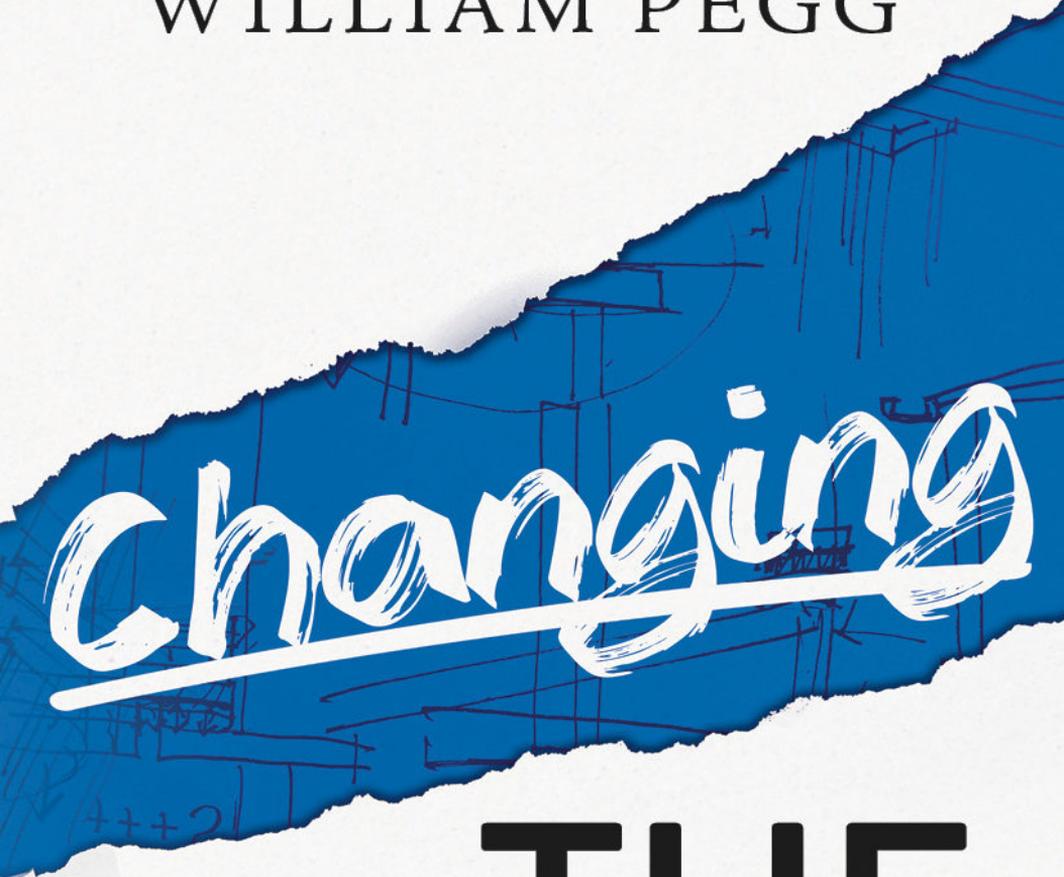


WILLIAM PEGG



changing

THE
GAME

REWRITING THE RULES FOR
MID-MARKET PROCUREMENT

CHANGING THE GAME

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PRAISE FOR CHANGING THE GAME

“William Pegg’s book “Changing the Game” is a *tour de force* in reassessing the way we think about procurement. This is a practical guide, stuffed full with pearls of wisdom, about how to turn procurement, and hence cost management, into a source of cash flow and profitability.

Well done William!”

*Dr Andrew Walker Executive Chairman—Aspen Medical
2016 Australian Entrepreneur of the Year*

“We live in a world that is all about doing business smarter. Every aspect of our business needs to be put under the microscope and rethought. That’s where William Pegg comes in. He has taken the concept of procurement and turned it on its head. This is a very significant book for any company that has realised it has to do what it does differently and better. Thought leaders are found everywhere, William Pegg is one in the procurement space. Take his advice and your organisation will enjoy the benefits for many years to come.”

