

PROCUREMENT LEADERS

ISSUE 15 | AUGUST 2008 | WWW.PROCUREMENTLEADERS.COM



NO GOODS PROCUREMENT STRATEGIES FOR A SUPPLY CONSTRAINED WORLD



HEINZ'S ROB HEMSLEY
ON E-PROCUREMENT AND
EXECUTIVE VISION



PROCUREMENT HOTSPOTS
IN AFRICA - THE WORLD'S
LAST GREAT RESOURCE



WHY YOUR SUPPLY CHAIN
IS THE PERFECT TARGET
FOR FINANCIAL CRIME

FULL OF BEANS


ROB HEMSLEY'S INNOVATIVE USE OF TECHNOLOGY AND CLOSE SUPPLY CHAIN LINKS HAVE LEFT OTHER FOOD MANUFACTURERS PLAYING CATCH UP, WRITES DAVID RAE

Attracting and maintaining executive buy-in is often considered one of the most challenging and important parts of a procurement executive's role. Without it, even the most life-changing supplier innovation, or most promising opportunity for cost cutting could fall on deaf ears. But for Rob Hemsley, European procurement director at Heinz, this certainly isn't an issue. Like it or not, he is firmly in his chief executive's gaze.

This is no surprise. Up until 2006, the American food manufacturer – one of the most famous brands in the world – was having a tough time, with net income dropping three years in a row. Following the latest results, however, that can all be consigned to history – record revenue growth on 2007 of 12% to \$10.1bn was complemented by an

increase in operating income of 8.5% to \$1.6bn. William Johnson, its chairman, president and chief executive, is obviously doing something right.

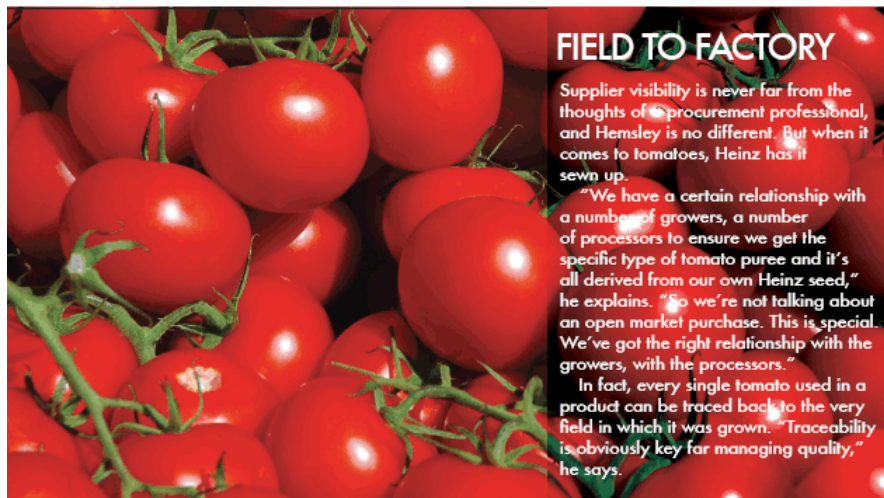
Dipping into the company's 2007 annual report offers an insight into some of the strategies the company has adopted and how central the procurement function is to the chief executive's vision.

"With the goal of building best-in-class capabilities in purchasing, manufacturing and logistics, we have established a Heinz global supply chain task force led by Scott O'Hara, president and CEO of Heinz Europe," Johnson wrote in the introduction to the annual report. "This initiative is designed to capture further savings from our \$6bn global supply chain, further improve capital efficiency, 

PORTRAITS: NICK SINCLAIR

PROFILE **ROB HEMSLEY**





FIELD TO FACTORY

Supplier visibility is never far from the thoughts of a procurement professional, and Hemsley is no different. But when it comes to tomatoes, Heinz has it sewn up.

"We have a certain relationship with a number of growers, a number of processors to ensure we get the specific type of tomato puree and it's all derived from our own Heinz seed," he explains. "So we're not talking about an open market purchase. This is special. We've got the right relationship with the growers, with the processors."

In fact, every single tomato used in a product can be traced back to the very field in which it was grown. "Traceability is obviously key for managing quality," he says.

enhance our customer service and continuous improvement culture, and leverage our supply chain for product and packaging innovation."

And it's a strategy that has paid off. Not only have results improved, but product innovations are also a regular event. Perhaps no surprise, then, that just a few weeks before we spoke to Hemsley, Heinz announced a strategic performance plan comprising of four key pillars with procurement and the supply chain forming a substantial part of that plan.

"The first two are all around how we're going to grow our business at the front end: the sales and marketing side of things," says Hemsley. "But the last two, to strengthen and leverage global scale and to make talent an advantage, really are crucial to the supply chain within Heinz. What we've done in purchasing is establish a framework... and if we effectively deliver on all of those strands we will be supporting everything that the business needs," he says.

A good example of how Heinz works extremely closely with its supply chain can be seen in a recent change of packaging used for the company's ubiquitous Tomato Ketchup. By working closely with suppliers a new form of plastic

was developed – a far more translucent material which shows off the Ketchup much better. "We've had a factory built local to our factory with very strong supplier relationship management links and we've designed that product with the internal R&D teams," he says. "It was an opportunity that came from packaging technology. It was an opportunity that came from the supplier source."

As the global economy continues to lurch towards recession, procurement executives are finding themselves much closer to the front line. An ability to influence the price of raw materials combined with the potential to discover innovations by working closely with hundreds, if not thousands, of external suppliers means they have the ability to influence the bottom line performance of their organisation. But with world food prices continuing to rise due to supply shortages and inflation also on the increase, Hemsley admits it's not easy.

"It [the increase in world food prices] is affecting us to a huge degree," says Hemsley. "In fact, it's totally changing the game. We are not just buyers, we are, if you like, predictors and forecasters of where these markets are going."

