Developing Competence in Procurement & Supply: The Two Options of Tactical Spend Management & Strategic Value Flow Management

Organisations have to choose from two competing options when developing professional competence.

In this White Paper the Institute’s thinking about how to develop Procurement and Supply Management competence is explained. Our view is that organisations have to choose from two competing approaches, Tactical Spend Management and Strategic Value Flow Management, when developing professional competence. In our experience most individuals and organisations adopt a ‘tactical cost-down’ approach to competence development.

The profession of ‘Procurement and Supply Management’ has faced a serious problem since its inception. This problem relates to two inter-related issues:

1. What is professional competence?
2. How should this competence be developed and recognised?

There is, unfortunately, no professionally agreed answer to these issues. This is because academic institutions (awarding degrees) and professional Institute’s (awarding professional memberships) have very different views about what are the answers to these two questions.

Our view, presented briefly in this White Paper, is that currently there are two broad choices about what constitutes professional competence and ‘best practice’, and that the decision that is taken about this choice will over-determine how one goes about the development of Procurement and Supply Management competence.

In our view, most of the profession is currently stuck in a sub-optimal tactical and transactional view of competence development.

1. What is Professional Competence?
To answer this first question about professional competence it is necessary to define what is meant by ‘Procurement and Supply Management’. This is not an easy task as it may at first seem. This is because there is no consensus amongst academics or managers about what they mean when these concepts are used.

Interestingly enough, when Peter Kraljic first developed a segmentation methodology to guide professional practice in 1983, he called on the profession to move from ‘Purchasing’ to become ‘Supply Management’. By this he meant that managers must move away from annual tactical and transactional activities to embrace the development of comprehensive strategies to manage supply.

Although Kraljic had little to say about the development of professional competence per se, his distinction was interesting. He was clearly calling for an end-to-end understanding of the supply management problem. Despite this, when developing competence today, most Institutes have not followed his recommendation, and have not replaced ‘Purchasing’ or ‘Procurement’ with ‘Supply Management’. On the contrary, most Institutes (our own included) normally cover competence development using both concepts.

While we cannot do justice to the extensive debate that one could have about the differences between these two concepts, below we briefly explain what we at IIAPS mean by these them. Following that we discuss how competence in these two areas is currently developed.

In the Figure below an 8-Step strategic sourcing process is shown. This is the standard 8-Step process that IIAPS uses when training individuals in world-class category management and strategic sourcing.
As the figure reveals the first six steps in the process cover ‘Procurement’ or ‘Purchasing’. This is the pre-contractual phase of the category management and strategic sourcing process. It covers:

- Step 1: Category Segmentation & Team Selection
- Step 2: Identification of Business Needs
- Step 3: Supply Market Analysis
- Step 4: Sourcing Strategy Selection
- Step 5: Market Test
- Step 6: Negotiation & Contract Award

Following the award of contract the ‘Procurement’ or ‘Purchasing’ phase is completed and the post-contractual phase of ‘Supply’ or ‘Supply Management’ occurs. In this phase the following activities and tasks must be completed:

- Step 7: Contract & Supplier Performance Management
- Step 8: Strategy Iteration Through Shared Learning & Knowledge Management

This is we believe the most rigorous and robust approach to managing the pre- and post-contractual phases through which any category of supply must pass (and whether it is a Direct/Production or Indirect/Non-Production item) for any type of organisation. If this is the process through which all categories of supply must pass what then is competence in managing within it?

In our view there is a significant problem with competence development because there is always a ‘level of analysis’ problem for all organisations when they manage any supply category. This is because all organisations are time and resource constrained and, as a result, they cannot devote the same level of effort to all categories of supply. Understanding this dilemma, and then knowing what is the appropriate ‘level of analysis’ for managing a particular category of supply is, therefore, a major competence requirement. In our experience few managers possess this competence because virtually no one (apart from IIAPS) trains individuals in this competence.

More importantly perhaps, is the issue of how to manage effectively within the full 8-Step process, assuming that an individual has to undertake all of the activities and tasks that can be undertaken within it. To deal with this need, many consultancies and IIAPS offer to develop and train, and many organisations have developed on their own, multi-Step category management and strategic sourcing processes. The problem with this approach, however, is that many consulting and in-house processes and training programmes are sub-optimal when measured against world-class best practice (see IIAPS White Paper: Beyond Kraljic).

