



Henri Irrthum

Eight Steps to Transforming Your Procurement Organization

Henri Irrthum, retired vice president of global sourcing and logistics and chief procurement officer at DuPont, understands what's needed to make long-term, significant changes to today's purchasing organizations. Drawing upon his long-term experience in business and supply chain leadership, Irrthum has confirmed many times over that eight critical steps are needed to successfully lead and sustain transformational change in any organization.



one *Establish a sense of urgency*

– Humans are naturally reluctant to change, and this reluctance carries over into most business organizations. Generally people within these organizations are

hesitant to introduce change until forced to do so for the sake of business survival. They don't realize that keeping the status quo is often more dangerous to the bottom line than implementing change during prosperous periods. To counter this way of thinking, it is necessary to establish a sense of urgency throughout the organization.

There are several ways to create a sense of urgency. A market comparison of similar companies as well as a close examination of current competitive realities can be a wake-up call to many organizations. Everyone wants to gain market share. But that's not the only way to improve the bottom line. Uncovering cost-cutting

opportunities is important as well. This is particularly relevant within the procurement organization.

It's not uncommon during slow economic times for purchasing organizations to be called on to cut costs. However, this directive seems to gradually diminish as the economy begins to rebound. It shouldn't, because even a mere 5 percent reduction in purchasing costs can increase profit margins by 50 percent. To obtain the same results without decreasing purchasing costs, it would take a 50 percent increase in sales, a 20 percent reduction in overhead and a significant staff reduction.



two *Form a powerful guiding coalition* – At best, only half of all change efforts succeed. Generally speaking, the missing element is leadership. Organizations need a group of powerful people who can influence change throughout the enterprise.

To be powerful, this coalition needs to be open-minded and listen clearly to what’s working and what’s not working in the organization. Once problem areas have been identified, the group must develop a constructive way to work together to rapidly make the necessary changes within the company.



three *Create vision* – After the members of the guiding coalition have been identified, the next step is creating a corporate vision. The vision should be as specific as possible with a clear definition of what the results of this change effort should be; it must also determine the strategies and tactical steps involved in moving the entire organization forward.

Once a clear corporate vision has been outlined, individual business units within the organization, including procurement, can begin to define their own visions. Ideally, the business units’ visions are tied to the overall corporate vision. Groups such as the procurement team should develop their own vision to continue moving forward to support the business and corporate vision.



four *Communicate the vision* – For a vision to be successful – whether at the corporate or business unit level – it must be clearly communicated throughout the organization. If this communication doesn’t happen, then the previous steps are irrelevant.

Many times, communicating the vision is incorrectly defined as a strategic activity. For communication to be successful, it needs to occur on a consistent basis – not simply once a quarter at divisional meetings. And even though members of the guiding coalition take the lead in communicating the vision, they are not the only ones responsible for getting the message out. The

vision should be discussed by all levels of management throughout the organization on a regular basis; it cannot only be communicated in headquarters but in all regions and at all sites. This allows employees to understand how their job responsibilities relate directly to the overall vision.



five *Empower others to act on the vision* – Inevitably there will be obstacles to change. These obstacles include people, systems, procedures and corporate cultures. Successful communication empowers employees to identify and remove obstacles that undermine the vision.

In addition, it is important that the guiding coalition encourage risk-taking as well as non-traditional ideas, activities and actions. Employees need to understand that minor failures are acceptable during the learning process as long as they are correctable and don’t endanger the entire change effort.



six *Plan for and create short-term wins* – Organizations that implement a change quite often

become impatient waiting for the end results. This causes them to look for ways to cut corners, thinking that this will allow them to experience the projected outcomes sooner. However, cutting corners in one area can often mean adding time to another. To avoid this, it is important to plan for small, step-by-step, visible and tangible improvements to the bottom line and openly reward employees accordingly.

An example of creating an incremental win in the procurement organization would be to identify a particular area of spend where there is room for improvement. This might not mean focusing on the biggest areas of spend that typically get the most attention, but rather on areas that are often overlooked, such as indirect spend (e.g., travel, professional services, office supplies). Simply streamlining indirect spend across the organization can result in double-digit savings as opposed to only a 1 or 2 percent savings from the bigger spend areas. And double-digit savings in several areas can add up to significant savings overall. So it's important to evaluate all areas for improvement opportunities.



seven *Consolidate improvements and produce more change*

– While it is important to identify short-term wins, organizations must not become too satisfied with those initial gains.

Incremental wins increase the overall credibility of the change effort and invigorate new processes. By identifying areas that are working, employees learn from these improvements and then are able to implement additional processes that will lead to even greater momentum and achievements.



eight *Institutionalize new approaches* – Good communication is essential not only for delivering the corporate vision but also for articulating successes and failures as they relate to the change effort. This establishes a sense of trust throughout the organization.

It's important for employees to understand the connections between new behaviors and corporate successes, especially when results of the change are not immediately visible. People

often fail to realize the amount of preparation time that must go into the change effort before the outcomes are significant enough to be noticed.

However, improvements resulting from the change eventually start to level off once it has become part of the organization's regular processes. To maintain upward momentum, organizations must continuously evaluate the need for change, since failing to do so could result in leveling off or even regressing.

Managing and sustaining true change is a daunting task for many businesses, but the rewards associated with successful transformation far outweigh the risks of maintaining the status quo. Organizations that don't engage in true transformational change are destined to lose their competitive edge in today's dynamic business world.

BIO

Henri Irrthum is the retired vice president of global sourcing and logistics services and chief procurement officer for DuPont.