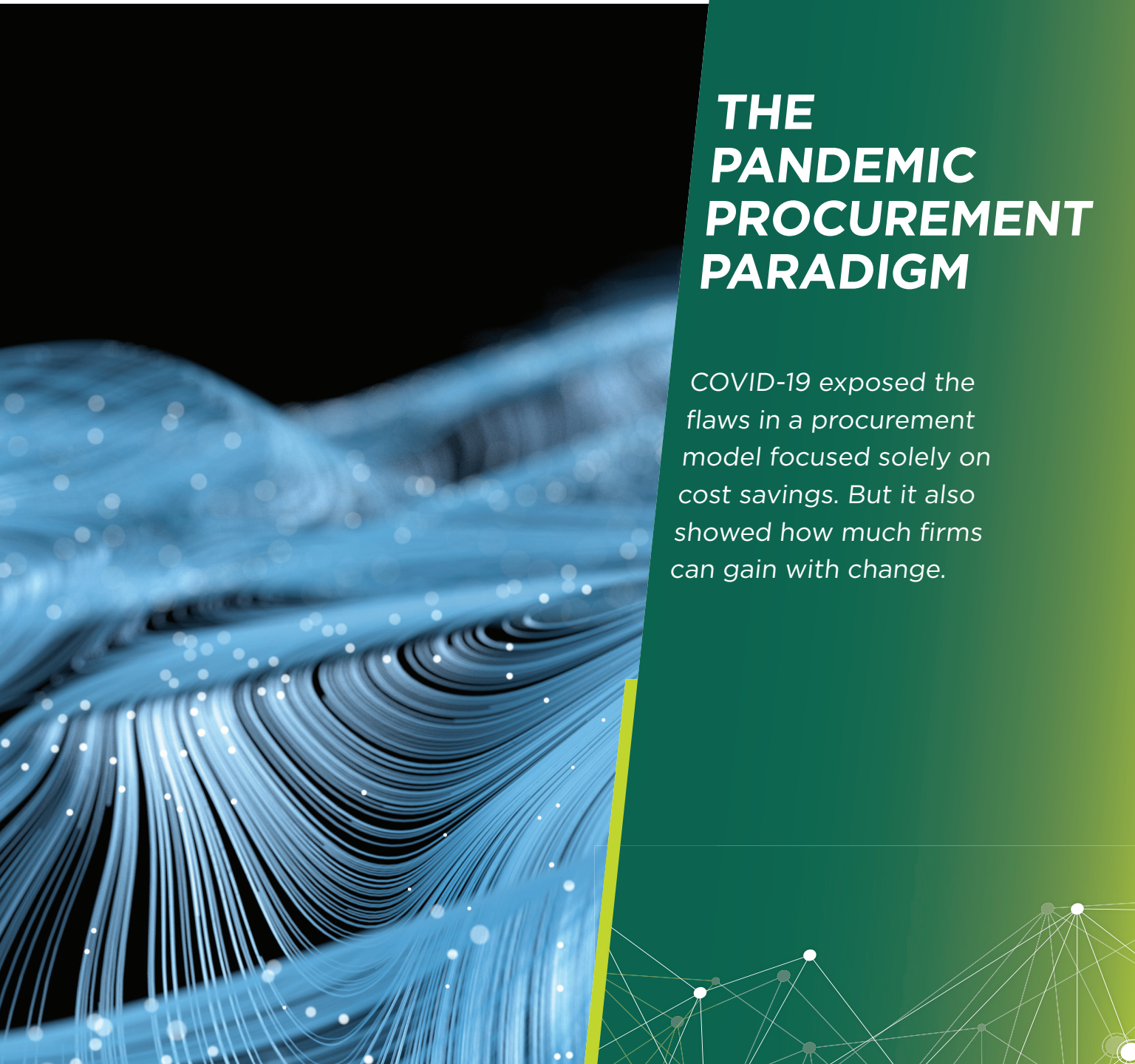


THE PANDEMIC PROCUREMENT PARADIGM

COVID-19 exposed the flaws in a procurement model focused solely on cost savings. But it also showed how much firms can gain with change.





The problem:

Procurement is stuck in a model focused on generating the most efficiency from the supply chain at the lowest cost.

Why it matters:

As the pandemic showed, a transactional relationship with limited suppliers can severely harm the business during unexpected disruptions.

