

Building a Future-Ready Procurement Organization

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Abstract

In the era of digitization and massive inflows of data, the Procurement function has an opportunity to use the insights provided to advance its strategic contributions in areas beyond the traditional scope of the function, such as supplier-led innovation, customer-centric services and organizational reputation enhancement. Four years into our transformation journey at Johnson & Johnson, we have achieved our initial program goals while building resiliency. We remain focused on our overall company mission, exceptional category management strategies and practices, our promise to separate strategic work from tactical execution and enhancing individual performance through a learning culture. My personal journey of close to 40 years of operations and supply chain management has grounded me in the evolution of the Procurement function from a tactical manufacturing support role into a valued business partner with the ability to combine advanced analytics, external resources and innovation mining to deliver new insights and expanded capabilities to the business. Procurement at Johnson & Johnson has embraced this challenge; what follows is just the first chapter of our story.

Background & Case for Change

At Johnson & Johnson, our business is health care. This is reflected in the structure of the company, with a \$40B Pharmaceutical Division, a \$27B Medical Device Division and a \$14B Consumer Healthcare Division. Each of these sectors is a significant player on their own in their respective industry group; together they provide an exponential challenge in the complexity of their markets and supply needs. The challenge for a function like Procurement is to see a path forward through that complexity to deploy the optimum people, process and technology strategies that drive a competitive advantage.

Historically, Procurement was embedded in the business with no centralized oversight of the function. With many Procurement professionals working individually or in small teams across a variety of sectors and geographies, there were pockets of good or advanced practices. However, there was no consistency, and no ability to leverage these practices at scale across the function or across the businesses. This left significant opportunity for both financial improvement (cost savings) and clarity of strategic approach for the company. Namely, what good looked like in a business or region had to be redefined and realigned with the critical balance of value and best practices between the enterprise and the respective business.

With the pace of change in our industry accelerating, we needed to make a fundamental change in our approach to ensure that our organization was prepared for the new challenges on the horizon. We needed to evolve from a decentralized functional culture embedded in the business and to embrace a center-led Procurement function. In 2014, we established the role of Enterprise Chief Procurement Officer and invested in a digitally-based transformation in 2016. This was the first time that all Procurement professionals across the Company reported through one centralized area. This change redefined the span, scope, responsibilities and accountabilities of not only the role, but the overall function as well. This approach – predicated on a significant model change for an over 130-year old organization – set us up to build a future-ready organization that could capture value today, while building flexibility and capabilities for tomorrow.

The Opportunity

This fundamental change would be the first phase of the drive towards a step change increase in value contribution, and in the function's ability to appropriately plan and manage for upstream potential. With \$30B in spend and over 70,000 suppliers, the real opportunity – and challenge – was in shaping our spend and supplier strategies to optimize the value contribution to the Company. This required strategically aligning our functional deliverables at both the Enterprise level and across our businesses. In a decentralized environment, a relentless focus on cost savings was the hallmark of strong Procurement performance. With a center-led structure and digitally-enabled infrastructure, we believed that Procurement could deliver more to the organization, specifically in the areas of ***innovation, financial stewardship, operational efficiency, and risk management, sustainability & corporate citizenship.***

Our future-ready challenge was defined by the need to align and focus our supplier base to not only deliver exceptional value for today's needs, but also to cultivate tomorrow's possibilities. We had a strong desire to take

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advantage of existing capabilities while fostering future breakthrough practices and innovations. This was only possible with a center-led structure that created a line of sight across our full enterprise spend and supplier relationships, building strong connections for collaboration internally and externally. This meant redefining our practices of engagement with internal business partners as well as escalating our expectations in our category and supplier relationship management practices. Fundamentally, we wanted to move from a function of generalists to a well aligned and integrated matrix of specialists, supported by advanced technologies and pioneering next generation practices.

