



What are the major components of strategic sourcing? How do they relate to high value-added performance delivery? And what are the procurement challenges encountered in practice in complex, multi-site organisations across a wide range of sectors? These were the questions put to a worldwide network of chief procurement officers and purchasing leaders for this inaugural edition of *CPO Agenda*. The aim was to provide a practitioner perspective, positioning the subject within the framework of change management and shareholder value. Their comments provide an illuminating picture of the current status of strategic sourcing as a distinctive business competence.

There was an optimistic, yet pragmatic, tone to the CPOs' assessment of their role. They regard themselves as being fully accountable for the quality of procure-

ment across their organisations, no matter who is actually doing it. All of them have multiple internal stakeholders and operate within a wide range of differing organisational structures. The precise balance of business needs and required performance deliverables varies sector by sector. However, there is a consistent view that strategic sourcing has to generate significant financial benefits that flow to both the top and bottom line.

Pål Eikeland, director of the group procurement function at Orkla, Norway's biggest conglomerate, argues that: "There must be a strong link between procurement strategy and the overall business strategy. We have to identify key areas of focus, in terms of both cost-down and value-up activities, in order to secure maximum overall business effect." As *figure 1* (see page 32) makes clear, the common denominator is a need to meet demanding investor expectations by maximising

shareholder value in a sustainable manner. Procurement has to be closely integrated with critical business drivers, particularly those linked to growth, return on capital and margin management.

Nick Wildgoose, procurement director at Zurich Financial Services, reinforces these sentiments: "The key internal challenge for CPOs in strategic sourcing," he says, "is ensuring that it is recognised at the highest level as a way of supporting the needs of the business in meeting financial goals and therefore maximising shareholder value."

Minor incremental benefits are not sufficient. Neither is an overly conceptual process orientation. CPOs demand evidence of demonstrable results and executional excellence. They want performance in line with agreed business goals. In their eyes, the debate about whether sourcing is or is not strategic is irrelevant. What matters to them is how their teams plan and implement strategies for change that drive timely and superior performance across their sectors, categories and supplier groups locally, regionally and globally.

Tom Kinnaird, head of global procurement at marketing services giant WPP, sums it up by recognising that "just as there is no single definition of what 'strategic sourcing' means, there is no single way of implementing it successfully. Trying to graft a solution that has worked in one organisation on to another, with a very different culture, simply does not work. What we need is pragmatic sourcing; figuring out what will succeed and what won't. Being less than perfect when compared to supposed 'best practice' is actually an OK place to be."

A multiple agenda

A disciplined approach towards strategic sourcing is at the heart of category management (for both production and services expenditure), as well as business process and functional outsourcing, major business-to-business supplier relationship management, and business transformational value chain initiatives such as lean supply, new product development sourcing and corporate social responsibility programmes. Such initiatives represent the ambition of building distinctive procurement competence, as illustrated in *figure 2*

Pulling Power

by Jon Hughes

To make strategic sourcing a core competence in your business, there are six performance levers you need to master

(see opposite page). Embedding it requires a concerted focus over a considerable period of time using a number of performance levers, which are examined below.

GlaxoSmithKline is a good example of competence-building in practice. As a powerhouse pharmaceuticals company, formed through the merger of Glaxo Wellcome and SmithKline Beecham, it has a tradition of executive commitment to procurement transformation that stretches back over a decade. Joe Meier, senior vice-president of procurement and contract manufacturing, based in Philadelphia but in close contact with the company's European operations, has a perspective on the challenges of embedding sourcing and supplier management.

In his view, there are a number of interconnected activities. "First, delivery of visible, tangible, measurable, top and bottom-line benefits is essential. From the CEO down, there is an expectation that procurement fully supports growth and financial success. Second, you have to embrace technology, both in the procurement space and with suppliers. In GSK we have been aggressive in our use of worldwide information and e-sourcing and are also working closely with targeted suppliers on building their capability and technology applications.