The solution:

Reposition procurement as a strategic partner through a data-centered, ecosystem-based approach that drives innovation.

In the early days of the pandemic outbreak, the personal protective equipment (PPE) shortage loomed large. That's when Len DeCandia, chief procurement officer of Johnson & Johnson and the Johnson & Johnson Procurement organization, kicked the group's work into high gear. The team called upon some strategic partners to collaborate with them to ensure there were available PPE supplies for critical Johnson & Johnson employees to continue providing life-saving products and also to support frontline healthcare workers in their communities.

Procurement isn't usually thought of as a hub for innovation. But DeCandia believed it could be that—and a whole lot more. Four years ago, he saw the potential of data and digitalization to transform procurement from a simple manufacturing support role into a key strategic partner across the company's pharmaceutical, medical device, and consumer health divisions, which together generate more than \$80 billion in revenue annually. As DeCandia puts it, "We see procurement as a growth driver and competitive advantage."



Not everyone shares DeCandia's vision. Until COVID-19 hit, the complexity of procurement had never been fully appreciated—or capitalized upon. Historically, procurement has focused almost exclusively on generating the most efficiency from the supply chain at the lowest cost. But the pandemic exposed that model's flaws, says Cheryl D'Cruz-Young, a Korn Ferry senior client partner who leads the firm's Chief Procurement Officer practice. She points to the severe disruption and financial damage sustained by companies reliant on a transactional relationship with limited suppliers and strict inventory management. "COVID accelerated five years' worth of trends in procurement," she says.

To be sure, procurement across a variety of industries and companies has been moving toward a more integrated, data-driven, ecosystem-based approach. But change has been more incremental than transformational, owing to everything from corporate inertia and lack of visionary leadership to inconsistent digital implementation and low risk tolerance.

As D'Cruz-Young says, however, the risk is in not changing. Whether a pandemic, a natural disaster, a terrorist attack, or even a trade war, there is no shortage of events that can derail a supply chain solely focused on cost savings. "Procurement needs to be married with digitalization and integrated across all operations to enable suppliers and internal business leaders to innovate together," says D'Cruz-Young. "That's the only way to survive when the next inevitable shock hits."

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James Szilagy, vice president and chief supply chain officer at the University of Pittsburgh Medical Center (UPMC), knew that there was going to be a problem getting medications to patients in the northeastern United States well before shelter-in-place orders were issued. His supply chain's artificial intelligence told him so.

Most hospitals and pharmacies don't track their pharmaceutical inventories in real time, known in supply chain parlance as perpetual inventory management. As a result, those organizations often lose sight of the supply on hand, which in the event of a pandemic could be catastrophic. To remedy this issue, Szilagy and his team developed a digital solution, CognitiveRx, which uses AI and machine learning to predict supply and demand fluctuations based on purchase data and empowers providers to track and shift on-hand inventory of key items necessary to weather the pandemic. In the immediate aftermath of the COVID-19 outbreak, for instance, the system monitored supply and demand indicators for not just the drugs in demand to treat COVID but for all drugs on the market, issuing alerts warning of impending shortages.

"With the demand for COVID-related medications the top priority, other support drugs weren't being manually monitored," says Szilagy. "Because we were tracking the entire market in CognitiveRx, we knew that drugs like sertraline were in precarious supply even before the FDA included them on the national shortage list."

Legacy supply chain issues like not tracking inventory in real time are what compelled Szilagy to hire a small battery of engineers and data scientists to develop solutions like CognitiveRx. But antiquated procurement practices aren't limited to healthcare, of course. And, as the pandemic highlighted, the overarching problem of figuring out where and how to source supply so it can most efficiently get to where it is needed applies to every company in every industry.

"The supply chain is being talked about more than ever before at the highest levels of organizations," Szilagy says. "There's an elevated discussion about the talent and systems needed to be better prepared for an event like COVID in the future."

In terms of systems, the push is toward a centralized procurement function enabled by technology that can tap into strategic relationships inside and outside the organization. To be sure, the confrontational "supplier-vendor" relationships that have been a hallmark of procurement are being replaced by codependent, collaborative partnerships. Melissa Swift, a Korn Ferry senior client partner and leader of the firm's Digital Advisory, says the new procurement mantra is "partner together, win together."

