

Does Your Telco Procurement Team Have the DNA for High Performance?

High-performing procurement teams share a similar genetic makeup. Does your team have the right DNA?



ATKearney

Procurement as a Strategic Differentiator

Telecom companies are competing in an increasingly fast-paced, complex, global economy. To stay competitive, they need to identify and harness external resources quickly and efficiently.

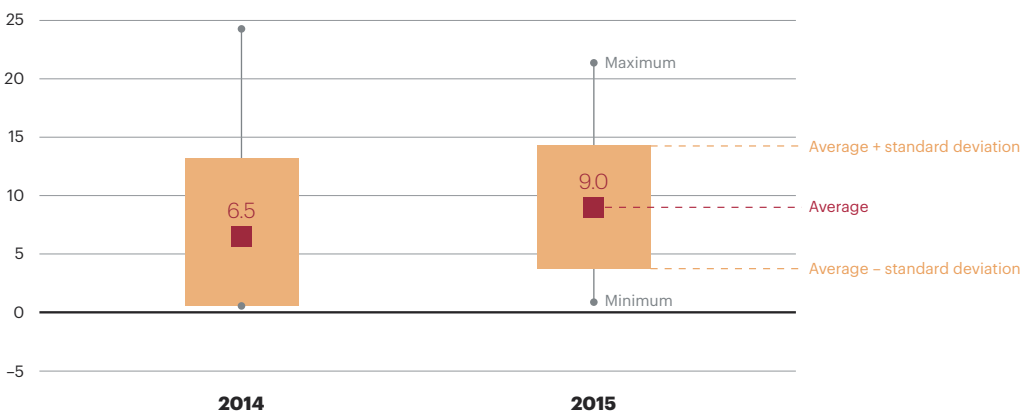
Telcos, to a much greater extent than companies in most other fields, rely heavily on third parties such as network equipment suppliers, IT vendors, and handset manufacturers. On average, two-thirds of their opex and most capex is spent with external suppliers, according to A.T. Kearney's Global Competitive Benchmarking for Telecoms. In essence, telcos are resellers of technology and apps sourced elsewhere.

In today's dynamic, intricate telecommunications environment, telcos rely on suppliers to obtain differentiating innovations (such as software-defined networking solutions and set-top boxes with enhanced user experiences) before their competitors get them, to support them in shortening the time to market for new products and services (for example, by offering highly adaptive billing systems and responsive customer care services), and in general, to enable them to deliver a host of competitive advantages that are unique in their marketplace. This means that an effective procurement function has to be able to fully understand and actively participate in the complete product development cycle. All this is occurring as margins for most operators continue to be squeezed and boards impatiently demand additional year-on-year savings.

And indeed the procurement function at telcos has raised its game. Between 2014 and 2015, performance improved by nearly 38 percent as measured by the average reported Return on Supply Management Assets (ROSMASM).¹ Yet performance varies widely within the telecoms industry (see figure 1). What sets the leaders apart? The answer is high-performing, cross-functional procurement teams.

Figure 1
Procurement team performance at telcos has improved, but continues to vary widely