"Third, you have to move beyond short-term leverage savings into joint working and closer strategic integration with core suppliers. There are some exciting initiatives well under way across GSK through supplier forums, lean supply and our operational excellence programme. Lastly, and probably most importantly, the morale, commitment and development of people has to be the top priority. This is something we take extremely seriously. We are now using mentoring, coaching and sophisticated HR tools to make sure procurement remains an exciting place to be."

Implementing a multiple agenda, such as at GSK, requires CPOs to be change agents as much as functional experts. A consensus emerged from those interviewed

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that sustained success comes through the determined application of the following six broad performance levers.

PERFORMANCE LEVER 1: Strategic alignment and business integration

There is a critical need to maintain or renew momentum behind procurement's progress in a way that more closely aligns it with the business drivers that matter. The language and priorities of top executives must be fully embraced. This requirement for close integration is being forced by ever-growing competitive pressures and the unrelenting, quarter by quarter expectations of the investment community.

For Seref Alptekin, category supply management director for Unilever Foods Europe: "Today's business environment is unlike any we have seen in the past. The rules of the new game are being drawn up as we speak. Procurement must accept the challenge of stepping up to the plate, not just participating in this game, but actually contributing to the definition of the new rules of engagement. Managing the supply base accordingly defines who these players are, and how the game will be played in the future."

Sourcing is no longer being seen as primarily about securing timely and cost-

effective supply of components, parts, services and raw materials. While this obviously remains important, there has to be a much closer value-chain connection with activities that ultimately work through to top-line revenue growth. These cover brand-building, product leadership, market growth, reputation and excitement in the eyes of the customer.

Allan Burns, global head of procurement at the premium drinks maker Diageo, argues that "everyone in procurement needs to bring commercial flair to the tasks that ultimately deliver business advantage. We must talk the same language as top executives, power brokers and brand-builders. Our challenge is to sell procurement and our contribution in ways that directly help the company to compete more effectively. This must advance profitability and brand impact. If it doesn't, then we should not expect the key stakeholders to take us seriously. We are working hard to establish this mantra."

At the heart of adopting this balanced approach to sourcing, strategically integrated with broader corporate goals, is a requirement for examining procurement performance through a more sophisticated prism. This demands a considerable reorientation of procurement prac-

tice and a fundamental redefinition of its focus. Leandro Jasiocha, purchasing manager at Electrolux, says: "The most important opportunity, without any doubt, is value creation. We need strategies, processes, practices, tools and techniques that accelerate and facilitate the creation of value for customers across the value chain. We must change the focus from price management and tactical cost reduction on to value creation. Cost management remains an important element of this, but it needs a more determined focus on innovation, faster times to market, continuous quality improvement and a total cost model delivering a superior performance and cost ratio."

CPOs' forward agenda clearly has to focus on embracing this perspective and restructuring their organisations accordingly to achieve it. At Dutch baby food manufacturer Numico, Luc Volatier, its vice-president, purchasing worldwide, is working hard to integrate the hard and soft levers of purchasing performance, fulfilling the promise to investors of year-on-year improvement in growth, operating margin and free cash flow (see case study 1, page 34).

PERFORMANCE LEVER 2: Executive sponsorship, business-wide engagement and a mandate to deliver

The CPO consensus is that in recent years the level of attention given to procurement at main board level has increased dramatically. The level of support, however, seems to vary between different sectors and countries. For Gary Caswell, procurement director at Southern Water in the UK, "convincing senior management that procurement adds real value, so that they are not seen as people who just buy the paperclips" remains essential; while Seppo Nieminen and his CFO, Olli-Pekka Juhantila, at the Finnish purchasing institute ECL, both believe that "it is amazing how difficult it can be to create a proper

