



Creating a cost-conscious culture



*"At The Faculty, we're building
a culture, not a company."*

> Tania Seary, Founding Chairman



Whether you are a CEO, CFO, COO, CPO or leading a corporate function, one of your primary accountabilities is to nurture a resilient organisational culture.

Culture underpins your organisation's corporate values and business strategy – and therefore your success.

Transformation is tough and success is rare. The journey is long and is punctuated with various initiatives or disparate change programs.

Whether they are the result of your own leadership vision, or prompted by market disruption, as a senior executive you will inevitably be called upon to drive a transformation program at some stage in your career – be it an IT implementation, a cost-down initiative, driving growth or a total re-set of your company's strategy.

Moving your organisation from old ways to new – and making that change endure – is a tough task, and one which differentiates mediocre from great leaders.

Whatever the change – two things are critical for you to manage throughout – your cost base and nurturing your culture.

Ultimately, these initiatives should build on each other, underpin the business strategy and accumulate to create an all pervasive, cost-conscious culture.

Issuing stern directives from headquarters will not suffice. Success requires universal and tireless efforts to engage and motivate your organisation to deliver on the vision.

That's where The Faculty comes in.

We work with the globe's leading organisations to consolidate discrete and disconnected change initiatives into an enduring corporate culture focused on strong and sustainable cost discipline.

At The Faculty, we firmly believe that sustainable cost advantage can only be achieved by those working in the business. While many consultants focus all of their efforts at head-office, we work alongside your employees to drive meaningful behavioural change at every level of the business.

We teach your people how to fish – we don't fish for them.

By putting people at the centre of our approach, we bring together the 'science with the soft skills' to create a mindset of cost focus and discipline throughout your organisation. We help everyone – from the C-Level to those in the field – understand how they can optimise their cost base and empower them to take action.

Next, we build and embed capability, equipping your people with the right blend of technical and commercial leadership skills to manage the complex cost decisions necessary to deliver your vision.

No matter where you are in building your corporate culture, or which strategic initiatives you have underway, The Faculty will work with you to ensure your long term vision is implemented with commercial finesse at the coal-face.

And when the parade has come and gone, you will be left with a more commercially-savvy organisation, one underpinned by...

a culture committed to cost and compounding value to deliver long-term shareholder value.

In the pages that follow, we offer six scenarios. We catalogue the tell-tale signs that forewarn cyclical performance and value leakage, and offer The Faculty's solutions for linking and underpinning transformation programs with a cost-conscious culture.

When cost is an event, not a discipline...

*Price is what you pay.
Value is what you get.*

> Warren Buffett

2 Making meaningful changes to your organisation's financial performance requires more than a cursory fine-tuning of your cost base – there needs to be a significant cultural shift in the way costs are managed.

The early heroes of most cost reduction programs are those that announce huge savings achieved by pressuring complacent suppliers and revising outdated processes.

These cost saving “events” are only the tip of your cost-down iceberg. You cannot afford to rely on one-off projects or periodic austerity drives to deliver an enduring shift in your cost base.

Creating sustainable cost transformation is not a change in process – it is a change in thinking that requires complete organisational commitment and involvement.

Everyone in the organisation – from senior executives to those in the field – needs to view all costs as opportunities for creating additional shareholder value.

SYMPTOMS

- The cost-down direction is not supported and seen as at odds with the long-term ‘welfare’ of the organisation
- Cost is driving short-term initiatives and thinking
- Your new cost structure is not sustainable
- Cost is seen as a ‘finance or accounting function’
- Accountability for cost management is delegated to the point where no one is ultimately accountable
- Spend leakage is occurring throughout your business
- There is a distinct lack of understanding of cost drivers
- Inadequate, or lack of, spend visibility
- Cost reduction initiatives are not assessed against an understanding of customer value

SOLUTIONS

- Communicate the cost-down vision with transparent, actionable and consistent messaging across the business
- Identify cost initiatives and areas that go beyond traditional sources and communicate these to the broader organisation
- Set targets and metrics based on external benchmarks
- Walk the talk – demonstrate your commitment to cost-downs by the way you and your lead team operate daily
- Assess commercial capability across key roles in your organisation