*Andrew Griffiths Business and Entrepreneurial Author
12 bestselling books sold in over 60 countries.*

“Williams message is one that all business leaders need to know and understand—to be competitive in today’s world we must elevate effective procurement principles to the forefront of business strategy. Get these principles right and you will not only improve profit, but increase innovation leading to greater top line performance. A great read, ‘Changing the Game’ is the companion guide for executive management and sales professionals alike, unlocking the powerful but often underutilised resource of our organisation’s supply partners.”

Eugene Visione Head of Sales and Marketing—Birch & Waite Foods

INTRODUCTION

WHERE IT ALL BEGAN

It was May 2003, week one of my first job out of university. I had secured a fantastic graduate role with Unilever. My manager, Gary, an experienced professional who had a heart for training and grooming his team, told me: “Will, you won’t be here for more than five years!”

As an impressionable 23-year-old, with nothing to my name except a university debt and a sky blue 1989 Peugeot 405, this left me lost for words. Had I tripped up in the dance of corporate politics, was my employer having second thoughts, was I the wrong fit?

At the time, I thought Gary had a screw loose. I was working for a progressive, people-conscious company—a company I still hold dear. It took me quite a while to appreciate the significance of that statement. Maybe it was Gary’s understanding of the employment habits of young people at the time. Maybe it was an acknowledgement that the business would look to make redundancies over the coming years. Perhaps he saw my interest in something that was different to what large corporations can offer.

I remember very clearly a conversation we had around a year later. Gary put it to me: did I want to climb the corporate ladder or, in time, own my own business? I truthfully did not know. A remarkable display of generosity followed. Over the following years, Gary invested a considerable amount of time and energy to help me gain broad expe-

rience and exposure, which gave me the ability to make a choice and answer that question.

To this day, I am grateful for the candid advice and support provided at that early stage of my career. Advice that had no agenda or ulterior motive other than to see someone else succeed. I didn't know it then but those years at Unilever would have a significant impact on me professionally. It seeded in me the desire to educate business leaders in what is possible with the sole purpose of seeing their endeavours succeed.

Gary's comment was remarkably accurate. I stayed with Unilever a full five years and two months. From there, I worked in vertically integrated agribusiness and steel manufacturing. I provided consulting services to LNG oil and gas projects, and to a range of government departments and health care institutions. Working in strategic procurement, I was able to experience the good, the bad and the great by observing the process as well as people, company cultures, and industry trends.

I wouldn't trade that experience. It has been priceless. It is what has provided me with a rounded perspective. It's also what has given me a real passion for helping people, driving innovation and delivering a great 'fit-for-purpose' process.

WHAT I BELIEVE

Procurement can sometimes be seen as an inflexible, process-driven function that is not aligned with business operations, providing limited contribution to profit and growth. Yet it doesn't have to be this way.

Consulting may also be seen as an agent of pain rather than a contributor to gain. We have all met or heard of consultants who tell you

things you already know, don't understand your business, fail to consider the medium to long-term impacts and tackle projects from a purely commercial mindset.

A rounded understanding of procurement, the aspirations of business, and how consulting can be improved brought about the formation of Synthesis Group.

As Australia's only firm that specialises in providing strategic procurement solutions to executive management of mid-sized companies, Synthesis Group is built with you in mind. You the leader or business owner, you the board member or you the executive manager.

We've got it all backwards. We put finance before people. In a world where people are looking for trust, rapport, leadership and innovation, we have to show that we can rise above self-interest. Clients and suppliers see through a one-eyed, what-ever-it-takes, commercial focus. This approach can disenfranchise and fragment business. No one likes to be treated as a commodity. Clients may look elsewhere, and suppliers may take their best thinking to your competitors. We cannot afford to let this happen.

Look at how Toyota works constructively with their suppliers or how Google and Virgin value their staff. The commercial focus is not ignored but enhanced, suppliers are not commodities but brought closer and valued, staff are not simply numbers but an integral part of the organisation.

Mid-market companies value agility, flexibility, and market responsiveness. Procurement can help by being strategic—by creating rapport and being innovative to deliver greater long-term commercial results. Procurement can contribute to a company's growth. It is in a position to improve top and bottom line performance. An outstanding strategic procurement function, one that intimately understands their business and what it values, will be able to craft flexible solutions that support the company's direction.