Feeling deflated

He explains how for the previous 20 years or so food manufacturers have been experiencing a degree of deflation. "Since then it's not been the case," he says. "We've seen, as a result of demand from India and China and quite a significant increase in the price of energy and crude oil, a switch away from power on the demand side to the supply side. That's changed our requirements in purchasing quite significantly. We have to be far more in tune with the outside world, far more in tune with the whole economic environment and we have to be able to articulate that very clearly to our business leaders so that they are ahead of the game in managing that."

"We're having to spend a lot more time outside looking at the overall economic environment and understanding it and working with our suppliers to understand how that will play itself out in the individual markets. We have to spend a lot more time thinking about what kind of relationships we should have with suppliers because there's a huge

THE INCREASE IN WORLD FOOD PRICES IS TOTALLY CHANGING THE GAME. WE ARE NOT JUST BUYERS, WE ARE, IF YOU LIKE, PREDICTORS AND FORECASTERS OF WHERE THESE MARKETS ARE GOING

PROFILE **ROB HEMSLEY**

element of risk that is now in the markets, which makes the job incredibly exciting, but makes it that little bit harder as well. And we have to populate our procurement organisation with those individuals who are capable, not only of understanding and managing that, but communicating it to our business unit leaders and our CEOs so they can understand what business steps need to be taken.”

Key to Heinz achieving those goals and steps are its people – especially in the extended supply chain. Hemsley points to a concept of unified goals between the factories and the procurement teams as “crucial” if the company is to successfully leverage global spend. “We have to be able to have the same kind of targets and the same kind of measures and the same training to create procurement strategies and portfolio strategies that best deliver these results for the organisation,” he says.

Heart felt

Essentially, it's change management – a subject close to Hemsley's heart. His approach to implementing change is to sell the benefits of a given project rather than tell staff that they must do things in a different way. This, combined with the training of chosen individuals to become evangelists of a given change, is the key to successful transformation.

“The most important thing is to have a champion, an evangelist, someone in the organisation who strongly and passionately believes in a particular change and is able to articulate the real benefits of having this particular change,” he says. “There also needs to be a body of people who are supporting that individual.”

He points to a prior example of e-sourcing when he picked a number of individuals and trained them to give them experience in a given technology. “We had what we called e-sourcing specialists and we trained them and got them together in teams and used those individuals to deal with those people who were not up to speed, who needed support,” he says.

The use of technology is something that Heinz does very well. At a roundtable event on spend analysis hosted by *Procurement Leaders* earlier this year, one procurement executive said Heinz was an example of a company doing good things. And although Hemsley was



PROFILE ROB HEMSLEY



I'M NOT A TECHIE, BUT ANYONE WHO'S RUN SOME E-OPTIMISATION EVENTS SEES THE BENEFITS THAT COME OUT OF TECHNOLOGY

unable to expand on that, he was able to provide an insight into how the company has managed to gain control and visibility of the types of volume of spend that goes on at Heinz.

"Being in Europe with many cultures, we are dealing with a set of different systems," he explains. "We have a number of ERP systems, which is fine for the independent national businesses that exist, but if you're buying on a European scale you need to have a system that overlays across all those systems."

Visible results

As a result, Heinz implemented Ariba technology to provide the indirect spend visibility required for each region, regardless of the underlying legacy technology. "We were able to gain an expansive span," he says.

The Ariba solution was something of a temporary measure, according to Hemsley. Because Heinz is in the midst of a global SAP rollout, which will take years to complete, the Ariba solution was necessary to get the visibility of systems in the short term. "It might be that we keep the Ariba piece in the future, but the spend visibility tool we implemented several years ago has been very effective at gaining access to spend that we couldn't previously see before, especially in some of the other

countries which didn't have such good ERP systems."


Excellent spend visibility, regardless of the underlying legacy technology, was one thing Heinz did particularly well. But e-sourcing, in particular, e-optimisation, has won the company awards.

By working with Emptoris, Heinz was able to improve on a previous e-sourcing implementation it had developed with Freemarkets (which has since been merged into Ariba). "We worked with Freemarkets when the reverse auction was first developed and we found quite a few successes with that over the first few years," he says. "But it didn't take us long to realise that it wasn't giving us what we wanted on supplier relationships. It was a very blunt instrument. It was forcing suppliers to drop price without being able to change their offerings."

Instead, Heinz and Emptoris began work on the "creative negotiation model" which now forms the foundations of the software company's optimisation technology. As a result, e-auctions are run on parameters far more scientific than cost alone.

Hemsley offers an example of an e-optimisation event that he was involved with at Heinz that attracted around 200 suppliers bidding for 700 items. The result was almost organic, where pitches would evolve based on what suppliers put forward. The items originally put to tender could, in theory, be radically different from the ones Heinz ultimately ended up sourcing.

"On some ingredient specifications we have generated a degree of competition that has opened up the potential and the ability of suppliers," he explains, giving the example of how a supplier suggested that with greater volume they could generate a better quality ingredient. It's another example of technology helping procurement help the wider business.

"Technology is a pretty exciting thing," enthuses Hemsley. "I'm not a techie, but I know the value of it. Anyone who's run some e-optimisation events see the benefits that come out of it. It's not the technology as such that's exciting; it's how the technology is used." 

FASTFACTS

Name	Rob Hemsley
Job title	Procurement director
Company	Heinz Europe
Age	46
Revenues	\$10.1bn
Earnings	\$1.6bn
Budget	\$6bn
Career history	
Heinz	Variety of purchasing management roles in direct and indirect spend
Elsewhere	Various roles in the chemicals and engineering sectors

For more CPO profile interviews, go to www.procurementleaders.com/interviews