



Partnering with Procurement
to drive innovation

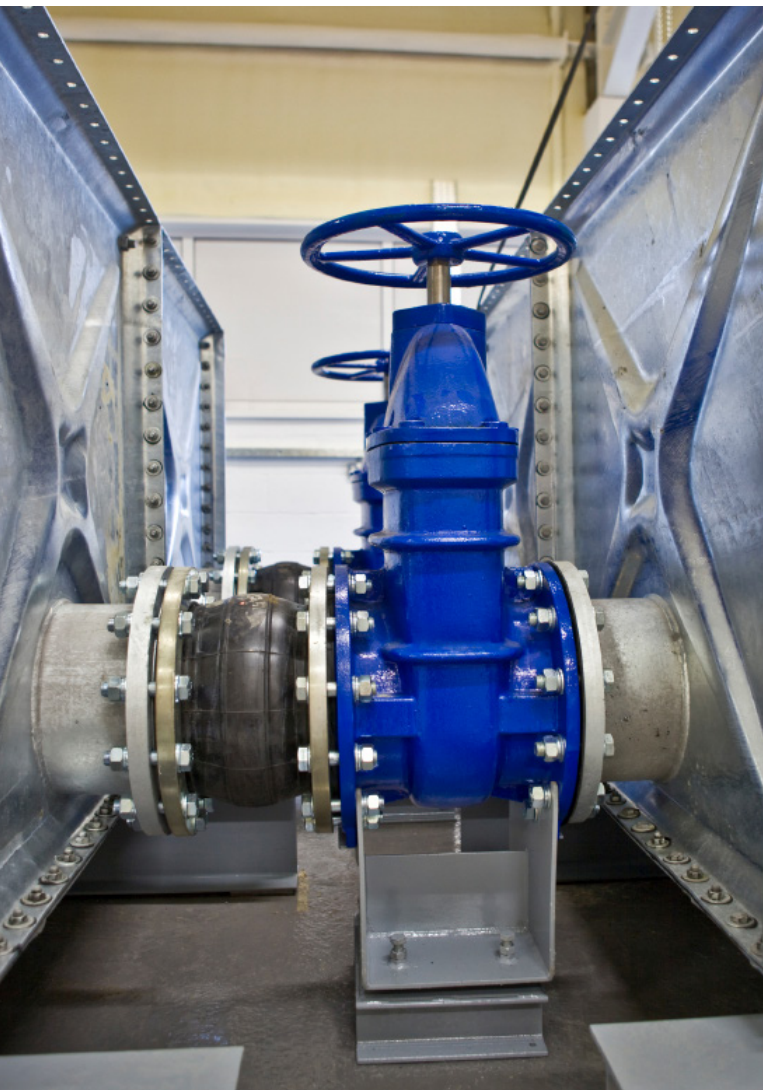


MINING AND OIL & GAS INDUSTRIES

A series of external shocks – from the fluctuating exchange rate, to declining ore grades and productivity – have necessitated innovative responses from the Mining and Oil & Gas industries.

Suppliers have responded and are bringing innovation to the table but are often met with frustrating push-back, indifference or endless stage gates when it comes to progressing from innovative idea to implementation.

As the interface between the business and the supply chain, Procurement's ability – or their challenges – to drive productivity through supplier innovation, cannot be underestimated.



Why should SMEs focus on Procurement? Why now?

Market consolidation, increasing competition from overseas suppliers and ongoing pressure on the Mining and Oil & Gas sectors, has put pressure on SMEs to differentiate from their competitors through innovation.

From a supplier perspective, Procurement teams are effectively the 'gate keepers' to doing business with an organisation. A lack of collaboration with Procurement, or failure to understand and address their drivers will have a negative impact on business case approval rate.

Benefits of increasing your understanding of Procurement and its role in innovation

As a supplier, increasing your understanding of Procurement, the challenges they face in facilitating innovation through the business and how you can assist in addressing these issues, will lead to better sales outcomes. By becoming 'procurement-savvy', SMEs can:

- influence the procurement process, particularly in their decision to support innovation internally
- learn to convert the innovation idea into the language of the business so that it has meaning for the CFO, Operations and Site Managers, the Chief Procurement Officer and Purchasing Managers.

