



# Procurement in Focus

How to unlock the power of  
strategic supplier partnerships

**STAPLES** Advantage



## Executive Summary

Driving costs out of the business may always be the number one priority for Procurement – but it is no longer the only priority. For years, Procurement was plagued with the reputation as a back office function, focused on processing order forms and grinding down suppliers for the cheapest possible price.

However, in recent years Procurement has shaken this off and earned its place as strategic, value-adding activity. So much so, in fact, that chief procurement officers (CPO) are becoming key players in the C-suite, adding value in places never before thought possible.

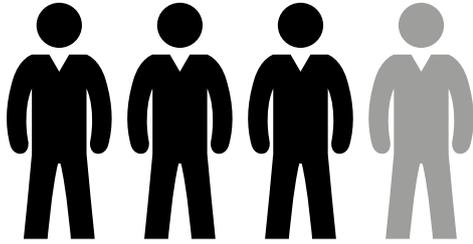
But while the door is open for procurement professionals to add value to the business, they cannot do it alone. The supplier relationship holds more power than ever. Procurement professionals need to look at how they can build strategic, dynamic relationships with suppliers – relationships that are based on much more than price alone. In doing so, Procurement will gain the key to innovation and, with that, a strong competitive advantage.

So what does a dynamic strategic supplier relationship look like? And how can procurement professionals unlock its power for their organisation?

In this paper, we explore what dynamic strategic supplier relationships look like, and show how procurement professionals can seize the opportunity to add ongoing value to their organisation.

# Introduction:

## Seeking the Holy Grail of procurement



3/4 PROCUREMENT PROFESSIONALS

SURVEYED SAID THEIR

↑ **TOP**  
**PRIORITY**



IS TO ENSURE THEIR  
FUNCTION IS SEEN AS A

**TRUSTED  
ADVISOR**

Rio Tinto singlehandedly sums up what many procurement professionals see as the “Holy Grail” of procurement. It addresses cost, value, efficiency and competitiveness – something many procurement practitioners would agree is a “daunting task”.

There’s no doubting that Procurement’s role has changed in organisations of all sizes. The function of Procurement is becoming much more than just the buying arm of the organisation. There is a growing realisation, especially by CEOs, that Procurement can add greater value to the organisation at large by focusing on the business’ overall goals, rather than simply trying to find the lowest possible cost for goods and services. As a result, the emphasis on price negotiation and cost savings is gradually extending to broader factors, such as profitability and driving revenue.

In recent research by The Hackett Group<sup>1</sup>, almost three-quarters of procurement professionals surveyed said their top priority for 2015 is to ensure their function is seen as a trusted advisor. Interestingly, the second highest priority is “reducing/avoiding purchase costs” (69%), followed by “enabling innovation” (57%).

This shift from cost cutting to trusted advisor is a small yet important step for Procurement. But vision is one thing; now, it comes down to how procurement professionals can look beyond cost alone and hone in on supplier relationships to help solve the biggest questions facing their organisation – namely, competitive differentiation.



“Agility. Value. Efficiency: Rio Tinto Procurement works with Rio Tinto businesses to get the right products to the right place at the right time and the right cost. To make this happen we need a secure, sustainable, internationally-competitive supply chain, and we want to be ever more agile and efficient.”



# Rethinking the cost factor

Ask any business leader what some of their top challenges are today, and “cost” surely features in their list. So, despite the ambitions of procurement professionals, the fact remains that the cost factor continues to hold prime position as a core focus. A study by ACA Research, commissioned by Staples Australia<sup>ii</sup>, revealed

**40%** OF PROCUREMENT MANAGERS VIEW COST CONTROL AND BUDGET CONSTRAINTS AS A **CRITICAL ISSUE**

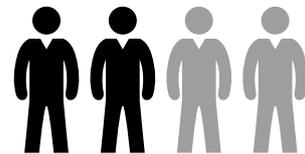
Only 23% ranked supplier-related issues as critical.

