

How to develop and implement engaging procurement strategies

A practical guide

By Armand Brevig, Managing Director, Procurement Cube



Armand Brevig is the Managing Director of Procurement Cube. We have created an effective and lean Procurement product that unlocks hidden business value for your company. It's a Procurement Powerhouse inside your organisation that delivers [Value for Money, Total Cost Control and Enhanced Competitiveness](#). The approach builds fit for purpose capabilities that deliver sustainable strategic value. The focus is on what really matters in your unique situation.

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Introduction

I have started this guide with a section that looks at the value Procurement brings to the table. It is important to consider this before embarking on any strategy development. More and more organisations are realising that the Procurement function has so much more to contribute than “lower prices from suppliers” (which sometimes isn’t even desirable). Procurement has the potential to significantly contribute to the competitive advantages of any organisation.

But is this potential currently being realised? To help answer that question, the second section outlines how Procurement can critically self-evaluate its own approach. Is there genuine alignment with corporate and departmental strategies? Are current approaches even helpful to stakeholders? Where are the gaps and opportunities for improvement?

To develop better approaches and strategies, the internal customers (aka stakeholders) need to be engaged in a meaningful way. And for that meaningful engagement to take place, Procurement first needs to do some homework, i.e. some analysis and be prepared with some high-level strategic options. The third section outlines how to do that, as well as actively managing the stakeholders. All these are important steps towards being regarded as a “trusted partner”.

But busy procurement professionals don’t have much time to do “homework” in addition to their day jobs. The fourth section, therefore, provides some useful tips on how to do research and analysis in a lean resource effective way. The fifth section emphasises the importance of truly listening to stakeholders and be on **their** agenda, rather than your own.

In the last section I am sharing the principles we believe in at Procurement Cube in the hope you may find this thinking helpful too when developing procurement strategies. If you have any questions, feel free to drop me a line at armand.brevig@procurementcube.org

Yours sincerely,

Armand Brevig
Managing Director



3 ways Procurement creates competitive advantages



Competitive advantages set your business apart. These advantages are the things your organisation does better than anyone else. Often competitive advantages are created over time with the contribution of many business areas. An empowered Procurement organisation collaborates with multiple touch points across the business. Procurement can, therefore, play a key role in building competitive advantages valued by customers.

So, how exactly can Procurement create competitive advantages? The magic happens when your Procurement function has the capabilities to simultaneously:

- Control total cost
- Get value for money
- Leverage supplier innovation

That's the stuff competitive advantages are made of. Let me briefly explain what I mean.

Total Cost Control

Controlling total costs is about looking at the whole picture. Reducing costs in one part of the business only to see it balloon elsewhere is a common business challenge.

At one company I saw the negative effect of not considering total costs across all related activities. Items were bought in bulk at a "low price", not taking into consideration storage, transport and destruction costs. The unnecessary costs destroyed shareholder value. By looking at ALL the business activities, risks and supplier innovation I saved the company millions and hereby restored that value.

Value for Money

Getting value for money means obtaining the right balance between quality and price. In old school clerical Procurement functions all that matters is price. But getting a low price at the expense of quality can become very very expensive. Imagine, for example, a factory saving money on a

component only to find that sub-standard quality forces a shut-down of production. Oops! Suddenly the “saving” has been replaced with added costs and a reputational risk to manage.

Supplier Innovation

Leveraging supplier innovation is paramount because you can't do it all alone. You are only as good as your suppliers. Their capabilities, innovation and creativity help you compete in the market. The better you get at tapping into what the supply market has to offer, the more successful your business will be.

I have seen even large companies not use the full capabilities of supply markets. One company was more focused on internal processes than talking to suppliers. When I broke the mould and initiated business focused dialogue with suppliers, we achieved better value for money. In addition, we got access to services that improved efficiencies, and thereby competitiveness. It took relatively little resource to do this – something that's within every company's reach.

How to Ensure Your Procurement Approach Supports Corporate Strategy



Do you really know what your organisation is trying to achieve? Profitability is probably part of it. But what about the strategy and priorities in more detail? Clarity on corporate strategy is important because departmental strategies need to be aligned. Procurement strategies, in turn, need to be extensions of those corporate and departmental strategies. In essence, everyone needs to “pull in the same direction”.