How can IIAPS be certain about this? The reason is because our research shows (see Figure) that there are over 100 activities and tasks that could be utilised within a full sourcing process for the most strategically important categories of supply. Furthermore, in our experience, few consultancies or organisations cover all of these activities and tasks in their in-house processes.

The problem for those wishing to develop competence is, therefore, as follows:

“If you do not know what you don’t know, how can you be certain that what you are doing is correct, when developing competence?”
In our experience, when it comes to understanding what is world-class best practice in this area, most individuals do not know what they don’t know. As a result, many organisations are building sub-optimal processes and then training their staff in sub-optimal ways of working. This is particularly true when one considers the concepts and ideas that currently drive most practical training.

Although few organisations have a ‘best practice’ end-to-end category management and strategic sourcing process, most of them do use the Kraljic approach to category segmentation, known as Purchasing Portfolio Analysis (PPA) to manage within it. This is shown in the Figure below.

It is, perhaps, not too much on an exaggeration to say that this way of segmenting categories and then developing appropriate sourcing strategies has been the dominant way of thinking and training across the ‘Procurement and Supply Management’ profession (consultancies, Institutes and organisations) for the last 30 years. And yet, in our view, this thinking is based on a lack of logical coherence and leads to the adoption of inappropriate sourcing strategies that are not fit for purpose. In practice this failure of coherence leads managers to ‘cherry-pick’ (i.e. ignore the Kraljic recommendations altogether and choose strategies from any of the quadrants in his matrix).

We do not have space to discuss these issues at length here, but the reasons for this lack of analytical rigour and robustness is explained in great detail in Andrew Cox, Sourcing Portfolio Analysis (Earlsgate Press, 2104). In this volume not only are the logical weaknesses in the Kraljic methodology revealed, but also the weaknesses in Porter’s Five Forces, and the recently developed Purchasing Chessboard. Despite this, all of these methodologies are currently taught as leading thinking within the profession. But, if they are all subject to logical incoherence, how can they be the basis for the development of a competent profession?

There is, however, a much more difficult problem than this dilemma and this relates to the baleful influence on the profession of tactical, cost-down’ thinking. This is discussed in the following section.

2. How Is Competence Currently Developed & Recognised?

Within the Procurement and Supply Management profession there are two broad schools of competence development that are currently being offered to individuals and organisations. These are briefly described below in relation to three issues:

1. What is meant by category management and strategic sourcing as a process and methodology?
2. Who should be involved in the process?
3. How does an individual or organisation develop and then demonstrate competence?

Tactical Spend Management

In this school the following approach is taken to competence development:

1. What is meant by category management and strategic sourcing as a process and methodology?
   In this approach category management and strategic sourcing is normally seen as a ‘project’ rather than a continuous process. The process normally involves segmenting categories by the size of spend (i.e. Spend Cube analysis) and then the creation of ‘category project teams’ to deliver cost savings. The process is very much about Procurement (pre-contractual phases) rather than pre- and post-contractual phases. This is because the goal is cost-down savings only in categories of spend. The methodologies used tend to be the traditional Kraljic, Porter and Chessboard ways of thinking.

2. Who should be involved in the process?
   Since this is really a project rather than a process, only lip service is normally given to the need for cross-functionality. In practice these are Procurement-led projects that are trying to win cross-functional support for Procurement Function KPIs based on cost-down savings targets. In practice this means the Function is trying to drive cost savings in the organisation using traditional cost leverage strategies. Stakeholder engagement is about winning support for Procurement cost-down KPIs.
3. How does an individual or organisation develop and then demonstrate competence

Most competence development involves a mixture of on-the-job training around a category management and strategic sourcing process or project methodology, and/or professional certification with one of the major awarding Institutes in Europe or USA & Canada. Increasingly there are managers who have had prior training on University degree courses at undergraduate and/or post-graduate levels, although most, if not all, of the training is given to Procurement managers within the Function and without any cross-functional participation.