The reality is that whilst establishing good relationships with suppliers is important, delivering on the cost savings often takes priority. The same research revealed a staggering

**90%** OF PROCUREMENT PROFESSIONALS

ARE TIED TO KEEPING COSTS BELOW

**SPECIFIC TARGETS** 



OF THESE, ALMOST HALF OF RESPONDENTS CONSIDER COST TO BE THEIR

**MOST IMPORTANT KPI**

rating it more highly than achieving valuable strategic partnerships with suppliers.

Procurement will inevitably always have the number one responsibility for saving costs but, as Henrik Larsen, VP of Procurement for Maersk, remarked in the Vision 2020 report:

“*I am hopeful we will see a shift to supply managers being more accountable for costs as they relate to sales or revenue.*”<sup>iii</sup>

Procurement professionals also consider themselves to be the key facilitators of greater efficiency within their organisation, and most have efficiency KPIs to meet.

So how is efficiency achieved? For the majority of respondents in the Staples research, it comes down to ‘automating the back end’ and ‘reducing number of vendor relationships’. More focus is also being placed on leveraging systems and technologies to drive greater value and efficiencies from suppliers.

Today's procurement professionals already seek to improve value for money in a number of ways, including:

- Reducing cost per unit
- Total cost of ownership
- Product substitution
- Basket rationalisation
- Cost avoidance
- Market competitive costs

# Unlocking the value of supplier relationships

While cost remains a major factor for Procurement, one question looms large: How can procurement practitioners unlock more value from supplier relationships and contribute to wider business goals?

Here, we explore three doors that procurement professionals can unlock using strategic supplier relationships.

## 1. Innovation

Innovation is a big deal for procurement professionals;

86% SAY THEY WANT SUPPLIERS TO PROVIDE INNOVATIVE SOLUTIONS<sup>vi</sup>

As you'd expect, the push for innovation comes from the senior management or executive team.

### So what does innovation mean?

When you say "innovation", most people automatically think about technology. And this is one area where procurement professionals want to see greater innovation. Self-service ordering tools are now expected as standard, and aren't enough alone to differentiate suppliers. Rather, suppliers need to take a more advanced look at technology – for example, by using the customer's purchasing data to optimise the relationship and be proactive in influencing purchasing behaviour.

“The changes in technology are driving change and forcing us to be more flexible and dynamic.”

Procurement professional

However, as well as technology, the research by Staples found that when procurement professionals talk about innovation, what they are really referring to is a proactive and engaged partner. Increasingly, organisations simply don't have the resources to innovate effectively: less than 25% have adequate resources to undertake all their planned projects<sup>v</sup>. So, it's about getting suppliers involved in those areas where you may see potential, but don't have all the answers internally. In PwC's 14th Annual Global CEO Survey, 39% of CEOs said they

expect the majority of innovations to be co-developed<sup>vi</sup>. It makes sense to collaborate with suppliers to drive innovation. And this is where you make the big leap from working with "suppliers" to having "partners".



39% OF CEOs EXPECT THE MAJORITY OF INNOVATIONS TO BE CO-DEVELOPED

“Our business is constantly evolving. Part of the reason why our business is implementing transformation programs is so that it is better placed to break the mould and find new ways of operating.”

Procurement professional

The challenge for suppliers is to understand what procurement professionals are actually looking for in terms of innovation. Procter & Gamble has made it easy for its suppliers. Using a supplier portal, the company shares its business challenges and weakness areas

and asks its supplier base for help. The company is then able to build strong working partnerships with its suppliers, while getting the answers it needs to drive the business forward.

However, Procter & Gamble is the exception and not the rule. For everyone else, the best way to drive innovation is to work as partners, allowing the supplier to understand the challenges, and proactively generate insights and solutions. In the words of one procurement professional surveyed by Staples Australia:

“The push for innovation needs to go beyond ticking a box on a quarterly KPI. Providing solutions that are fit-for-purpose and that can actually be implemented leads to real improvements.”