Key Considerations

Traditionally, measuring the success of an investment is balancing the out of pocket implementation costs of technology, training and supplemental experts with the value return of the changes to overall productivity in the dimensions of growth, savings and speed. A significant amount of time is invested in defining the future possibilities and their successful outcomes. However, in many cases, the foundational critical factor for success is not the change itself but successfully managing the change at the individual and group level. Although there is great clarity on defining the why, what and how of the future, understanding and honestly evaluating the current state and the scale of change required is rarely considered. Establishing the true cost of fundamental change requires a deep understanding of how work is done today and building the unique pathways for all stakeholders to achieve positive outcomes in the future state. Given the history and complexity of our environment at Johnson & Johnson, the transformation we were proposing would require a depth of governance and partnership beginning at the highest level of the enterprise and managed closely throughout the business units and regions.

Going into the transformation we knew that we would need to deliver on all these dimensions by first delivering strong financial impact – the baseline expectation of our function, and then by “adding more strings to the bow” to change the perception of Procurement for our organization. We would need to reframe and reposition the traditional perspective of Procurement as pure cost savings in order to become a valued contributor, growth driver and competitive advantage for Johnson & Johnson. This meant that we needed:

- ✓ A focus on people, process and technology to deliver a different experience for the Company – not just an internal focus on Procurement

- ✓ A commitment to better understand what has been successful, where we need to put our energy next, and what we can learn as we elevate the Procurement function value contributions

In 2016, we began to implement our new strategy, and transform our organization.

Our Transformation

We changed our structure. We moved from vertical teams entrenched in the business and performing all Procurement activities to a tiered model across businesses, with each tier addressing the different types of work required of the function. This realignment of our internal organization was intended to better service our customers – the businesses that we support every day. But the restructure meant that our colleagues needed to interact with us in a different way. This meant that we had to change not just our behavior, but the behavior of our 130,000+ fellow employees. One solution to this change management problem was our focus on being ‘One Procurement’ organization. We are very consistent with what we ask of the organization, which translates all the way through to each individual’s annual goals and objectives. The same is true in terms of what we deliver back to our businesses, with some flexibility for the different needs that may exist. For example, our R&D group has different needs than our Commercial group; Procurement will deliver the same services, but with emphasis on different requirements or categories.

This shift in structure was a critical first step. We needed to put the work in the right place at the right time with the right teams and ensure they were working in the right way. The most fundamental change we implemented was a global Procurement shared services group, which owns the end to end “Procure to Pay” process. This group acts as the first point of contact for our global requisitioners, regardless of their business or the category they are looking to purchase. The investment in technology fundamentally supported this shift by digitizing the workflow and capturing all our indirect spend activities around the globe.

Beyond the shared services activities, we realigned our functional resources around critical capabilities:

1. Category management specialists at the global, regional and local levels.
2. Supplier relationship management practice experts to shape & support category teams.
3. Business engagement leaders at the sector and regional level, embedded with the businesses they support.

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4. Centers of knowledge or excellence that are lean and digitally supported for the democratization of insights in areas such as:
 - a. Market dynamics
 - b. Talent development
 - c. Risk management and mitigation
 - d. Sustainability practices
 - e. Citizenship or Social Impact Procurement
 - f. Diverse Supplier programs

We reinforced and standardized our processes. One area that appeared to be a strength as we began our transformation was process. We had strong processes and guidelines in place for our organization. It quickly became clear, however, that part of our transition would be ensuring that those existing processes were clear, understood and followed by the organization. Our decentralized structure had enabled an environment where we managed by exception. We needed to resolve ambiguity or conflicts between businesses and regions while maintaining flexibility to accommodate differences that could influence business outcomes.

We implemented a one technology solution. As a Corporation we have publicly committed to a complete cloud operating environment. In Procurement, we had the opportunity to be early adopters in this space. The ability to make a significant leap from our decentralized, multi-technology environment to a flexible, cloud-based technology would give us the agility we needed as we looked to our future state. Specifically, we had the short-term challenge of redefining a global environment of over 200 Procurement-based systems to one harmonized platform. Today, this technology covers over 98% of our enterprise spend (Over \$50B of spend was processed in the first 30 months of our phased deployment). Importantly, it delivers one central source of spend data for analytics – and the ability to make data-based decisions for the enterprise quickly.

Within weeks of our first stages of implementation of our new technology, we began to identify areas for improvement – some in reaction to challenges that we had in implementation, and some in response to ideas from the enterprise once they began to use the tool. Within six months we established a continuous improvement methodology to take advantage of both critical feedback as well as innovative enhancements that came from across the enterprise.