FIGURE 2

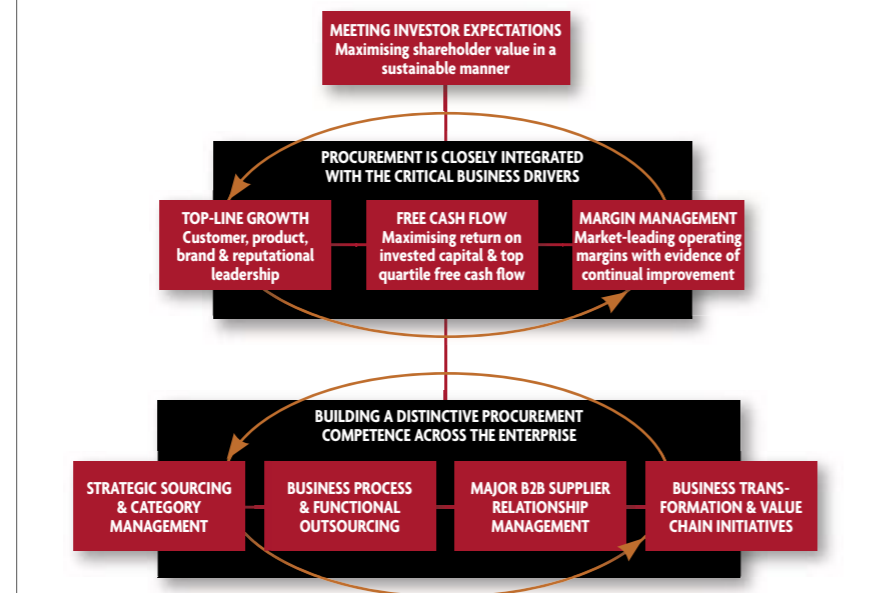
Building enterprise-wide distinctive procurement competence

PERFORMANCE LEVERS & THE OPERATING MODEL	DISTINCTIVE PROCUREMENT COMPETENCE 1	DISTINCTIVE PROCUREMENT COMPETENCE 2	DISTINCTIVE PROCUREMENT COMPETENCE 3	DISTINCTIVE PROCUREMENT COMPETENCE 4
LEVER 1: STRATEGIC ALIGNMENT & INTEGRATION	STRATEGIC SOURCING AND CATEGORY MANAGEMENT	BUSINESS PROCESS AND FUNCTIONAL OUTSOURCING	MAJOR B2B SUPPLIER RELATIONSHIP MANAGEMENT	BUSINESS TRANSFORMATION & VALUE CHAIN INITIATIVES
LEVER 2: SPONSORSHIP & BUSINESS ENGAGEMENT	■ Defined process for sourcing on all categories	■ Defined process for outsourcing and offshoring	■ Defined process for managing suppliers	■ Defined process specific to the initiative
LEVER 3: ORGANISATIONAL DESIGN & STRUCTURE	■ Enterprise-wide way of working & full compliance	■ Enterprise-wide way of working & full compliance	■ Enterprise-wide way of working & full compliance	■ Enterprise-wide way of working & full compliance
LEVER 4: GOVERNANCE & PROGRAMME MANAGEMENT	■ Covers:	■ Covers:	■ Covers:	■ Covers:
LEVER 5: LEADERSHIP, PEOPLE & BEHAVIOUR	● Total addressable expenditure	● Redefinition of core business	● Segmentation of suppliers	● Business-wide improvement
LEVER 6: PROCESSES, TECHNOLOGY & INFRASTRUCTURE	● Production categories	● Business process outsourcing	● Top 10-50 critical core suppliers	● Supply chain & lean supply
	● Technological categories	● Functional outsourcing	● Second tier major suppliers	● Innovation & business growth
	● Service categories	● Managed service provision	● Emerging key suppliers	● CSR & reputation management

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FIGURE 1

Impacting the drivers and metrics that matter



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understanding of purchasing's contribution in adding value among the company's top management". Encouragingly, though, the central debate about whether or not strategic sourcing should be taken seriously is long over in most companies. Top executives just want action and results.