CASE STUDY

Our client, a commercial aviation provider with more than A\$2 B procurement spend, asked The Faculty to reduce costs, without damaging customer value. To achieve this, we set about designing a world-class cost program that would:

- Instil a culture of disciplined financial management across the business
- Build competitive advantage through clear focus on the customer
- Secure a profitable future upon which to deliver greater shareholder value

Grounded in analytics and embedded through cultural change, The Faculty developed a proprietary approach toward ‘Optimising Supply Chain Costs’. Comprising an opportunity diagnostic, current and future state value chain analysis, tailored procurement training and the development of pragmatic action plans. The program was also underpinned by a formal change and communications strategy.

By having a clear understanding of customer value against which to assess cost reduction strategies, Procurement developed a 12 month cost management plan for the CFO and ultimately provided the Board with confidence in their ability to control costs, deliver shareholder value and delight the customer.

- Close business acumen capability gaps through tailored training interventions
- Ensure organisational structures are based on clear accountabilities and well understood decision-making rights
- Re-assess your low-cost country sourcing strategy to ensure you are still operating in the most profitable locations
- Determine the business case for outsourcing
- Introduce category management to uncover new sources of value in your existing portfolio
- Sponsor an independent health check of supplier relationships to identify heat-points and areas for improvement
- Construct a contract management framework which supports value in addition to ensuring contract and price governance
- Embed a strategic cost management methodology across the organisation

SUCCESS

- Financial savings and benefits tracking
- Supplier consolidation
- Contract compliance
- Peer Benchmarking – Cost & Operations
- Initiatives proffered from the business (as opposed to those mandated)

Faculty Factoid

The Faculty has played a major role in upskilling Australian procurement professionals in the “art” of strategic cost management. In the last decade, more than 700 practitioners have been educated in a globally recognised methodology to dissect cost structures, gain market cost and price insights and build should-cost modeling as a basis for effective negotiations.



When your IT platform is running you,
rather than helping you run the business...

*Change is not a destination,
just as hope is not a strategy.*

> Rudy Giuliani

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Following a cost-down initiative, a system change is very often the next step in reforming an organisation's cost structure.

Corporate history is littered with careers made and lost around major technology undertakings.

For better or worse, major IT implementations become the legacy of many senior executives' careers.

In the ideal state, IT platforms should provide decision support, not just devour cash, time and resources.

Defining the specifications, selecting the system and vendor, gaining Board approvals and communicating the decision are just the beginning. The real work starts now.

As a senior executive, the real challenge is not about IT – it is in guiding the culture and behaviours of your people to deliver on the potential of the business case – whether it be standardisation or consolidation of spend, increased efficiency, control and compliance around process, or increased productivity.

Faculty Factoid

The next generation of procurement leaders will demand more collaborative, engaging, integrated and intuitive approaches to working, learning and socialising. To keep pace with the changing face of procurement, we have built "Procurious" - the world's first online community for aspiring and ambitious procurement professionals. Leveraging leading edge social media software, this community enables professionals to connect, express themselves, share ideas, learn and develop.



SYMPTOMS

- Poor system uptake with end-users unaware of the underlying business principles and drivers
- The system is impeding constructive supplier relationships
- Process inefficiencies are exacerbated, rather than resolved
- Reporting does not meet the business case expectations
- Poor end-user skills increase system content errors and create additional work

SOLUTIONS

- Implement a technology on-boarding program for suppliers based on proven change management approaches
- Develop practical communications and user guides for all stakeholders
- Provide company-wide face-to-face end-user training, including train-the-trainer
- Audit system capability
- Offer eLearning modules to all stakeholders and incorporate new starter induction programs

SUCCESS

- Greater visibility, accountability, control and monitoring of costs
- Clear alignment between spend and the overall business strategy
- Increased system uptake and compliance from all stakeholders
- Adoption of the system as a single version of the truth

CASE STUDY

Having invested heavily in their ERP systems, a blue-chip global resources company tailored an implementation plan around proven change management practices, facilitating a high degree of process standardisation across the decentralised business, driving compliance to global standards and accelerating eProcurement capability.

