

Procurement Matters

Looking at value differently

Mun-Li Boswell [00:00:02] Say hello and welcome to our latest episode in our podcast series, Procurement Matters. Hopefully some of you will have heard our previous episodes, but if you're a first time joiner, welcome. We are thrilled to have you. My name's Mun-Li. I'm part of the procurement and commercial practice here at Baringa. Previously, we've covered lots of topics around procurement, like the ESG agenda, our role in a post-pandemic world, and today's topic is equally relevant and actually, while current, is possibly a conversation us commercial folk have been having for quite a while now, and that's about how we serve our businesses better with regards to value.

For us procurement geeks, and I'll come to who's with me at the moment, but we're all procurement geeks, it's not a new topic, but actually recent global recessionary headwinds combined with the fact that actually most organisations have been through one, two, maybe more cost programs, means that it is absolutely essential now that we look beyond the traditional focus of cost reduction, margin, return on investment and look at how we can be front and centre of enterprise value creation, EVC, whatever we want to call it. Basically unlocking new value, sustainably, importantly, and for the long term.

So as always, I am joined by two amazing guests to help us unpick this topic. They are both very passionate about elevating procurements role in the long term health of the business and our, frankly, far better placed to discuss this than I am and far more interesting than me droning on, I'll be honest. I'm thrilled to announce that we can introduce Sameer Mohammed, a Director in our procurement and commercial practice. Sameer has worked with several organisations across multiple industries, including telco, consumer products, FS, and actually is my go to with regards to value creation. And we're also joined by Nicola Perrozzi, Senior Director at LEGO. Nicola has over 20 years experience in procurement, again across multiple industries, and currently leads the professional services procurement team at LEGO. I'm not going to lie, Nicola, with you being here, I have definitely upped my credibility with my children, who at the moment have no idea what I do for a living and are not that interested. But I mentioned Lego and brownie points. Excellent. So thank you. Thanks for taking the time to join us.

Sameer, I'm definitely going to come to you in a minute about breaking down what we mean by EVC (Enterprise Value Creation), but first, I'd like to start with you, Nicola, if I can. Your procurement experience is vast. So could you tell us a little bit about how you got into it? Because let's face it, we don't wake up one day and say, "Mummy, when I grow up I want to be a procurement professional". Well, at least I didn't anyway.

Nicola Perrozzi [00:02:50] Yeah. So first of all, thank you for having me here today. I'm delighted to spend the next few minutes together with you. So to answer your question, it's the classic question "Did you find procurement, or did procurement find you?" And I guess for me, it's both. I kind of stumbled into this profession when I moved to the UK 23 years ago, and I was supposed to stay here just for six months doing work experience, working at the time at a Toyota company, called Denso in Birmingham. That was straight after my degree in Italy, I'm a civil engineer by background. Then what happened was that after one month and a half in the company, I was in the logistics department chasing expediting delivery for consumables with my scholastic English, I have to always be grateful for this country being very patient with me the first few months. There was a junior buyer, they used to call the function 'Purchasing' at the time in the company. And I remember the Logistics Manager told me, "why don't you go and apply as a courtesy?". I've no idea what

they do, I haven't studied this. He said, "listen, don't worry, just go for it. They will train you." That was a big lie that never gave me any training. But as I started to get into it, I think procurement found me because I started to learn on the job and really to love this profession, because I don't want to say it's the jack of all trades, but there's so many skills that you need in this role. Maybe we're going to talk a little bit more later about this job, I think is one of the finest job out there. Very fun, very cool. And something that motivates me every day because no day is never the same in this profession.

Mun-Li Boswell [00:04:38] I 100% agree. And you are definitely an advocate for procurement. You're definitely making it cool. So I need to bring you along to my family dinners and make procurement cool with my children. So Sameer, enterprise value creation. It feels quite a technical, big term. What do we mean by it? Break it down for us.