Once you have a clear picture of what your organisation is trying to achieve, take a good look at how well current procurement activities and processes are supporting those efforts. While there may or may not be any formal “Procurement Strategy” in place, there is always a “de facto procurement approach” at play.

Once you start to see how effectively (or not!) current procurement approaches support the organisational strategy and priorities, you will start to spot gaps, aka weaknesses. You will also likely see strengths, opportunities, and threats. A good analytical tool to help you think through this is the SWOT model. It stands for Strengths, Weaknesses, Opportunities, and Threats.

How do I conduct a SWOT analysis?

Think of “Strengths” and “Weaknesses” as originating from inside the organisation. Something someone in the organisation could control or affect if they really wanted. “Opportunities” and “Threats”, on the other hand, originate from the external environment. So, stuff that’s outside the control of anyone working for your organisation. The idea is to start stimulating some thoughts around how strengths can be enhanced, weaknesses minimised, opportunities grasped and threats mitigated. See the example below.

SWOT Example



How do I use the results of my analysis?

So, in the example above the Procurement department of an imaginary company feels they are maintaining good supplier relationships. That's obviously a good start. But what does "good relationships" actually mean? Do relationships tend to be too cosy? Are suppliers adequately challenged in terms of cost and quality? Do they bring new innovation to the table that can support your organisation's corporate strategy? Exploring questions of this nature may reveal opportunities for building even deeper and more meaningful supplier relationships, that in turn can help enhance or create competitive advantages.

Maverick spend, or "leakage", is a problem in many organisations. A lot of time and effort is spent on negotiating agreements with preferred suppliers, but the value is undermined by non-compliance with those agreements. In other words, some stakeholders continue to use whatever suppliers they individually prefer.

But why is this happening? If it's because people simply don't know which suppliers to use and how to engage with them, then perhaps all that's needed is some training and awareness events.

Often, though, the problem is multi-faceted. It may be cumbersome or time-consuming to comply, so people (quite understandably) chose the path of least resistance to get their jobs done. So, a combination of streamlining processes, policy changes and awareness may be the best approach to reducing maverick spend.

An opportunity in the external environment, relevant to our Procurement approach/strategy, could be the emergence of a particular technology in the supply market, which has the potential to support areas defined in our corporate strategy. We then have an opportunity to adjust our Procurement approach/strategy to ensure our organisation gains access to this technology before key competitors.

Old school Procurement is transactional and savings focused. It is now widely accepted, however, that Procurement can, and must, do much more than that. If the gap between your Procurement department's approach and external best practice becomes too wide there is a risk that your Procurement team will be marginalised. Stakeholders will increasingly attempt to bypass the team. As a consequence, that coveted seat at the Board Room table may never be offered to Procurement, if it continues to be seen as merely an efficient tendering machine. Embracing [a Business Focused Procurement approach will mitigate against that threat.](#)

Being able to self-evaluate your Procurement approach in this way is incredibly important to add critical business value, gain the confidence of your organisation and over time become a trusted business advisor.

To learn more about how your procurement approach can be made more strategic and impactful, [contact our Managing Director, Armand Brevig, today.](#)

How Procurement can take a strategic approach that inspires stakeholders



There's often friction between Procurement and other functions. Stakeholders see overemphasis on short-term savings as a threat, which destroys business value. Procurement should be more than an efficient tendering machine. And in many organisations Procurement started the journey towards a more strategic approach many years ago. Most teams, though, still have a long way to go. Operating at a strategic level takes business acumen, strategy development skills, creativity and excellent stakeholder engagement capabilities.

So, what does “taking a strategic approach” mean for a Procurement team? It means collaborating with key stakeholders to develop an approach that leverages supply markets in a way that supports departmental and corporate strategies.

