



Three Approaches for Transforming the Procurement Function To Remain Competitive in a Global Economy

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As operations and markets globalize, enterprise capabilities to optimize expenditures across geographies become crucial for the following reasons:

- The ability to enter and exit global markets can have a dramatic effect on company performance. Intelligence and speed to acquire new materials, products, and services are of paramount importance to maintaining a competitive edge.
- The challenging economy is driving many to seek out lower cost resources for technology and business process support functions like procurement, which are available offshore.
- Ignoring globalization is not an option. Competition is rife from many other enterprises that have already been adopting global procurement models. In fact, they may already have gained competitive advantages over your company.

It's critical to understand that meeting these challenges requires a thorough analysis of the procurement function, your current state, and the desired and possible paths to success as well as the plans that support the transformation.

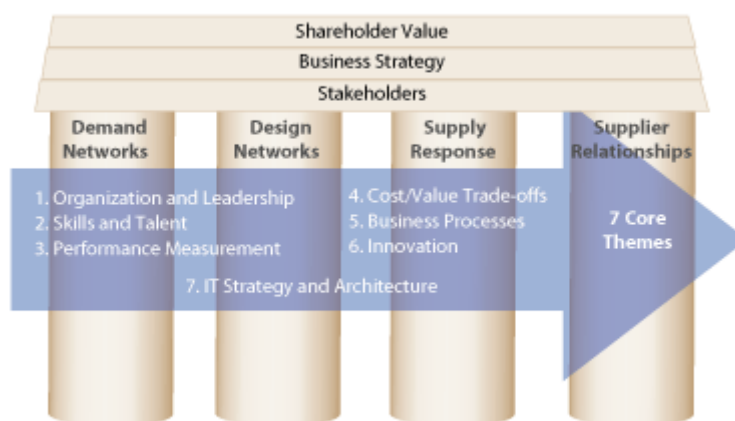
Requirements for transforming the procurement function

In order to transform your procurement model to adapt to a global environment, you need to evaluate your people, processes, and technology. But this evaluation cannot be done in a vacuum and must include an alignment to the overall business strategy, including a full review of the demand and design networks, supply responses, and supplier relationships. These four key pillars help companies focus on seven key contributors to procurement transformation:

- Organization and leadership
- Skills and talent
- Performance measurement
- Cost/value tradeoffs
- Business processes
- Innovation
- IT strategy and architecture

When aligned properly, businesses find expense reduction, margin improvement, and efficiencies that cut across procurement, finance, design, sales, and suppliers. The benefits of "lean and mean" transform procurement to a function that delivers value and contributes to the business, with procurement becoming a value organizations cannot live without. In our tough economic times, organizations need value that brings competitive advantage and company survival.

Figure 1: Aligning the pillars for Shareholder Value and Procurement Transformation



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Source: AMR Research, 2008

Evaluating the right procurement resource sourcing model

Evaluating your people, processes, and technology to understand where you can find greater value and cost savings as well as improve procurement process acumen and assessment of the appropriate skills to develop your procurement model is paramount in today's world. Chances are you will need to engage external assistance to reach your desired procurement end state.

Here are three procurement transformation delivery approaches that can be used in the development of your global procurement strategy:

- Procurement technology
- Consulting and staff augmentation support
- Business process outsourcing (BPO)

Procurement technology

Because of the broad spectrum of responsibilities in procurement, companies typically enhance and enable their business processes with several types of broad technology platforms: procurement, sourcing, supplier performance management (SPM), and a multitude of financial settlement techniques (for more on this, see "Supply Chain Financing: Navigating the Financial Storm").

Technology installations done properly with C-level executive buy-in, change management initiatives, training, and celebrating the successes as they occur can yield a multitude of benefits. Benefits cited by CPOs include the following:

- 20% to 50% productivity improvements
- Average cost reductions of 15% to 20% across all spend types
- Visibility and collaboration across the organization
- Actionable information for risk and compliance

The rewards are bountiful. While economic shifts can mean competition for internal budget dollars, organizations find they can bring immediate value with the right procurement technology implementations.