ROSMASM scores at telcos



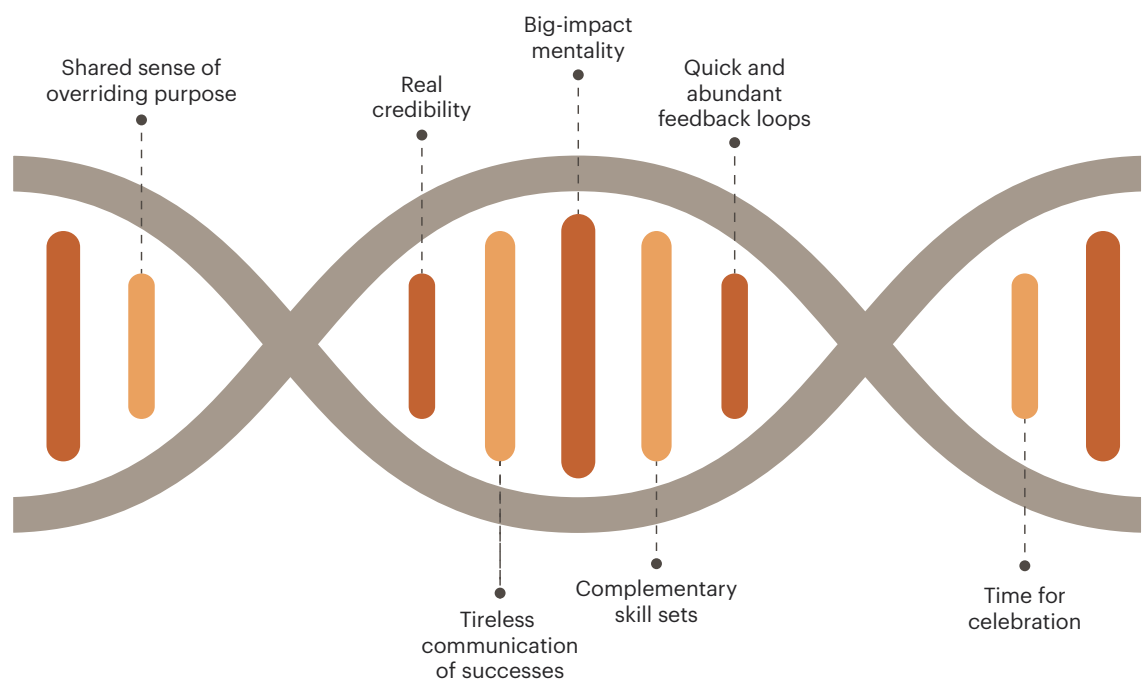
Note: ROSMA, which stands for Return on Supply Management Assets, measures the financial results delivered by the activities and investments in a company's procurement team. Figure shows the combined ROSMA scores of integrated, fixed, mobile, and cable operators around the world.
Source: A.T. Kearney analysis

¹ ROSMA measures the economic performance of the procurement resources applied; specifically, the "hard" financial results delivered from the activities and investments in the organization's procurement team. For more information on ROSMA, see www.atkearney.com/procurement/rosma. For the sake of simplicity, we have combined the ROSMA scores of integrated, fixed, mobile, and cable operators from around the world.

The DNA of High-Performing Cross-Functional Procurement Teams

Spurred by a roundtable of European chief procurement officers we facilitated in southern France, we set out to identify the genetic makeup of a high-performing cross-functional procurement team. Although we found no single recipe, we did find a number of common traits (see figure 2).

Figure 2
DNA of high-performing cross-functional procurement teams



Source: A.T. Kearney

1. Shared sense of overriding purpose

Top-performing teams rally around a compelling vision and sense of purpose. Teaching a team what to do and how to do it is the easy part. Most team members don't even need to be taught. However, getting them to internalize why they do it—convincing them to live and breathe it—can make the difference between good and great.

For the procurement team at a telco, the “why” could be the need to transform the company from a stodgy incumbent into a leading-edge digital services provider. How can a procurement team achieve this? For example, by lining up the best supplier ecosystems to enable innovative, differentiated service. Or maybe a mobile challenger wants to become the Ryanair of the wireless world, relentlessly wringing out costs.

At the best companies, the organization’s “why” becomes topic number one—the first point on the agenda at every meeting, every presentation, and every touch point with employees. Procurement leaders fire up their teams by hammering it home to them that they are at the

core of achieving the company's purpose, not at the periphery. Of course, in a cross-functional environment, expectations must be aligned across the board. After all, what good does it do to convince your procurement team to focus on ensuring an impeccable customer experience if your finance function is only expecting you to lower the costs of the goods and services you buy?

2. Real credibility

Credibility is a topic as old as the procurement function itself. It is not enough to align how savings are calculated with the finance function alone. You need to ensure that every function you interact with agrees with the savings you report. The best procurement teams use some very specific methods to earn their credibility.

Broadly communicate the qualitative benefits and strategic impact of procurement's work.

Many procurement organizations exhaustively report the hard savings they achieve, but they omit the true strategic impact they generate. Leading procurement functions not only avoid this trap—they first test their qualitative arguments with their business counterparts so that they can concentrate on the messages that truly resonate.

Distinguish between cost avoidance and cost reduction. Cost avoidance is measured against market values. Cost reduction is calculated against historic spend and current budgets. Both concepts are relevant, and both need to be reported—but it is important for credibility that they not be confused.