Sameer Mohammed [00:04:55] Sure. Absolutely. Well, firstly, I'm very, very happy to be in the presence of actual procurement geeks. This is fantastic. It's a great pleasure to be here. And yeah, I think enterprise value creation. So let's talk about it. It's not really a new term. It's not something that I'm sure many listeners will kind of be surprised by. Enterprise value creation is basically just the performance of your organisation. Typically the way that we look at it or the way that organisations have looked at it in the past is very much from a kind of shareholder value perspective. So basically what's going to make my share price look better? And so the focus has traditionally been around growth, cost and liquidity. Those have been the three elements, matching against the financial statements, so your balance sheet, your PNL, your cash flow. That's been the focus of a lot of the work that goes on in this space is looking at your overall enterprise and the value being a very financially centric view of value. But as you mentioned over the last few years, organisations have gone through so many tumultuous scenarios and environments, that actually there's been a reconsideration of whether the pure focus on shareholder value is the real view of what enterprise value should be. And as recently as 2019, there was a roundtable and an article written in the New York Times about various CEOs really talking about how the view of value of an organisation should be more broad than just looking. shareholder value creation. And so certainly in Baringa, we've seen that as well with our clients, and as we've looked to our own offering around enterprise value creation, we started to broaden that out and really kind of add in some other areas that are like non-financial KPIs that we would want to assess when we go in and look at an organisation's health. And so the three additional kind of variables that we now start to look at is that the quality of the customer relationship with that organisation. So how deep is it? How well are you serving those customers? Are you really tapping into their needs? The way that you create is valuable to them, because we know that it's so easy to be disrupted as an organisation these days. The second one is talent, which I think we've all touched upon in procurement specifically, but more generally in a business. How do you actually keep talent in a space where now more and more we're seeing scarcity in the kind of true talent that you need to make your organisation truly drive value? And then the final one is the kind of ESG sustainability agenda, which is actually, what's your social contribution? What's what you bringing to the table as an organisation to facilitate social value in either the areas that you kind of hold yourself in if you're a global organisation or more at a high level in terms of what you contribute, in terms of the products that you sell and those kinds of things. So what's your purpose? What are you there to deliver? And that's, that's really kind of how we're seeing this expand as a conversation and the kinds of things that we want to get into.

Mun-Li Boswell [00:07:58] Which sounds really relevant, very current, and making it purposeful and relatable. More importantly, I know, Nicola, that you're very keen for

procurement to play a key role in this. I don't think I'm speaking out of turn that we don't tend to have that reputation of being centre and forefront of these exciting things. What do you think your and your team's key priorities to make sure that they are at the central and at heart of what we're doing here?

Nicola Perrozzi [00:08:27] Yeah, there's a lot and something that really resonates with me. But to answer your question, I often talk to my team about this idea of the procurement house. What I say to them is that you always enter the procurement home from the same door. At the door, is cost reduction. And I don't think we can kid ourselves, that's there to stay, it's not going anywhere. And it's part of what we've built as a brand over the last 20 - 30 years. But here is the good news - that same house is getting bigger. There are new, what I call, rooms of values. Rooms of value that we have created in this procurement home. There is now a sustainability room. There is a risk management room. There is a social contribution room. There is an innovation room. And I also believe that some of what the mess that's been up in the world in the last three years has been a little bit of a catalyst for the function. I often share this anecdote with people in this profession. I don't know if this has happened to you. My wife often tells me, "oh, I met this person today who was asking what you do for a living". And they couldn't understand. And then at some point I said, "you know, he buys some stuff for The Lego Group". Is this a functional that's softened a little in terms of awareness of perception. But do you remember how many times we had procurement in 2020 during the pandemic hit the major headlines? All of a sudden the function was put in the spotlight and it hasn't finished yet because unfortunately, after the mess we have with the war, now we have the cost of living crisis, so there are now people who know I work in procurement. They are asking me what's going on in your company because of the inflationary world we work with. I would also say that in terms I completely agree with Sameer, I think the value that we deliver as evolved, and this is also reflected in the way we engage with our partner in the supply base. Yes, cost reduction is still there, but we are equally engaged now on our conversation on risk management, on ESG, on innovation. I think especially ESG, I believe, is the next catalyst for us. To your point, Sameer, this is now pretty much expected, not just from our CEOs, but also from shareholders, not just big investment firms like BlackRock, but even consumers. We are a big consumer brand, so people want to know what we're doing. I'm not going to shy away from the fact that all our toys are made of plastic. So our consumers ask, "What are you doing?" And we are starting to introduce, for example, sustainable bricks made with sugar cane. So this is innovation that we need to work with our suppliers to come up with. So you can't get away from it, and it's something that is really exciting, if you ask me, because you can really elevate what we can do as a function over and beyond. Yeah, cost reduction.