“The value proposition will be much more about speed-to-market, exclusivity, innovation and gainsharing in supplier relationships than about harvesting 3-5% savings from contracts coming up for renewal.”

Debbie Manos-McHenry,  
Chief Sourcing Officer at Huntington  
National Bank – Vision 2020 report

### SPOTLIGHT ON INNOVATION

When Staples Australia heard its long-time customer, Spotless, discussing its challenge of collecting stock from closed sites, they started to proactively look for the answer. Staples customised an innovative reverse logistics solution that leveraged its extensive supply chain distribution network. By using Staples vans on existing routes, the supplier is now organising the collection of old stock, and bringing this back to fulfilment centres for redistribution to other Spotless sites where required.

## 2. Flexibility

The majority of today's businesses are competitive and fast-paced. And if they aren't, they certainly need to be in order to survive and grow. Therefore, in their quest to add real value to the business, procurement professionals need to seek out suppliers who understand this dynamic, and are agile and flexible enough to respond to ever-changing business conditions.

To achieve this, the supplier needs to take the right steps to understand the culture of the customer. Suppliers need to know what's important in their world – business challenges, competitor landscape, external environmental factors, consumer expectations, and more.

There needs to be a willingness of the supplier to go on the journey with the customer, and be ready when the customer's business changes. This goes some way to explain the shift towards solution-type supplier relationships, rather than simply product-based ones. Procurement professionals can benefit by working with suppliers who can help with a whole solution, end to end, rather than simply one product at a time. This not only makes the procurement process more streamlined and efficient, but also means the supplier can identify other areas where it can add value. For example, a company looking to refit its office would benefit from a supplier that can look after the whole process, from the space planning capabilities to specifying and sourcing the right products and project managing the office fit-out.

### FOCUS ON FLEXIBILITY

Leading law firm, Slater & Gordon, approached commercial interiors specialists, Business Interiors by Staples, to provide a full-scale fit-out for their Coffs Harbour location, complete with quality commercial furniture. The firm had an existing purchasing relationship with parent company, Staples, and regularly made transactional furniture purchases across their network of 70 locations.

Business Interiors by Staples worked closely with Slater and Gordon's Property Team to source and supply furniture including desking, storage and seating to fit out a variety of different spaces. Many of the pieces were custom-manufactured to meet the required colours and sizes.

Business Interiors by Staples coordinated the installation of all furniture in a tight timeframe, and when the fit-out was put on hold due to construction delays, they were even able to arrange storage for items that had already arrived.

The flexibility of a vendor who is able to supply everything from a ballpoint pen to a full interior fit-out certainly made procuring goods and services easier in the case of Slater & Gordon.

### DEFINITION:

Sustainable procurement is a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation but also to society and the economy, while minimising damage to the environment.

(UK Sustainable Procurement Task Force 2006)

## 3. Sustainability & Social Responsibility

Almost two-thirds (64%) of procurement professionals surveyed by Staples strongly agreed that sustainability and social responsibility are increasingly important when selecting suppliers. And it's no surprise when we consider that the majority of large organisations have sustainability targets among their core business objectives. For many companies, this goes beyond the 'feel good' factor to directly impact the bottom line.

The University of Tasmania explains the importance of sustainable procurement on its website, saying:

“Sustainable products represent value for money in real dollar terms when life cycle costs are considered, such as:

- Using less energy and water (running costs)
- Generating less waste during operation (disposal costs)
- Being longer lasting and requiring less maintenance (maintenance and replacement costs)
- Having capacity to upgrade, reuse, resell or recycle at end of life (replacement and disposal costs)
- Being safer to use, e.g. fewer toxic chemicals (WHS costs and productivity).”<sup>vii</sup>

The selection of suppliers therefore becomes critical, and tender processes may request the supplier to provide:

- Sustainability policy and mission statement
- Description of company sustainability initiatives and outcomes
- List of sustainability-related awards received
- Disclosure of environmental violations and fines
- Information about other initiatives that support the customer's sustainability goals.

