

Innovation in Procurement

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Agenda

1. Raising the innovation motivation and capability of procurement activities
2. Developing an innovation development strategy for procurement
3. Evaluating/ screening innovative procurement ideas (so you can effectively prioritise!)

- How important is it for your organisation to be innovative in procurement?

1..2..3..4..5..6..7..8..9..10

(1 means very low, 10 means very high)

- What is your organisation's procurement innovation capability:

1..2..3..4..5..6..7..8..9..10

- What is your importance minus capability?

What are the challenges of innovation?

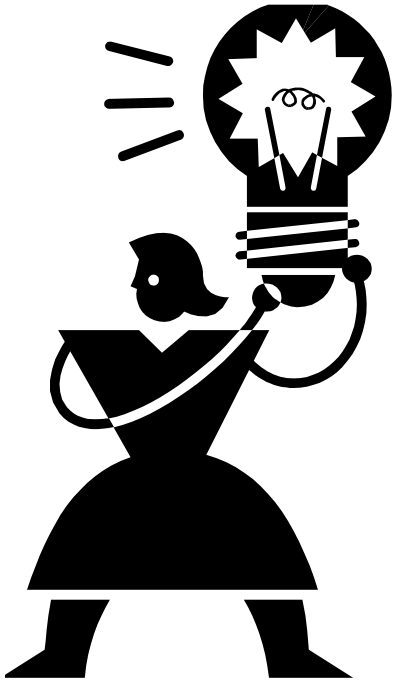
- Time lags and value creation (discounted cash flow)
- Risk/ Uncertainty
- Newstream versus mainstream management
- Product lifecycles

We are interested in
SYSTEMATIC INNOVATION,
not the occasional lucky break

What are the benefits of innovation?

- First, financial!
- Second being a 'first mover' gives a strategic advantage
- Third it gives a reputation advantage (grow and deepen 'customer' relationships)
- Stimulates creativity for staff, and employee satisfaction

Innovation = Invention + Exploitation



Is inventing the light bulb enough?
No - it must pass the eight tests of a new innovation

NSW Procurement of Public housing maintenance services

- **Context: 122,000 dwelling units, 500,000 people**
- **State pays for all maintenance of assets: poor condition, many tenants don't care, very large costs (increasing fast)**
- **Outsourced to service providers (cost plus, schedule of rates)**
- **Process: Tenant phones provider, provider sends tradesman to fix leaking taps, stove hotplates, screen doors, fence palings, etc.**
- **Costs are out of control, tenants and service provider not controlling these.**
- **Analysis: tenants are not in any way incentivized to contribute to property condition, or cost control. Neither are service providers. All risk is Department's too.**

NSW Procurement of Public housing maintenance services

- **Solution: inside the box, tighter cost control, would provide only marginal improvement**
- **INNOVATION was required: what is best practice? Studied best practice in overall maintenance policies (other sectors too)**
- **Solution:**
 - Share risks and incentives
 - Measure property condition, rates, costs
 - Improve tenant accountability
 - Move from purely reactive to include preventive maintenance (twice a year handyman visit)
 - Restructure from cost plus to competitive market of fixed price
 - Standardise fixtures (stove, paint, carpet, etc)
 - One off investment to lift property standards (asset quality)
 - Restructure the portfolio (to finance the innovations): an innovation!

NSW Government Procurement of Public housing maintenance services

- **Solution: inside the box, eg tighter cost control, would provide only marginal improvement.....**
- **INNOVATION was required: what is best practice? Studied best practice in overall maintenance policies (other sectors too)**
- **Solution:**
 - Share risks and incentives, with suppliers... **alignment of interests!**
 - **Measure** property condition, rates, costs
 - Improve tenant **accountability**
 - Move from purely reactive to include (**proactive**) preventive maintenance (twice a year handyman visit)
 - Restructure from cost plus to **competitive market** of fixed price
 - **Standardise** fixtures (stove, paint, carpet, kitchen etc), **centralise** control
 - One off investment to lift property standards (**manage the politics!**)
 - Build relationships with suppliers, tenants (**stakeholder relationships**)
 - Restructure the portfolio (to finance the innovations): **a \$ innovation!**

Victoria: Transport Accident Commission (TAC)

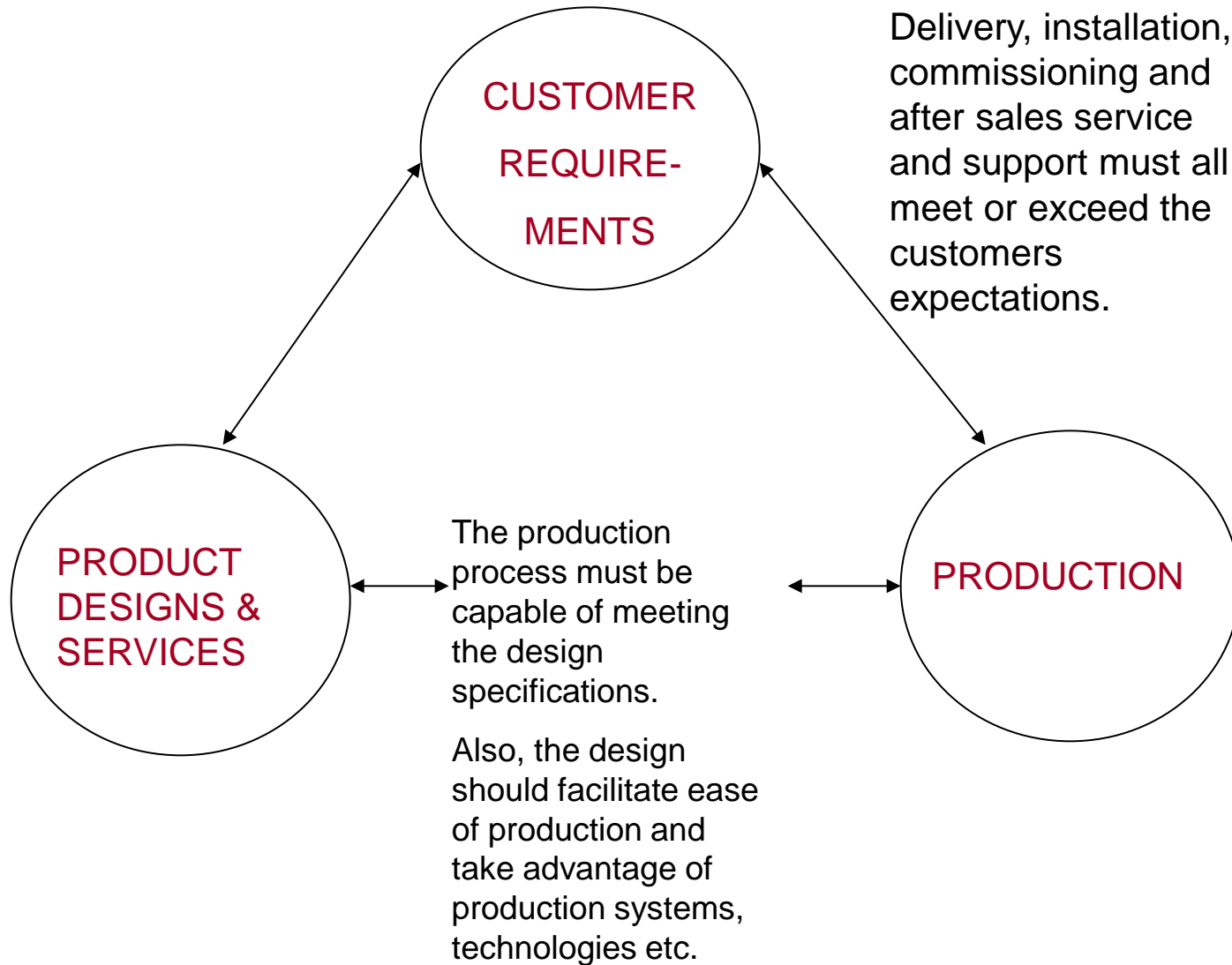
- **Was buying in legal services from many providers: slow, very expensive (many millions \$) and variable in quality! Poor outcomes.**
- **Solution: inside the box, eg provider performance management, incremental improvement**
- **INNOVATION was required: instead of buying services in, we insourced it! Created TAC Law, a captive law firm. Central, insourced expertise.**
- **Solution:**
 - Much cost reduction
 - Better outcomes
 - Faster service
 - Created a centre of expertise