"It's not about getting a better price. It's about getting to a contract that is win-win for everyone," Swift says.

Getting to a win-win outcome doesn't require some miracle of innovation, either—it could be as simple as streamlining contracts to make them easier to process. At Johnson & Johnson, for instance, the procurement and legal teams partnered to rewrite master service agreements for key strategic partnerships so that new contracts wouldn't have to be drawn up for each new purchase order. The new agreements, which cut average cycle times to three days from 10, were so well received that they set up a contracting center of excellence for the entire procurement function. "Lives are at stake in our business, so it's all about speed and agility," DeCandia says.



The Modern Procurement Model

For years, change in procurement moved at a glacial pace. Then COVID-19 hit, underscoring the need for a new approach to procurement.

FROM...

TO...

Decentralized structure



Center-led structure
(often headed by a chief
procurement officer)

Focus on cost savings



Focus on innovation

Transactional relationships



Collaborative, ecosystem-based
partnerships

Limited supplier base



Diverse, flexible supplier base

Generalists working in isolation



Specialists aligned toward
strategic, enterprise-wide goals

Analog processes



Analytics- and data-driven
processes



“The supply chain is being talked about more than ever before at the highest levels of organizations.”

Sometimes the most difficult partnerships to navigate are internal, and that's perhaps where a center-led procurement function can deliver the most value. In most procurement functions, professionals work individually or in small teams across sectors or regions with little centralized oversight. The result: a lack of shared processes and practices and undefined strategic goals and accountabilities. DeCandia was one of the first to recognize this disconnect, becoming Johnson and Johnson's first enterprise chief procurement officer and setting up a cloud-based system so that every procurement professional would work off the same platform and report into one centralized area. The impact was immediate, with increases in cost savings, productivity, and return on investment.

Transforming procurement isn't just a matter of systems and processes, however. It requires an entirely new approach to talent management as well. “The talent profile in procurement is changing from generalists to specialists organized around critical capabilities like category management, supplier relationship management, and business engagement,” says Korn Ferry's D'Cruz-Young.

DeCandia compares the talent transition as “moving from a jazz band to a symphony orchestra.” Traditional procurement functioned more like a jazz band, a free-flowing combination of talented professionals individually improvising on the fly. The new structure acts more like an orchestra, with a chief procurement officer leading a group of experts, each with a clearly defined role into a single collaboration.

This transition requires a different set of skills that have the potential to make procurement more of a destination for talent. To be sure, reframing procurement around a digital mindset—creating a digital procurement officer, so to speak—means more data scientists and engineers are being recruited into procurement than ever before. “There is a significant return on investing in advanced [supply chain management] technology,” says Szilagyi, who created an operating unit dubbed Pensiamo within UPMC's supply chain focused exclusively on data and machine learning. “Technology and advanced computing can empower a purchasing team to achieve far more success in identifying and solving for procurement challenges than they ever could achieve with manual data management.”



“If you open the lens of the type of talent and skills you look for in procurement, you can build up leaders not just for the function but for the entire organization.”

Moving from a supplier-vendor cost-savings model to a more collaborative ecosystem-based approach that prioritizes innovation also requires traits and drivers not normally associated with procurement professionals. As the circumstances around COVID-19 showed, agility and adaptability must be embedded into the culture of procurement. With sustainability becoming a core aspect of procurement, a sense of purpose is critically important as well. Other traits include an inclination toward curiosity and experimentation, the ability to operate through ambiguity and communicate clearly, a tolerance for risk, and a more holistic view of the business.

“So much of traditional procurement is about eliminating risk and baking everything out, but innovation is all about trying things out and seeing what works,” says Swift.

While these traits are atypical in procurement, Korn Ferry data shows that they are among the most desired for leadership, which is part of the reason procurement could play a more prominent role in developing future leaders.

At Johnson & Johnson, for instance, DeCandia says he looks for talent with equal competency in overall business operations and procurement specifically. The idea, he says, is to create interplay between general business and procurement talent through rotations and career development opportunities, which will strengthen the overall skill level and strategic understanding of the organization for both. The commitment to building diverse teams also better reflects the market and gives insight into the company's patients, consumers, and suppliers.

“If you open the lens of the type of talent and skills you look for in procurement, you can build up leaders not just for the function but for the entire organization,” says DeCandia.

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