Choose meaningful performance metrics. In technology-intensive sectors, prices naturally decrease over time. For example, the cost of customer premises equipment naturally decreases by anywhere between 5 and 15 percent per quarter, making cost comparisons against last quarter or last year almost meaningless. In cases such as these, smart procurement teams bolster their credibility by reporting the impact on margin (that is, the difference between buying and selling prices) rather than the difference in purchasing costs. Another tricky category to measure is capex equipment such as the radio access network. Many companies measure cost savings for such equipment at individual component level. However, network equipment providers often add new elements to their components, which leads to an overall price increase—even though the output is no longer comparable. That's why more sophisticated procurement teams measure cost performance in such cases against higher-level indicators such as cost per line or cost per terabyte.

Measure realized savings. The best procurement organizations report the savings when items are actually ordered, not when the contract is signed. The gap can be huge. It is also important to accurately report exactly when the savings are realized and to avoid confusion between contracted, cash-based, and P&L savings calculations.

Report value-in vs. cost-out. Leaders expend the effort required to compile business cases that incorporate multiyear revenue inflows and multiyear cash and investment outlays. These calculations, while by no means straightforward, are highly meaningful to the business.

Embed savings in next year's budget. At too many companies, CFOs hear of huge year-on-year savings but never see them reflected in the company's financial statement. Why is that? Because the savings are often reinvested indiscriminately. Leading companies, on the other hand, operate benefits or capex committees to track "green" dollars, which are removed from the budget, or "blue" dollars, which are used to buy additional volume or to invest in something else.

3. Tireless communication of successes

Leading CPOs spearhead major communication campaigns, using both traditional and digital means, to publicize their team’s achievements and successes. Frequently used tactics include one-on-one sessions with key executives, town hall meetings, video broadcasts from supplier summits, and online press releases. Others apply for internal prizes or distinctions at industry events. A team that feels recognized is a team that is better motivated to tackle the next round of challenges.

4. Big-impact mentality

High-performing procurement teams continually challenge the status quo and never settle for “good enough.” Instead, their mindset is geared to ever-increasing business impact. Figure 3 summarizes the main elements of the big-impact mentality found at leading companies.

Think big challenges the confines of current supply concepts. First, it examines components as part of a broader platform or solution. For example, it considers direct mail as an end-to-end solution, rather than the aggregation of stationery, printing, envelope processing, postage, and mailing. Then, it challenges the overall requirements of the solution space, for instance by changing the focus from technical specifications to customer value.

Strategize big examines all the supply- and demand-side levers to obtain the greatest value from the supply base. The A.T. Kearney Purchasing Chessboard® framework maps out 64 potential strategies, depending on the relative power of buyers and vendors in any particular category.

