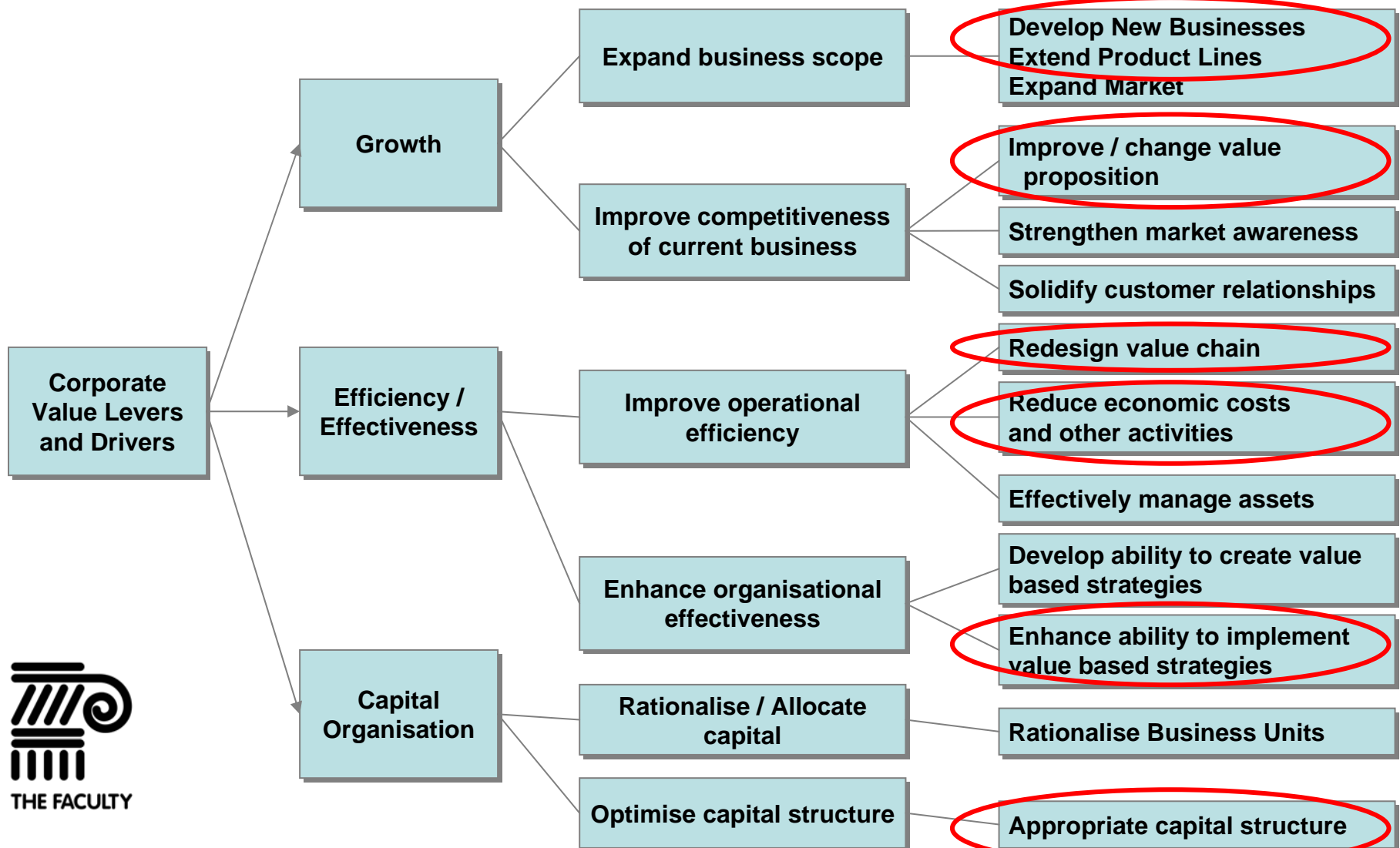
- Keep the factory running
- Save money and increase efficiency
- Maintain probity and integrity in supplier selection and management
- Deliver innovation from external sources
- Ensure the company is a good corporate citizen through making responsible supplier choices
- Manage suppliers for value and risk



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Link procurement's contribution to your company's key value drivers



When the CPO speaks, What does the CFO need to hear?

Or, learning to speak CFOese

Scorecards

CPO's needs, translated into.....

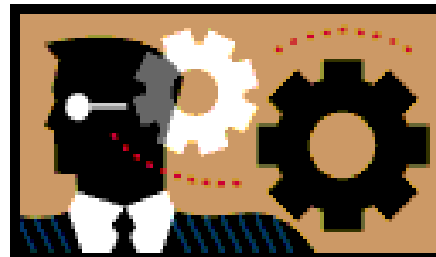
CFO Speak

I want a scorecard that demonstrates the value we actually deliver to the bottom line

“

We need to ensure there is transparency and accountability for delivery of cost savings...