At best, the attainment of competence is demonstrated by the passing of examined courses at Universities or by Institutes providing examined certification, but mostly by achieving cost savings on specific category of spend projects. At worst, there is no test of attainment for managers other than attendance at a training course (maybe for 1-3 days) without any post-course assessment of competencies attained.

Strategic Value Flow Management

In this school the following approach is taken to competence development:

1. **What is meant by category management and strategic sourcing as a process and methodology?**
   In this approach category management and strategic sourcing is a continuous 8-Step end-to-end process covering all of the pre- and post-contractual phases, and never a project. The process is always managed cross-functionally within the business and, depending on the criticality of the category of supply being managed to the strategy of the organisation, Procurement may, or may not, have the leading role. The KPIs for all categories of supply are value for money outcomes rather than cost-down targets. The methodologies used focus on Criticality Analysis, Power Positioning and Value Flow Management ways of thinking.

2. **Who should be involved in the process?**
   Since this is a continuous process driving value for money KPIs in all categories of supply, rather than a cost-down project, the pre- and post-contractual phases must be managed cross-functionally. In practice, since categories of supply are more or less critical for an organisation, there will always need to be different ‘levels of analysis’ for managing particular types of categories. In some categories Procurement may take the lead, in others they may jointly lead, but in more strategic categories they may play only a very junior, supportive role. In all categories of supply engagement of stakeholders is always cross-functional, and all managers involved post-contractually must also be involved in the pre-contractual phases of sourcing strategy development.

3. **How does an individual or organisation develop and then demonstrate competence**
   Partial competence development can occur through a mixture of traditional on-the-job Procurement training, and/or professional certification with one of the major awarding Institutes in Europe or the USA & Canada (as above). As there are also managers who have had prior training on University degree courses at undergraduate and/or post-graduate levels, any training they may have had in lean/ agile ways of working will provide valuable pre-training in this respect.

Despite this, given the historic attachment of most Procurement managers to traditional ways of thinking associated with cost-down targets and Kraljic, Porter and the Purchasing Chessboard ways of thinking, a considerable amount of re-training is normally necessary in the principles of value for money, Criticality Analysis, Power Positioning and Value Flow Management. It goes without saying that all of this training must be undertaken cross-functionally because this is not a cost-down savings exercise. Such training programmes cannot be undertaken in 1-3 days, and certainly not if they are explaining how to implement a new end-to-end process, and all of the new tools that will be used to manage it.

The attainment of competence is demonstrated in this approach, not by the award of a University degree or traditional Institute examined certification, but by doing. IIAPS believes that individuals must demonstrate competence by showing that they can actually operationalise all (over a 100 were identified above) of the activities and tasks in a world-class category management and strategic sourcing process, as well as achieve demonstrable value for money outcomes for a particular category of supply in the ‘real world’.

This means that competence development must involve course-based training in the advanced principles outlined above, but it must primarily be based on the ability of managers to operationalise what they have learnt in practice. We call this a ‘no hiding place’ approach to competence development. Attendance at a course does not ‘cut the mustard’; only delivery of a world-class category strategy, with validated value for money benefits being delivered, will do.

3. **How IIAPS Believes it Should Be Developed & Recognised?**
   It will come as no surprise that IIAPS believes that most of the organisations seeking to assist with competence development in Procurement and Supply Management are currently locked into Tactical Spend Management approaches. In our view this can only result in sub-optimal ways of thinking, with sub-optimal ways of developing competence.
IIAPS established its PSCM Index benchmarking process (see White Papers Beyond Kraljic, World-Class or Best in Class and Improving Procurement Competence) and its International Green, Red and Black Belts in Advanced Purchasing & Supply in 2010 in order to address this problem. The idea then was that, if CPOs understood where their organisation and staff are in relation to world-class best practice, this would provide them with the ability to begin their transformation journey.

The transformation journey requires the rejection of a focus on ‘categories of spend’ in favour of a focus on ‘categories of supply’. This thinking also requires the creation of a cross-functional category management and strategic sourcing process that focuses on strategic value for money trade-offs, not just ‘tactical cost savings’ as the basis of engagement with the business.