8 tests of a NEW IDEA

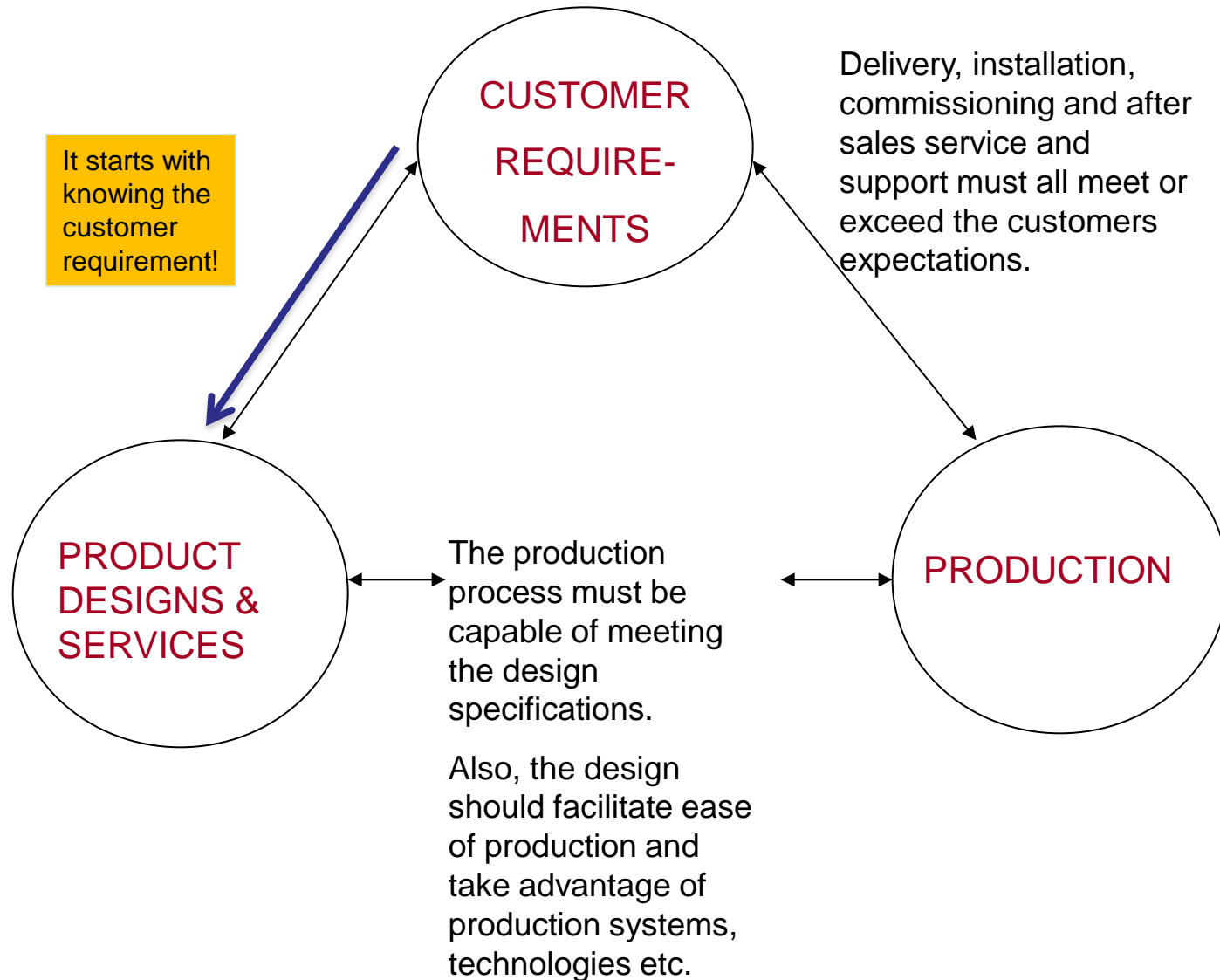
Apply these to procurement!

- **Function test:**
Does the new product /service /technology/ method perform the function?
- **Marketing Test:**
Will it sell?
- **Operations test:**
Can it be mass produced?
- **Management and key personnel:**
Do we have the people to make this work successfully?
- **Financial Test:**
Will it provide a return on investment?
- **IP Control Test :**
Do you have control over the intellectual property?
- **Strategic coherence test?**
Does this new initiative fit our strategy?
- **Is there a new 8th test?**
Sustainable development!