Cascading that message into the organisation is still a challenge, requiring conviction and a highly responsive, flexible approach. The comments of John Taylor, global vice-president of purchasing at AstraZeneca, are typical. "Getting the business truly engaged with strategic sourcing calls for three inter-connected activities: first, allocating appropriate resources to participate in the sourcing process; second, seeing the activity as a business process rather than a project; and third, recognising that the nature and quality of the value and benefits delivered will change over time."

Extending the reach of strategic sourcing across total addressable expenditure brings category leaders into contact with a huge stakeholder group. For every sourcing professional there are usually 10-20 major stakeholders who have to be appropriately engaged throughout the full sourcing cycle. The demands of this, at an organisational and interpersonal level, are increasing all the time, as strategic sourc-

ing achieves greater penetration of non-traditional areas of expenditure.

Within pharmaceuticals, Marino Buser, chief procurement officer of Novartis, highlights the major opportunity of impacting categories such as research and drug development, real estate and employee benefits. "The key internal challenge is about positioning sourcing so that fundamental changes in the procurement process can be implemented, as well as in the mindset of the users."

A number of barriers to the timely involvement of procurement still remain. There are areas of important strategic decision-making, particularly around make/buy and outsourcing, where the level of influence is not high. In Syngenta, Hans Elmsheuser, head of global purchasing, points to the common problem of good support from top management but gaps in understanding lower down the organisation. "It is essential that we have a balanced make/buy attitude in the supply chain," he says. "Top management are now embracing this, although less senior executives still have difficulties looking at the supply chain in this way, particularly when it includes sourcing from low-cost countries."

Internal marketing, persuasiveness and compelling selling therefore remain critically important. In the eyes of Jesper Nicolaisen, senior sourcing specialist at

CASE STUDY 1: NUMICO



Passionate people, an entrepreneurial culture

Company profile

Numico is a leading European baby food manufacturer, with a range of top brands such as Cow & Gate, Milupa and Nutricia. It employs over 10,000 people worldwide and has sales in over 100 countries. Annual sales turnover is €1.7 billion and third-party expenditure is €1 billion.

Business drivers

Jan Bennink, CEO, describes the goal of Numico in straightforward terms: "To be the high-growth, high-margin, specialised nutrition company." The falling birth rate in several key markets, particularly western Europe, presents a considerable challenge that can only be addressed through diversification of the product range and development of new market segments such as heat-and-serve ambient ready meals. Actively encouraging innovation and reducing new product development times, while dramatically improving the overall return on net assets, called for radical new forms of supplier relationships capable of creating value while simultaneously improving asset efficiency.

Hard levers of purchasing performance

Traditional purchasing regimes involving

tactical cost management and a narrow definition of supplier contribution would not have been aligned with Numico's ambitions. Luc Volatier, vice-president, purchasing worldwide, believes passionately that purchasing's mission is all about shareholders and customers, and consequently he looks at required business performance from an explicit financial perspective of Growth x Margin x Cash.

Growth: What alliances with innovative third-party suppliers are capable of supporting Numico's goal of sustained and steady top-line growth? How can innovation and entrepreneurialism be stimulated within carefully defined and controlled strategic supplier relationships? Where will this lead to a demonstrable return in an increase of innovative products as a percentage of net sales revenue?

Margin: How can operating margin be substantially increased? What benchmark margin targets versus competitors and companies in related sectors need to be set? What purchasing initiatives will contribute directly to margin improvement, and over what timeframe?

Cash: How can asset efficiency and working capital management be improved? Where can net operational working capital requirements

as a percentage of net sales (inventories minus accounts payable) be reduced?

Soft levers of purchasing performance

Volatier developed a framework for embedding strategic sourcing and supplier relationship management in Numico through emphasising passionate people times fast response purchasing practice times a continual focus on sustainability, renewal and motivation of the team. This called for both external and internal change. He rejected traditional approaches to managing major suppliers and redefined the competence profile for category directors.

