

Financial Leadership Of Strategic Procurement: 4 Foundational Steps

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In the dynamic life sciences industry, efficiently managing a diverse supply base is crucial for companies to maintain growth, profitability, and compliance. With purchased goods and services accounting for over 60% of a company's cost structure (after salaries, taxes, and royalties), companies need efficient ways to optimize the procurement and sourcing operating models. With an efficient procurement operating model, they can navigate complicated regulations, global inflation, rising interest rates, changing work environments, and growing supply chain risks.

Smaller emerging companies, planning for rapid growth, face several challenges managing the procurement process, both in sourcing and contract management as well as procure-to-pay processes. Successfully managing the procurement process will positively impact drug development timelines, ongoing growth, cash burn rates, and supplier relationships. We began discussing [strategic procurement in our last article](#), and we'll delve into it further in this article.



While the procurement function can be organized under various executives, the relationship between the CFO, procurement, legal, and buying departments is extremely important.

All corporate buying processes require coordination across multiple functions including legal, finance, accounts payable, buying departments, and, with the ubiquitousness of technology, the IT team. Without a coordinated and aligned buying process across these functions, an inefficient purchasing bureaucracy will arise when policies and processes misalign with existing buying responsibilities, legal, and financial systems. Hearing colleagues say something like, "Our procurement team doesn't need to be involved in this agreement. I'll work with legal and finance to get approval" indicates a huge misalignment and growing inefficiency.

Smaller companies have the advantage of designing their procurement functions unburdened by established policies, processes, and systems. This "clean sheet" approach provides teams with an opportunity to establish an efficient procurement operating model optimizing cash management, working capital, capital allocation, and risk management.

The path to value creation starts with clearly defined buying roles, policies, processes, and system integration. Unfortunately, there is a temptation in small, rapidly growing companies to focus on "just doing it" by hiring a purchasing manager, implementing a new system, and adopting a policy from a prior company. However, *true* efficiency lies in implementing a collaborative process with the input from relevant stakeholders.

To create a strategic procurement function, we offer the following four foundational steps:

- 1. Hire a procurement leader who can collaborate, learn, and grow with the organization.** With over 60% of the company's cost structure impacted by thousands of suppliers, the CFO and executive team need to look for the right leader. Too often in the haste to fill a role, most companies place more emphasis on hiring a person with years of experience managing tactical sourcing and buying activities at a low salary rather than a person with growth potential capable of collaborating in a dynamic organization.
- 2. Understand the impact of digital technology across the company.** By emphasizing the importance of integrating a contract management system with the company's financial system, a CFO and general counsel help their teams manage the integrity of supplier data. Without the proper integration of systems, the complications of managing supplier data records across two systems will create hidden labor costs for staff to manage and maintain. Beyond this area, there are several other areas of procurement-related digital needs, such as supplier onboarding, collaboration, and payment, that need to be addressed.
- 3. Develop an efficient procure-to-pay (P2P) process.** Most companies in a rapid growth phase find it difficult to pay their suppliers because their purchase order and invoice processes are poorly integrated with the financial accounts payable systems, not because of cash shortfalls. A poorly managed P2P process can have an adverse impact on supplier relationships and drain staff morale as they deal with growing supplier and internal e-mails, phone calls, and letters demanding payment. A CFO will be able to manage the inevitable growth in invoices by directing the procurement, finance, and IT teams to develop an efficient P2P process

with clearly defined policies, processes, system integrations, and roles.

- 4. Hire staff who appreciate and understand how buying roles, policies, processes, and systems align.** Amidst rapid growth, experience in merely "doing it" may not suffice if procurement personnel struggle with the ambiguity of a smaller organization or fail to foster a collaborative approach working across the organization and supply base. A collaborative team with limited years of procurement experience will be more effective than experienced staff who want to impose processes and policies on a reluctant organization.

With these foundational steps in place, the procurement function is in a good position to support their organization's growth through clinical trials and commercialization. The function can now efficiently manage important tactical steps such as:

- 1. Leverage technology, processes, and policies in a collaborative manner to streamline the buying process.** Instead of trying to manage the growing supplier spend through complicated, slow-moving multi-step sourcing processes, the procurement team can help implement buying channels to streamline standard purchases for lab and office supplies, facility needs, travel services, and other non-strategic purchases. As their company grows, the procurement team can work with legal and other stakeholders to use technology and process to manage supplier contract life cycles. Then as they develop trust across the organization, they can support critical sourcing and supplier management areas of CROs and CDMOs.
- 2. Foster innovation within the sourcing process.** With the rapid uptick in technology across the marketplace, more and more suppliers are offering some form of software component in their services. Consider the importance of securely sharing clinical trial data across multiple suppliers, team members, and regulators to ensure alignment on drug safety and efficacy. By seeing the individual supplier contracts as a whole process, the procurement team has an opportunity to help craft agreements combining services and technology to help compress the drug development timeline.
- 3. Analyze sourcing and purchasing data to improve sourcing and procurement processes.** While looking at spend data is an important first step to understanding the company's supply cost structure, linking supplier spend data with contract term data can help departments avoid costly issues such as autorenewal clauses if services are no longer needed. The procurement team has access to a lot of rich data to help improve purchasing processes like supplier onboarding, invoice to PO matching efficiency, and several purchasing areas that can frustrate colleagues and executives who are focused on drug development, commercialization, and regulatory approval.

In life sciences, where innovation, efficiency, and compliance are paramount to success, a strategic procurement focus can positively impact cash management, working capital, and risk. As a result, emerging pharma and biotech companies can meet development timelines, address regulatory requirements and inquiries, navigate supply challenges, and position themselves for sustainable growth.

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