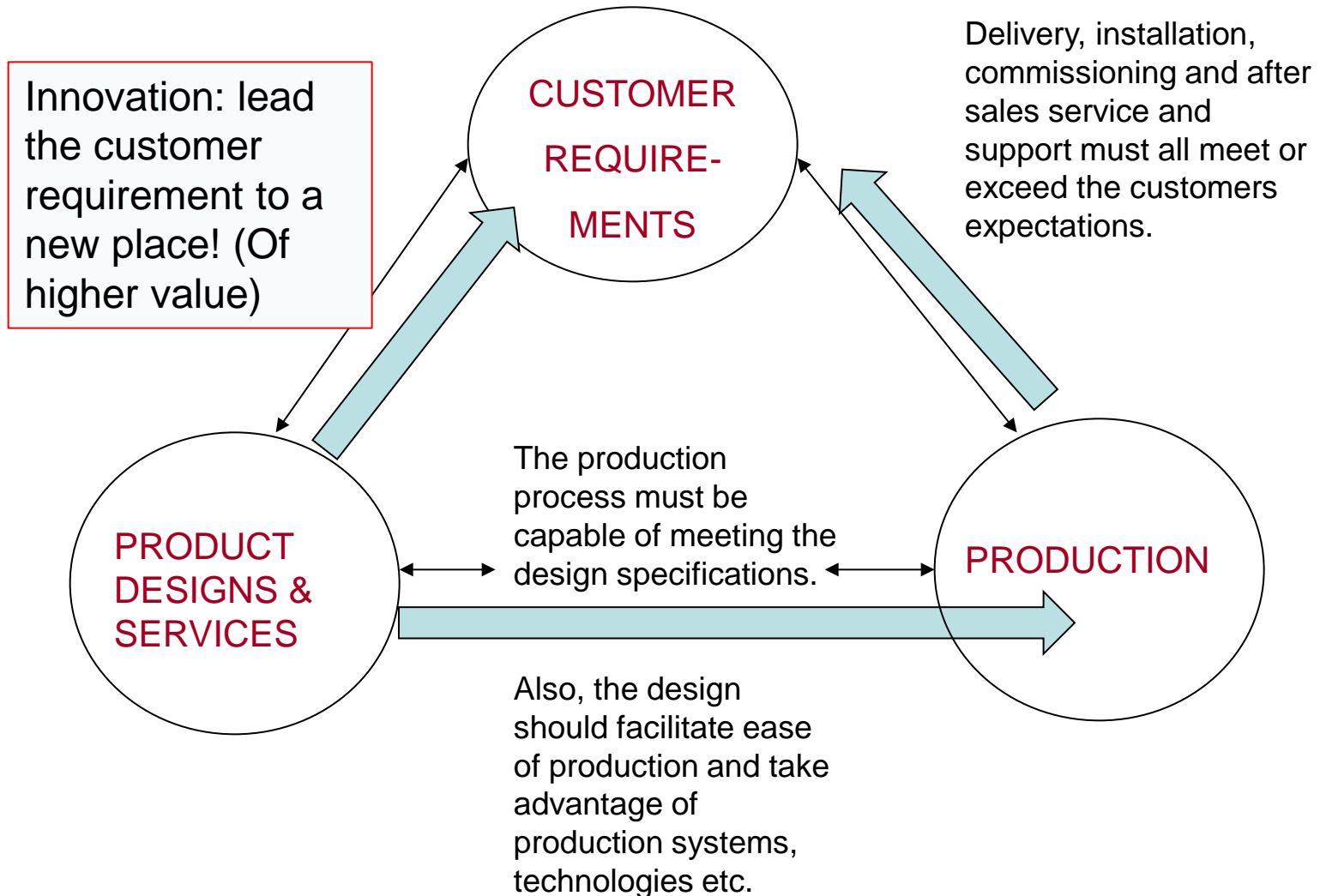
Connections in the organisation make the difference