Becoming a trusted partner

However, before you can approach stakeholders about this there is some homework to do in order to be perceived as a “trusted partner”. You need to demonstrate that you understand what our organisation is trying to achieve, supplier spend and cost structures, as well as relevant supply market dynamics. These are the essential analyses:

1. Take an objective and critical look at the effectiveness of the approach Procurement is using today and how well it supports corporate and departmental strategies. A SWOT analysis will give you some clues as to what needs to change as explained in the section, *How to ensure your procurement approach supports corporate strategy*.
2. Complete spend and Total Cost of Ownership analyses to identify key stakeholders and possible value building opportunities as explained in the article, [How Spend Data Reveals Opportunities to Unlock Hidden Value](#).
3. Analyse supply market dynamics and your organisation's interactions with those markets. There are a number of tools you can use to do that, including Porter's 5 Forces, Kraljic and PEST.

It's now time to put it all together. What does each of the analytical models you used suggest you should do in terms of strategy? Is there a pattern? Are there contradictions? Do you need to look at it from yet another angle?

The role of creativity

Though the process may at times seem pseudo-scientific, developing procurement strategy is a creative process. As the late Steve Jobs said,

*“Creativity is **just connecting things**. When you ask creative people how they did something, they feel a little guilty because they didn't really do it, they **just saw something**. It **seemed obvious** to them after a while. That's because they were able to connect experiences they've had and synthesize new things.”*

So, what have you “seen” so far? What now seems “obvious”? What “connections” can you make? It may help if you do as Dee Hock, Founder and former CEO of Visa, advised,

“Make an empty space in any corner of your mind, and creativity will instantly fill it.”

Does the strategy “fit”?

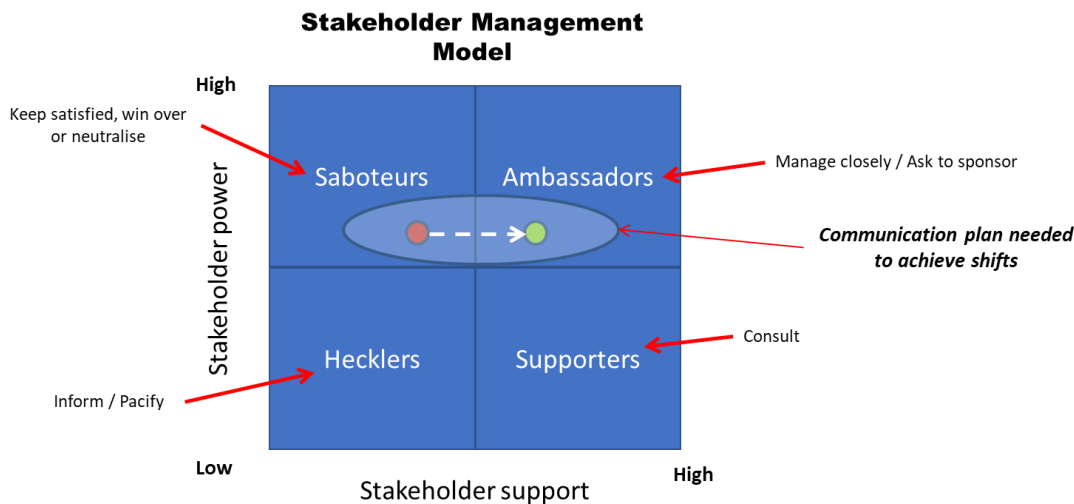
Once you have articulated your strategy ideas and written them down consider each of them in terms of:

- Organisational capabilities. It's all well and good to have an excellent strategy, but if your organisation cannot execute on it you are no further ahead. Could the organisational capabilities be changed to match?
- Management preferences. Even the most amazing strategy will remain in the drawer if the boss is dead against it. Good to know those preferences before you invest too much time in something that is **never** going to fly? “Never?” Could management be influenced?
- Resources available. If it takes a team of 20 to implement the “winning” strategy and you only have 1.7 FTEs, something has to give. Could you get more resource? Could the strategic option be made less resource intensive?

Organisational strategy. Check that what you are considering does indeed support the overall goals and priorities of your organisation.

Engaging stakeholders

Now you have something tangible to show your key stakeholders in terms of your DRAFT strategic options. But how will they react and how should they be managed? Stakeholders are not all equal – they are more or less powerful and more or less supportive of what you are trying to do. From your past interactions make your best guess as to where they fit in the stakeholder management model below. Don't spend a lot of time on this! It's just a first guess. Once you show them your strategic options you will get much more accurate insights into how they REALLY feel.