THIS BOOK

Large or small, every business buys goods and services. How a company chooses to manage and resource this ‘buying’ activity is varied so a clear and individual strategy is needed.

Changing the Game—Rewriting the Rules for Mid-Market Procurement is a transparent assessment of procurement. Its purpose is to take the knowledge and practices of successful big business and show how a change in procurement in mid-sized companies can generate greater financial returns.

Written for executive management of mid-market companies, this book addresses the question that many organisations ask:

“How can I make procurement a function that is flexible, supports company operations and helps my business profitably grow?”

I understand that some mid-market companies have procurement teams while others don’t. Some organisations allocate the responsibilities of procurement throughout the business and others centralise it to a core team. While there are benefits to be gained from procurement activity originating from a single team, this book makes no recommendation on what is best. That is a decision for you.

No matter how procurement is currently performed, *Changing the Game* is written to give you the knowledge to improve the effectiveness of the current structure or create a new way of working. The goal of this book is simple—it is to equip you with the know-how so that procurement activity makes a greater contribution toward growth, partnership, innovation and profit.

THE MARROW IN THE BONE

My aim is to empower and educate. At the end of each chapter, there is a review of the key points that suggest how you can apply the changes directly to your business. There is also a self-assessment in the final chapter, allowing you to see in a single table how your company and procurement process measures up.

The book encourages you to convert newfound knowledge into a structured course of action. Most chapters contain interviews, case studies, and real-life examples. There are discussions with Origin Energy, Telstra, Unilever, Domino's, CSIRO and Woolworths. There are interviews with leading researchers and innovators, and stories that bring the content to life.

It has been a deliberate decision to interview and reference a selection of larger companies. The rationale is simple. Many big businesses are known for high performance in particular fields. By understanding how these successful companies work, you will be in a position to pick and choose the approach that is best for you. While the mechanics of their programs will probably be excessive for most mid-market companies, the principles that they apply will be relevant.

There is much to gain from improving procurement in your business, and it is my aim that this book will help you to achieve that growth and return.

CHAPTER 5

Why Bother With Rapport

THE SOCIETY WE LIVE IN

Much of what we purchase today doesn't last. We have been conditioned to expect this. You might get a few years of life from your television, far less than the old rear-projection cathode ray types. Your laptop and phone will become obsolete within two years, electronic devices don't seem to go the distance any more.

A friend of mine owns a lovely sports car. It looks and sounds great but it's just a little sensitive. On the third instance of having to call out roadside assistance, the mechanic's comment said it all: "These cars are not built to last."

How we take care of our relationships isn't much better. According to the Australian Bureau of Statistics (ABS), in 2014 around 121,000 marriages were registered.¹ Around 33,000 or 28 per cent of those marriages involved one or both people marrying for at least the second time. For that same year, 46,500 divorces were granted. Without considering how long a marriage lasts (although ABS claims the median

¹ Australian Bureau of Statistics 2016, *Marriages and Divorces, Australia, 2014*, cat. no. 3310.0, ABS, Canberra.

to be around 12 years), these raw numbers suggest that the equivalent of almost 30 per cent of registered marriages end in divorce.

What has become evident is that we live in a society that is quite comfortable with the temporary nature of what we own and the willingness to buy, replace, recycle, upgrade. We live in a society that is highly accustomed to the disposable nature of goods and relationships.

While so much of what we own is not built to last and can easily be replaced with an affordable alternative, our own personal relationships are subject to high rates of failure too.

This attitude can be expressed with equal strength in business as well. Too often the relationships that we aim to cultivate with clients and suppliers are approached from the perspective: 'what's in it for me?'

I'm not suggesting a business relationship with a supplier or collaborative partner be permanent. We are however at risk of the pendulum swinging too far the other way. What becomes apparent is the accepted attitude that some of us have toward the disposing of business relationships. Rapport and mid-term commercial opportunity are sacrificed for the short-term deal. This is an attitude that has been built into our subconscious, often from a young age, since after all if it does not work, toss it out.

It is vital that we conduct the necessary due diligence, make wise decisions and ensure business relationships are profitable. We also need to stop, draw breath and think if we could achieve more through a desire for constructive, commercially healthy, progressive partnerships.