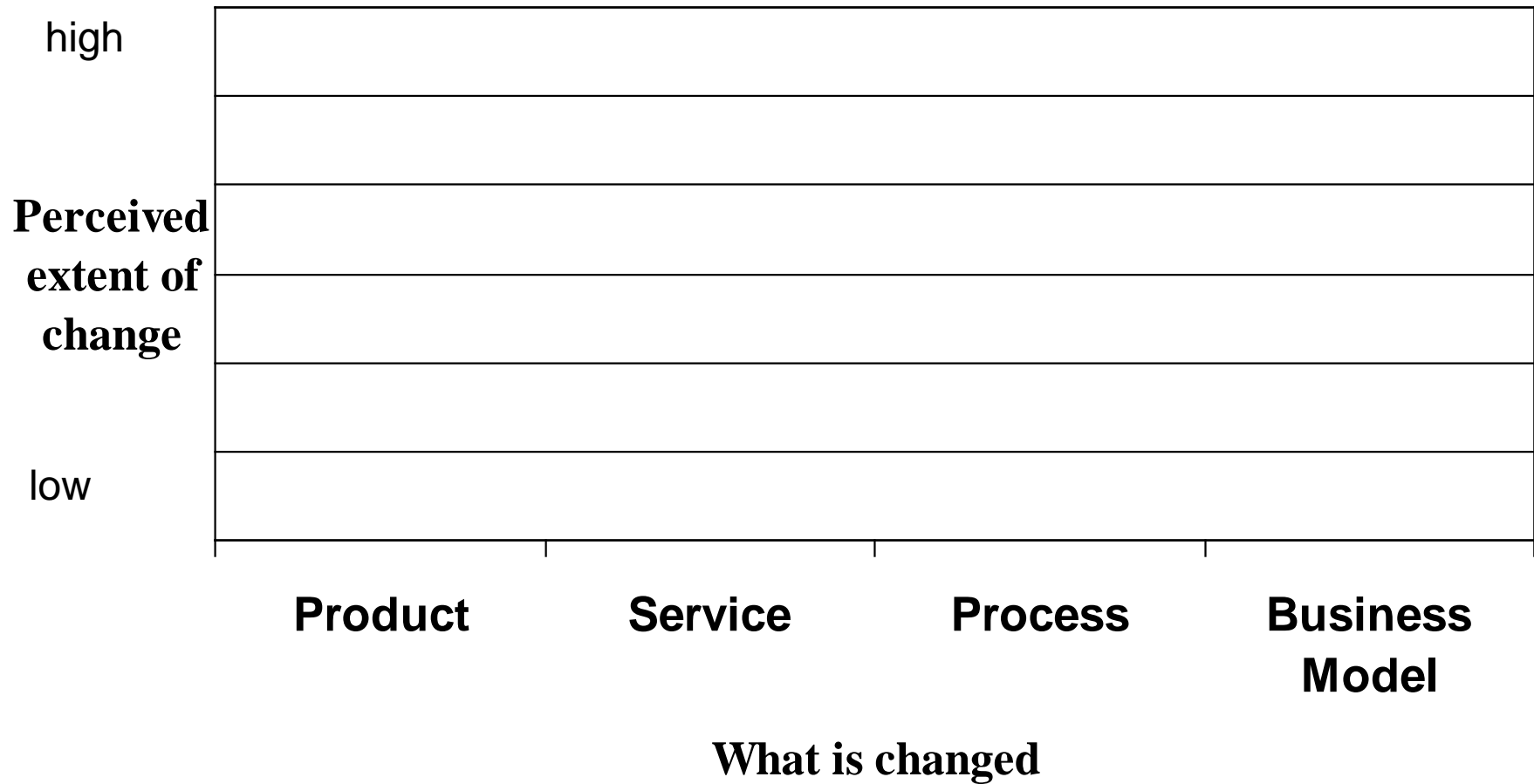
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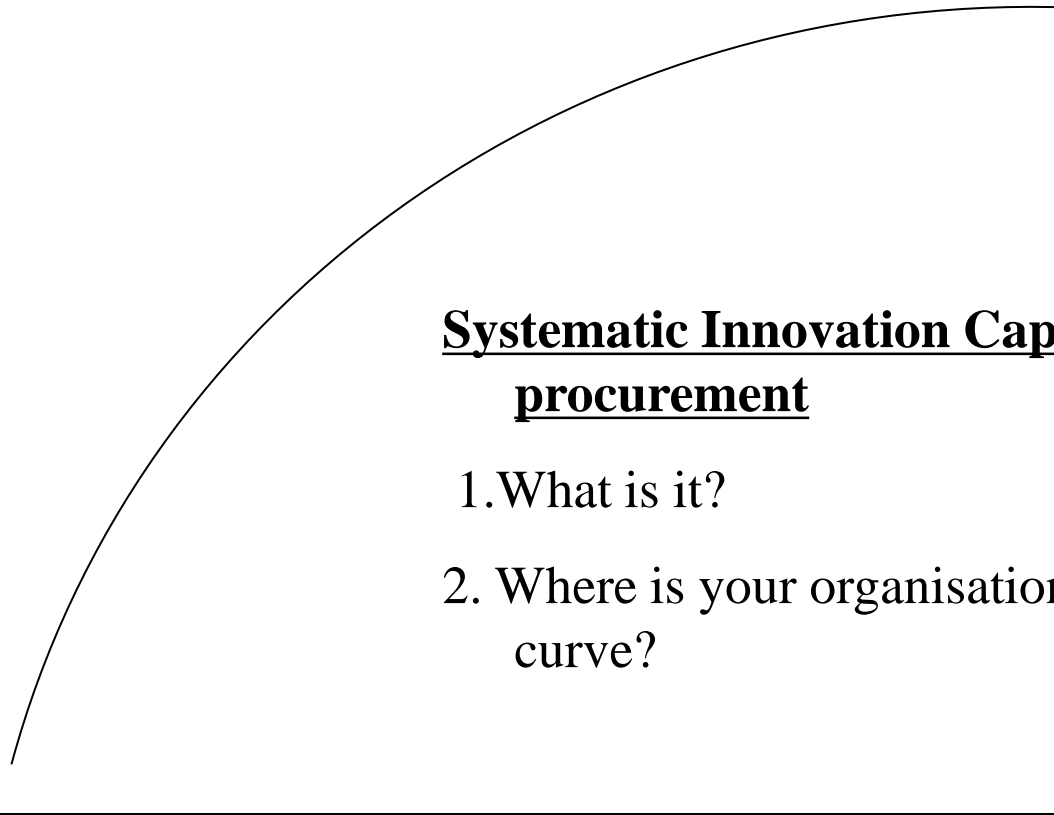
Nature and extent of innovation