Mun-Li Boswell [00:11:30] Definitely. And I think to use your analogy, which I'm actually going to steal and definitely use again, sorry Nicola. Traditionally, procurement will definitely go through that door of cost reduction, but won't either find the other rooms of innovation or the rooms aren't there. So from your view, Sameer, have you seen organisations that have been successful in doing what Lego is starting to do around thinking innovatively, being much more at the centre of what Lego do as opposed to being in the background with thinking about cost reduction?

Sameer Mohammed [00:12:03] Yeah, absolutely. So, you know, we're fortunate enough to work with a lot of procurement organisations within their companies that are keen to really drive this agenda. A couple of tangible examples we can talk to. There's organisations in the aerospace industry that have been starting to introduce elements within their strategic sourcing process that really value social value creation, integrating

sustainability. Those have become core components of the sourcing process, making sure that those things have value as part of the award process, making sure that there's demonstrable examples in there that aren't just surface level. So they're really interrogated and trying to be understood in terms of what investments are you making into your local communities, what's the work that you're doing in terms of offsetting your carbon footprint, particularly in the aerospace industry as an example. Other examples in FMCG organisations, we're seeing a lot of supply diversity programmes. So looking at actually, you're not just going to these big providers, you're contributing to your local economy and also to female owned businesses, ethnic minority owned businesses, etc., to actually diversify the way in which the money that you are generating and then spending on supplies is spread within the ecosystem. And then finally, the other example I'd really point to is in the clothing industry where people are using things like sustainability as a competitive advantage. So a large fashion brand, that we know known and that we've worked with, used their supply chain as a competitive advantage. So they marked out where their factories were, what were the raw materials that were being used for the clothes that they were producing, and you could go on their website and literally as you click on the clothes, you can see the value, you can see the supply chain, you can see where these materials are coming from. So the customer gets some feeling of connection to the way in which the supply chain and the way in which procurement are addressing the sustainability agenda. So it became a genuine value add. It genuinely became something that was creating a competitive advantage for that clothing organisation.

Mun-Li Boswell [00:14:06] And your team Nichola? Have they got the influence and capability to do some of this stuff in terms of value creation rather than just looking at cost reduction?

Nicola Perrozz [00:14:16] There is definitely an opportunity now with ESG coming. I can give you an example. We at The Lego Group, we are investing heavily at the moment on certain programs. So that's where we have identified a number of key partners where we want to elevate the conversation on the most strategic level. An example I can share on how the value perception is shifting is we have a session next week with one of the Big Four, and 50% of the session is going to be on ESG. We are not going to talk about cost reduction. We're just going to talk ESG. And I can see that there is lots on this topic. I can share something else. And actually thanks to your network, when I was here at Baringa a couple of months ago for the roundtable, I was able to connect with a professional around the table who works for a large investment bank, who I know they are ahead of us when it comes to supply diversity programs, something that you mentioned. We are doing some work at The Lego Group on that and we just had a call yesterday and you will not believe how much sharing there was there. I think ESG to me is a unique opportunity. And why? Because ESG is a different animal. ESG is a problem we all have. It's not a Company A and Company B going for a tender for the same contract. It's Company A and Company B working together to leave behind a better planet and a better society for future generations. And that requires people from different companies, different functions to come together to collaborate. And I think this is what we do best. I was reflecting last week, I was listening to an interview from Reid Hoffman, the founder of LinkedIn, because I think it was 20 years since they founded LinkedIn. And there was something that caught my attention because he said the mission of LinkedIn was to amplify you with the power of we. I really love that because that power of we is what we truly enable in procurement. We are uniquely positioned as a function because we manage an ecosystem relationship inside and outside the company. We bring people together who otherwise wouldn't necessarily speak together. And this is what you need to drive ESG. You need to bring people together and solve the problems together.