A critical reason for moving to a cloud-based technology solution is the flexibility and speed that it offers in terms of adaptation and improvement over time. Rather than reinvesting in a new solution, we can relatively

quickly upgrade and deploy it to our workforce. This flexibility is especially important as the pace of change in our organization will continue to accelerate. We need to be able to adjust and adapt while we keep moving forward, embracing the concept of organizational agility by moving work and people quickly to reflect our business strategies and needs. External benchmarking from A.T. Kearney indicates we are operating as a first quartile leadership level Procurement function; this level of agility is critically important at our scale to continue to outpace our competitors.

Building Our Value Case

Given the significant cultural shift to the center-led model, we recognized that speed along with early successes were essential to keep our business partners invested in the value of this change. We were challenged to provide more value with this new model to our business partners (internally and externally) than they were experiencing before the change. This meant establishing a critical balance between the quantitative outcomes and the qualitative “employee experience” for the organization, governed and monitored by a balanced scorecard of deliverables. We also needed to rapidly scale this across the organization to quickly capture the value. Between our new model launch in 3Q 2016 and 4Q 2019, we channeled close to \$60B of indirect spend and processed well over 1MM purchase orders through our global platform, representing one of, if not the largest, deployment of a Procurement cloud-based system in existence at the time of publication.

Importantly, we have remained flexible in our approach. As we implemented the changes in our first markets, we quickly gained insight into where our approach was successful, and where we might need to adjust to better address local market needs. Our continuous improvement process gave us the agility to change the mechanics of our implementation while still achieving our overall strategic goals, on time and on budget.

Our continued evolution is measured in our productivity in delivering value on the dimensions of our balanced scorecard strategic framework. For example, we benchmark and track our *innovation capabilities* and practices in areas such as supplier enabled innovation by monitoring the growth revenue contribution of supplier developed solutions. We also work to enhance our advanced practices in co-innovation opportunities with strategic or newly discovered suppliers. One large example of this is the development of our cloud-based Procurement SAP Ariba platform. At the same time, we are working to develop next generation AI/data analytics tools with a range of technology start-ups.

In *financial stewardship*, we have seen an increase in savings contributions unlocked by the almost 300% increase in spend under

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enterprise-wide management driven by the deployment of our new model. This new specialist model has also delivered a **50% functional ROI improvement**, and the associated increase in savings, through better alignment between our Business Engagement Leaders (BELs) and our internal and external business partners. These BELs work collaboratively across the business units to represent the priorities of those business units as we shape our category strategies across the enterprise.

Our **operational efficiency** has improved specifically with respect to productivity. We have seen improvements (as measured by industry related benchmarks) in the range of 25% on the indirect spend to over 50% in some areas of the direct spend side of the function. In the direct spend area, which is \$8B of the \$30B, we still maintain and operate within the multiple ERP systems that we have in place globally. We have also evolved the direct material sourcing to the category manager specialist model implemented previously across the indirect side of our business. This will allow us to mine much deeper savings contributions in advanced sourcing practices beyond traditional Type I bidding, constantly testing the market while shaping end to end opportunities with our supplier base. The Procurement team are key members of the Supply Chain Team driving end to end customer solutions with deep supplier integration. Our focus is on innovative processes and practices with the priorities in the following order: safety, regulatory, quality and cost management.

The area where we have been able to advance most quickly is also one that is possibly most meaningful to Johnson & Johnson. Our Credo outlines our responsibilities to our broad stakeholder groups.¹ As the Chief Procurement Officer for Johnson & Johnson, I believe that our commitment to **risk management, sustainability and corporate citizenship** is a requirement to do our job well. We must be purposeful in how we direct our spend. Our Company has relied on us to deliver cost savings. Given our current global dynamics, the time is right to expand Procurement functional strategic value. It must include:

- ✓ Engaging our suppliers more deeply in our end-to-end innovation processes, throughout the company. We have an expert understanding of our supply base and can provide a unique perspective.
- ✓ Working with our suppliers to accelerate our commitments to social and environmental improvement across the value chain. We want to be sure that we are always living into Our Credo commitments; our depth and breadth in healthcare give us an opportunity to positively influence health trajectories around the world. We must use our big for good.

