Investing in better outcomes through professional procurement development

A Business Case

*Procurement training and education is an investment, not an expense*
EXECUTIVE SUMMARY

The procurement function across both the public and private sectors has undergone dramatic changes in the last ten years and continues to evolve. Procurement is now widely recognised as fundamental to improving governments’ service delivery and achieving better value for money outcomes. Furthermore, the current budgetary environment demands a greater focus on implementing strict savings and efficiency programs.

The scale of the procurement of goods and services and capital works by all levels of government continues to grow. Currently, the aggregated spend by all Australian jurisdictions is approximately $198 billion per annum and NZ$30 billion per annum in New Zealand. A strategic approach to deliver a one per cent saving in procurement expenditure across all jurisdictions would result in an annual return of at least AU$6 billion. Private sector research indicates leaders in procurement outperform their counterparts in both financial returns and increased productivity.

Public sector agencies are now required to build their strategic procurement capability through the professionalisation of the procurement workforce encompassing practitioners from entry level to chief procurement officer. Research conducted by the APCC and the Chartered Institute of Purchasing and Supply Australasia (CIPSA), indicates that there is an unprecedented demand for highly capable procurement professionals and this phenomenon continues to grow. Procurement is the fastest growing profession in business (Procurement Professional, Issue 17, August 2007).

Procurement is rapidly becoming a professional discipline, however it receives neither the recognition nor the training investment afforded other business-related disciplines such as human resources, accounting/finance and law.

In delivering strategic value via the procurement function to the agency and the taxpayer, a long term view is required to secure an enduring solution. Investment in procurement training and education today will assist both in up skilling of currently employed government procurement officers, as well as increasing the pool of professional candidates for future positions. As a result, the benefits of a highly skilled procurement workforce will begin to accrue immediately and will continue to be delivered over the longer term.


Many contemporary CEOs recognise the potential value from strategic procurement to contain and reduce costs and are also aware of the procurement skills required to deliver these outcomes. The power of strategic procurement to negotiate and leverage reductions in prices, including cost avoidance and whole-of-life costs, is dependent on the skills and knowledge of their procurement workforce.

The failure of government agencies to adequately invest in procurement capability development risks the achievement of organisational objectives and more critically, poorly executed procurement and poor value for money for the taxpayer.
THE CONTEXT

The procurement function has changed dramatically over the past ten years and continues to change in response to business drivers. The procurement function has shifted towards a core strategic function. These changes require procurement professionals to adapt quickly and improve their procurement skills and professional capabilities to support the business. Procurement training and professional education are core activities to up-skill and professionalise the procurement workforce to meet the challenges of valued service delivery for a contemporary public sector. Procurement practitioners and, in particular, chief procurement officers are required to successfully implement a strategic vision for an organisation’s procurement activity to realise broader organisational and government objectives. This also requires the ability to influence an organisation’s corporate culture to recognise procurement as a critical business function which contributes to the delivery of government priorities, rather than confined to a ‘back office’ operation. The procurement function is also expected to integrate with other core functions, such as finance and legal.

Therefore, to successfully deliver organisational procurement objectives, a procurement practitioner is required to apply a broad spectrum of skills and expertise including:

- effective risk management;
- sophisticated market and supply chain analysis;
- effective stakeholder engagement, in particular with suppliers;
- interface with other core business functions including legal and finance operations;
- prudent contract management based on the procurement’s risk profile, that is certain, enforceable and achievable;
- value for money assessment and delivery;
- identifying opportunities to implement economies of scale through aggregation and volume share arrangements;
- providing advice, assistance and services across the procurement lifecycle, and reducing critical commercial risks; and
- identifying opportunities to develop and implement innovative solutions.

Investment in a range of training and education from vocational courses to post graduate education is considered critical to building and retaining this capability. This investment further ensures capability development is developed through the attainment of nationally and internationally recognised qualifications based on global benchmarked skills, practices and standards.

Currently there is a proliferation of savings and efficiency agendas driving all tiers of government, however there is a shortage of executive procurement skills to enable the procurement function to contribute to the effective delivery of these savings and efficiency agendas. Urgent action is needed to further develop procurement capabilities across government.
STRATEGIC VALUE

The procurement function is undergoing a revolution with conventional transactional-oriented procurement skills and methods of procurement unable to deliver on Ministerial and community expectations. Targeted strategies including an enhanced focus on procurement learning and development interventions are required today to ensure the procurement function in government supports quality service delivery while concurrently delivering on broader whole-of-government priorities.