Procurement

Procurement technologies assist in the basic workflow of all spend types, though most are centered on indirect goods with some services procurement. Direct materials procurement is found in procurement systems, though it's usually connected to ERP functionality because of the complexity of purchases tied to bill of materials (BOMs), scheduling, and inventory.

Procurement technology products typically encompass requisition, catalog search and product selection, routing, approval, purchase, receipt, and sometimes invoice presentation and payment. Savings include shorter time from order to receipt (leveraged an average 5% to 10%), savings across suppliers and categories, and, in some cases, a small reduction in headcount. Providers with procurement technology products are **Ariba, Basware, BMO Financial Group, Connell Spend Management, IQNavigator, Katera Technologies, Lawson, PROACTIS, PurchasingNet, Oracle, Osiris Innovations Group, Quadrem, SAP, SciQuest, TBlox, Vinimaya, and Verian Technologies.**

Sourcing

Sourcing technologies automate the processes of RFX, auctions, optimization, and award. Sourcing suites have emerged in the last few years with the additional value of spend analysis, contract management, supplier performance management, sourcing compliance, project management, and product lifecycle management (PLM). These technologies can bring immediate savings of 15% to 20% in real money because of data aggregation and visibility of negotiation information as well as provide weeks of analytical cycle time reduction. With suite functionality, they enhance the workflows of actionable information to contract award, identify real savings opportunities, and provide cost-value tradeoff visibility across the organization.

Supplier performance management

SPM functionality may be found in sourcing technology platforms as part of ERP or as a separate standalone technology. Standalone products like ones from **IQS** and **TierConnect** enhance the value with visibility across the entire SPM process, including incoming inspection, scorecards, quality, and risk management.

Although the rewards can be significant, companies need to remember that without the proper buy-in, rollout, training, and support, technology initiatives can fail. When companies are faced with this concern, consultants and BPO providers can offer assistance.

Consulting and staff augmentation support

There are a plethora of third-party consultants that can be brought onto a project to augment your staff to plug skill gaps, refine your process workflows, deploy new technology, phase out redundant platforms, or transform your procurement functions: **Accenture, Archstone Consulting, AT Kearney, BearingPoint, Capgemini, CCP Global, Connell Spend Management, Deloitte Consulting, IBM, and Spinnaker.**

While these arrangements are often advantageous for filling short-term needs and solving immediate problem areas, they tend to be expensive. Additionally, when the engagement ends, your company may not have acquired enough knowledge to deploy the best practices and technology improvements introduced by the consultant.

