



The appliance of alliance

Reaping rewards from closer ties between CFOs and procurement

Words: **Melaye Ras-Work, Vice Principal**

In days past, procurement mostly filled orders and tried not to overpay. Not surprisingly, finance often saw it as operational; an overhead rather than a profit centre.

Today, procurement has become a strategic cornerstone. As Luke Pelosi, CFO at waste management company GFL Environmental, which floated on the Toronto stock exchange with a market capitalisation of \$5.8bn in March 2020, says: "Procurement represents a significant opportunity for us to drive organic growth."

Larry Katz, who until recently was the CFO of Genesys, a \$2billion+ customer experience and contact software company based in the US, led a strategic sourcing initiative that ultimately trimmed the company's addressable cost base by nearly 10%.

He says: "Procurement is one of the highest ROI initiatives you can pursue as a CFO, other than investing in sales, but it's much more actionable and, frankly, allows you to reinvest

in sales so you can drive topline revenue without having to go for additional funding."

Improving and changing the relationship between CFOs and Procurement is a job for both departments: there are steps both can take. It relies on the CFO convincing the wider organisation to take procurement seriously but also needs procurement to build credentials through proven delivery against business objectives. We spoke to four CFOs with recent or current procurement transformation programmes for their advice on how to get the most value from them.

Choose the right leader

People usually like the idea of a strong procurement function – but not for their own unit. As Katz recalled when he began, "Everybody felt like, yes, it's a great idea – go save in the other guy's department."

CFOs say you should anticipate some resistance. When Katz saw how much change

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management was needed, he decided to focus on institutional credibility rather than procurement expertise to lead his programme of works and found a well-respected company veteran to lead the charge.

"I hired somebody as the leader who had no background in procurement but who had institutional credibility; then I hired procurement consultants to get her smart about the function and the discipline, and then ultimately she hired strategic sourcing experts," he explained. Having her at the head of the programme made all the difference, he added, as she was able to influence every business unit and function to participate.

Ulrike Becker, ComData Group CFO, agrees procurement leaders need to be strong negotiators, with both internal and external stakeholders. "They need to be able to have convincing arguments to push forward change, because it's a lot about change management. They have to encourage the business to let go of historic solutions and on-board new staff and talent."

Good communication is also key. "It has to be a very interactive function because they have to communicate with business owners, local procurement functions and with the board," Becker adds.

And for her, procurement needs a deep understanding of the operating business, "so they can have valuable discussions on why alternative solutions on sourcing can be feasible for running the business in a better way."

For Dana Mason, CFO of Direct Energy, a subsidiary of Centrica plc (LSE: CAN), an international energy and services company with subsidiaries and/or affiliates operating in 50 US states including Washington D.C., as well as eight provinces in Canada, it's important for procurement to balance its own strategy with the business needs as well as the needs of its customers.

He says: "CPOs are often hired under the tenet of 'our procurement team is not saving

as much as we think it should be. You need to come in and fix it."

"What then happens is the CPO comes in, says here's my strategy and let me tell you how we'll save. At the other end of the spectrum, others say it's all about the business."

"My advice is to be flexible. You need a blend between top-down guidelines, and getting ideas from the bottom up, and merging them."

Dana Mason, CFO, Direct Energy

Pick your battles

Procurement's role for each team or transaction will vary. "I don't think a one-size-fits-all solution always works," says Mason. Decide instead which categories are best sourced by procurement and which can be left decentralised, Mason and others advise. While procurement should always be involved in some capacity, whether they lead, advise or simply act as a sounding board depends on the situation.

Katz advises being careful to phase in changes around emotive areas and being aware of implications of changing, for example, benefits, travel and expenses. His team tried to tackle travel and expenses in their first pass but found the gains were much harder won than other categories. "That was pretty controversial," he recalls. "It ended up working fine but created a lot of stress in the organisation."

Look beyond cost savings

Some businesses tend to think of the procurement function simply as a matter of saving money, but it can go far beyond that.

Procurement's mission is to drive value from the supply chain, from supplier partners that help the business, so the value it brings isn't just about cost reduction. If a business, for instance, can procure a product or service that allows it to grow more quickly or to sell more products, that is a valid procurement activity. At ComData, procurement plays a key role in leading the purchase of technology that is core to their business.