A range of options: extent of innovativeness



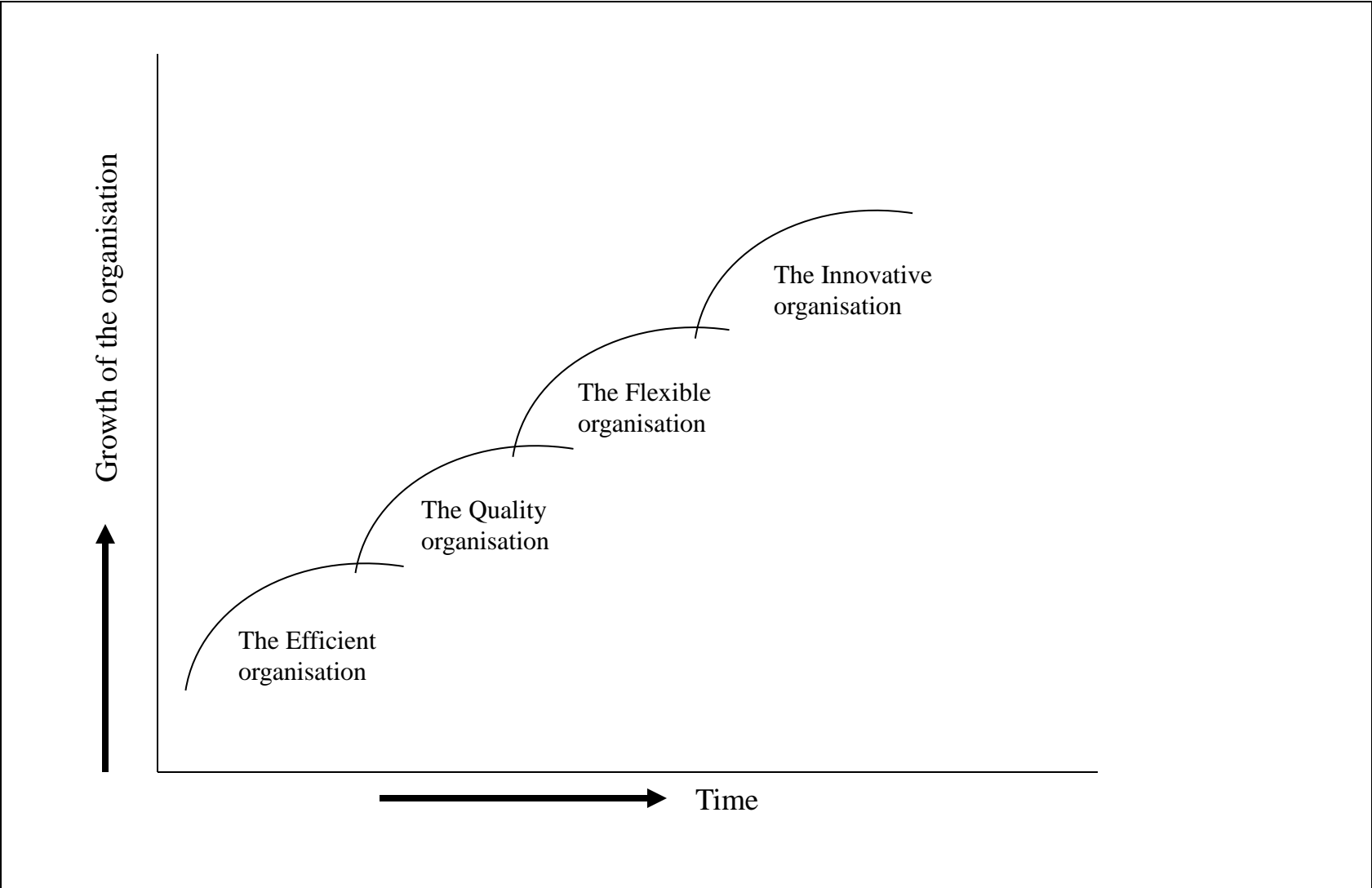
Growth of the company



Systematic Innovation Capability in procurement

1. What is it?
2. Where is your organisation, on this curve?

Time



Growth of the organisation



Time