”



Scorecard Example

Procurement Integration Scorecard Summary of Individual Initiatives

Opportunity Key

Black = Banked

Green = High confidence

Amber = Medium confidence

Red = Low confidence

Year 1

Black: \$1.2

Green: \$2.4

Amber: \$3.3

Red: \$5.2

**Total
Opportunity**

\$5.6

Year 2

Black: \$1.4

Green: \$2.8

Amber: \$3.7

Red: \$6.1

**Total
Opportunity**

\$6.5

Year 3

Black: \$1.6

Green: \$3.2

Amber: \$4.6

Red: \$7.4

**Total
Opportunity**

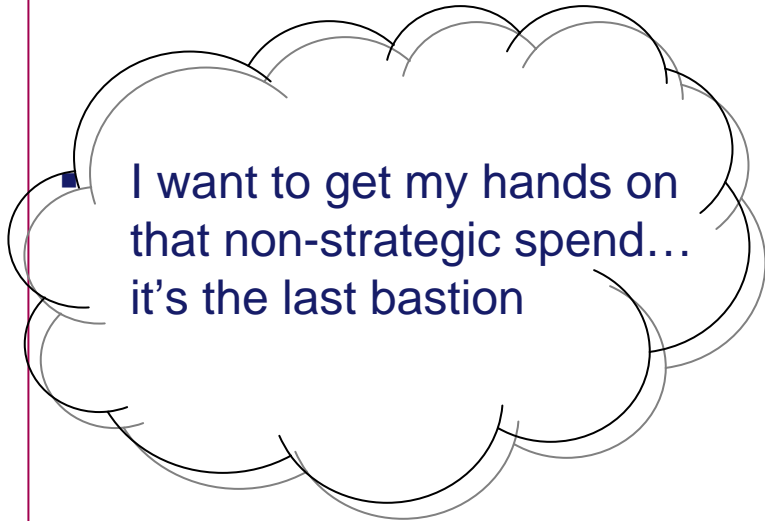
\$7.7



Indirects

CPO's needs, translated into.....

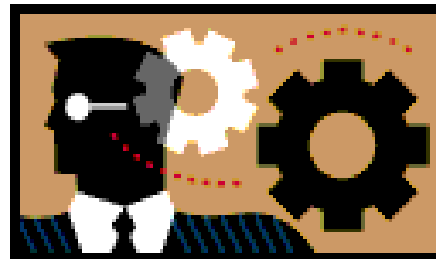
CFO Speak



“

We need to look at opportunities to take cost out of the business wherever we can

”



Supplier Relationship Management

CPO's needs, translated into.....

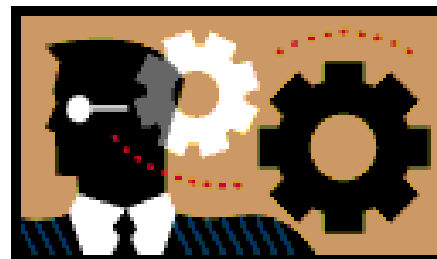
CFO Speak

- I need an SRM process to ensure that strategic suppliers are managed consistently across the organisation

“

We can save 2% on all our contracted spend by improving relationships with our key suppliers

”



Innovation

CPO's needs, translated into.....

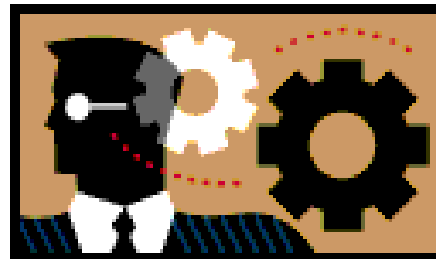
CFO Speak

I want a structured process for procurement interfacing with the new product development guys

“

In order to meet our revenue growth targets we have to engage our suppliers to contribute significantly to product innovation

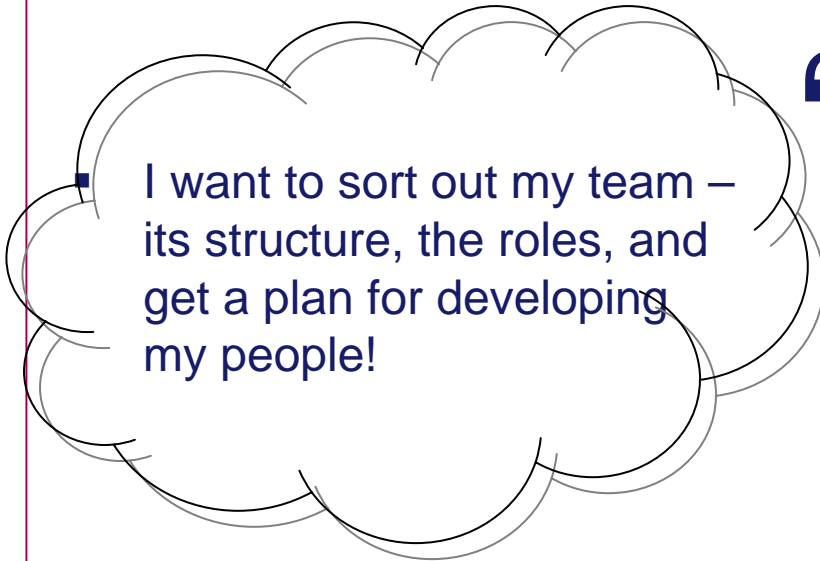
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People

CPO's needs, translated into.....