His goal is for Numico to be a "magnet for innovation" from suppliers, with purchasing being the gatekeepers at the interface of the company and the upstream supply chain. This role demands entrepreneurial endeavour, empowerment of an exceptionally intelligent and responsive team, and a determination to create a unique atmosphere that really encourages suppliers to make Numico the number one company on their radar screen. Competitive advantage is flowing from these suppliers and this team approach. Motivating and retaining these purchasing stars is his prime objective.

financial services group Nordea: "The CPO must be an excellent communicator and speak the same language as members of group executive management. There is a real need to be a highly skilled sales person, with the ability to promote the procurement message across the organisation."

Damon Jones, group director of procurement at Group 4 Securicor, goes further by arguing that "change management represents both the greatest challenge and the greatest opportunity for any professional procurement function. Being a professional 'deal maker' is one thing, but being able to drive change, implement and develop stakeholder relationships is a far more challenging skill, and one that, if it is mastered, truly opens the door of opportunity for procurement. It is the Achilles' heel of most businesses."

PERFORMANCE LEVEL 3: Organisational design and structural realignment

Change management skills are critical in complex matrix management structures existing in multi-functional, multi-site and multi-locational organisations. Traditional purchasing managers struggled with this in the past. They had insufficiently appreciated that respect, influence and authority are usually earned rather than enforced through a formal mandate. Some are still learning this the hard way. According to Søren Vammen, chief executive of the Danish institute DILF and European vice-president for the International Federation of Purchasing and Materials Management: "In a number of senior procurement positions you still regularly encounter power-laden, testosterone-type people who have difficulties in internal stakeholder management. They often don't really know how to handle people where they do not have absolute power over them."

No matter what the organisational chart indicates, there is always far more ambiguity and "white space" in the matrix. It is less a question of power deployment than highly detailed job redefinition. Many CPOs commented on the centrality of organisational redesign and structural change to the accomplishment of high-performance strategic sourcing. They are immersed in the complexities of management reporting, redefinition of roles, responsibilities,

authority and accountability, evaluation and implementation of differing structural options, while aligning key performance indicators, rewards and other performance management tools across sites, functions and countries. For Katrine Rasmussen, group quality and business process manager at Borealis: "The internal challenge becomes one of securing adherence of top and senior managers to the agreements, policies and principles that have been developed across the business."

Assessing the appropriate geographical point of sourcing and supplier management is a central challenge, reinforcing the need for detailed assessment of internal organisational requirements, as well as the nature of the external supply market. "The biggest opportunity lies in getting the mix right between strategic, globally leveraged deals and local freedom to act tactically at the point of requisition to secure value," says Alf Noto, vice-president, operating resource

sourcing, at Nokia. "We need to remember that many supply markets are not global." A considered approach to geographical aggregation is required, as illustrated at brewer Carlsberg (see case study 2, page 36).

PERFORMANCE LEVEL 4: Governance and programme management

Over the past decade, global companies have invested considerable resources in the governance of sourcing, particularly through structured change management requiring more effective sponsor reviews, business reporting, performance measurement, programme management, process definition and compliance. This has been supported by extensive competence-building in the procurement community and with operational stakeholders. A generic operating framework has emerged in strategic sourcing, containing detailed process steps connected to a wide array of analytical tools and techniques. In the more

sophisticated organisations, knowledge management enablers such as procurement portals and e-sourcing applications have been introduced to secure process leverage through a single, harmonised, global approach.

While that is all to the good – and none of the CPOs who participated in this article argue against such process standardisation – a health warning is needed. Allan Burns at Diageo emphasises: "We need to remember that all procurement processes are only a means to an efficient end. They are enablers, no more and no less. There is always a concern that procurement people become exceptionally process driven and lose sight of the real end goal, which is about how we deliver brand, customer and shareholder value. The test of success in any process is its direct connection to wealth creation. Without that, it is just a functional utility."