“Apple requires each of its suppliers to meet the highest standards for all goods and services. Our requirements include a commitment to rigorous quality assurance. In addition, suppliers must be committed, as we are, to ensuring the highest standards of social responsibility.”

Apple Procurement Website



“The differentiating power of procurement is no longer in hammering down prices only. What’s needed is a different attitude to external partnering—understanding the market environment, your vendors, their strategies, and what makes them tick. Vendors need a greater understanding of our objectives and to be closer to our functional discussions, too. We can’t work in a new world based on old-world assumptions.”

Eva Wimmers,  
Senior Vice President DT  
Procurement,  
Deutsche Telekom AG <sup>viii</sup>

## Partnerships are a two-way street

Procurement professionals place great value on the willingness of suppliers to be partners, and really get to know their business. This understanding means they can pre-empt problems and identify innovative solutions.

However, partnerships are two-way, so what do suppliers need from customers in order to deliver a truly valuable partnership? Some requirements include:

- An understanding of the value of partnership – it is not just about cost
- Access to data that may help to identify challenges and solutions
- Access to the right people in the business
- Empowerment to talk to all areas of the business to achieve real steps forward
- Willingness of the customer to accept some level of risk.

# Conclusion:

The procurement function – as you know it  
– will no longer exist in 2020<sup>ix</sup>

Procurement plays a key role in business success, and this is increasingly being recognised by business leaders. Rio Tinto's chief executive, Sam Walsh, recently highlighted this when he said:

“ You are probably representing 60 to 70 per cent of your company's costs. Procurement is an incredibly important part of the business. You need to get that right... It's all about delivering value. I'm talking about serious value, making game-changing decisions. Sticking your neck out, understanding your business, understanding what's going to make a difference.”<sup>x</sup>

If the function is to prove itself in the C-suite, procurement professionals need to recognise the power of the supplier relationship in adding value to the organisation. They need to engage suppliers that will help drive their business forward, both in the way they do business as well as offering innovative tools that make the process of procurement more efficient.

But the real value comes from the way procurement professionals work with suppliers. So long as cost remains the number one focus, the true value of suppliers will remain locked away out of reach. Only those procurement practitioners who view suppliers as strategic partners will achieve the all-important innovation, efficiencies and sustainable goals.

To find out more about how Staples can partner with your organisation to add ongoing value, speak to your representative or call  
13 26 44 (Australia) or  
0800 800 547 (New Zealand).

## About Staples:

Staples Australia and Staples New Zealand make more happen for everyone from the home office right up to the Fortune 1000, including local, state and federal government, healthcare organisations and educational institutions. The Staples single source solution includes comprehensive products and services from office supplies, technology and printing to promotional products, business furniture, safety and facility supplies. Dedicated to providing organisations with greater cost savings and improved ordering efficiencies, Staples has been helping businesses succeed since 1986. Headquartered outside of Boston, Staples operates throughout 25 countries and employs more than 75,000 associates.

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- i The Hackett Group, 2015
  - ii Procurement Professional Research, Staples and ACA Research, October 2013
  - iii Vision 2020 report, The Future of Procurement
  - iv Procurement Professional Research, Staples and ACA Research, October 2013
  - v <http://www.supplymanagement.com/blog/2015/03/five-things-fmcg-companies-want-from-a-strategic-supplier-relationship#sthash.aIL4I5eq.dpuf>
  - vi PwC, 14th Annual Global CEO Survey
  - vii <http://www.utas.edu.au/commercial-services-development/sustainability/procurement>
  - viii <http://www.pwc.com/us/en/view/issue-16/strategic-procurement.jhtml>
  - ix Vision 2020 report, The Future of Procurement
  - x <http://www.bvdinfo.com/industrynews/procurement-and-risk-management/procurement-is-incredibly-important-/801779680#sthash.zT2Pbcsp.dpuf>

More information about Staples is available at:  
[staplesadvantage.com.au](http://staplesadvantage.com.au) or  
[staplesadvantage.co.nz](http://staplesadvantage.co.nz).

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