SETTING THE BAR

As automakers go, Toyota is the world's largest seller. It is larger than General Motors and, as Richard Levick from *Forbes Magazine* ex-

plained in a 2013 article, that's no mean feat, especially since from 2009, the company had been under intense public scrutiny surrounding unintended acceleration investigations, recalls, and litigation.²

As a Japan-based auto firm, Toyota largely 'outsources' vehicle production to U.S. suppliers. It has had significant operating facilities in the U.S. since the mid-1980s, employing approximately 40,000 Americans. Consequentially, Toyota has grasped the importance of bridging the cultural divide so often present with companies that choose to move offshore.

Toyota has around 500 key suppliers in North America. It tightly controls design and engineering and continues to build strong relationships with those suppliers who consistently show the ability to deliver on time, maintain quality, control costs and innovate.

Levick goes on to say that this supply network is characterised by a high degree of trust, with rewards for timely delivery instead of just penalties for delay. This results in the fastest production and assembly times in the auto industry, consistently high quality and yet still with the ability to deliver commercial savings.

Granted, Toyota is a huge company, 8th largest globally when ranked by revenue according to a 2015 Global 500 study performed by *Fortune Magazine*.³ The fact that it is so large is what makes its approach with suppliers so much more remarkable.

2 Levick, R 2013, 'Spotlight on Outsourcing: Boeing Scrambles as Toyota Triumphs', *Forbes*, 30 January, viewed 25 April 2016, <http://www.forbes.com/sites/richardlevick/2013/01/30/spotlight-on-outsourcing-boeing-scrambles-as-toyota-triumphs/#28f6c052345c>.

3 Fortune 2015, *Global 500*, viewed 25 April 2016, <http://fortune.com/global500/>

ELASTIC RAPPORT

What ability exists in your business for procurement to establish, grow, strengthen then relay forward a relationship with a supplier so that other parts of the business can continue to work effectively? I'll call this 'elastic' rapport.

One of procurement's operational goals should be the creation of 'elastic' relationships. That is, the ability to transfer to internal stakeholders a healthy and functioning relationship developed between the supplier and your business.

A supply relationship forced upon a business without consultation, particularly for high-spend or highly critical goods and services, is not a great way to start. It's a bit like being told as a youngster whom you should date and then being made to go along with it, even if your heart's not in it.

Business relationships are just that—relationships. They can come and go but the great ones last. Procurement playing 'cupid' without consultation is destined to be a rough path.

Engaging the affected business functions from the outset is very important. What are their challenges, where do the opportunities lie, what mistakes have been made previously? And what opinions are held of the various supply solutions; what's stopped this change being made before?

These are just a few of the questions procurement should be asking stakeholders who may have a vested interest in a change program. Involving the business before an activity commences demonstrates forward-thinking rapport as well as common courtesy and respect. It is amazing how something so simple can go such a long way.

Keep in mind that once a market activity has been completed, once the contract is signed and the need to return to business as usual looms, the supplier must be able to work with the stakeholders. After

the dust has settled and procurement returns to an overarching management role, it's how the two parties interact without procurement that will be the key to longevity and success.

Always remember that the vast majority of suppliers want to work with your business and will go to great lengths to make this possible. Developing elastic rapport is a rock-solid means of successfully achieving this collaborative objective.

A MEASURED APPROACH

Now before we get too carried away with the idea of great supplier relationships, I need to emphasise the importance of a balanced approach. As John Harney, the Chief Procurement Officer from Domino's Pizza describes it, we need to have a 'three-legged milking stool', consisting of commerciality, innovation, and relationship.

As rapport without commercial rigor and innovation would fail to deliver sustained solutions, so too would commercial rigor and innovation without their respective bedfellows.

As with all activities in business, simplicity is best. Have a planned, logical approach for managing rapport with suppliers:

1. Choose your supply partners carefully. Establish selection criteria that identify only those companies that complement your targeted direction.
2. An agreed management and appraisal structure will help the relationship progress through all seasons and business cycles.
3. Be specific about how each identified supplier can contribute to your business growth and what the opportunity will be for them.

I remember speaking at a conference in Sydney. It was for a pharmaceuticals association, and I had been asked to discuss a strategic approach to outsourcing.