The Faculty worked with this organisation to help deploy and utilise this system, to build a central source of data for their contracts and procurement activities. This central data repository has enabled the organisation to achieve clarity of responsibility and drive accountability across contract owners, procurement and operational stakeholders.

This has increased the level of risk management and built a solid foundation for future usage of electronic sourcing and procurement solutions. These solutions are driving process efficiencies, cost downs and accountability for risk and supplier management.

When growth is value destructive, rather than value-adding...

*Only those who will risk going
too far can possibly find out
how far one can go.*

> T. S. Eliot

The growth story is one that every leader wants to write and most employees want to follow.

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Whether you are driving organic growth through your existing business, launching new products, entering new geographies or acquiring new businesses, growth involves major change and requires careful management.

*Whilst many aspects of growth are
focussed on growing the top-line, cost
management remains a critical lever in
achieving your growth objectives.*

Companies who are positioned low on their industry's cost curve have significant advantages over their competitors. Higher margins mean you have the option to reduce pricing in order to "buy" market share from competitors. A lower cost base provides you with a lot more agility to respond to changing market conditions. It also affords you the option to out-invest rivals in marketing and new product development.

SYMPTOMS

- Pockets of anarchy and silo-based loyalties emerge due to undefined standards and frameworks
- Poor market intelligence and visibility
- Fragmented supplier relationships
- The vision and strategy fail to translate into aligned action in the field

SOLUTIONS

- Construct industry cost models
- Align the cost reduction performance metrics, rewards and incentives with the growth strategy
- Create an accelerated solutions environment, including back-casting
- Drive cultural alignment across countries and services
- Create a commercial knowledge database to transfer cost management best-practices throughout the organisation
- Audit your third-party quality assurance program
- Adopt new collaborative buying processes using social media
- Use value chain analysis to develop new business models with internal customers and suppliers
- Implement a Supplier Confidence Index to determine levels of supplier engagement in your growth strategy
- Collaborate with suppliers on growth strategies

CASE STUDY

A large coal operation with supply chain spend over A\$8 B, transferred its supply function from a regional centre to a capital city.

With more than 40 per cent of the existing supply function electing not to relocate, the client predicted a serious knowledge gap. The Faculty was asked to document work instructions and processes as part of an ongoing knowledge management project to ensure successful business continuity of the operation's supply function.

The Faculty engaged directly with the client's supply team, interviewing personnel on their role, functions and processes. The results of these discussions were condensed into a series of team snapshots and work instructions across all aspects of supply, including:

- Contract Establishment
- Vendor Management
- Warehousing
- Inventory Management
- Purchasing and Claims Processing



Faculty Factoid

The Faculty has been living its own growth story. By opening the doors of our London office in 2013, The Faculty took our first official step to becoming a global knowledge hub. We believe our conversations with CPOs across the UK, Europe and Asia-Pacific will serve to promote and advance the profession and deliver competitive advantage through collaboration.

- Upskill new employees and suppliers on your organisation's cost optimisation strategies and ways of working
- Clearly define a role for your commercial team in the development of new products
- Cost benchmark against new acquisitions and peers in new markets. Look at numerical comparisons, but also highlight alternative ways of working

SUCCESS

- Clear insights and intelligence from the market
- Improved accuracy in demand management for your internal products and services
- Alignment across your extended supply chain
- Increased contract compliance
- Improved management of risk and functional alignment across your extended supply chain
- Reduced cycle time and improved outcomes from your new product development program
- Increased employee and supplier engagement

When your controls are out of control...

*There are known knowns...
There are known unknowns....
But there are also unknown
unknowns.*

> Donald Rumsfeld

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Unfortunately, learning that you need to focus on compliance often comes about the hard way – reading it on the front page of the news, a major financial impairment, legal proceedings or all of these nightmare scenarios combined.

