

Spend Matters™ UK/Europe

By PETER SMITH

If it ain't broke, fix it!

Develop, grow or die

There's a big temptation when things are going well to just keep going, to accept the status quo. It can seem like nothing can possibly go wrong. All through history we've seen examples of people, companies, even whole civilisations who have thought 'everything's fine as we are, we don't need to change'. But if you're not changing or growing, you're declining – or dying

We have a period of learning and investment (in human terms, our early childhood), then a period of growth that inevitably one day slows and then turns into decline.

The variables are how long each phase lasts – in organisational terms, some grow pretty much from day 1, and other organisations have shown that you can go for a very long time before decline sets in. But this appears to be the basic principle of both living organisms and the vast majority of business organisations.

If you look at any list of the largest firms in the world from 100, 50 or even twenty years ago, what is striking is how many are not around now – or are a shadow of their former selves. In my business career I've seen governments worrying about the power of IBM, then Microsoft. That seems crazy now as those firms, although still doing fine, have lost the dominance they once had. Now it's Google or Apple who are 'getting too strong for the public good'. But in another 20 years? Who knows.

In some industries, there's more longevity; interestingly, consumer goods seems to have a lifespan greater than anything in the business to business world. Mars, Unilever or Nestle look like they'll be good into their second centuries. But when I was growing up, some of the iconic names of British business and on the high street were ICI, Woolworths, Midland Bank, Dewhursts and British Leyland. Remember them....?

However, while the cycle is pretty unavoidable for living creatures, there are ways in which businesses can at least extend it and perhaps even cheat it forever.

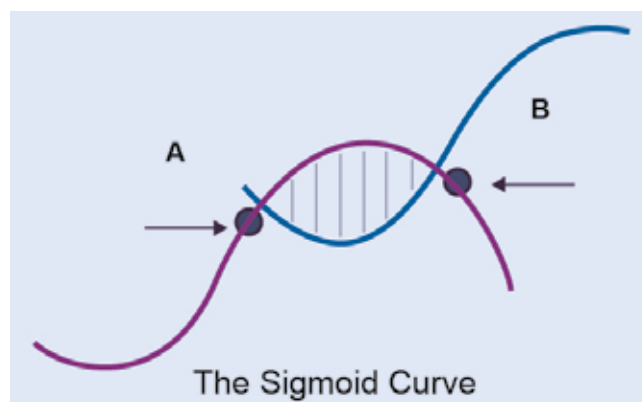
Beating the cycle

Charles Handy, the academic, philosopher and business writer has written about this lifecycle phenomenon as it applies to organisations in a number of books and articles.

While the cycle, and that curve of growth then decline, are pretty unavoidable for living creatures, there are ways in which businesses can at least extend life and success and perhaps even cheat decline forever.

Here is Handy:

The only way to prolong the life of the body in question, be it an organization or even a career, is to start a second curve. But to allow time and resources for the initial period of learning and investment, that second curve has to start before the first one peaks.¹



Charles Handy: The Empty Raincoat (1995)

Handy talks about this Sigmoid Curve, shown in the chart above. Point A represents the time at which we need to start developing a 'new' curve (product, idea, career, whatever) before the first curve goes into decline. Then, by the time we get to point B, the new curve (product, idea, career) is growing, which compensates for the decline in the first.

So before we enter into the declining phase, we have to kick off with the new thinking, the new idea. But that is difficult – in most organisations, when everything is going well, it is difficult to focus attention on doing things differently or starting new ventures. Here's Handy again.

As Handy explains:

"We know how to do it now," people feel, so "don't rock the boat or change the formula."

But why can't we wait until it is clear the first curve is on the decline and then start building anew? Because by that stage, morale is low, resources may be going into shoring up the sinking business, and leaders may have lost the confidence of staff, investors or customers. So organisations have to find ways to start the new curves before it is too late.

Procurement people – this means you!

So everything changes, and we have to fight decline by regularly re-inventing ourselves and our organisations. What does this all mean for procurement people though? Just that complacency and arrogance are the absolute enemies of excellence in functions as they are for individuals or entire organisations, and if you're not improving, developing, you're probably dying.

If you believe that your function doesn't need to change and adapt: if you believe that everything is just fine: then that's probably a good indicator that problems are just round the corner. And remember Handy's insight – it's much easier to change and develop from a position of strength rather than waiting for the crisis to hit!