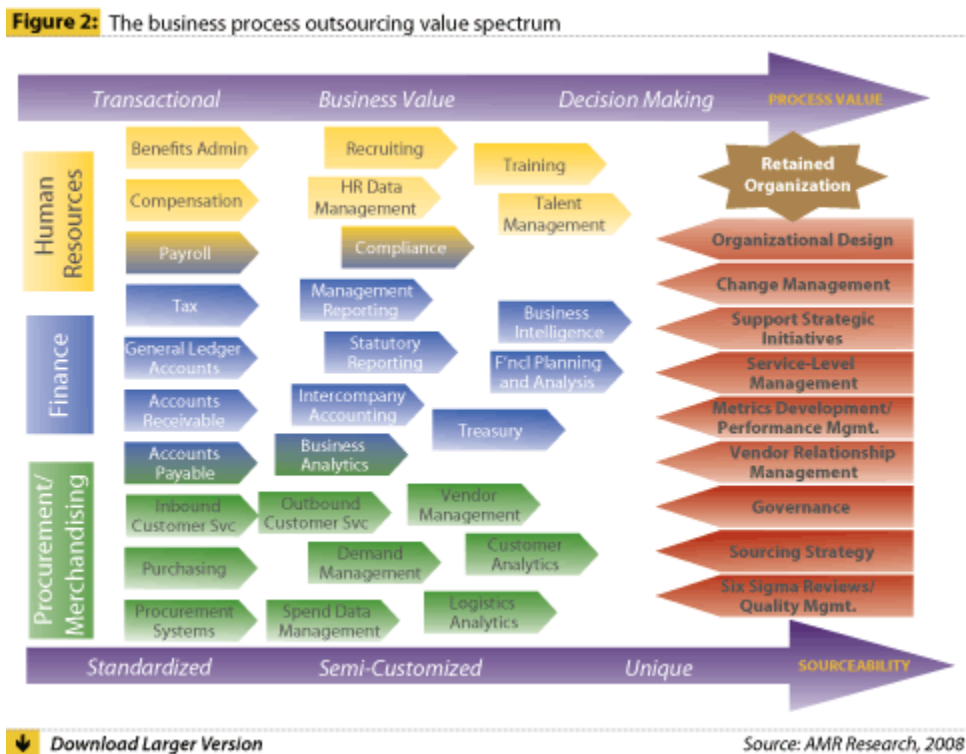
Business process outsourcing

An increasing number of enterprises are developing longer term partnerships with third-party service providers to take advantage of the technology, process, and low-cost offshore skills they provide.

As we've already mentioned, consulting-based arrangements are costly and often meet short-term needs only. Procurement BPO relationships involve a dedicated service provider staff working for an enterprise's procurement department on long-term, renewable contracts, typically five to seven years in duration. Procurement BPO providers like Accenture, Ariba, Capgemini, **Corby**, **Hubwoo**, IBM, **ICG Commerce**, **Infosys BPO**, Quadrem, **Satyam BPO**, and **Tata Consultancy Services (TCS)** are more willing to serve clients at more favorable rates because of the long-term, renewable nature of the relationship. These providers provide a one-stop shop for most process and technology requirements at a global level as well as a training ground for the development of your existing procurement staff. They'll also help deploy your procurement technology more effectively.

It's often challenging to transition a lot of work to an offshore procurement staff, with cost savings relatively modest (in the realm of 10% from original budget). In most cases, there's a need to invest in new procurement technology and processes, and any cost savings are absorbed into these new investments. To compensate for this, most procurement BPO providers now offer gainsharing services where they will be given incentives for providing future cost savings from more efficiently managed spend.

Figure 2 illustrates how business processes are generally bundled and how they can be outsourced. It also demonstrates how procurement processes are often deployed within a broader, enterprise-wide BPO model.



The majority of business processes that enterprises tend to outsource initially are ones on the left-hand side of the illustration, which are transactional, routine processes that are easy to document and train new personnel to administer. They also share common applications and are generally standardized. These processes are typically tied to core ERP functions, such as payroll, general ledger, accounts payable, indirect spend management, and purchasing, which outsourcing vendors are offering on repeatable, scalable delivery models. The more standard the processes and their corresponding applications, the easier it will be to move to an outsourcing provider at low cost and low risk.

Moving toward the higher business value processes, the degree of customization to the business increases much like the requirements for critical thinking, application of business logic, and skillset demands for the staff performing the work.

On the far right-hand side are the activities that need to be conducted by the retained organization post outsourcing. Many executives today working in commercial enterprises need to be aware how their jobs will change in an outsourced environment.

Finding the right economic model is key

The competitive provider environment for procurement technology and services is significantly increasing your options for transforming the procurement function on a global basis. While technology platforms can deliver efficiencies and help access new markets, if your company doesn't have the right technology, internal sponsorship and leadership, and internal business processes to deploy that technology, you may never reap the rewards. Procurement BPO products and services can bring the expertise needed to optimize your technology platform, but achieving the ideal end state can be a costly exercise, depending on the level of transformation required.

The changing economic times and a globally integrated business environment are forcing companies to take a fresh look at their businesses and the procurement value derived. Ultimately, it's important to ask if your company is delivering efficiencies, cost savings and reduction strategies, lower operating costs, innovation, and business value. If not, do you need a business partner that can help achieve this business value, or can your company do this on its own, relying on a technology foundation?

Let us know if we can help—mnorthrizza@amrrresearch.com and pfersht@amrrresearch.com.

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