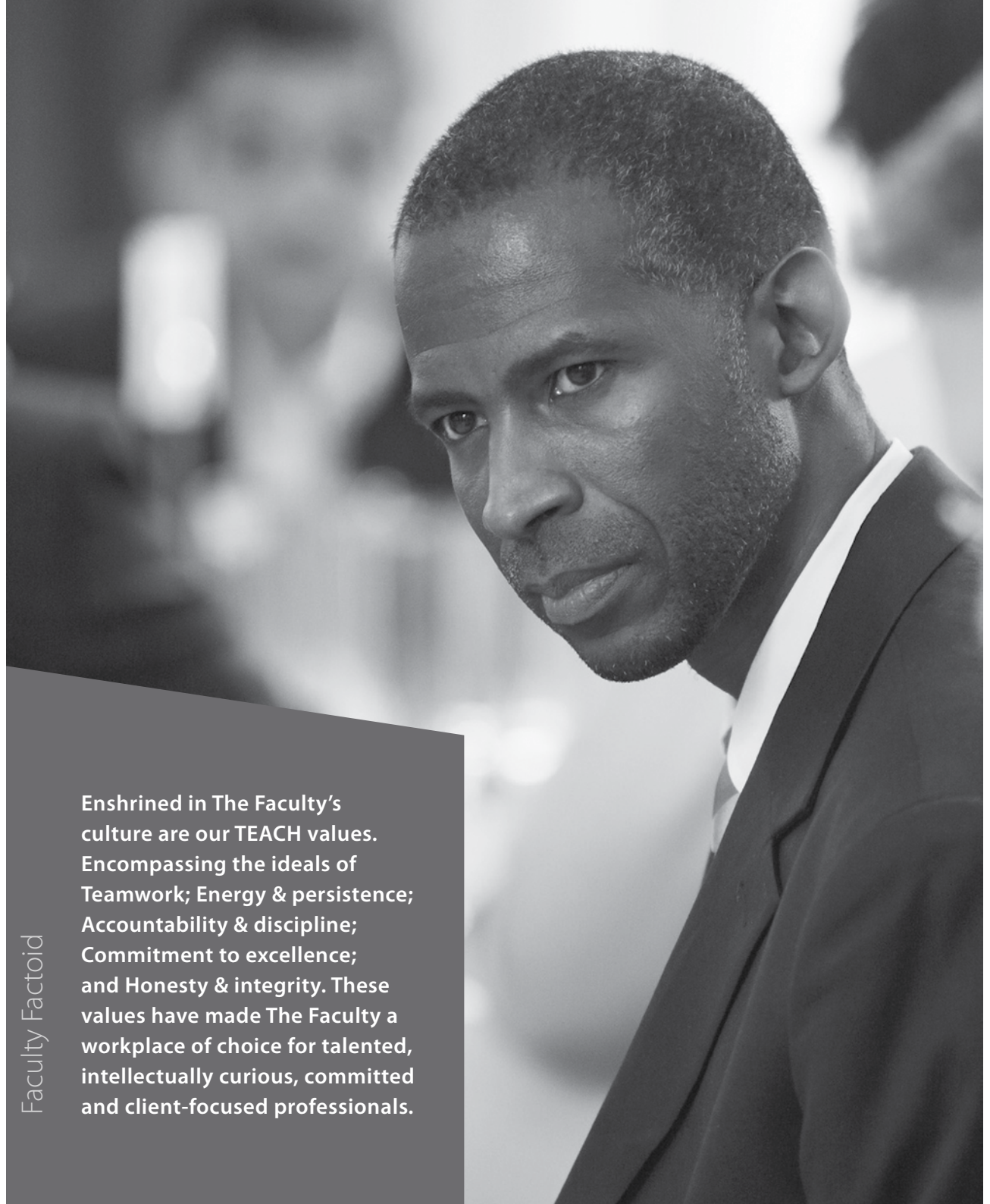
Whatever the impetus, a focus on controls has the potential to bring a host of benefits that will have an enduring effect on your organisation's commercial health.

At The Faculty, we call it process fitness.