Research in context

Recognising the pivotal role innovation will play in driving increased levels of national productivity, The Department of Industry awarded a grant to The Faculty Management Consultants in 2013 to conduct research into the state of supplier-led innovation within the Australian Mining and Oil & Gas sector. The research considered:

- survey responses from over 100 Chief Procurement Officers and Executives and 13 in-depth interviews
- both buyers & METS suppliers.



ABOUT THE PROCUREMENT CHALLENGES FOR DRIVING SUPPLIER-LED INNOVATION . . .

- Internal politics can kill innovation: *"Innovation attacks certain internal stakeholder power bases – for example technical or domain specialists."*
- Sponsorship is fundamental: *"My experience is innovation needs 1) Sponsorship and 2) a champion."*
- The business is ultimately risk averse *"The hardest part is getting the business case up and the faith in the numbers."*
- Numbers speak: *"Monthly anticipated/actual savings are sent to the Executive, for all projects - along with post hoc 12 month 'actual' reports – there is no room to move or error."* – Ops Manager

ABOUT WHAT PROCUREMENT REALLY CARES ABOUT

- Cost is a primary driver for a majority of Procurement functions – but so is productivity.
- Procurement is well positioned to facilitate, but not to own innovation. Operations and key senior business stakeholders currently own innovation opportunities, where in existence, and are well positioned to benefit most from success.
- Key Performance Indicators are the most widely used tool for finding innovation especially in Mining, – if it gets measured, there is a greater focus on innovation.

ABOUT WHAT SMEs NEED TO DO BETTER, NOW . . .

1. Understand what really constitutes 'value':

The concept of "value" varies greatly between buyers – suppliers need to be aware that "value" includes cost management, productivity, risk management, customer service, compliance, innovation and of course, price.

2. Articulate innovation success in terms of the

bottom line: Cost is a primary driver for the majority of Procurement functions and yet suppliers are not communicating innovation in the hard dollar terms required to be successful internally. Nor are they communicating their value in line with the overall business objectives.

3. Help Procurement build the business case internally:

If innovation projects are likely to impact productivity or operations, the business case must be water-tight and will generally take significantly longer to get approval. Hence the power to drive innovation rests with primarily with Operations and not Procurement

4. Educate yourself:

Suppliers do not have a strong understanding of the procurement process – learn how to talk the language of the procurement and understand how and where to influence the process.

5. Educate Procurement:

Where there was a mature buyer / supplier relationship, innovation was received more positively. Offer training and development, invest in whitepapers and case studies to help the business understand – and support – innovation.

6. Invest in the relationship:

Large scale transformational innovation requires a truly strategic supplier partnership with a demonstrated history of small scale success from suppliers.

"Approximately 50% of respondents indicated that the main drivers behind innovation are improving cost efficiencies and productivity."

– Department of Industry / The Faculty survey 2013





"Suppliers need to frame proposals using the business' own objectives and language."

– Interviewed CPO

"Where possible, we need supplier case studies that include the commercial dynamics underneath." – Procurement Manager

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Tips for SMEs working more effectively with Procurement

Whether you have a good working relationship or are introducing yourself to Procurement for the first time, here are some hints:

- Ensure you understand the organisation's prequalification process, including social or local procurement policies.
- Start building relationships with Procurement – and site and operational managers.
- Find a "champion" within the business that will be able to promote your idea with the business.
- Learn about the procurement process. Try visiting the company website as a starting point.
- Understand the company's main values and drivers for change – align yourself and your offering to these objectives.
- Define your value proposition around customer service, innovation, risk management and ultimately, price.
- Develop case studies and seek citations from satisfied clients – preferably in the same industry or who had similar requirements.
- Develop an account management plan to guide the relationship and highlight key dates, for example, contract renewal, tendering.
- Understand your procurement contact's ability to influence the decision making process
- Conduct regular market research to understand what solutions your competitors are offering and how they are staying innovative.