The credibility of procurement’s contribution to an agency relies heavily on the ability of the procurement workforce to demonstrate strategic value. Several government downsizing initiatives, including high potential procurement employees, compromises executive management’s ability to profile procurement’s value-add to the agency.

In a recent survey conducted by KPMG, results indicated that the public sector is lagging behind the private sector in the development of its procurement workforce. These results can be further impacted by a movement away from procurement to where opportunities for career development are more widely available and capability is highly valued and rewarded.

Immediate targeted interventions are required to deliver sustainable solutions that support the needs of government procurement in the future and improve the overall professionalisation of government’s network of procurement practitioners. Possessing the right professional skills and expertise will support the delivery of savings, efficiencies and value for money outcomes for government.

The APCC has a critical role in ensuring the education sector, from registered training organisations through to vocational and university sectors can meet the demand for procurement expertise. The APCC, through its partnership with CIPSA, is able to support capability development together with certification of an organisation’s procurement function. Certification aligns the organisation with an agreed industry standard that recognises procurement competency, knowledge and experience and ensures the capability of the workforce to effectively apply formal qualifications to real life situations.

Support for procurement capability is underpinned by the recognition at the jurisdictional level that professionalising and building government procurement capability should be prioritised and capability development be considered a long term investment, rather than a short term expense. Investing in procurement capability also delivers immediate benefits that are sustained over the long term. In Victoria, the Victorian Government Purchasing Board has endorsed the building of procurement capability as a strategic priority; in a recent New South Wales procurement discussion paper, it was also recommended that capability development should be prioritised.
THE BENEFITS

1. Return on investment from training and education

A simple model designed to demonstrate the return on investment (ROI) from training and education is:

- If the average spend of an organisation is AU$500m per annum
- And it has a procurement team of 10 people for whom the payroll cost is AU$1m
- And it invests 20% in professional development = AU$200k
- If this investment delivers just a 1% saving then
- 1% saving on AU$500m is AU$5m
- Which delivers a Return on Investment of 2500%

An example closer to home is the return on investment demonstrated in Western Australia where a 10:1 return was demonstrated. The Western Australian Government development of strategic procurement skills together with a procurement reform program resulted in an aggregated AU$309 million return realised over a four year period on an investment of AU$30 million.

Private sector research shows leaders in procurement outperform others in both financial and productivity performance. In addition, every AU$1 saved can add AU$5 to the bottom line (Aberdeen Group).

There comes a time when mere ‘good’ procurement will reach the point of diminishing returns. To go beyond this point will require professional procurement skills and expertise such as those gained through exposure to both public and private sector peers and achieved through formal training and education pathways.


It is widely recognised and agreed that significant benefits can be harvested by agencies that develop their workforce to a professional standard. In his presentation Leading Global Excellence in Procurement and Supply, at the recent CIPSA Annual Conference, David Noble, CIPSA CEO reported:

- Non-labour cost control has a far greater impact on profitability than labour cost reduction. Reducing non-labour costs by 1% increases EBITDA by 3.6%, whereas reducing labour costs by 1% increases EBITDA by only 0.8%.

The same outcome applies across government. Greater savings and efficiencies are achievable through application of professional skills than by cutting labour costs.
2. To maximise procurement’s contribute

Procurement has shifted from a housekeeping role to one that can shape the future of an agency. Good procurement skills elevate business performance creating financial advantage and an intellectual powerhouse of knowledge. Professional procurement skills contribute to whole-of-business objectives through integrating procurement across core functions and through management of the agency spend.

According to the McKinsey & Company survey of over 400 companies;

*There is a significant relationship between numbers of post-graduate educated and companies that are at the top of their game compared to those companies that are referred to as followers. In the top companies 40% of procurement staff has a post-graduate qualification.*


3. Improved retention of high potential employees

Many public sector agencies suffer from high staff movement rates. In the absence of training and education opportunities, good talent will be attracted away to where opportunities exist.