Based on the principle that “process is liberating”, we believe that having strong commercial processes in place, and compelling people to comply, actually liberates them from the daily transactional churn. Streamlining these processes allows them to think strategically about growing the business – while keeping the organisation free from embarrassing and distracting compliance issues.

Faculty Factoid

Enshrined in The Faculty's culture are our TEACH values. Encompassing the ideals of Teamwork; Energy & persistence; Accountability & discipline; Commitment to excellence; and Honesty & integrity. These values have made The Faculty a workplace of choice for talented, intellectually curious, committed and client-focused professionals.



CASE STUDY

A large metal fabricating business operated a decentralised procurement function across its four key divisions. With spend in excess of A\$2 B, the client had few standardised processes resulting in disparate approaches to procurement.

Seeking to establish clear procedures on operational procurement functions, the client engaged The Faculty to develop a suite of Standard Operating Procedures to provide a consistent, standardised approach to procurement. These Procedures were developed in conjunction with both procurement personnel and key divisional representatives seeking optimal procurement outcomes.

The final Standard Operating Procedures encompassed:

- Category Strategy Development & Execution
- Contract & Supplier Management
- Procurement Master Data & Systems
- Procurement Operations
- Personnel Management & Capability Development

SYMPTOMS

- Too many surprises and being called to explain
- Ever having to ask “Who should have known about this?”
- You are talking to the Audit Committee more often than to your team
- Employees are buying more out of contract, than off contract
- Your suppliers know more about your spend than you do
- People across the organisation are being invited to supplier ‘events’

SOLUTIONS

- Create a transparent, auditable procurement governance structure and framework, including levels of authority
- Ensure key procurement processes and procedures are in line with organisational governance policies
- Customise a comprehensive suite of supporting tools and templates to support all facets of procurement
- Develop detailed suites of work instructions and reference guides
- Consider the business case for implementing an automated system to include Procure to Pay (P2P), source to contract, eProcurement, eSourcing and contract management
- Clarify roles and responsibilities, corporate values and communicate regularly on behaviours that sit within and outside organisational principles and guidelines

SUCCESS

- Increased contract compliance
- Transparency of approvals and authorisation
- Increased spend visibility
- Increased efficiency
- Reduced risk of fraud
- Discussion around values and principles

When success has come at the price of customer value...

*Any fool can reduce costs.
Just ignore customer value.*

> Robert Pease

To successfully focus the organisation around a change outcome, your direction and messaging must be clear, consistent and authentic.

Although the pressure to execute your IT implementation, cost-down or other change program is considerable, it sometimes comes at the expense of customer value.

Because procurement interfaces with the full spectrum of corporate stakeholders, they play a valuable role in enhancing corporate reputation.

The commercial governance structures developed by procurement promote responsible, ethical and fair purchasing practices that support and enhance your organisation's values, objectives and reputation.

Procurement can also play a key role in improving your corporate social responsibility indices by building programs around social and local sourcing, as well as providing access to a sustainable, diverse and advantaged supply chain.

SYMPTOMS

- Representations from employee groups
- Consumer protests
- Local community push-back
- Peak interest groups lobbying senior management
- Investor and shareholder demands

SOLUTIONS

- Develop a corporate engagement strategy that anticipates the impact on customers and external parties
- Develop engagement metrics and reporting to be shared with all stakeholders
- Implement a multi-channel communications strategy that reaches all key audience segments
- Understand and leverage the power of social media to connect and engage
- Upskill employees on stakeholder engagement and influencing
- Devise and implement a local sourcing program
- Develop social procurement and ethical sourcing policies
- Establish a list of social enterprises qualified to supply your organisation

- Develop procurement principles and policy documents that are:
 - Simple
 - Relevant across the organisation
 - Readily communicated with disparate stakeholder groups

SUCCESS

- Improved customer, supplier and community engagement metrics
- Improved business health of key groups – local companies, social enterprises and other select suppliers
- Increased spend directed to social procurement enterprises and greater supplier diversity engagement
- Increased third-party advocacy



Founded in partnership with Social Traders, The Corporate Board for Social Procurement first met in 2011. With the aim of facilitating and advocating the growth of social procurement practices in corporate Australia, Board meetings are held quarterly in Sydney and Melbourne.