You are now ready to summarise your strategic options and key elements of the underlying analysis. Make it brief and punchy. Nobody has time for long PowerPoint presentations. At this stage the objective is to ensure your stakeholders understand – not to convince them! In fact, invite criticism. Hear their points of views with an open mind and without defensiveness.

Your stakeholders will be criticising, agreeing with, tearing down, improving, dismissing, embracing the DRAFT options you have put in front of them. That’s exactly the intention and will give you a lot of insights about:

- Any blind spots you may have
- Management preferences
- Where to accurately place them in the Stakeholder Management Model and how to subsequently manage them
- Better or hybrid options you had not considered

Hopefully one stakeholder will be powerful and supportive enough to sponsor your initiative and help remove any “roadblocks” ahead.

Choosing between strategic options

Now that you know what your stakeholders feel, you are ready to choose a strategy. So how do you compare and contrast? You *could* simply score the various options based on how well they meet organisational needs. But simply picking the one with the highest score could trip you up. Here is why.

Particularly if your organisation is large you will have many, sometimes conflicting, organisational/departmental needs. Conceivably, the highest scored option could still fail to meet one particular critical need if sub-scores relating to other organisational needs are high. So, you could end up with a strategy that looks good in the aggregate, but doesn’t work for one part of your organisation.

To avoid that situation simply reject any strategic option that does not at least meet ALL **critical** needs. Out of the options that passed that test you can then look at which one scored the highest.

Managing risks

But you are not quite done yet. Things can, and do, go wrong from time to time. So, you need to identify and manage the risks associated with the strategic option you want to select. What can you think of that could go wrong? What could happen which would make the strategy ineffective? Could it back-fire in any way? What risks did stakeholders flag when you spoke to them?

A simple risk assessment looks at these three core elements of risk:

1. **Probability** that the risk will become reality
2. **Impact** on your organisation if the event does happen
3. **Duration** of the impact, i.e. the time it likely takes before your organisation is restored to the state it was in before the event happened

Once you have identified risks and determined probability, impact and duration, you need to think about how to manage those risks. Something that is very unlikely to happen, and if it does happen has minimal impact anyway, may not be worth managing at all. You could simply decide to accept the risk or monitor it.

By contrast, a low probability risk with dire consequences if the event does occur, must be managed in some way. How is the risk best mitigated or transferred? Is a detailed contingency plan needed? A well-developed Risk Assessment gives credibility to your proposed strategy, as it shows stakeholders you have carefully considered the implications of the proposed change. Acceptance and adoption are, therefore, more likely.

One thing to remember about risks is that they are events that may, or may not, happen in the future. Current undesirable situations or future events you deem 100% certain to happen are not “risks”. They are “issues” that need to be dealt with.

Another thing to be aware of is that opportunities are often identified during a risk assessment exercise. That’s great! Capture them and simply plan for how to increase the probability, impact and duration of those opportunities.

The Business Focused Procurement approach, described in this article, is much more likely to build stakeholder trust and buy-in than the traditional savings focused procurement approach.

To learn more about strategic analysis and stakeholder management, [contact our Managing Director, Armand Brevig, today](#)

Develop Impactful Category Strategies the Easy Way!



These days most medium and large sized organisations have implemented the principles of Category Management, with varying degrees of success. Category Management is a process whereby external spend is categorised to align with supply markets. These categories are then managed similar to the way separate business areas would be managed. With appropriate category strategies, the idea is that the category management process will deliver more value to the business.

However, category strategies must not be seen in isolation. Too often strategy development lacks innovation, [creativity](#) and impact, with an over emphasis on traditional sourcing. Instead take a step back! Consider how the business, which Procurement supports, works. What are the competitive advantages? How can they be strengthened? How can they be destroyed? How can Procurement leverage supply markets to create more durable competitive advantages?