Bright and promising graduates actively seek career expectations to be satisfied and in response maximise return for the agency through their energy and creativity. Research shows that retention rates are directly linked to opportunities for training and education. In a Hays Workplace Series Survey, it was found that for 70% of employees, a lack of training and development opportunities would convince them to look for a new job.

Staff place enormous value on professional development. A Hays Workplace Series Survey reports that 84% of staff are more committed to employees who invest in their training and development.

*Training and education is a strategy to obtain the best your procurement people have to give*

4. Commitment to the next generation of procurement leaders

Baby boomers are retiring in significant numbers and take with them a disproportionate amount of the organisation’s corporate memory. These skills need to be replaced through experience and with formally qualified procurement professionals with globally benchmarked skills, practices and standards.
A PROFESSIONAL PROCUREMENT OFFICER HAS…….

The ability to:

- understand the policy and political environment and how it impacts on procurement;
- implement appropriate governance and probity arrangements;
  understand end-user needs, and ability to describe outcomes and terms of contract succinctly;
- lead and manage commercial activity;
- perform scenario analysis and planning;
- identify and deploy effective procurement options for different scenarios;
- communicate effectively with potential suppliers and other stakeholders;
  identify options, validation and refinement;
- understand strategic context
- demonstrate business acumen – ability to take sound commercial decisions based on an understanding of the motivations of suppliers;
- identify, evaluate and take controlled risks;
- analyse, synthesise, interpret and communicate financial data;
- understand the supply side, specifically market maturity;
- commission and manage advisers;
- understand the suppliers’ motivation and incentivises suppliers effectively;
- understand government procurement policy, guidance and legal framework;
- determine and deploy a negotiation strategy, using core negotiation skills and techniques;
- perform supplier management – development of effective contractual relationships;
- evaluate suitability of bids; and
- retain competitive tension for as long as possible
THE RISKS OF DOING NOTHING

The failure of government agencies to adequately invest in procurement capability development risks the achievement of organisational objectives and more critically, poorly executed procurement.

It is critical that public sector agencies are able to deliver on their objectives to optimise value for money for the taxpayer and to mitigate the potential risks arising from poorly executed government procurement. Without a continual program of learning and development through formal training and education activities, the result is a public sector agency that is:

- Predisposed to suppliers having the control;
- Unable to predict and respond to changes in global market conditions and supply chains;
- Ineffective through out-of-date policies, processes and behaviours, risk identification and mitigation;
- Compliance poor;
- Innovation poor with low staff engagement;
- Compromising on delivery of value-for-money through poor decision-making; and
- Undefined procurement boundaries leading to inappropriate (transparent and ethical) behaviours and actions.

Research from the internationally focused Procurement Strategy Council reports:

_Savings to an agency per professional procurement FTE are trending up in dollars terms from approximately $1m in 2007/FTE to approximately $1.8m/FTE in 2011._

These returns are not possible without a professional procurement workforce underpinned by continuous professional procurement development.

Professional Association Membership

A fundamental indicator of a professionalised workforce is the extent of professional certification by a relevant professional body. Certification is aligned to an agreed industry standard that assesses competency, knowledge and experience. That is, it involves the demonstration of competency in the workplace or like situations to ensure that procurement staff can apply the certified level of skills or learning.

Membership of the pre-eminent professional procurement body in Australia, the Chartered Institute of Purchasing and Supply Australasia (CIPS), ensures that individuals have reached and are maintaining their skills to the global procurement standard.

Facilitating eligibility for membership to CIPS via targeted procurement training and education membership of CIPS is a small price to pay to ensure your organisation has the skills to deliver on Ministerial and community expectations.
CONCLUSION

A key platform for enhancing a public sector agency’s capability to elevate the value achieved from its spend and to minimise mistakes arising from poorly planned and executed procurement is to invest in formal procurement training and education – with a continuous improvement approach.

Maintaining excellence in procurement is a continuous process. Public sector agencies must support skills development through training and education to continually keep pace with advances in procurement. This also creates a workforce with plenty of innovative and strategic ideas that can deliver significant savings to an agency today as well as prepare for emerging trends.

Developing people is essential to success and a compelling investment in formal procurement training and education. The right skills will deliver on public sector agency’s savings and efficiency agendas.