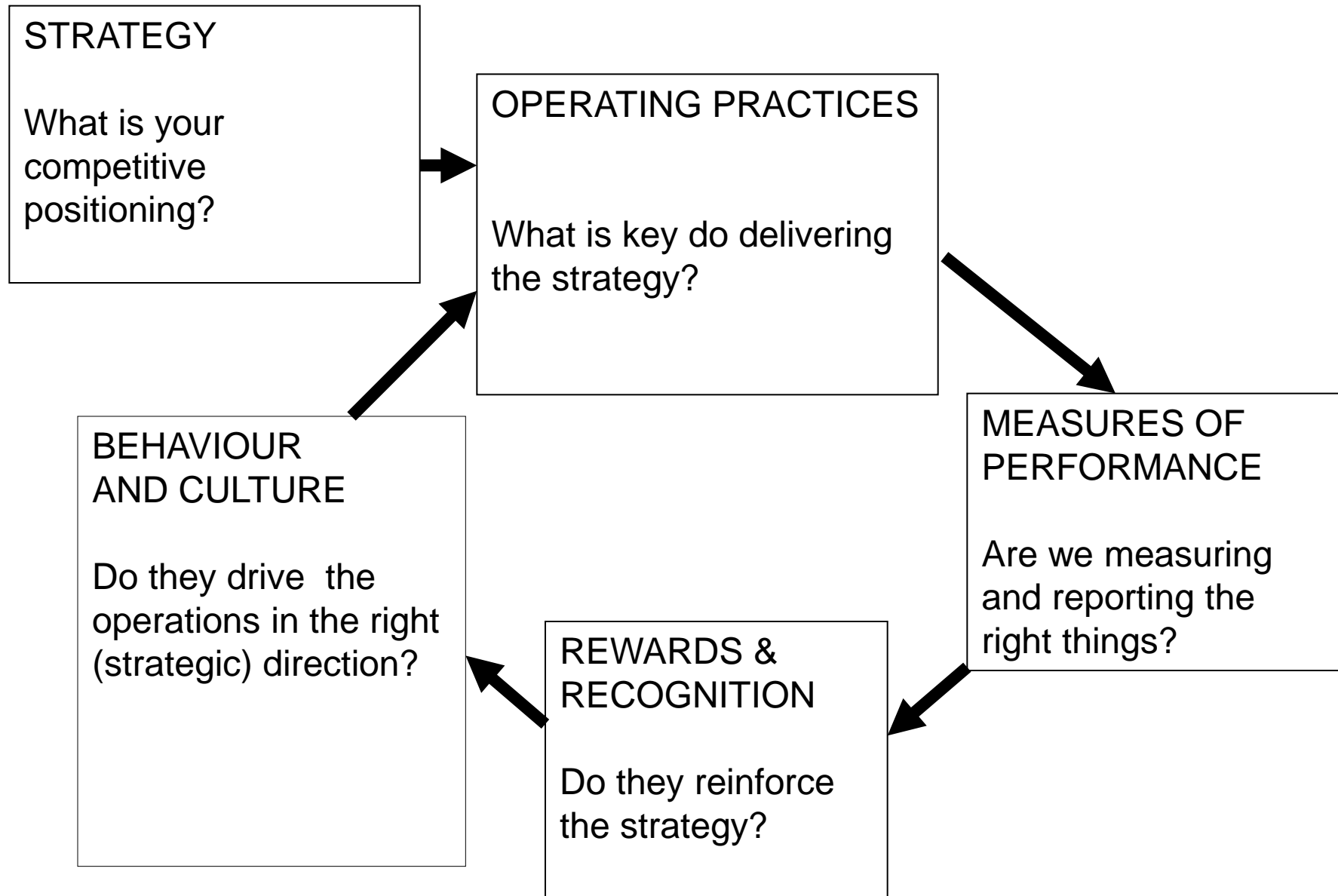
The Efficient organisation

The Quality organisation

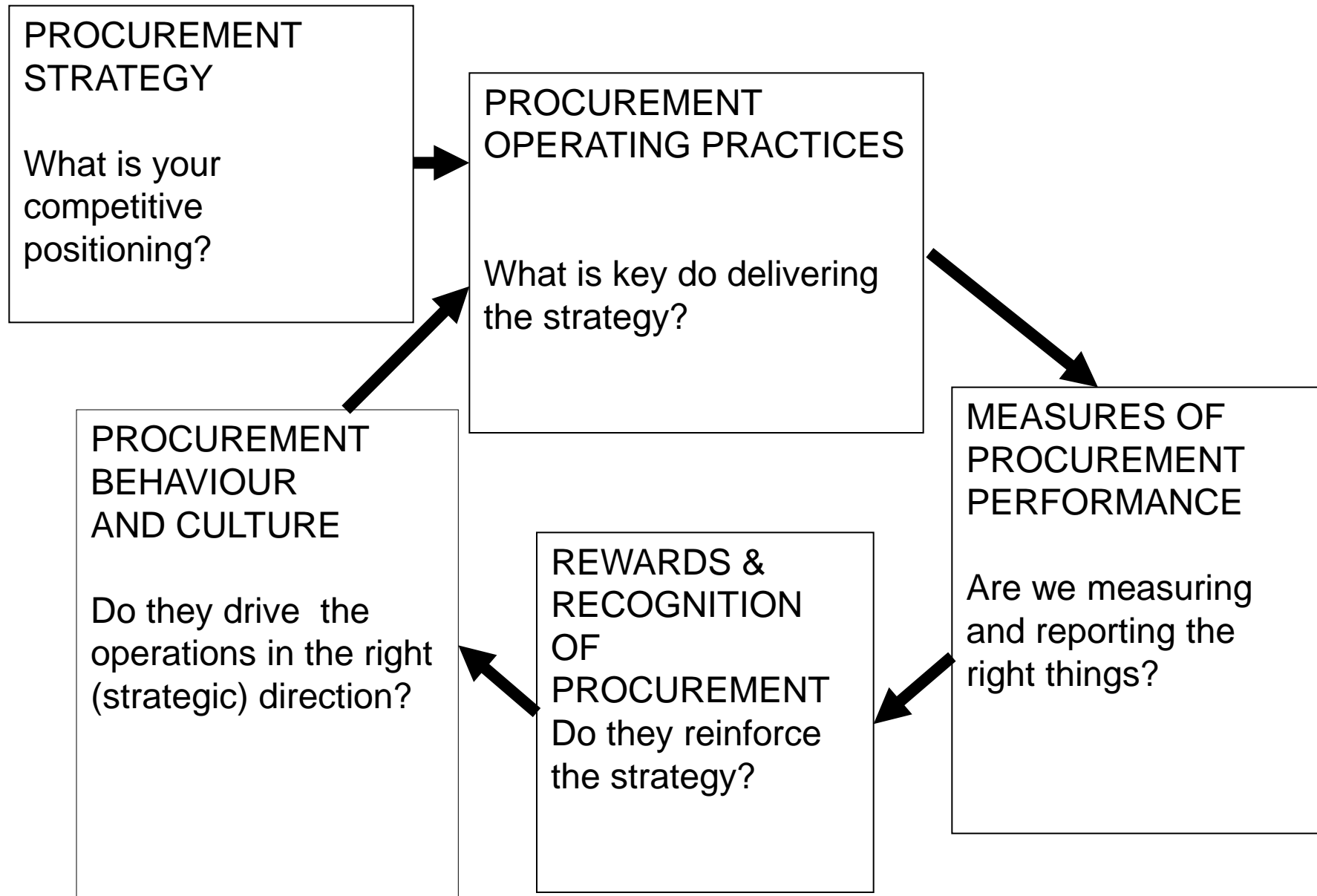
The Flexible organisation

The Innovative organisation

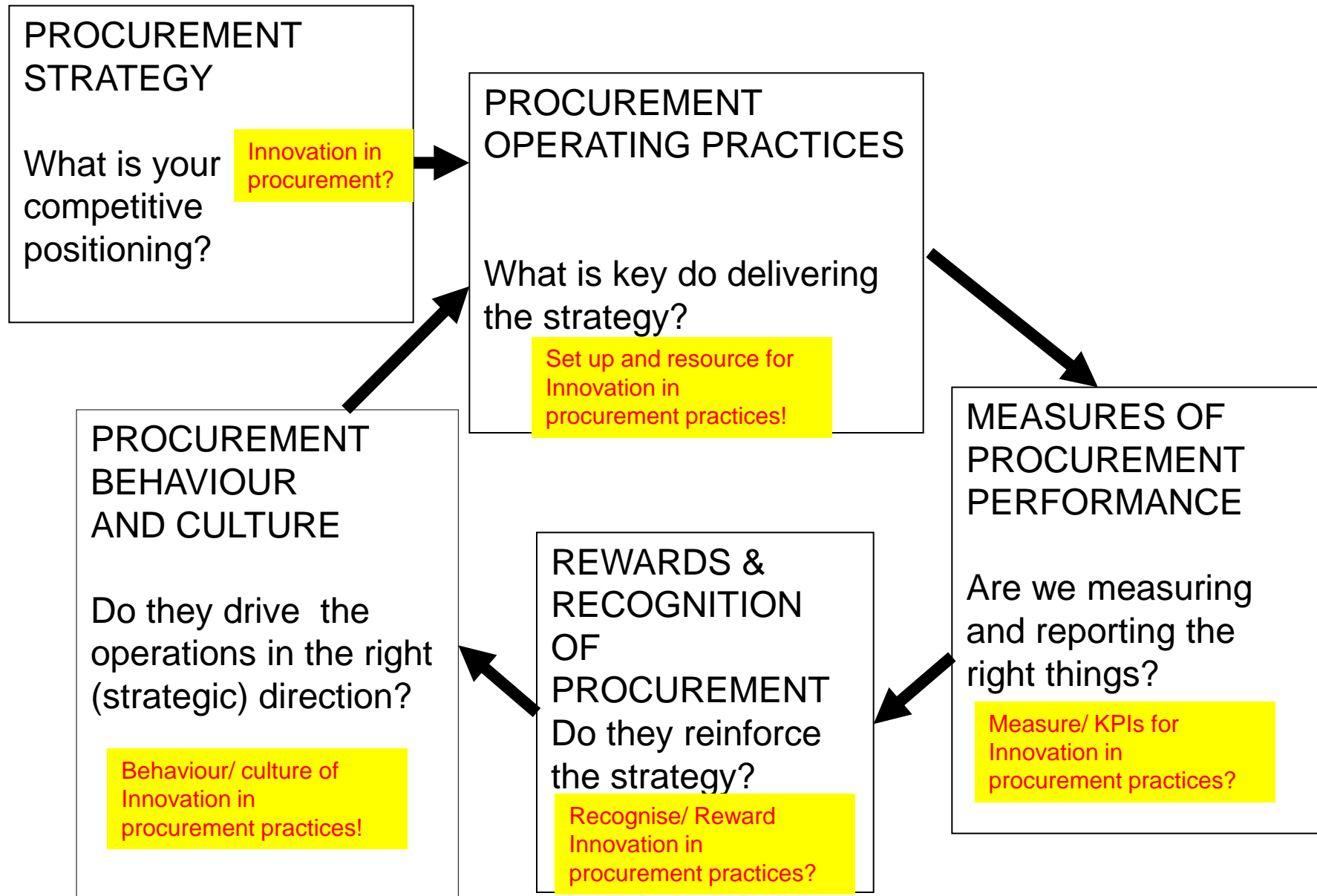
Business Building Blocks: The connections matter!