The last of my slides provided an overview of what success looks like with well-run strategic partnerships. Acknowledging that we are not talking about outsourcing, a number of takeaways from that presentation are highly applicable for what we are discussing here.

1. **Document your process and IP:** Insulate yourself from risk by recording all process, practice, understandings, and IP. That way, if a key team member leaves, the supplier relationship will not suffer.
2. **Be accountable:** Make sure both your business and your supplier clearly understand what is required and from whom. Remember to own both your success and setbacks.
3. **Develop partnerships and trust:** Position talented staff to manage the arrangement. Be prepared to visit your supply partner. Develop relationships and don't play the 'blame game.' You want them to know you are a long-term partner, not just a fair-weather friend.
4. **Anticipate teething issues:** As with all relationships, enter the agreement with a high level of patience. Have a risk register on-hand with pre-established remedial actions.
5. **Metrics:** Have a set of measures that test the 'temperature' and effectiveness of the business relationship. This may revolve around innovations introduced, simplification of process, commercial improvements and/or how interaction is performed.

CASE STUDY: SUPPLIER COLLABORATION

In May 2013, Oxfam released its report *Standing on the Sidelines* that identified the 10 most significant greenhouse gas (GHG) emitters in the food industry.⁴ Two of the 10 companies named included General Mills and Kellogg.

Both General Mills and Kellogg responded to the report in similar ways. The online food publication, BakeryandSnacks.com, reported in August 2014 that both organisations had pledged to disclose their GHG emission targets by December 2015.⁵ They would also reveal their top three suppliers of palm oil, soy, and sugar cane and achieve zero deforestation in high-risk supply chains by 2020.

Kellogg went one step further in its pledge by asking key suppliers to measure and publicly disclose their emissions and reduction targets.

It is one thing to make such requests of the supply base; it's a whole other matter to deliver them successfully. To achieve this, a shift in how the suppliers are engaged would no doubt be required.

I spoke with BakeryandSnacks.com in August 2014 about possible means for General Mills and Kellogg to deliver on these environmental pledges.⁶ Some approaches included the development of systems, tools and process for suppliers, which could deliver both a greater

4 Oxfam 2014, *Standing on the Sidelines—why food and beverage companies must do more to tackle climate change*, 186 Oxfam Briefing Paper, Oxfam GB for Oxfam International.
https://www.oxfam.org/sites/www.oxfam.org/files/bp186-standing-sidelines-big10-climate-emissions-200514-en_2.pdf

5 Culliney, K, 2014, 'Oxfam: Kellogg rises above General Mills on climate change', *BakeryandSnacks.com*, 13 August, viewed 20 June 2015
<http://www.bakeryandsnacks.com/Manufacturers/Kellogg-climate-change-policy-ahead-of-General-Mills-says-Oxfam>

6 Culliney, K, 2014, 'Actioning environmental pledges: Strategic engagement with suppliers critical, says procurement expert', *BakeryandSnacks.com*, 20 August, viewed 20 June 2015,
<http://www.bakeryandsnacks.com/Commodities/Environmental-pledges-need-strategic-supplier-engagement>

likelihood of program adoption and a greater consistency of data. Another consideration was the need to provide boots on the ground to assist with education and implementation, ensuring systems did not replace rapport.

Whether it be the reduction in carbon emissions, the determination of local content in your goods and services or any other program that requires considerable supplier input, there are several issues that are important to remember:

1. Recognise that there will be varying levels of awareness and acceptance on some topics.
2. Supplier education and training may be required to help you achieve your objective.
3. Placing activities in the hands of your suppliers does not absolve your company of responsibility—particularly in the court of public opinion.
4. Demonstrate that you have skin in the game too.

This example helps illustrate the benefits of developing strategic supplier relationships. A commoditised supplier may present resistance to working on such an involved program. A supply partner, a company that sees the commercial and strategic advantages of collaboration, will be far more willing to engage and invest time and resources in assisting with your internal objectives.

The underlying message here is a need to build and leverage strong supply relationships. Strong relationships and a willingness to work together could—in the case of General Mills and Kellogg—result in GHG reductions and an improvement in their social licence to operate.