What does this look like in practice? The two case study examples below will perhaps explain the difference:

**Case A: From Day Rates to Restructuring Corporate Financial & Resource Planning**

In this case the procurement team was focusing on how to reduce the day rates paid to suppliers of earthmoving equipment. By using Value Flow Management thinking the company came to realise that their problem was not day rates, but the way in which demand and capacity planning was driven by short-term financial accounting practices.

These practices ensured that only short-term, arm’s-length and very adversarial sourcing strategies with a multitude of suppliers could be adopted. The opportunity for value improvement from adopting a restructured medium to long-term financial and resource planning approach were immense. Achievable benefits included: fewer HSE and quality incidents; improved cycle times; reduced downtime (all contributing to improved revenue flow and higher corporate profitability); as well as, reduced prices and total costs of ownership of over 40% with preferred suppliers.

**Case B: From Lower Fuse Prices to Realigning Marketing, Manufacturing & Supply Chain Management Strategies**

In this case the procurement team was focusing on how to ensure supply availability, as well as seeking to reduce the prices paid to dominant suppliers for low volume fuses for a manufactured product. By using Value Flow Management thinking the company came to realise that their problem was not highly leveraged prices from suppliers, but the way in which their offer to customers and the subsequent attempt to use lean manufacturing techniques was seriously misaligned.

The suppliers were dominant and able to leverage prices because the procurement team was unable to plan and schedule supply requirements. This was solely due to the offer by the company to its customers that they could have any design of manufactured product and it would be delivered in 10 days. This was not achievable in practice given the short notice and diversity of designs coming from customers.

The answer was not to try to ‘beat-up’ the low volume suppliers, but to change the whole customer offer, so that they had a choice of three standard (and much cheaper) options that could be delivered within 10 days, and one bespoke (and much more expensive) option that could not. By making these changes achievable benefits included: increased market share; aligned lean manufacturing and customer processes; higher customer satisfaction; and, a reduction in the need for low volume fuses—with consequent improvements of 20%+ in leverage of the higher volumes of standardised fuse requirements; and with limited risk of supply bottlenecks.

We hope that readers will now understand the opportunities, as well as the challenges, that arise when a more radical approach based on Strategic Value Flow Management is adopted. In our experience, a properly trained and competent category manager should be able to arrive at this type of radical rethinking of value for money options within a week, including the facilitation of a challenge workshop with cross-functional team members (see White Papers on Improving Procurement Competence, The QV Way and From Spend Management to Supply Management).

Unfortunately, many members of the current Procurement profession seem not to be getting this message, and the International Institute has begun to wonder whether there is an even more serious problem. This is related to the current levels of competence of Procurement managers, who appear to be unable to understand the difference between tactical and these more strategic ways of working.

We have come across very few CPOs who have the ability to engage with their own organisations in such a way that C-Level managers can understand the difference between strategic, value for money rather than tactical, cost-down outcomes and ways of working. Increasingly, we are coming to the view that the proper audience for this type of thinking may not be the traditional heads of the Procurement function at all. In the future, it may be more sensible to focus on C-Level managers who understand strategic, value for money outcomes and ways of working. This is because, if the competence does not exist, or cannot be created, within the Procurement function, it is much easier to push this type of competence and way of thinking down’ an organisation than it is to push it ‘up’.
For further details about these issues see:


Relevant 2015 IIAPS Blogs (www.iiaps.org/blog):

1. 12 Causes of Sub-Optimal Category Management & Strategic Sourcing
2. Improving Category Management & Strategic Sourcing
3. The Problem with Cross-Functional Involvement & Buy-In
4. Tactical Solutions to the Lack of Cross-Functional Involvement & Buy-In
5. Value Flow Management: Value-Driven Category Management & Strategic Sourcing

Relevant IIAPS White Papers (www.iiaps.org):

1. Beyond Kraljic (IIAPS White Paper 2010/1)
2. World-Class or Best-in-Class (IIAPS White Paper 2010/2)
3. The QV Way (IIAPS White Paper 2012/1)
4. Improving Procurement Competence, (IIAPS White Paper 2014/1)
5. From Spend Management to Supply Management - Improving Category Management & Strategic Sourcing (IIAPS White Paper 2015/2)