Figure 3
Big impact is a mindset to drive value beyond the comfort zone

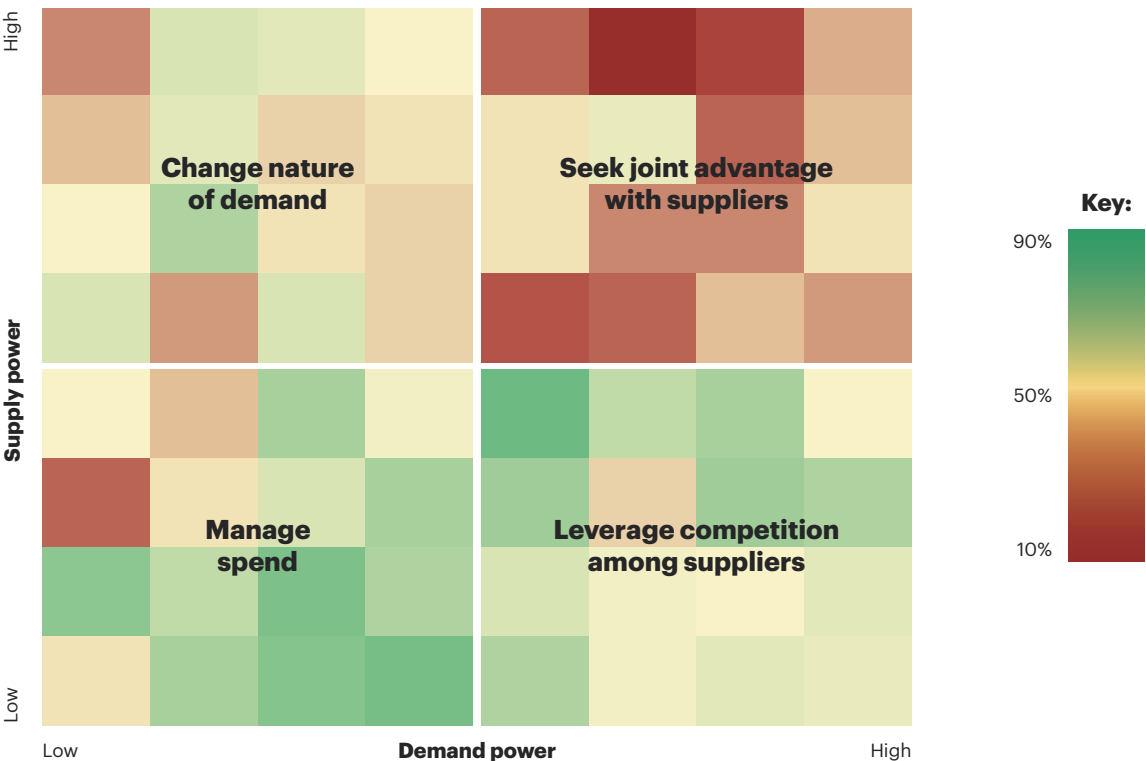


Source: A.T. Kearney

Yet our latest Assessment of Excellence in Procurement study indicates that many companies use fewer than one-quarter of all relevant chessboard levers systematically (see figure 4).² High-performing procurement teams consistently try out new combinations of levers to heighten their impact from one year to the next.

Figure 4
Use of Purchasing Chessboard® levers by leading procurement functions

% of companies that say they “systematically use” each lever



Source: A.T. Kearney Assessment of Excellence in Procurement

Mobilize big opens the door for suppliers to offer differentiated solutions that provide true competitive advantage. Yes, normalized bids are important to facilitate comparisons among potential suppliers, but they can also be a straitjacket that stands in the way of improvement. By inviting suppliers to submit both normalized and differentiated bids, procurement leaders gain access to unique offers structured around the best performance at a reasonable price—not just the best price for a reasonable performance.

Win big is about using game theory and full market leverage principles in supplier negotiations to take best advantage of competitive dynamics and achieve the best possible outcome from the supplier selection process.

² For more information on the Purchasing Chessboard and its 64 methods to reduce costs and increase value with suppliers, see www.atkearney.com/books/the-purchasing-chessboard. Further information on the Assessment of Excellence in Procurement is available at <https://www.atkearney.com/procurement/assessment-of-excellence-in-procurement-study>.

Engage big is about deepening interactions with the supply base in order to extract greater value from the relationship and prevent value leakage. Category managers on high-performing procurement teams don't just negotiate agreements, they also work to implement them throughout the supply chain or business unit.

Frequent, rich feedback is truly crucial to high performance.

5. Complementary skill sets

Nowadays, specialization is common among procurement team members. A category manager can no longer competently handle everything from A to Z. Increasingly, we see teams comprising procurement engineers (who specialize, for example, in value engineering, value stream mapping, or design for excellence), advanced negotiations experts, supplier fitness specialists, and a host of other highly specific roles. On high-performing procurement teams, the skills that specialists bring to the table complement those of their team members and of their counterparts from other business functions.

Equally importantly, high-performance teams include people with not only hard analytic skills, associated with the brain's left hemisphere, but also with right-brain soft relationship skills.³ Achieving the proper mix of left- and right-brain team members can mean the difference between a group of lone wolves hunting ruthlessly on their individual turfs and a high-performing pack of wolves whose total is more than the sum of its members' parts. So, for example, team members who are strong negotiators well-suited to winning keen prices on wholesale networks or data center capacity are joined up with others who are adept at building long-term, mutually rewarding relationships with key suppliers and internal stakeholders.