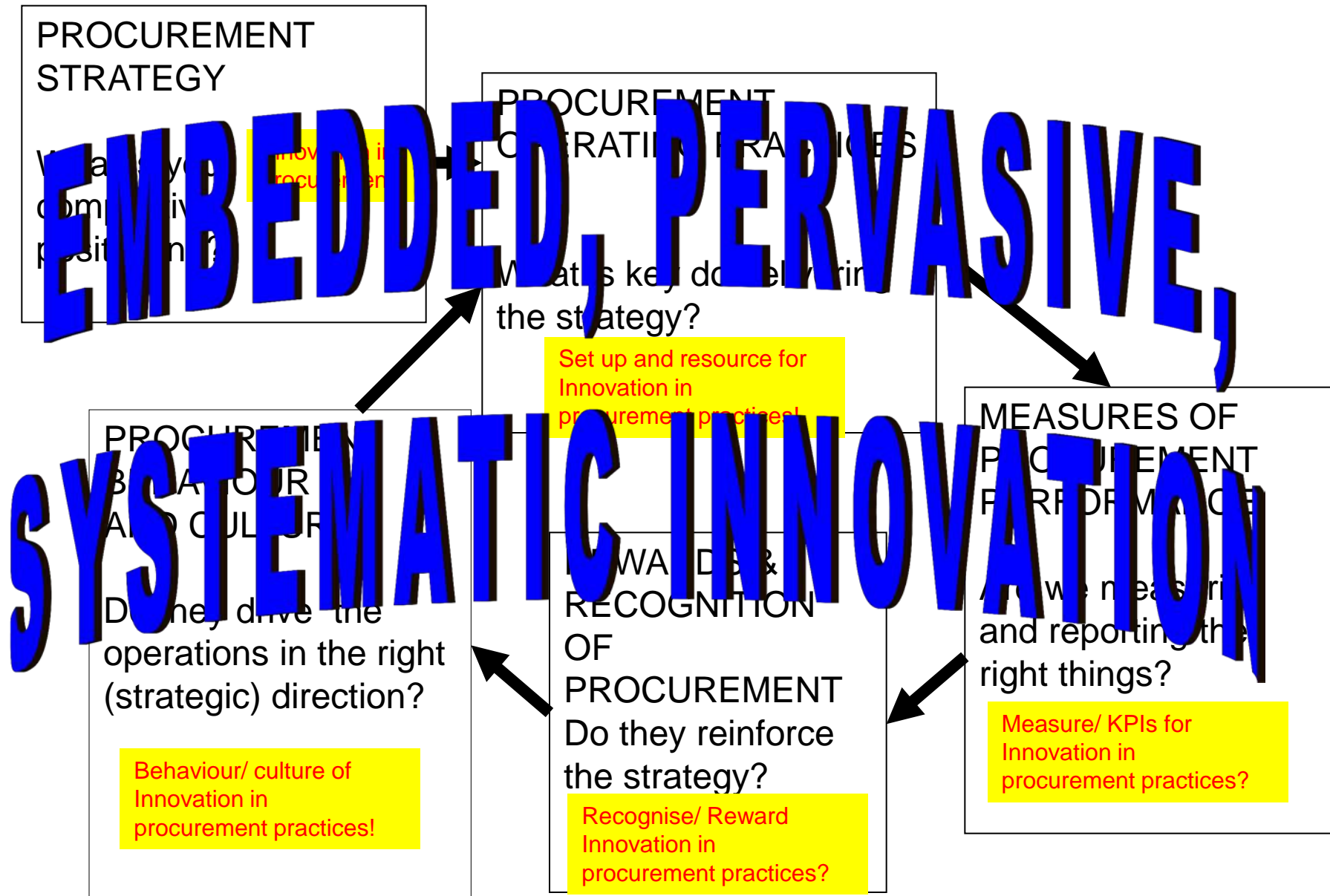
Business Building Blocks: The connections matter!



Business Building Blocks: The connections matter!



Business Building Blocks: The connections matter!



Key Findings...implications for procurement

<p>Principle 1:</p> <p>There is no single or simple recipe for innovation</p>	<p>What therefore is your organisation's opportunity to create an innovation-based competitive advantage? Is it primarily product/ service focussed, or will it be more in processes, or should it become part of your business model itself? To answer this fundamental question, you need to examine the market opportunities you face, and your capabilities, both technical / systems –based, and human creativity based. A clear statement of innovation focus is required, to guide action and resource allocation. What new capabilities will your organisation need?</p>	<p>What will be the primary domain of our procurement innovation efforts?</p>
<p>Principle 2.</p> <p>Strong, determined, energetic, dynamic leadership of the organisation seems a necessary prerequisite</p>	<p>How strong is the senior leadership commitment in your organisation to innovation? Without this strength, innovation is likely to be a short term fad, not a long term strategy and capability.</p> <p>Senior executive leadership is a necessary condition for long term capability driving, as it leads to focus and priority setting, and guides and legitimises actions at all levels.</p>	<p>Write a statement verifying the senior executive leadership commitment to innovation in procurement as a central plank of your organisation's future:</p>

Key Findings...

<p>Principle 3:</p> <p>These organisations have a particularly strong sense of customer focus, some would say customer obsession.</p>	<p>How strong and deep does the customer focus go in your organisation? Is it deeply and sincerely led from the top so as it becomes an 'organisational value'? If customers are seen as a necessary evil, innovation will not be likely to become systematic. A genuine concern for superior customer outcomes is a key ingredient that motivates innovation, whether it is to improve services and products for customers, or to create value through process improvements to lower costs. A policy statement about the use of innovation to create value for customers should be written.</p>	<p>Our approach to using innovation in procurement for customer value creation involves...</p>
<p>Principle 4: Innovation involves implementing change, so change management capability and readiness for regular change are prerequisites.</p>	<p>How open are your staff to change, or are they tradition bound and wedded to 'same-old same-old'? Innovation requires change, involving introducing new things, and an open-minded staff are needed. This means not being defensive, not having a fear-based or blame-based culture, and having a shared sense of a risk appetite. Write a policy statement of your organisation's approach to change and to taking sensible risks:</p>	<p>Our approach to risk-taking and change in procurement is:</p>

Key Findings...

<p>Principle 5: Sustainable development factors, such as waste reduction, staff well-being, and environmental output improvement go hand in hand with innovation.</p>	<p>Innovation in organisations is aimed at increasing the value that those organisations create. It also involves things that are NEW, meaning new products, services, processes, technologies or business methods. Introducing sustainable development ideas and initiatives are also about doing things differently or doing different things. They are by definition innovations. In order to engage in energy use reduction, or staff well-being processes, innovation is required: changes are implemented. The concepts of innovation and sustainable development are entirely complementary. One can spur on the other!</p>	<p>What is your organisations policy and effort level on sustainable development initiatives and strategies? Write a proactive policy statement here that will guide procurement innovations:</p>
<p>Principle 6: Innovation is often done well by involving partners from outside the organisation: open innovation works.</p>	<p>Your organisation does not have to work on its own in its innovation efforts. There are likely to be other organisations which have complementary capabilities, technologies, values and processes, such that synergy is potentially created between you and them, if you collaborate. To innovate, you don't have to invent all aspects of your initiatives. Open the organisation to joint efforts, ventures and partnerships.</p>	<p>Write a statement outlining the three/ five best partnerships or collaborations that would allow your organisation to better implement procurement innovations.</p>

Key Findings...