But Procurement teams are very busy, often operating in reactive mode. So, finding the time to take that all-important strategic view, do the necessary analysis and engage with stakeholders in a meaningful way can be challenging. Nevertheless, if Procurement wants a seat in the Board Room, the function needs to add more strategic value. It needs to be more than just a tender processing machine.

The good news is that developing impactful category strategies does not have to be complex, tedious and time consuming. There is a leaner way. Sure, go to any large management consultant company for advice and you will be bamboozled with hundreds of Power Point slides containing all and any imaginable analytical tool, check lists, frameworks and models. Once your staff has completed the extensive training they are paralysed, overwhelmed and frustrated. How can anyone possibly do all that and still do their day job?

A builder constructing a house does not use every single tool ever invented. Similarly, Procurement professionals need to apply critical thinking and develop their own lean, appropriate and targeted approach to developing category strategies. Here's how.

Trust what you know

Whether you have worked in Procurement for a short period or have decades of experience, you (and your colleagues) will know something about the supply market, your immediate stakeholders and the wider business you serve. Start there. Have a look at your spend data and use a few established analytical models to get you started thinking about key dynamics, challenges and opportunities.

Total Cost of Ownership analysis, for example, is a good way of visualising wider cost picture for key activities in your area. This often stimulates the generation of ideas for improvements or even radical redesign. Porter's 5 Forces prompts you to think about market dynamics, including power balances. There are, of course, many other relevant models. It is key to remember that none of them will "give you the answer", however they will prompt some important questions. They are essentially "thinking tools". If a thinking tool doesn't do it for you, pick another one. There are no formulas.

Leverage the knowledge of other people

Once you have done some initial analysis you can develop a high-level strategy view and socialise that with your key stakeholders. There are clear advantages of going to them with something concrete which you have put some thought into. One advantage is that they will be able to provide you with more insights and help fill any remaining knowledge gaps. Any feedback, criticism, even push-back, they may have will save you loads of time! The window has opened into their business reality and you are a lot wiser, even though you spent relatively little time organising your own thoughts and knowledge in preparation. A good Return on Investment!

To build a deeper understanding of the market you can use a similar approach with a few top suppliers in your category. By "similar approach" I mean, talk to them! What about those annual Supplier Relationship Meetings you said you would conduct? Consider having them now and take that as an opportunity to understand their business realities a bit better and pick their brains about the wider market.

Now, with that added insight you can go back and update the analysis you did previously to develop more precise category strategies. If you still have knowledge gaps you can target them specifically. There are a number of resources you can use, but the ones I have found the quickest and most effective are:

- **Annual Reports.** Most categories/supply markets have publicly traded suppliers. It's amazing how many information gems are hidden in their annual reports. Not just about the companies themselves, but about the wider market. You can, for example, learn about barriers to entry, intensity of competition, structure of the market, etc.
- **LinkedIn Groups.** There are a number of Procurement specific groups out there. Collectively they have millions of members. So why not simply ask someone who has been there and done that? However, don't just ask basic stuff. Show that you have done your homework so you can have a conversation at a higher level. If you approach it that way, most will be happy to help.

Have [fun developing strategies. After all, it's a creative process...](#)

To find out more about how you can create effective and engaging category strategies, [get in touch](#) with our Managing Director, [Armand Brevig](#), today.

Procurement Folks, “Think like business leaders! Create more value!”



Procurement functions are often accused of having their own agendas, and not properly understanding the business functions they are supposed to support. Every function in a company is in the business of creating business value, including Procurement. But what is “business value”?

To some extent it depends on what the stakeholders’ priorities are. Stakeholders are looking to Procurement to bring them the latest insights and approaches from the supply markets and suggest “business value” not yet considered. That requires an understanding of the internal business context and the challenges stakeholders are trying to address. This understanding enables constructive challenging of assumptions. Stakeholders may think they know. But developments and dynamics in supply markets can change fast.

Listen!

It’s key to listen to stakeholders with an open mind – without any Procurement agendas playing in the background. The mind-set of a consultant where you are exploring the issues and devising solutions jointly with stakeholders is very helpful. Think in terms of business solutions – not sourcing projects, at this stage.