6. Quick and abundant feedback loops

Top sports teams reflect after each game on how they played and how they can do better the next time. Likewise, top-performing procurement teams set regular milestones—the business equivalent of a football match, if you will—to measure their success and be coached about how they can do better. Who are the coaches? Often they are category directors, demand committee sponsors, regional procurement heads, or even the CPO. Frequent, rich feedback is truly crucial to high performance, so procurement leaders find the time to do this right.

7. Time for celebration

Looking again at the sports world, even the highest performing athletes need to rest from time to time. When the competitions come too fast and furious, even stars such as Novak Djokovic or Lionel Messi can be below their form. The same thing happens with high-performing procurement teams. Every now and then, they take a pause to rest, readjust, and prepare for the next challenge. And a couple of times a year, in the spirit of “work hard, play hard,” they just kick back and celebrate their successes.

³ Research into the functional specialization of the cerebral hemispheres was pioneered in the 1960s by the neurobiologist Roger Sperry, who was awarded the 1981 Nobel Prize in physiology for his discoveries.

Creating a Thriving, High-Performing Procurement Team at Your Company

Understanding the DNA of a high-performing procurement team is one thing, but actually setting one up—and creating a medium where it can thrive—is a much more difficult challenge. This is how to do it right.

Build capabilities and talent

Procurement needs not just a clear sense of direction and purpose, but also the managerial talent and specialist skills required to ensure the company can navigate through the fast-changing, complex telecom sector.

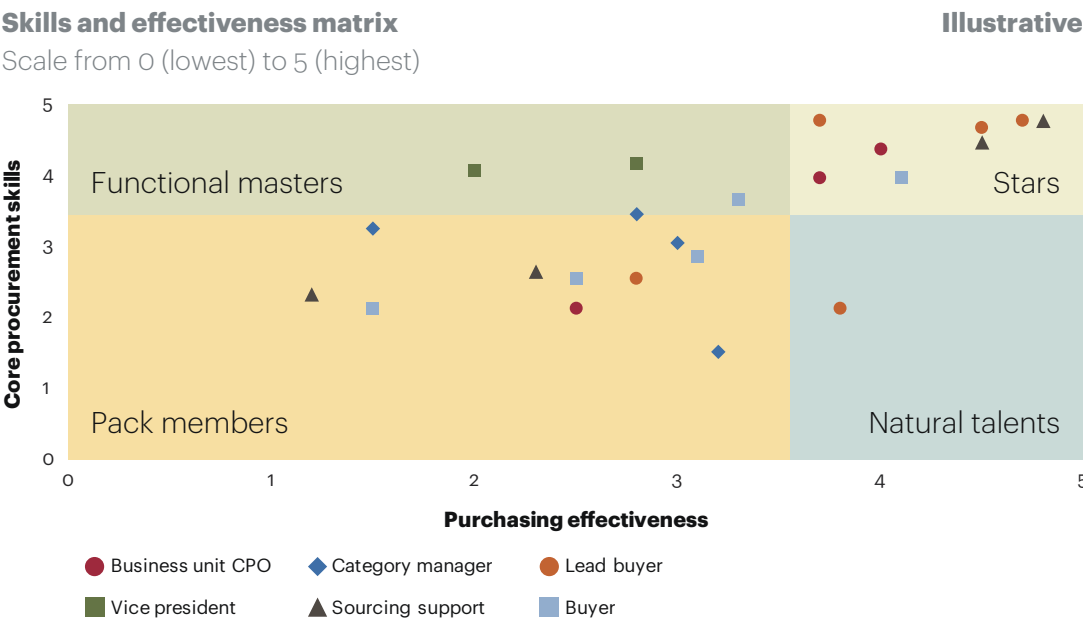
A critical first step is to **define ambitious, quantitative performance expectations for the team—measured as ROSMA**. These expectations set a high bar for your procurement function to clear, while providing the CEO and CFO with a way to confirm the financial value procurement brings to the table.