Sameer Mohammed [00:16:38] I think that's entirely right. And I think a lot of the conversations we're having across not just ESG, but the customer conversation as well. And on talent, there's a lot more collaboration going on across companies. I think there's that recognition that we won't be able to solve this individually, and it's not a zero sum game anymore. So, for example, if I take the conversations around talent, there's far more openness to talk about. It's industry wide issues around attracting procurement talent and actually understanding systemically - how can we invest in academia? How can we sponsor people that may not necessarily be going through university to become professionals in this space? And also, how can we take talent that sits outside of the procurement space and bring it into the procurement space? So data is obviously the one that always gets talked about, but there's others as well. There was an example from somebody I was talking to a roundtable a couple of months ago around social workers and just the fact that that skill set of empathy, understanding what people need is a skill set that is valuable in the procurement space. And actually when we come to this stuff around, talent and customer, EQ is just as important as is IQ because you need to, we talk about design thinking and customer centric thinking. It's all about putting yourself in someone else's shoes to understand how they're going to buy or perceive you. So there's that element that we need to bring talent in from more diverse spaces than just assuming that the traditional routes coming in to procurement are the ones that are going to help us grow and scale for the future.

Nicola Perrozzi [00:18:10] Yeah Sameer, I'm listening to you and I'm thinking you're preaching to the choir. I think there's a lot that you said that I completely agree with. If I think about talent, it's an interesting period now. I think we are on the cusp of a major shift. Last week I tried Googlebot, I don't know if you tried it, and I think it's even better than ChatGPT. If I think about talent, the type of talent we need going forward is going to be a little bit different. When I started this profession 23 years ago, I'm showing my age here, there were some basic skills that you need to have in this job. You need to be good with numbers. You need to be analytical, maybe my engineering background helped me with that. After a few years, I realised that that was not enough. In fact, I did then decide to do an MBA because that's the jack of all trades I was referring before. There is a lot that you need to know in this job, especially understand how to deal with people. And I believe with the advent of AI robots, that's going to be your USP going forward. I think your ultimate career move would be to be human. And this is a job when you need to build relationships. There's a great futurist that discusses that robots don't build relationships and there's also this quote by chance last week from Picasso that says 'computers are useless, all they can give you the answers'. And you know what the irony is? When you use ChatGPT or Googlebot, you need to prompt the AI. The AI does wonder if you ask the right question. Asking questions is a communication skill and I think is to your point Sameer, it's EQ more than IQ. I think AI has got the possibility to, in a way, maybe I don't know if this is too controversial, but I think Google has commoditised knowledge. And I think AI has the potential risk to commoditise intelligence. So what's left is how you deal with people. How do you influence without authority? How do you communicate with people? You made a point before about making your customers feel valued, and I think that's something I would try to look when I hire people. There's a podcast I listened to recently from Simon Sinek, and he had a leader from the hospitality industry, and he made me think that maybe that's something that we could learn. This guy was talking about service is black and white, customer experience is colour. Service is about doing things right, customer experience to do the right thing. And I think there is something in there for us to reflect and learn. Amazon is what comes to mind, you know, it's procurement. Can we offer an Amazon experience? Can we be easy to deal with that function? Which

doesn't necessarily mean we need to say yes to everything. We never have conflict with stakeholders, it's more around to build this trust in a lasting relationship so that the business wants to come back to us tomorrow because they have received something of value from us.