The best people I've worked for, with, or managed, have always had an element of dissatisfaction. They were capable of acknowledging and celebrating success, but they always wanted to do things even better, they

Spend Matters™ UK/Europe

If it ain't broke, fix it!

wanted to try new ideas. That doesn't mean you have to be foolishly risk taking – one of the reasons I've always been glad I chose procurement is that we (unlike many marketers, for instance) tend to have a healthy scepticism and therefore a sensible attitude to risk.

But we can't let that spill over into the 'everything's fine just as it is' mentality.

So how does the procurement profession look at the moment in terms of this issue? It's a mixed picture, as you might expect, but I see a lot of people who aren't pushing the boundaries as hard as they might. And given the economic outlook, it seems more important than ever to be doing just that. There's huge potential for procurement to contribute in a way that will be appreciated at the very top levels of organisations. But equally there are real dangers if procurement does not step up to the mark – not just in terms of value, but when we look at areas such as supply chain risk, issues that can threaten the very existence of the organisation.

However, if you're reading this, you are probably not in that category anyway. You are intellectually curious enough to read a 2,500 word paper, and given the Trade Extensions connection, you've probably embraced, or at least have shown an interest in, some of the most advanced procurement and supply chain technology in the world.

So how can you make sure that your career, your procurement function or your organisation doesn't end up on that downward part of the curve? There is no magic answer to this, but the most important message for senior procurement people is to be open minded. Challenge yourself and current practice. Develop your awareness of external information and events; some great ideas come from inside your organisation, but many don't. And above all, NEVER get complacent.

Garry Mansell, the Chief Executive Office of Trade Extensions and I were discussing this topic recently. We both spent time early in our careers with the Mars Group, an organisation that has always embraced this philosophy. There was a clear expectation when you moved into a new role at Mars, that you would look to do it better than your predecessor – and that probably meant doing it differently as well. Perhaps because of that history, the phrase Garry used was this - 'if it ain't broke...FIX IT!' We like that.

Fixing it – procurement making a mark

So let's take a headline look at just four examples of where we see untapped opportunities for procurement people in many organisations to do just that.

Market informed sourcing – I still meet CPOs from major organisations that have never run an electronic auction or an end to end e-Sourcing process – let alone considered optimisation and advanced sourcing processes (market informed sourcing as we term it). If you are in that category – give it a go.

And my perception is that the profession generally has not quite woken up to the significance of how these platforms and processes signal a fundamental change to

some of the well-established paradigms of procurement, particularly category management. We started exploring this in our [White Paper for Trade Extensions – available here](#).² (If you haven't read it, please consider spending 20 minutes doing so).

Our hypothesis is that this technology enables us to approach the market in a very different manner to how we traditionally do so through category management processes. Instead of carrying out large amounts of analysis to (in effect) second guess the market, and the fundamental economics that lie behind it, we can ask the market how it would like to structure the supply we need. Given that it is the suppliers who understand those economics, that will lead to a more economically advantageous solution than we'll ever get by simply sitting in our proverbial darkened room developing complex 'category strategies'.

Purchase to pay processes – I know, I saw you yawning. But many organisations are still running with old systems, where a procurement module is an outdated add-on to an ERP system, and is clunky and user unfriendly. And what happens then? Almost inevitably, poor compliance to the supposed standard processes, and Issues of compliance, poor spend visibility and a lack of useful, actionable spend data.

This is another area where technology has moved on quickly, Compared to what was available even a few years back, the best solutions now in this area are an order of magnitude better in terms of speed and cost to implement, flexibility and configurability, and user friendliness.

If you haven't looked in the last couple of years at what is available, it is well worth doing so.

Supplier and supply chain risk management – while this whole area has generally had more focus in recent times, highlighted by disasters (man-made and natural) such as the Japanese tsunami and the Deep Horizon, both of which raised many questions about supply-chain risk, many organisations continue with processes that certainly need fixing – if they exist at all.

Our experience is that most organisations and procurement functions are working at a level that can most kindly be described as 'basic', with only limited analysis or understanding of the varied types of supply chain risk, let alone real mitigation and management strategies or plans to handle their risk profile.

Yet this is an issue that can bring procurement right onto the main Board agenda, and demonstrate a strategic value to the function way beyond the tactical cost savings imperatives.

Staff capability and development – we perceive that the approach to developing capability in procurement people and teams hasn't changed for many years in too many organisations. Encouraging people to become CIPS qualified, then the occasional random negotiating or contract law course is the 'strategy'. Whereas the best organisations are investing in measuring and understanding current staff capability and skills, tailored development plans, and radical approaches

Spend Matters UK/Europe

If it ain't broke, fix it!

to recruitment and training to make sure their teams have a world beating blend of technical and behavioural skills. And actually, this doesn't have to cost a fortune; but it may require some fighting against the internal organisational norms - 'that's not how we do things round here'.