Depending on the situation, creating more business value may, or may not, involve driving down costs. In fact, it could involve paying more! In some organisations sources of competitive advantage could come from leveraging innovation of suppliers better and quicker than competitors. However, in the Business Process Outsourcing (BPO) space, for example, a source of competitive advantage could come from being able to reduce switching costs or manage benefits sharing scheme to encourage cost reduction and process improvements.

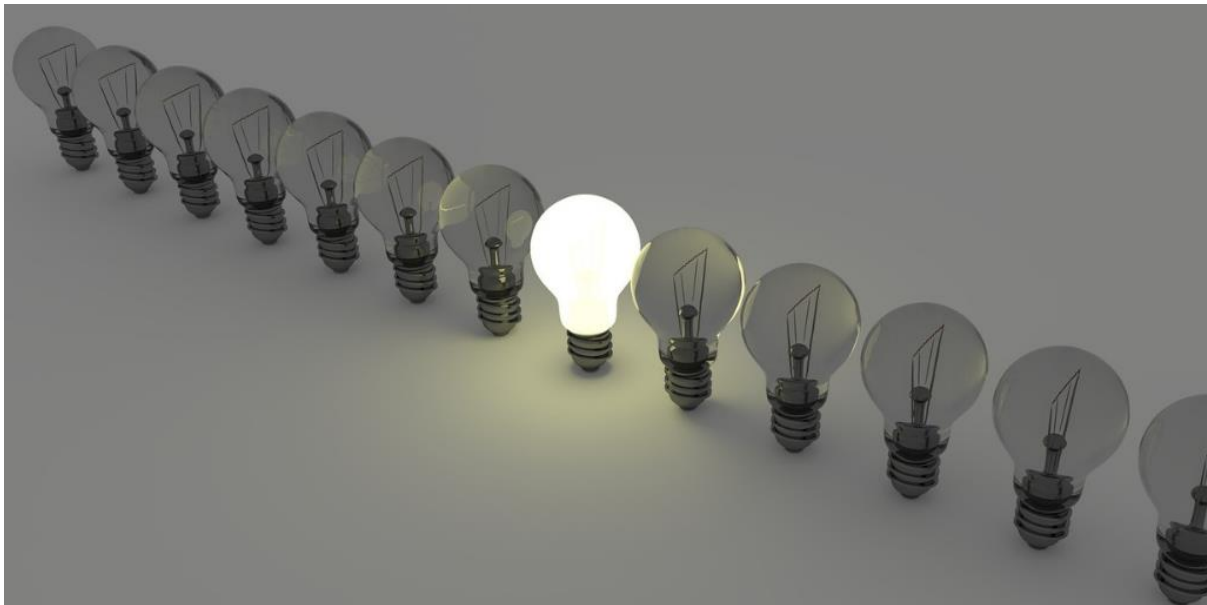
Understand internal and external environments

Invest some time in developing your own approach to getting clued up on supply markets and stakeholder challenges quickly. You cannot know everything, so a process that quickly provides you with the right level of insights is very valuable.

The key here is to use everyone else's knowledge as a first port of call. Find out what stakeholders and top suppliers know and understand. Build from there with additional targeted research if needed. This is not only a time efficient way of getting insights. It also strengthens relationships, and puts you in a better position to know what stakeholders are thinking.

Procurement professionals that think and act like business people are extremely valuable to their organisations.

The Procurement Principles that Set Us Apart



At Procurement Cube we like to think we're a bit different than other procurement consultancies. We're not just your run of the mill procurement company. We don't come in and slash your outgoings. Oh wait, that's what you want us to do?

Well, it's not as simple as that. In fact, an approach to procurement that only focuses on saving you money can be incredibly short-sighted and actually end up costing you more (we even [wrote a blog on it which you can read here](#))

And, that's what makes us stand out. Our work is based on a unique approach devised by Armand Brevig, our Managing Director.

Here he explains what it is:

"I've been working in procurement for 20 years now and during that time I've seen every approach and tactic there is. But, with each of them, I always felt that there was a better way. Yes, they had the ability to save the organisation money – if used properly that is – but they often meant that business goals were lost along the way or reimagined to fit around what procurement could achieve. These strategies may have reduced expenditure in some areas, but often they didn't help the company achieve true growth and development.