Kees Linse, group contracting and procurement director for Shell, adopts

an even more robust position, believing that: "By their very nature, elements such as strategic sourcing, category management, B2B supplier management and outsourcing are highly strategic and process orientated. The opportunity, though, is to make them work in the actual procurement and contracting of goods and services. To an extent this is about compliance, but also the extent to which processes and strategies prove to be fit for purpose in the operation of transactional buying." There is a risk that procurement professionals become process bound and fail to drive through from analytical strategy into practical implementation.

This is why the CPOs emphasise disciplined programme management. One went further and said it is vital to have a "slight grip on the throat" of all those involved in sourcing to ensure timely results. Performance and execution are essential.

PERFORMANCE LEVEL 5: Leadership, people and behavioural change

CPOs remain keenly aware of the interdependence between strategic sourcing, leadership and team strength. As Ian Howells, senior commercial manager at Vodafone, observes: "The main issue in embedding strategic sourcing has been cultural. Traditionally the 'purchasing', 'supplies' or 'procurement' department was firmly placed on the transactional end of the purchasing spectrum. As a consequence, departments had not been able to attract the calibre of staff with the vision and gravitas needed to implement the changes required to shift activity along the spectrum to truly value-added strategic sourcing." Without great people, procurement remains poorly regarded. If the function has little status and influence it cannot attract high-calibre staff. The challenge is to break out of that self-perpetuating cycle.

Fundamental to resolving this organisational dilemma is convincing top management of the need for change, backed by a compelling business case with a clear return on investment. There has to be real determination, embodied by Luc Volatier of Numico, to recruit category directors and supplier relationship managers capable of operating at a high level. Since demand far outstrips supply, CPOs must position

their organisations favourably within the internal and external labour market. One way of doing this is by emphasising broader business development and an entrepreneurial focus in procurement recruitment profiles. Not surprisingly, companies are bringing in talent from other disciplines. Indeed, several of the most senior CPOs interviewed for this article do not have a procurement background, and this can be regarded as a distinct strength.

There is a content requirement based on real understanding of business functions with greater commercial breadth and a general management orientation. It places a premium on more sophisticated influencing and networking strategies, enabling the best sourcing professionals to interact closely with their top executive colleagues in a convincing manner.

Allan Burns argues: "You must have these skill sets. They are critical to success. You must be able to impact key decision-makers. Possessing this profile and demonstrating the required behaviour gives a natural 'share of voice' with marketing and the best creatives in the value chain."

Driving forward strategic sourcing, category management, outsourcing and key initiatives with major suppliers calls for a sufficient mass of these high-powered people. David Malpiedi, vice-president, global commercial business process, at Becton Dickinson, a medical products supplier, echoes this sentiment: "The internal challenge is all about getting the right skill sets developed so that you can push the programme forward with key customers. Without this capability, the interest and focus goes in cycles from high to low. Wherever you have top-notch people, you find that they are able to level out the cycles and drive a programme forward with high interest. As Jim Collins said in *Built to Last*, 'first who – then what'."

PERFORMANCE LEVEL 6: Sustaining processes, technology and infrastructure

Procurement productivity, operational excellence, company-wide implementation of robust and standardised processes, harnessing technology and strengthening the associated infrastructure remains a critical area of focus for CPOs. They are striving towards two linked goals. First, there



Brewing up a new approach to buying

Company profile

Carlsberg Breweries is one of the largest brewing groups in the world. It employs 31,000 people and produces beer, soft drinks and mineral water in over 40 countries, with sales in 140 markets. Its portfolio includes one of the world's most international beer brands – Carlsberg. Net sales turnover is approximately DKK 35 billion (€4.7 billion).

Strategic priorities

Since 1999, Carlsberg has undergone a major and successful transformation. Critical features have been the strong focus on beer and active participation in the consolidation of the industry, with real concentration on the markets of western Europe, eastern Europe and Asia. From a declining position, Carlsberg has become the fastest growing international brand in the world.