COMMERCIAL TIE-BACK

At first glance, a focus on developing rapport with selected suppliers may seem to have no or only limited commercial advantages. When you take the time to examine how other successful businesses operate, you see that collaboration is a regular way of working.

Novel engineering solutions through a continual improvement mindset are one of the positive consequences of developing supplier rapport.

I worked with a vertically integrated agribusiness company in Australia where part of its operations involved cold food processing and value-add manufacturing. Material handling (forklifts) were an integral part of these operations but were subject to a high degree of wear and tear due to the wet and cold operating environment.

For this business, repair and maintenance costs had been on the rise. A strategic relationship had been developed with a material handling supplier who consequentially brought these increasing maintenance costs to the attention of their client. The supplier offered to perform, at no cost, an audit and assessment to identify causality, trends and remedial actions.

The work revealed units in a particular part of the plant had higher servicing needs due to the constant presence of water and that consequentially, non-stainless bearings failed fast. An alternate stainless steel bearing was sourced, trialled and found to be effective. Not only did maintenance costs decrease but the alternative corrosion-resistant product was supplied at a lower price.

The project saved just that one facility more than AUD\$200,000 a year and was rolled out across a number of other facilities that were experiencing similar challenges.

Without the prior development of constructive rapport and partnership, it would have been highly unlikely that the supplier would vol-

unteer—at their expense—to explore, research and rectify this issue that until that point had gone unnoticed.

TOP TIPS

1. Identify the innovative gains that have been brought to your organisation through constructive supplier relationships. Investigate other focus areas of growth and innovation and how your suppliers can contribute.
2. In the table below, list the areas of greatest challenge or criticality within your business. Identify which suppliers (incumbent or otherwise) operate in this space. Think how your business could work more collaboratively to resolve these pinch points.
3. Identify the selection and management criteria that would be most appropriate for your business to develop strategic partnerships with your key suppliers.

The Areas of Greatest Challenge

Challenge/Criticality	Supplier	Solution

WHERE TO FROM HERE?

VISION FOR OUR CLIENTS

Our vision is to equip clients with the tools, strategies and mindset required to develop trust and powerful commercial relationships with suppliers, employees and collaborative partners. From this position of strength, leaders in business can create lasting results—a commercial and social legacy that improves the lives of all that their business touch.

HOW SYNTHESIS GROUP CAN HELP

Is your business going through change, perhaps it's in need of review? If Changing the Game has pricked an awareness of areas for improvement, I'd love to hear about it.

Learn more and stay connected by accessing further resources on Synthesis Group's website. This is where you can get your hands on articles, guides and best practice.

If you'd like to discuss a topic further or understand how Synthesis Group can help, please reach out for a chat – no strings attached.

Our services include strategy programs, advice, coaching and project management. All services are built to accommodate the varying size

CHANGING THE GAME

and scale of mid-market companies. The goal is simple—help you generate fast and sustainable financial improvement.

We've designed our services to:

1. Identify short and mid-term opportunities to save money, lift profit and make operational improvements
2. Provide hands-on assistance and advice to deliver specific projects or programs
3. Operationalise strategies for sustainable growth
4. Lift competitiveness through partnerships, early access to innovation and improved products / services

Visit the Synthesis Group website for further details.

I look forward to starting the conversation.

William Pegg

www.synthesisgroup.com.au

ABOUT WILLIAM

William Pegg is the Director and founder of Synthesis Group.

With a university background in science, he made the switch to business at the start of his career when environmental science jobs were just not popular.

Trust and partnership. That is what was drummed into him as a graduate. Step forward 14 years, Synthesis Group is the result and is positioned as the authority on procurement for mid-sized businesses.

William has spent years in the ‘engine room’ of companies operating in FMCG, agribusiness, heavy industry, professional services, health care and mining. He counts himself fortunate to have had this exposure.

What was realised—the challenges faced are similar and mid-sized companies are frequently missing out.

William believes that greater commercial opportunities are available for companies by working with their key suppliers, clients and collaborative partners. For that purpose, *‘Changing the Game’* was written—to help the leadership of mid-sized companies realise better performance from their procurement team.

A husband, father and keen cyclist, William calls Brisbane Australia home.