I can understand why procurement approaches such as these are so attractive. After all, money is an easier KPI to measure than hard-to-quantify business value.

But, it got me thinking and I asked myself:

- *What if we forgot about all our Procurement techniques for a second and asked more critical business questions?*
- *What if we became really clear about what you, as a company, were trying to achieve, rather than pursuing a procurement agenda?*

- *What if, instead of pushing key stakeholders down a path they are reluctant to walk, we explored a range of options with them regardless of whether we thought Procurement could help?*

My answers to these questions led me to developing three principles. I've not only followed them ever since, but they now form the core of Procurement Cube.

1. There is only one strategy

And, that is the corporate one. Everything needs to tie in with the business strategy. If different areas of the business are misaligned with that, or have competing agendas from each other, it is destined to fail.

Procurement's job is to leverage supply markets in support of that one strategy. The procurement approach should form an integral part of the wider organisation strategy and be a catalyst for developing supplier relationships that help the company succeed.

2. Don't lose sight of what you are trying to achieve

This principle involves looking further ahead than the first one. It's about reminding yourself of what you set out to create. What is your mission?

If you want to be the greenest company in your sector, are your suppliers going to enable that? If you want to create a working environment that will attract the top talent, have you got the right systems, HR services and recruitment services in place?

Moving away from your goals and ideals towards a cheaper or more convenient alternative not only destroys value, it can also be a hard position to justify moving back from.

3. Focus on value, not cost

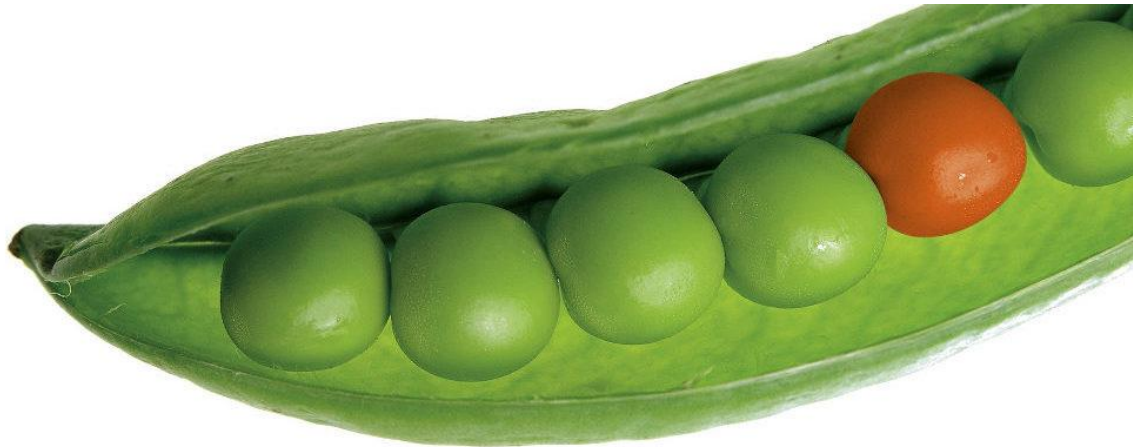
Every procurement decision you make should maximise genuine business value for your company.

This includes pursuing an optimal balance between total costs and value, which in turn may (or may not) include total cost reduction.

With the right procurement approach, stakeholders, employees, and your customers will benefit."

If you'd like to find out what would happen when these three principles are applied to the procurement function, why not [get in touch](#) with Armand.

What's Next?



Having read this guide, you are now in a good position to start developing and implementing effective and engaging procurement strategies.

You will also have discovered that in addition to substantial benefits, there are many challenges and risks associated with strategy development and implementation.

Procurement Cube has the expertise and passion to ensure you get it right the first time. Our approach is direct and business focused. [Business Focused Procurement is about more than cutting costs](#) – it's about creating business value and competitive advantages.

Procurement Cube has delivered business value to start-up companies, small companies, large international companies, and public-sector organisations. We have brought creativity, fresh thinking and new perspectives to client challenges.

So, [let's talk](#) to explore how we can partner to help you successfully transition to a sustainable digitised supply chain.

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