So if I want to break stuff....?

So even if things look pretty good, even if you're hitting your targets and delivering your goals, think about what more can be done? What can we do differently and better? How do we embrace change to make sure we stay at the front of the pack? They're the key questions to ask.

That's all very well, some people say. But I'm far too busy to do all this radical stuff. And where do I get the wonderful ideas I need to inspire me to break things and replace them with something better?

There are two issues here. Firstly, the time needed both to come up with ideas and plans, and then to implement. One common problem is in understanding the difference between urgent and important. This type of longer term thinking is as 'important' as anything on the executive 'to do' list, but it so often gets squeezed out of our heads and our agendas by the 'urgent' but in truth less important.

Different people have different approaches. Some find time to think during leisure hours – with inspiration hitting in the gym, the garden or on the beach. Others find that scheduling thinking time during working hours is effective – but you need to find a way of avoiding constant interruption. But you must somehow make space for thinking and for new ideas.

Making sure you are exposed to people who look at matters differently is another tip to help shake thinking out of the traditional ruts and grooves. Building those meetings into the diary can be a way of ensuring that some of your time will be occupied with non routine matters. It also is a good way of addressing the second issue – where do I find the right ideas?

One route is to seek out mavericks, people both from inside and outside the organisation. The slightly odd category manager who doesn't quite fit the mould but occasionally comes up with a left-field but brilliant idea, that supplier who wants to talk about the apparently stupid way of delivering the service, the academic who can stand up at a conference and argue against every accepted tenet of procurement thinking... they are people to cultivate.

And there are more conventional processes that can still help. I've never been a fan of benchmarking procurement functions in terms of hard metrics. Every survey I see comes up with statistics such as 'spend per procurement manager'. But what is the 'right' answer to that measure? Is \$10 million good or bad? Would \$50 million be better? But does that mean my staff are incredibly efficient – or are we just severely under-resourced? And every business is different, and therefore, as Professor Andrew Cox would argue, needs appropriate solutions, structures and processes – appropriate to their specific situation.

But there is another sort of benchmarking that is useful. That is the exchange of knowledge and ideas with peers in different organisations, the swapping of ideas and experiences. That is one very good way of opening up our minds to the possibility of change, and the options to 'break' what we are doing and start again.

And one big positive is that there has never been more 'intellectual property' available to the procurement professional as there is today. Learned articles, surveys of procurement practitioners, blogs and on-line magazines, sales material masquerading as thought leadership, or indeed vice versa... it gets produced and disseminated at an amazing rate.

The Internet and social media have led to the situation where we could literally spend all day, every day finding and reading material about procurement and supply chain matters. Indeed, there is a temptation to ignore it all, because of a fear of being swamped completely. But there is gold amongst the dross and the task is to find the material that can actually spark new ideas and thinking. There is no magic solution to this, but a judicious choice of websites and Twitter feeds can be very productive.

If you need more encouragement...

One last point. There are few senior executives in any field of endeavor, including procurement, who have made their names by sticking with the status quo. The people who are successful are people who change things – not in a thoughtless or ill-considered manner, but people who are not afraid to say, 'I think we can do this better'. So take a look around your area of responsibility and ask that question. And that applies whatever the current status of that activity, process or approach. We wish you 'successful breaking'...

References:

1. Charles Handy; 'Elephants and Fleas: Is Your Organization Prepared for Change'?
From [Leader To Leader, No.24, Spring 2002](http://www.leadertoleader.org/knowledgecenter/journal.aspx?ArticleID=119) <http://www.leadertoleader.org/knowledgecenter/journal.aspx?ArticleID=119>

2. 'Sourcing Optimisation – Extracting Value from Complexity', Peter Smith 2011 – A Spend Matters White Paper for Trade Extensions
http://www.spendmatters.com/library/research_detail.cfm?asset_id=28&slID=spendmattersUK

Further information on this topic and others can be found at the website www.spendmatters.co.uk, or we can be contacted at psmith@spendmatters.com.

Reproduction of this publication in any form without prior written permission is forbidden.

For more information on Trade Extensions visit its website www.tradeextensions.com, or contact the company directly: info@tradeextensions.com

Corporate Headquarters, Uppsala, Sweden: +46 (0)18 13 66 00
U.S. Headquarters, Houston, TX: +1 (713)444 4552
Europe Headquarters, Swaffham, UK: +44 (0)1760 720746