CASE STUDY

With operations in remote indigenous communities, our Resources client identified an opportunity to build a local sourcing program. Stimulating local employment and commerce, the program also aimed to improve the client's access to a qualified and compliant supply base to support their A\$2 B spend.

Engaged to develop and implement the program operating model for local sourcing, The Faculty:

- Undertook surveys of local businesses and internal stakeholders
- Designed and executed the program operating model
- Lead communications and education with local suppliers
- Managed implementation
- Provided ongoing program management

A first-mover in this space, the client now has a vibrant online supplier directory and has distributed hundreds of work instructions to qualified suppliers across four indigenous communities.

When it's time to hit the reset button...

Be brave for five seconds longer.

> Todd Sampson

As a leader, there are times when we need to hit the reset button.

The impermanence of everything from market conditions, to customer demands and available technologies, mean that for whatever reason, what has been built in the past, may need to be dismantled.

This takes enormous courage and resolve.

Among the most daunting of times, these periods can also be the most exhilarating. Finally you can start from scratch and implement all the strategies and plans you have always dreamed about.

Everything is new – the vision, the strategy and the structure. Your challenge is to not only engage your organisation in the future, but also to let go of the past.

Never underestimate the challenge of encouraging people to leave the comfort zone of old ways of working and embark on the new journey. Your role is to understand and manage the inherent sensitivities of change and unite the organisation through trust.

SYMPTOMS

- Reinforcement of all things not working
- Culture reflecting the old; not the new
- Employees carrying out tasks and exhibiting behaviours that are irrelevant, out-dated and inconsistent with the future state

SOLUTIONS

- Conduct spend analysis
- Develop an organisation-wide procurement strategy
- Benchmark capability against your peers and competitors
- Assess the current state of commercial capability
- Baseline supplier confidence
- Define commercial organisation structure and competencies
- Document detailed end-to-end procurement procedures, including:
 - Purchasing
 - Category strategy development
 - Master data and systems
 - Contract and supplier management

CASE STUDY

Chosen through a global tender process, The Faculty was selected to implement a best-practice procurement function for a leading international chronic disease research institute.

Based in Bangladesh, the client's hospitals and clinics treat over 200,000 people each year. Employing more than 4,000 people and funded by donors including the Gates Foundation, WHO, UNICEF and Harvard Medical School, there were two transformation drivers:

- Ensure the Institute receives best value for money outcomes from donor funding
- Implement robust governance and probity measures

The Faculty undertook a comprehensive procurement review, developed a future strategy, procurement structure and operating model, as well as delivering technical and commercial leadership training to the team.