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- ✓ Managing risk by holding our suppliers accountable to the same standards to which we hold ourselves. We provide clarity in supplier standards and social responsibilities, sharing best practices and driving public goals through our Responsibility Standards for Suppliers.²
- ✓ Shifting the purview of the Chief Procurement Officer to the Chief Purpose Officer, meeting the expectations and demands of customers, employees and the communities of stakeholders we have the privilege to serve.

Redefining the Procurement function's value proposition and reshaping relationships across all critical stakeholders in a storied \$82B, 130-year old company was a daunting task. It required expertise developed over time, and perspectives from both inside and outside the organization. Confidence and courage to stay the course can only be accomplished by having a team of leaders at all levels who embrace the change in their behaviors. Success will only come with a strong sense of empathy for those experiencing change, an ability to actively listen to feedback, a willingness to engage, and a commitment to improving the employee experience. That experience goes beyond the interactions that you have with your business partners, but also the experiences of your own team. The food at the best restaurants is only translated to an ideal customer experience through those who service the customer firsthand.

Critical Success Factors

As we embarked on this transformation to the Procurement function that Johnson & Johnson needed us to be in the future, we knew there were three critical success factors to consider. These would allow us to shift from being a strong supporting function to becoming a strategic competitive advantage.

Our structure needed to be led from the center. This has been a focus area for us, as it is fundamentally different than the model that has made Johnson & Johnson successful in the past. For us to truly maximize the value of our supply base, we needed to know which business units were using which suppliers for what purposes, and we needed to help our suppliers recognize that they needed to think holistically about our businesses. By leading from the center, we have been able to give and gain earlier, better visibility to the great work that our suppliers do with us. This enterprise-wide breadth allows us to efficiently deliver local relevancy where it matters the most. For example, we can now leverage our key direct material commodities across our entire enterprise in areas as basic as packaging or as sophisticated

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as electronic systems. We are now working with our most senior leaders in translating investments in resources, both funds and labor productivity, against our mission of innovation and growth.

Global, end-to-end transparency is the great enabler. This might sound obvious on its face, but it is worth a moment of reflection. Do you have visibility to every transaction across your business everywhere in the world where you do business? What decisions might you make differently if you had that data? For us, it has allowed us to look at a few things differently:

- Impact on investment productivity: where are we spending our money and why?
- Impact on process:
 - Better compliance to our policies (and less risk to our business).
 - Better understanding of cycle time, its impact on our business, and how we can improve it.
- Impact on people and communities: supplier diversity, sustainability
 - Increasing transparency among our supplier community and a willingness to share data in these areas has been transformative.
 - Collaboration / ideation meetings on how to change the industry, willingness to certify and share data.

This new visibility to where we are spending our money has brought new insights to the highest levels of our company. Using our spend data in combination with our financial planning data has given us a broader view of the decisions that our businesses are making. We know not just how the Company's money is being spent, but with whom, and whether it's being spent in a way that aligns with our expectations.

One example of this is a recent focus on workforce planning, and optimization of our internal capabilities through the appropriate use of consultants and contingent labor. While the current trend is to increase the use of a flexible workforce, we seemed to be missing these opportunities to build greater agility into our workforce deployment. By truly understanding where and how we were using these external capabilities, we were able to develop simplified sourcing processes as well as more comprehensive contracting. We developed efficient buying channels that better align with our broader enterprise strategy. Our approach, as seen in this example, allows an enterprise best practice to be shared and shaped to unique functional needs (e.g., Supply Chain, IT) or regional business needs (e.g., specific sectors or regions).

Focus on meaningful business priorities at the highest levels of the organization. Through our transformation, we have worked diligently to maintain and grow our collaborative relationships at all levels of the organization. Like many organizations, however, priorities that are established at the top get the most visibility and support. By using our enterprise-wide data visibility, we have been able to shape programs and initiatives that create value and align with our highest strategic priorities.