The next step is to **determine the capabilities your company needs to meet its ROSMA target and make sure that your team has them**. A good way to start is by asking business unit leaders what capabilities they believe the procurement team should bring to the table. For example, would they like to be periodically updated on changes in supply market dynamics? Are they looking for end-to-end category management? This sounding should be complemented with procurement's own assessment of what is needed to purchase and partner effectively in your company's business context and competitive space. Mapping demand power versus supplier power for all strategic categories will allow you to identify appropriate procurement practices on the Purchasing Chessboard. For example, for a telco it may indicate that critical mobile network equipment can only be sourced from a handful of powerful players, whereas an information and communication technology (ICT) provider can acquire commoditized data center capacity from many different suppliers. In this case, the telco may need to forge a long-term relationship with its suppliers, while the ICT provider may be able to focus chiefly on driving down cost. Needless to say, the capabilities required in the first case are very different from those required in the second one.

The **combination of skills and effectiveness** powerfully visualizes how the team is performing.

It is not unusual to find that procurement teams are unprepared to implement advanced procurement practices such as virtual inventory management or total life cycle concepts—or that cooperation across functions is insufficient. To see where your people currently stand (individually and as a team), you can use online surveys to assess team members' core procurement skills—such as ability to exert influence, understanding of the company's value agenda, or financial skills. You can complement the assessment with one-on-one interviews to qualitatively evaluate how effective employees are in actually applying those skills. The combination

Figure 5
A combined assessment of skills and effectiveness shows how the organization is performing and where talent needs to be further developed



Source: A.T. Kearney analysis

of these two assessments—skills and effectiveness—powerfully visualizes, by function, region, and category, how the organization is performing and where talent needs to be further developed (see figure 5).

Making procurement an attractive professional destination is a powerful way to jumpstart and sustain talent development. A company where the CPO has earned a seat on the executive committee is a company that demonstrates that it values procurement professionals’ skills and considers them strategically important. Such companies will welcome procurement’s participation early in the debates about project scope or product specifications, rather than simply calling them in at the last minute to negotiate a contract. They will also confer the same professional cachet on procurement as they do on marketing or finance, and they will pay their people accordingly.

Drive performance

Once the individual capabilities are in place, training focused on group dynamics plays an important role in team performance. By rolling out such training at the top, beginning with the leadership of the procurement function, you can magnify its impact throughout the rest of the team and improve its staying power. Designated “change agents,” talented people who understand team dynamics and master the big-impact mentality, can help coach cross-functional groups to higher performance as they navigate through their work.

It is also vital to create a winning mindset. Try starting with several flagship projects, staffed for success, to show the C-suite and the teams themselves what they’re capable of. Then quickly

broaden the initial set of projects to the wider organization, creating healthy competition while nurturing the collective game.

Equally important, you need to make clear to teams who is responsible for what, how and when progress will be measured, and who results will be reported to. Giving the teams a platform to shine—to communicate their progress and recommendations to business stakeholders and interact with them—is essential. If progress meetings are canceled at the last minute, if the people in the room lack the authority to sign off on the milestone, or if they’re not offering constructive feedback and coaching to your team, then your company is not doing it right.

Finally, individuals should be properly rewarded for their contributions—and talented people should see a clear career roadmap that will allow them to fulfill their ambitions.

Start now!

In the fast-moving telecom sector, a company’s ability to source the right products and services at the right time, cost point, and business value can determine whether the business prospers or implodes. Procurement cannot win on its own: CPOs need to convince CFOs and CEOs to give procurement far more time and attention. The team that wins consists of talent from different functions: not just procurement, but also engineering, finance, R&D, operations, and many others.

The DNA of the team should comprise the right elements; those missing should be complemented. Why do we do what we do? Do we bring credible added value to the business? These are just some of the questions procurement needs to constantly ask itself. The key is to aim high, team up, and communicate successes (and failures).

Going from the “what” to the “how” is where some organizations stall. Building a high-performance team requires dedication and top-level commitment. You need to manage it as a program, as training alone will not get you there. The proof is in the pudding. The teams that win identify the practices that will be effective in executing specific category strategies and combine the appropriate mix of right- and left-brain skills. Given the many different capabilities required in telcos, most procurement teams will need to be diverse, combining individuals with complementary talents and aptitudes. As these teams bed down, the focus should be on implementing a series of targeted improvements that produce tangible benefits, increase credibility, and justify further investments. Over time, a high-performance procurement team will deliver substantial value, sharpening the business’ competitive edge, responsiveness, and resilience.

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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.