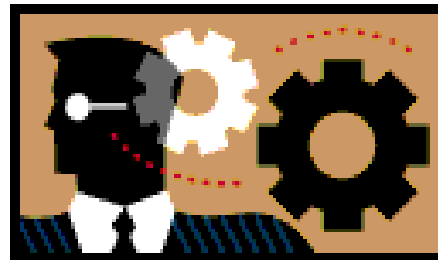
CFO Speak



“

In order to create and develop value based strategies, we need to enhance our organisational effectiveness and plan for the future

”



Aligning People to Strategy

Business Strategy → Procurement Strategy → People Program

Efficiency	<ul style="list-style-type: none"> • Standardised Processes • Digitised transactions 	<ul style="list-style-type: none"> • Procurement organisation structure • Competencies match roles
Risk Management	<ul style="list-style-type: none"> • Risk identification and mitigation • Clear delegated authority framework 	<ul style="list-style-type: none"> • Risk assessment process • Procurement and organisational training on delegated authorities
Cost Reduction	<ul style="list-style-type: none"> • Category strategies • Supplier negotiations • Value optimisation projects 	<ul style="list-style-type: none"> • TCO Analysis skills • Negotiation skills • Supplier management skills
Customer Service	<ul style="list-style-type: none"> • Internal needs assessment • Supplier alignment 	<ul style="list-style-type: none"> • Stakeholder engagement • Communication strategy
Top Line Growth	<ul style="list-style-type: none"> • Supplier innovation • New Product Development • Revenue creation projects 	<ul style="list-style-type: none"> • SRM process • Cross functional NPD teams
Governance	<ul style="list-style-type: none"> • Robust governance framework • Clear guidelines and accountability for procurement 	<ul style="list-style-type: none"> • Commercial stewardship role • Leaders in probity / governance

Delivering Business Alignment

Procure to Pay

CPO's needs, translated into.....

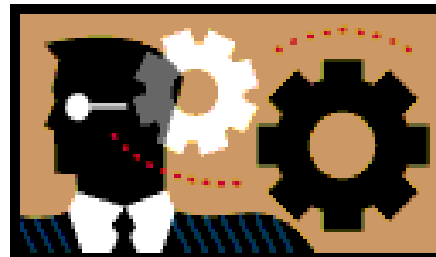
CFO Speak

I need to sort out A/P with a P2P initiative... this tail is getting out of control

“

I want to initiate a working capital initiative which will free up cash flows to reduce debt

”



Mergers and Acquisitions

CPO's needs, translated into.....

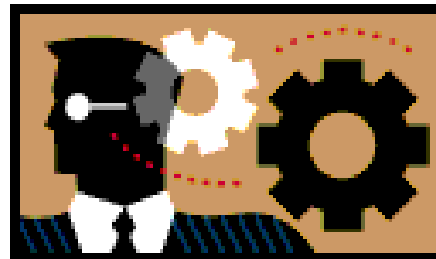
CFO Speak

How do I keep my job and make the combined team a success?

“

We've bet the company on the ability to extract synergies – I need procurement to pull their weight

”



Tools for building engagement:

- Benefit Capture System / Scorecard – tracking savings delivered
- Managing to Budget
- Purchase Price Variance reporting
- Demonstrating you understand how to use the costing system
- Communication
 - Roadshows
 - Reports
 - Procurement steering committees
 - Intranet

What does Finance want from Procurement?

- No surprises
- Reliable partner in delivering organisational objectives
- Speak their language
- Can be trusted
- Focus on outcomes as well as process
- Don't take yourself too seriously



**I WANT TO
BELIEVE**

The Faculty's CFO 6 step

- Confirm the key drivers in your business strategy
- Map out and define how your procurement strategy supports the business strategy
- Understand your CFO's "hot buttons"
- Create a scorecard which is approved by Finance for tracking progress
- Create a regular forum/meeting for connecting with the CFO
- Design "powerful conversations" to communicate your needs into CFOese



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Next Steps

- The Faculty can assist with:
 - Procurement strategy development
 - Procurement Benchmarking
 - Benefits capture system development
 - Business case development and design
- Networking and information sharing tools:
 - The Faculty Roundtable
 - Tailored training
 - Workshops and facilitation
- Visit our website for more information:

www.thefaculty.com.au