Beer sales volume has increased by 120 per cent, there has been strong organic and acquired growth, with market leading positions increasing from four to 20-plus countries. It is trying to win the battle in its strategic goal of becoming "probably the best beer company in the world". In turn, Ebita operating profit has increased from 7.1 per cent in 1999 to 9.9 per cent in 2003. Procurement is expected actively to support margin goals.

Evolution of a new operating model

Before 1999, in common with most aspects of the business, procurement was done locally and in a traditional way, with very limited co-ordination between companies. In that year, a corporate strategic sourcing function was established as a project organisation. Over the next five years, despite having relatively few dedicated resources, it managed to encourage some cross-border sourcing in areas such as malt, hops, cans and glass bottles. It particularly concentrated on knowledge and competence building and developed a Procurement Academy in conjunction with its then alliance partner, Orkla.

While some momentum was established, by 2003 it was becoming apparent that there was a need for stronger co-ordination of strategic and cross-regional activities. After developing two regional procurement organisations, and the initial introduction of a category management structure, Carlsberg made the crucial decision of creating group procurement, headed by Helge Jacobsen as its vice-president, with strong sponsorship from the executive board in Copenhagen and an integrated operating structure via group and regional procurement committees. It formally appointed category managers leading a

portfolio of six main categories and 40 sub-categories clustered around logistics, capex, packaging, marketing, raw materials and major services. This operating model is moving forward under the banner of Procurement Excellence, and 2005 will be a year of transition for Carlsberg as it fully embeds the new way of working.

The levers of change in achieving a pan-European approach

Jacobsen argues that success comes from building a platform combining competence, new structure and tools. He does not believe that complex organisations achieve this "as a single shot", but through a phased development plan. There is a twin track connecting a number of levers.

First, he has strengthened the category management teams. New staff have been recruited internally and externally against a more complex and demanding role profile that emphasises programme management skills. Second, defined operating frameworks are being agreed between group and national management teams to cover responsibilities, reporting lines, objectives, service levels and financial deliverables. This is strategic organisational design and change management for the medium term. It is not a "quick wins" type programme.

is a determination to reallocate scarce resources on to the activities that matter. They want an excellent return on investment in people, processes and systems.

The view of Ken Friis, senior director, executive buying, at biotechnology firm Novozymes, is representative: "We must avoid professional purchasing staff being distracted through the operational daily tasks involved in direct and indirect purchasing. Technology needs to be embraced, particularly in ERP, supplier relationship management and through e-procurement. There is a need to free up resources and concentrate them on a value map driven by supply market opportunity, rather than internal requisitioning and transactional administration."

Second, CPOs want to be confident that strategic sourcing adopts technology and processes in a manner capable of dramatically cutting sourcing cycle time,

thereby capturing value far more quickly than in the past. Tom Kinnaird at WPP, for example, has found that, three years into building a new procurement leadership and operational model, his biggest issue is "increasing the velocity of sourcing and therefore the return on investment in procurement people. Successful deployment of e-sourcing, RFX and auctions helps to achieve this. Using the full collaborative model of strategic sourcing, with its emphasis on highly consensual decision-making and strong internal governance, can be very successful, but without the use of e-procurement and procure-to-pay systems it can be very slow."

A strong message here is that sourcing needs a flexible and modulated structure. It has to adopt an accelerated and leveraged approach built around e-sourcing in relevant categories, while applying the full discipline of strategic sourcing in areas

where the supply market is demanding, the business benefit considerable and the organisational challenge complex.

Good progress, much more to come

Some of the world's leading organisations are building a much more solid platform of strategic sourcing. CPOs remain optimistic and determined to drive greater performance. None believes their job is complete. Indeed, Casey Kelly, formerly a general manager in procurement with Cathay Pacific and now a partner at TAS Management in Italy, emphasises this point: "Many businesses are not yet comfortable with strategic initiatives. They have to drive strategic, innovative action within procurement and across the supply chain. This remains a powerful lever for competitiveness, capable of driving organisations into the upper performance percentiles of their sectors." ■