<p>Principle 7: There is a definite payoff to being innovative: first staying in business, then growth and price premiums, then differentiation and profitability.</p>	<p>How best can your innovations be converted into value creation opportunities? Value is a function of customer benefits per unit of price, so innovations should contribute to one or both of these value generating components. Cost reducing innovations can be valuable too!</p>	<p>Of your potential areas for procurement innovation, what are the top five, rank ordered by value creation potential?</p>
<p>Principle 8: Innovation helps organisations to win in the labour market.</p>	<p>People are attracted to innovators, whether they are individuals or organisations. They want to work in environments in which challenging and interesting initiatives are occurring. You can win in the labour market, sometimes called the 'war for talent', through having a demonstrable systematic innovation capability.</p>	<p>What human resources will you need, be able to get, and target for driving your procurement innovation implementations? How will you let the world know of your innovation intentions?</p>

Key Findings...

<p>Principle 9: Innovation can be leveraged throughout the supply chain.</p>	<p>Hand in hand with the strategy of open innovation, an organisation that is only innovative inside its asset base is limiting the scope of its achievements. Systematically innovative companies work to exert influence up and down the supply chain, and where it exists, around the whole extended 'supply network', in order to achieve mutual benefits from the innovations of its supply chain partners. These can be in the form of improved (e.g. better designed or less costly) components from suppliers, lower costs of supplied services, lower costs of using those inputs, better use of 'our' services by clients/ customers, or other means.</p>	<p>What is your company's key opportunity set to influence supply chain members to drive value creation through their procurement innovativeness? How will you influence them to innovate to create shared value in the supply chain?</p>
<p>Principle 10: Innovation can become fully embedded in an organisation's 'DNA'.</p>	<p>Innovation is expected and inspected in successfully innovative companies. Measures and rewards for innovation are systematic and significant enough to get people's attention, interest and action in these organisations. Innovation is deeply embedded in how people work, how they approach problems, customers, suppliers processes and services. Everyone is motivated to innovate, and 'inspected' for their innovation contribution.</p>	<p>How will your organisation measure its procurement innovation, and link these measures to rewards and recognition systems in order to powerfully motivate innovation culture and behaviours?</p>

Key Findings...

<p>Principle 11: Innovation becomes part of everyone's mindset in the best of organisations.</p>	<p>For a systematically innovative organisation, everyone talks about and implements 'doing things differently' and 'doing different things'. It is not just tolerated, it is expected. The search for solutions that are outside the square is normal in these organisations. In the most innovative companies, there is a 'buzz' of innovation, a passion for it, which does not just happen by itself or self-sustain. It is driven and nourished.</p>	<p>How does your organisation promote the notion of being unconventional in work processes and of experimenting, bootlegging and searching for 'new' when appropriate, rather than sticking only to tried and true traditions?</p>
<p>Principle 12: To become systematically innovative, an organisation must be at least competent at 'quality management'.</p>	<p>Quality management means focussing on the customer requirement and achieving a stable and waste free set of processes for fulfilling them. Stability is a platform for freeing up staff and leader's attention to innovation. If basic production and service processes are not 'in control' then innovations will be difficult to implement and these quality issues need to be attended to first.</p>	<p>Where is your organisation on the 'maturity grid' of robust quality, as a platform for future procurement innovation implementation?</p>

Key Findings...

<p>Principle 13: Once the systematic innovation capability is strong, the sky is the limit: it can overcome other aspects of disadvantage.</p>	<p>Innovation capability can drive volume of orders, or premium margins, or cost reductions. It is a never-ending opportunity for progress. For advanced organisations and industries, the effectiveness of innovation is THE key to value creation.</p>	<p>How well does your company drive its innovation in procurement to achieve value creation?</p>
<p>Principle 14: If the innovation is driven by a small group of leaders/ executives, then the risk occurs that once they are gone, the innovation capability and priority will dissipate.</p>	<p>While innovation capability usually needs a champion to drive its development, eventually it needs to become an organisational wide mindset and achieve structural legitimacy (measures, rewards, budgets). It becomes part of the culture too.</p>	<p>Is the maturity of innovation strong enough to be independent of any individual in your organisation, in the sense that if that key driving individual(s) left, it would continue unabated. What plans do you have to achieve such maturity?</p>

Key Findings...

<p>Principle 15: Innovation can be any combination of product, service, process, technology or business model.</p>	<p>What are the most fertile (valuable) areas for your organisation's innovations? Globally leading innovators use a combination of new products/ services for existing customers, for new customers, improving existing products /services and process innovations that reduce costs. What is the optimal mix of these for your organisation?</p>	<p>Given that innovation can be literally anything that is new, what are the most promising procurement innovation categories your organisation has as its opportunities?</p>
<p>Principle 16: Innovation can be incremental (small) or radical (large), and when it is large it is usually followed by a series of incremental improvements.</p>	<p>While it is perhaps an admirable quality for an organisation to attempt to advance only via small step innovations, there is massive advantage if these can be related or grouped around some larger breakthroughs. Both are important ingredients.</p>	<p>What is your organisations potential for one or more breakthroughs, and whether this happens or not, what is your capability for widespread small step procurement innovations? How will you stimulate both types of innovation?</p>

Key Findings...

<p>Principle 17: Innovation is not free. It requires investment in capability building, training and experimentation</p>	<p>There may be a need for technical skill building, training to support culture change, or even just a communication of the ‘new’ innovation policies and priorities. It may be necessary to buy in or develop some intellectual property. These have a cost in terms of money and effort. Research and Development and market research need to be sufficiently funded.</p>	<p>In attempting to balance short term performance objectives with long term capabilities and innovations, what is the optimal amount for your organisation, neither too much nor too little, to invest in procurement innovations capability?</p>
<p>Principle 18: innovation means taking risk, technical, market risk etc, so managing risk prudently, along with costs and benefits, is a core capability.</p>	<p>This means an understanding and willingness to accept some failures, along with successes. It involves a tolerance of some risk, and an expectation that it is the portfolio that is key to overall success, within which some individual innovations will succeed and some will fail.</p>	<p>Write a policy statement, aimed at guiding decision makers regarding the process for and the decisions under uncertainty that will underpin procurement innovations?</p>

Key Findings...

Principle 19: Customers generally like to do business with innovative companies, as it is intrinsically attractive, however customers generally do not like to share or bear any of the risk of innovations.

Technical and market research is often used to screen innovation activities, and to prioritise where to allocate scarce innovation resources (principally budgets and efforts).

How will you manage the risks of your innovative services, products and processes, in order to minimise their negative impact, particularly on customers?

Principle 20: Effective innovation pays off in the long run, and for many it pays in the short run too.

This point is about maximising the business benefits of your organisations innovations. When value is created through innovation, it then becomes a question about which organisations benefit from it, to which extent.

What are your organisation's plans for winning the benefits of your procurement innovations?