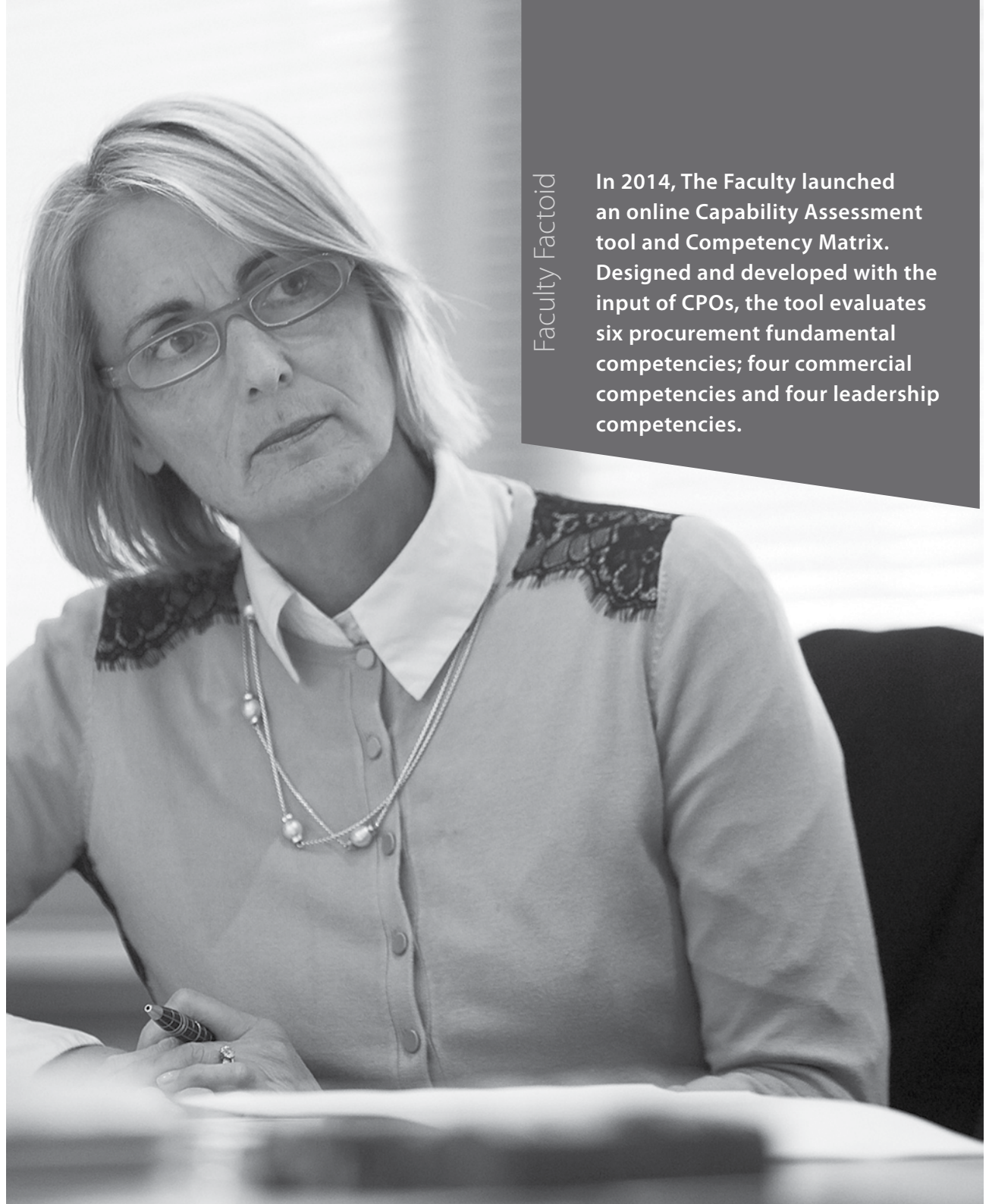
- Develop a contract management framework
- Implement formal Supplier Relationship Management
- Select and implement an eProcurement system
- Embed and upskill employees with a bespoke cost management methodology
- Commercial Awareness and Contract Masters classes for Heads of Operations

SUCCESS

- Financial savings
- Improved compliance metrics
- Greater shareholder value delivery
- Improved supplier confidence
- Reduced product development and operational improvement cycle times
- Employee retention

Faculty Factoid

In 2014, The Faculty launched an online Capability Assessment tool and Competency Matrix. Designed and developed with the input of CPOs, the tool evaluates six procurement fundamental competencies; four commercial competencies and four leadership competencies.



OUR SERVICE OFFERING

CONSULTING

Procurement Transformation

- Transforming your function into a world class, customer focused organisation that delivers real value to your business
- Conducting value diagnostics and portfolio reviews to identify and optimise new streams of sustainable value
- Change management advisory and implementation to embed a cost-conscious culture

Procurement Strategy

- Procurement strategy – developing a plan for your function and your organisation
- Articulating that strategy and message effectively, especially to senior management
- Developing and embedding procurement processes and policies

Category Management & Sourcing

- Developing and optimising category strategies
- Uncovering new sources of value within existing categories
- Benchmarking category management performance
- Developing and implementing strategic sourcing approaches
- Low-cost country sourcing
- Outsourcing planning and strategy

