

# NATURAL BORN ALLIES

As the finance function aligns itself closer to procurement, the collaborative relationship between chief financial officer (CFO) and chief procurement officer (CPO) is more important than ever. **Marc Debets** (right), Buy.O Group chairman and **Jean-Baptiste Lendrin**, partner, share their insight with *FDE*.



**The search for** efficiency is leading companies to look increasingly at sourcing and procurement as they recognise the need to identify, evaluate and negotiate the optimal mix of goods and services that best support their broader strategic goals.

It is clear that sourcing strategy overlaps with corporate strategy, so the level of understanding and collaboration between finance and procurement is crucial. That relationship, however, has not always been close and CFOs typically look to procurement to cut costs. But now they are starting to perceive the role of procurement in shaping the overall performance of an organisation and how it can directly affect bottom line growth.

According to recent research by Aberdeen Group, CPOs report to CFOs more often than any other role within

of CFOs are interested in invoice automation and EIPP.

Sustainable procurement is another hot topic, as enterprises impose new metrics on their suppliers in regard to factors such as carbon dioxide emissions.

'In emerging markets and mature markets there is growing demand for procurement management, supplier management and strategic partnerships,' comments Marc Debets, chairman of Buy.O Group.

Procurement management consultancy Buy.O exists to generate competitive advantage for its clients by helping them create procurement strategies that are aligned with their global corporate strategy. It advises on procurement transformation, performance management, outsourcing, customer relationship management

create a procurement strategy for the entire company or group of companies, not just for the procurement department itself,' he adds.

## Procurement poll

There are signs in many organisations that the finance function is starting to understand the value procurement provides to the enterprise as a whole, and finance directors must play a key role in bringing procurement into the light so that it can be aligned with corporate strategy.

At the forthcoming Procurecon conference,\* Buy.O will present the results of a survey in which it polled CFOs on what they want from the procurement function. Their responses prove that CFOs are getting to grips with how procurement influences the overall business, and clearly indicate six points that influence the design of a successful procurement strategy.

Cost management and savings remain at the top of the list, but the need to manage supplier relationships in the upstream market is also important to CFOs. So is the ability of procurement to contribute to risk management.

'There is a lot of volatility in factors such as energy prices or the cost of raw materials,' says Debets. 'This can have an impact on competitiveness, so procurement must help manage some of the risk.'

The finance function also wants procurement to contribute to innovation, particularly in developing ways to leverage the value of supplier R&D through collaboration. Similarly, it recognises that procurement can help to deliver a global view of the business and its operations, which is key to any transformation process. Procurement

and the development of strategic partnerships for clients in diverse industries, from the public sector to the high-tech and energy markets.

With this breadth of experience, Debets understands that now is the time to build a stronger, wider bridge between finance and procurement, and to put procurement firmly on the agenda of the executive board. He also knows that this requires effort from both the procurement function itself and the other business functions.

'Today, procurement often only talks about cost savings, it cannot be brought to board level. Real procurement management can deliver many other things, and most importantly can help

the enterprise (29%). The challenge for CFOs is stepping back from the hard numbers contained in standard financial reports and instead better understand techniques that CPOs employ to manage spend and suppliers.

Procurement touches on many issues affecting strategy. Globalisation, for instance, places greater emphasis on the management of suppliers, particularly those in low-cost countries as companies increasingly look to outsource.

Procurement has a role to play in risk management, especially given the volatile nature of input costs.

It is also concerned with the procure to pay cycle, where a growing number

can help a company adapt to the global marketplace, enhance productivity, reduce cost, and define any strategy for re-engineering the business.

The final point emerging from the poll of CFOs is that procurement has a key role to play in the creation of strategic partnerships.

'Companies often face the decision of whether to buy a company or co-operate with it as a partner. It is difficult to get the money to fund M&A now, and it can be risky. Acquisitions do not always create value, whereas strategic partnerships usually address a specific business issue,' say Debets.

Given the growing importance of suppliers and partners to an organisation's overall performance there is an opportunity to leverage these relationships for innovation, competitive differentiation and additional industrial, commercial or logistics capabilities. Buy.O recently had a role in two acquisitions that were handled more as strategic partnerships, including Air France's recent agreement with Dutch airline KLM, and has experience developing public/private partnership (PPP) deals in France. Given the success of such deals and the greater difficulty of funding M&A transactions, Debets believes there will be a much stronger trend towards strategic partnerships in the future.

## Measuring value

Though the capacity of the procurement function to contribute to the issues highlighted in Buy.O's CFO survey is clear, the next step is to measure how it does so.

## The expectations of the CEO

Whilst the the CFO is building closer ties to the CPO, the CEO also needs to be well grounded in the value procurement can deliver to the enterprise.

'Year to year the challenge for purchasing was to be recognised within an organisation, but that is no longer the issue. What needs to be established is that the CEO has high expectations of procurement, so the function must identify how it adds value,' says Buy.O's associate director Jean-Baptiste Lendrin.

Buy.O can help companies measure the value of procurement, and its approach to performance management for procurement holds much that is familiar



to CFOs. Once the metrics are in place the discussion between procurement, finance and senior management becomes much easier.

'We speak with CPOs and they say that they know they can add value but that their CEOs don't see it. But we also speak to CEOs, and they say they understand the value of supplier management, although they can't always express it well within their companies and CPOs tend not to speak out,' says Debets.

'Twenty years ago, no CEO had any idea about what they could do with supplier relationships. Now, 75% recognise that suppliers impact their results, so supplier management is important to them. It is a matter of ownership. The CPO is not the owner of the procurement strategy. It must be shared with the business leaders, then a company can develop a winning strategy,' he adds.

External advisors can play a vital role in bringing the right people to the table and guiding the discussion towards a procurement strategy that is based on clear measures of value, and that aligns with the overall strategic vision of the enterprise.

'Procurement is in the process of professionalisation. In the last ten years there has been a transformation in its approach to consultants, though it has always been quite an open business function. Companies welcome external support. Working with a third party is mandatory for strategic partnerships, just as it is for M&A,' says Debets.

Consultants, he believes, can provide the perspective to bridge the gap between the CPO's way of thinking with that of the CEO and the CFO, which helps achieve strategic alignment and targets the generation of value in the areas that make most sense for each company.

'The CPO can't be thinking about savings, when the CEO is thinking about growth and innovation,' says Debets. 'We can help companies share the responsibility between the CPO and the business people, and help them develop a clear global strategy. Then we can design the transformation programme to help them deliver it.'

'It is not about redesigning the organisation or creating new processes. It is about matching procurement processes to the business and its strategy,' says Lendrin. 'There are new challenges for CPOs, but there are also new challenges for us. We must know our customers and their strategic goals.'

With the concerted effort of all parties, including external advisors, procurement and finance can cease to be strangers. **FDE**

\* Meet Buy.O Group at Procurecon, 4th-7th November 2008, Geneva.

## Further information

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