One example of this is our enterprise wide cost management program. As a leadership sponsored initiative, it is using our new operating model and data capabilities to drive focus on productive resource utilization. One example is in our company travel, and our ability to determine how much of our travel is for internal meetings (among Johnson & Johnson employees) as opposed to external meetings with customers or suppliers. By giving visibility to our organizational spend, we can help drive discipline in spend ROI for our business partners in creative ways. Having the support of the senior business leaders for this program provides the endorsement to Procurement as thought leaders. It gets us in the door. The financial benefit of the program to the business allows us to maintain our seat at the (management) table.

Our Executive Committee also has strong interest in our broader strategies in Sustainability (Healthy People, Places and Practices), Supplier Diversity, Risk Management and Innovation. The inclusion of our Procurement policies and practices in our annual Health for Humanity Report is recognition of the expanded role that Procurement plays in meeting our commitments to all our stakeholders.³

As we have gone through the transformation, I believe that we are poised to take on the next set of challenges coming our way. We have changed 130 years of doing business and have captured significant value through that change. We have worked diligently to understand what our patients need, what our business partners need and what our suppliers need and can deliver – and we are connecting the dots for them every day.

The Next Chapters

We are in the last few stages of our transformation from a collection of individuals working in various business units around the world to a single, center-led organization. This has been an enormous undertaking, influencing the work lives of virtually every person who works at Johnson & Johnson. The future for Procurement and for the Company is bright; we have set the stage for broader engagement and influence, and we are already seeing this take shape.

Two focus areas for the next few years include:

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Building on Critical Platforms: Leveraging the advanced sourcing and supplier base management competencies of a specialist organization and investing in tools that inform and speed the quality of the buying process in order to focus investment resources in the most productive way towards growth.

Insight Driven Decision Making: Greater partnership with internal business leaders, informed with real time insights; reducing the reliance on historical practices and incomplete or inaccurate data.

By uncovering new insights with the benefit of end-to-end transparency, we have been able to develop strategies that are helping shape the future of how Johnson & Johnson works with – and derives value from – our global supplier community. Our conversations are based on the ability to leverage complementary competencies with broader enterprise value to drive innovative solutions to both our day to day business challenges and our biggest health care challenges. We have always focused on using our broad supplier base and annual \$30B in spend to solve many unique challenges around the globe. The integration and alignment of our go to market spend and supplier base that our transformation has provided is driving broader, higher impact enterprise strategies that generate greater innovative value to our unique and local businesses. This allows us to balance the needs of the broader enterprise to the unique needs of our local markets.

Our journey over the past four years has been challenging, and it wouldn't have been possible without a team that is committed to making a difference. Our Procurement professionals around the world are committed to delivering for today while preparing for the future. They take inspiration in working not just for the businesses that we support, but for the patients, customers, healthcare providers and the various communities they serve. They have established a foundation for the next generation of Procurement leaders who will be facing tomorrow's challenges. Ultimately, it's about connecting the heart and the mind that drives the passion and innovation behind what the Procurement function can and will do at Johnson & Johnson. We believe we can make a difference not just at our Company, but in the world.

Author

Leonardo (Len) DeCandia: With a Chief Supply Chain Officer / Chief Procurement Officer career spanning 25 years and four Fortune 200 companies, Len DeCandia is currently the Chief Procurement Officer for Johnson & Johnson. In this capacity, he led an award-winning organizational transformation for the Procurement function,

moving from a decentralized model to a globally integrated, agile operating model optimized through digital technology. Len's passion is for evolving the strategic value contribution of Procurement for business growth as well as social, economic and environmental good. His commitment to future supply chain leaders is exemplified by the Johnson & Johnson Procurement Leadership Development Program (PLDP), recognized as a world-leading development program in 2019 by MBA-Exchange.com. Len is the Founding Chair of the Rutgers Business School (RBS) Center for Supply Chain Management and is currently a member of the RBS Advisory Board. An adjunct professor, he teaches a graduate course in Supply Chain Innovation Management.

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Endnotes

1. Our Credo [Corporation website]. (n.d.). *Johnson and Johnson*.
2. Johnson and Johnson. (2017). *Responsibility Standards for Suppliers*. Johnson & Johnson Services.
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