Supplier Relationship Management & Innovation

- Designing and implementing a Supplier Relationship Management program
- Driving innovation through the supply base
- Independent third-party review of key supplier relationships to identify areas for improvement

Risk Management & Governance

- Identifying and managing risk in your external supply base
- Developing and embedding procurement processes, policies and governance frameworks
- Establishing process discipline and KPIs to sustain operational excellence

Performance Management & Benchmarking

- Independent procurement reviews to assess your performance and develop a plan for the future
- Quantitative and qualitative benchmarking programs, including procurement and Procure to Pay (P2P) health checks to see how you compare to your peers and leading practice

Procurement Systems

- Planning for and implementation of procurement systems and processing including Procure to Pay (P2P), source to contract, eProcurement, eSourcing and contract management
- Project and change management associated with implementation of new systems

Social Procurement & Local Sourcing

- Establishing policies and implementing ethical sourcing practices
- Developing procurement policies to drive improved supplier diversity
- Driving sustainability in procurement through policy, strategy and implementation with your supply base

Understanding Procurement for Sales

- Conducting independent health checks with your most important customers to understand how they measure value and confirm your customer value proposition
- Training your sales team in the fundamentals of the procurement process and terminology
- Developing customer-centric sales plans aligned to the procurement process

TRAINING & CAPABILITY

Capability Development

- Open training programs including The Procurement Executive Program, Pathways to Procurement, Category Management Accelerator and Strategic Cost Management
- Development and delivery of tailored training solutions
- Mentoring of staff to embed concepts and provide professional career coaching

Capability Diagnostics

- Capability assessments to identify gaps in team skills, tailoring individual and team development plans to close the gaps
- Design and alignment of procurement competency matrix to map capability requirements
- Organisational structure review, design and implementation
- CPO Benchmarking to identify high potential candidates and accelerate commercial leadership to the organisation

ROUNDTABLES & FORUMS

Procurement Roundtable

- Roundtable membership including quarterly CPO meetings, category and issues workshops, research, mentoring program and 360° benchmarking

Professional Networking & Knowledge Forums

- The Annual Asia-Pacific CPO Forum
- The Future Leaders in Procurement Forum (FLiP)
- Leading and Learning Breakfast Series
- The CPO of the Year Award
- The Corporate Board for Social Procurement

THE FACULTY

At The Faculty, we believe procurement is integral to core business strategy. Through commercial leadership, innovation and deep procurement knowledge, we are helping to transform the profession.

The Faculty delivers:

- Consulting and change implementation to elevate procurement through operational, functional and systems transformation, strategy development and best-in-class benchmarking
- Leadership, commercial and technical skill development to build and embed high-performance procurement teams
- Networking and thought-leadership forums to connect and inspire the globe's most dynamic and strategic procurement minds

We are not theorists. We are practitioners, committed to delivering innovative and actionable solutions to help you stay ahead of the game.

www.thefaculty.com.au

PROCURIOUS

A world-first for aspiring and ambitious procurement professionals, Procurious is a member-only online community that aims to connect over 100,000 top professionals globally, one meaningful introduction at a time.

Through Procurious, you can:

- Network and stay in touch
- Discuss and debate
- Access learning to suit your needs
- View, register and share events
- Build your profile

Demonstrating the power of the global procurement network, and amplifying these connections through social media, Procurious is changing how procurement professionals connect, work, live and learn.

www.procurious.com

THE SOURCE

Established in 2010, The Source has redefined the procurement talent market by adopting a focus on retention – not just recruitment.

This means that when you engage The Source, you can expect our experienced consultants to assess cultural, behavioural and values fit, rather than simply technical expertise.

Providing specialist procurement recruitment, executive search, contracting and people development services, our approach to client and candidate management is fuelled by knowledge gained through our expansive network, social media platforms, research papers and our relationship with our sister company – The Faculty.

Whether you are a candidate looking for your perfect role, or a client with permanent, temporary or people development requirements, we are here to work in partnership with you.

www.thesource.com.au





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