Mun-Li Boswell [00:21:12] Absolutely. And I think we've definitely very eloquently described the kind of talent, the new talent that we need coming into procurement. We in Baringa talk about we need good storytellers, we need good network knitters. So I think we've kind of explained that, and I'm conscious that we are running out of time. Big question for you, Nicola. How do we attract the next generation of procurement people that have those kinds of skills? Because actually the next generation coming through are much more about having a purpose, feeling a sense of value and impact on those around them, the environment around them. It's not traditionally what you think of when you think about procurement. So I guess what I'm asking is if I was going to sell procurement to my children, one of which is 14, how would I do that?

Nicola Perrozzi [00:21:59] I think it is a little bit easier these days than maybe when I started. We have talked about ESG as a catalyst, but to me, the other thing you touched on the magic word, which is purpose, which I know is very, very important for Gen-Z and millennials. And this is a job with plenty of purpose because procurement is a function where you can really make an impact and you can really see how you are helping the organisation to grow the top line and protect the bottom line. The other thing I would say, and I think we're getting better at that and you are actually helping here, sometimes I make a joke that why we are not working in marketing is because we work in procurement. We need to do better at promoting the function. But again, if I think now, compared to two years ago, wow we've made so many strides. What you do is great. There is fantastic work that has been done by organisations like procurement leaders ProcureCon, DPW. There is a more of perception that this is a really cool job and it is! The last point I would say is all the people I met in procurement 23 years ago, they are still there. So, I mean, this is a profession that once you are in, it's really difficult to leave because it's super fulfilling, gives you lots of development opportunities and it keeps evolving.

Mun-Li Boswell [00:23:24] Absolutely. I would love to hang out with both of you for longer, but we're actually out of time. Gosh, doesn't time fly when you're having fun. I think it is safe to say that we do need to look at how we support our businesses far more holistically. You know, margin can't be at the expense of purpose. We've talked about how we want to sustain the long term health of the business, but bottom line should be in line with what we want to achieve strategically. But ultimately, I'm putting it simplistically, it's the right thing to do. So lots of food for thought. So thank you. Our regular listeners, I feel like a DJ, will know that we always like to finish on a more personal note. So we're recording this in the middle of Mental Health Awareness Week. So, Nicola, I'll come to you first. What do you do to relax and make sure that the stresses of this cool procurement job that you have don't get the better of you?

Nicola Perrozzi [00:24:15] When I don't play with my kids with Lego sets. We left London, I had been living in London for over 15 years, but we left in 2021, we moved to Sussex. One thing I do is to being outdoors. I love the outdoors. I love taking big walks. I'm very lucky where I live, it's a beautiful part of this country. So I try to do that in order to recharge, but also to look after myself.

Mun-Li Boswell [00:24:43] Definitely very important for mental health, getting out in the outdoors. Sameer?

Sameer Mohammed [00:24:47] I wish I was in the outdoors. I'm currently in the middle of London, which I enjoy very much, but I think mine is much more around meditation, which is something I've kind of come across more recently. So started off with apps, so like Calm and Headspace, and actually have kind of moved into looking at like more detailed videos of how to do it slightly more professionally, I guess if you want to call it, instead of just being a hobbyist. It's been really fulfilling. It's just something that I take out, I can do very easily with two very small kids, just do half an hour before they wake up just in my living room and kind of genuinely switch off. So that's been a massive help for me. And it was a big help during COVID in particular as well.

Mun-Li Boswell [00:25:25] So yeah, definitely. Sounds like you need to take those apps to Sussex! Look, thanks so much for joining us, you've definitely given us the inspiration to go forth and conquer. As always, if you have any topics that you want us to discuss in our next episode, please do get in touch. But for now, I'm off to tell my children that I hung out with very cool people from Lego. Thank you so much for listening and we'll see you next time.