Becker says: "A well-structured procurement function that understands the business well can be an immense help because it facilitates the exchange of knowledge on technology, site operation and IT solutions. Without it, there is still exchange, but it's much more difficult.



Ulrike Becker, Group CFO, ComData

"If procurement is really business oriented, it can have a really positive effect on the cost side and also on how the business is run and organised."

Ulrike Becker, Group CFO, ComData

Choose the right metrics and aim for substantial wins

A focus on small wins is great for boosting confidence, but it won't be enough to drive lasting institutional momentum. For that, you need to show consistent, substantial gains.

The key measurement is cost savings – to keep track of this, Becker has created a separate budget for procurement that flows into financial reporting. This allows tracking of the savings achieved. "This is important because if there is no tracking and no quantification of efforts and the savings achieved, it will be difficult to have those efforts recognised." It also means there is no disconnect – common in many companies – between what procurement reports as savings and what finance recognises on the bottom line.

Mason points out the importance of tracking both post-inflation net savings and total savings per project, to ensure the function is achieving everything it can.

Other supporting metrics – such as one of Mason's favourites, the percentage of purchase orders that are processed without any incidents – can help to further highlight the positive impact procurement has.

Remember data is powerful

For GFL Environmental's Pelosi, what really made the difference in getting teams on board with a centralised procurement function was sitting them down around a table with a list of what each different team was paying for the same item.

"What was most helpful in getting team



Dana Mason, CFO, Direct Energy

buy-in was lining up the diversity in the field of what people are paying for the same component, then putting a chart on the page and seeing ten people in the room buying the exact same tyre all paying a different price," he says. "Once people can tangibly see that, and we are harmonising spend to best in class, it's extremely powerful."

The company now has a more simplified supply chain with fewer SKUs, fewer suppliers to manage and better traceability when things go wrong.

But don't become too beholden to spreadsheets

When it comes to skills needed in a change programme, people with a firm grasp of the real world are crucial.

Pelosi says he most values procurement leaders who understand that savings on a spreadsheet aren't always going to materialise in the way the spreadsheet says.

"I've had people who live and die by a spreadsheet, but the real world doesn't operate that way. Having the experience or the common sense to allow real-world dynamics to trump the spreadsheet where possible is of the utmost importance."

Procurement is often full of people with the right approach – as a function, its mindset tends to be numbers-focussed but also pragmatic. When procurement gets it right,



Luke Pelosi, CFO, GFL Environmental

its mindset has natural synergies with the finance function that mean the two can work effectively together.

For Pelosi, this is crucial. "With a business that spans the geography that we do, and the diverse makeup of that geography, there are many instances where a pragmatic approach needs to be taken because the spreadsheet doesn't tell the whole story. Having a procurement leader experienced enough to accept that is a key differentiator."

Keep an eye on the future

Finance tends to have a historical view of things. But, Pelosi says, teams often need to be more forward looking – especially if they are working in a fast growth business.

"What's helpful from my procurement team is, for example, when they're thinking about future-likely acquisition growth, asking how it is going to impact what we're doing. If the team is already thinking about the procurement need associated with buying another business, that's very helpful to me."

"If people are only looking at current status quo by the time we implement things, it will be outdated."

Luke Pelosi, CFO, GFL Environmental

Think carefully about reporting lines

For Pelosi, procurement should report into operations. "For those in different industries, it might make sense to report elsewhere. But I perceive finance to be a support function to arm the field with the data and analysis necessary to make informed decisions. We are here to provide operators with the tools they need to succeed."

This doesn't work for everyone, however. At ComData Group, the procurement lead reports into Becker, because, she says, it helps both teams focus on the same goals. And for

some, procurement carries such importance in the business that the CPO role is a board member.

Only connect

Getting the relationship between procurement and finance right can bring huge benefits, which go beyond the obvious reduction in costs and improvement to the bottom line. At ComData, procurement is ensuring the business is working with the right long-term technology partners for rapid growth and expansion. At Direct Energy, procurement has provided a point of consistency across a regionally diverse operations base.

CFOs today are in a unique position. Working with procurement, they can extend the impact finance has on business performance. As Katz says: "Do it sooner rather than later."

If you'd like to discuss any of the issues raised in this piece, contact info@efficioconsulting.com



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