

PROFIT FROM PROCUREMENT

**Add 30% to Your Bottom Line
by Breaking Down Silos**

**Alex Klein
Simon Watson
Jose Oliveira**

WILEY

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TECHNOLOGY: Investing in and Adopting the Right Tools

A Procurement Revolution That Hasn't Happened

The world we inhabit in the 2020s is so vastly different to that of 10 or 20 years ago, even allowing for a global pandemic. And there is one major cause of that. Technology. It has such a profound impact on the way we go about our personal lives, in particular.

Let's look at some examples. Take something as simple as booking a cab. Today, in any major city, you can get your smart phone out, tap a few times, and you'll be picked up within minutes and taken to your destination. All this without needing to talk to another human being or physically give anyone any money. It makes taking a cab so much easier and more convenient. Remember when you had to hail a cab or phone a central number? Then you'd have to say where you wanted to go and hope the driver knew it, which they sometimes didn't, and so you'd have to explain. Finally, you'd be messing about with cash and change in the back of the car in an attempt to pay at the end, because they didn't take credit cards.

Then look at communication. We can now meet with work colleagues, and even attend conferences, all from our own homes. Many predict we will never return to a pre-pandemic world in which

most people go into an office every day. Why would we, with all the video technology, online collaboration rooms, and the multiple chat functionality on our devices? Granted, virtual collaboration is not exactly the same as face-to-face, and it can be draining, but it means we don't need to be face-to-face all the time anymore, or even most of the time.

Before all this online collaboration, phoning and conference calling were generally seen as poor substitutes for meeting face-to-face, which is why there was a lot more travelling and commuting. Admittedly, the current global pandemic has changed our attitudes to office working at an accelerated speed, but without the technology this virtual collaborating would not be becoming the new norm.

And finally, since this is a book about Procurement, what about buying something? Let's assume it's something quite complicated like a vacation. Remember the travel agents that populated most town centers just a couple of decades ago? You'd walk in there and browse the brochures of the types of places you'd like to go to. The travel agent might even give you some pointers. You would have to take the brochures home for a few days to flick through and discuss with your partner, then go back to the travel agent, who would phone the holiday companies and airlines on your behalf and book you a trip.

It was quite a lot of work and phoning, checking availability and prices. Do they do family rooms? Is the special tariff valid over the public holiday? Are there good restaurants nearby? What about the dog? The travel agent offered a service doing all that for you—because there was a lot you couldn't do yourself. Or could, but it would have been very time-consuming. But now, where are the travel agents? Well, there are a few still dotted around if you look hard enough. But today they tend to cater for people looking for something very specific, who still enjoy and are prepared to pay for the service a middleman (the travel agent) performs. But mostly travel agents have disappeared from our high streets.

The fact is almost everyone buys holidays and flights themselves these days online. There is huge price transparency online today, meaning you can compare all sorts of pre-sourced deals yourself, without a travel agent. You can check availability of rooms and tours just by clicking a button and without having to phone anyone. You can check

with a simple search where all the best restaurants are near the hotel. There are many reviews to read, and overall, they give you a good sense of what you are letting yourself in for and whether it's worth spending all that money. The experience of booking a holiday is so much different from how it used to be. As individuals, we are so much more in control of the process. And it's great!

But what happens when we want to buy something at work? Even something simple? Well, it can sometimes feel like we've stepped into a time warp to 20 or 30 years ago. Depending on the company, you're probably still made to fill out a requisition template or similar, just like you did way before the turn of the century. You then need to send it off to a Procurement function. You might be waiting a few days, or much longer, for a response.

Then, when the response does come, it might tell you not to buy what you wanted but to buy something a bit different. And you have to buy from certain suppliers because they're the ones already in the system—and to set up another one takes a lot of time and more form-filling. Maybe they can't tell you what the lead time will be for the product you want, so they'll have to come back to you on that one. Or perhaps your request just isn't a priority right now, so you've been moved down the queue.

Is it a wonder that people get confused and frustrated with how different Procurement is at work compared to our personal lives? Somebody books a two-week vacation in an evening all by themselves, then the next day they still don't have an answer from Procurement on the four spare parts they're trying to obtain to keep a key piece of manufacturing machinery going!

The reality is that, despite the existence of technologies today to make purchasing so much more streamlined, the corporate world is lagging behind the consumer world by some distance. There is a revolution there that just hasn't happened.

The Steam Powered Tesla

Technology and digital have become buzzwords in many businesses and in Procurement. Procurement functions have digital strategies and are making technology purchases. Clearly people are putting a lot

of faith in technology because these systems don't come cheap, with implementation costs that can run into six- or seven-figure sums.

Efficio ran a study in 2018 (*The Future of Procurement*) and asked a few hundred Procurement leaders in Europe and the U.S. the value they ascribed to technology in Procurement. The results were revealing! Almost 80% thought it should be a boardroom priority, and about two-thirds said emerging digital solutions in the space were causing them to completely rethink their approach to Procurement. So clearly technology is on the Procurement agenda! But, amazingly, about 50% of those same respondents admitted to purchasing technology from a fear of missing out rather than understanding the full benefits of what they were buying.

This is a dangerous state of affairs. You essentially have lots of shiny and expensive Procurement technology gadgets on the market and half the Procurement leadership (at least of this particular study) buying them without a full understanding of benefits. Without some caution, there are going to be some wrong technology purchasing decisions. And, trust me, we've seen a few!

Technology is not going to solve a problem or make something better all on its own. Technology is there purely to enable a better operating model, a better way of working. It is part of that better operating model. But without considering the other parts of that operating model—which are mainly people, data, and processes—then you'll remain at square one. Actually, you'll remain at square one having spent money and potentially some goodwill that others had towards you in trusting you to make the technology purchase. This is arguably square *minus* one.

The clearest and simplest example I've seen of a Procurement technology investment gone wrong is when a retail bank decided (correctly) that it needed to get better visibility of its supplier contracts. There was no central place for contracts. They existed on everyone's hard drives or shared drives. Ahead of key negotiations with suppliers, they sometimes couldn't locate the contract. There was also a regulatory angle, and a recent audit by the regulator had recommended that they make improvements in this area.

So, the bank did what you would expect. They bought a contracts repository. And that is what they got. A contracts repository.

Only, 10 months later there is no reliable data coming from the repository—many contracts are not in there, and most of the business does not use it. And we can't even say the technology isn't any good. It is! They bought the solution from a reputable vendor that has a solid technical product. What went wrong? Without being unjustly critical there are some fundamental things that never went right.

Firstly, the Procurement function in this case didn't consider how they would need to change the process of capturing contracts across the bank. What meta data would need to be recorded with each contract to give the visibility they needed? For example, expiry date, contract value, and supplier name. Secondly, they didn't consider how they would get people to use it. And I don't mean just giving them some training on how to use it. Of course, that is necessary, but then you just get lots of people who know how to use it but don't. No, you also need to incentivize people to use it, give them a reason. What are they going to get in return, how can the tool make their life of managing contracts easier, such that they want to use a new tool?

In this case, the Procurement function in question made the classic error that, to be fair to them, many other Procurement functions have made—namely, they built a steam-powered Tesla. The tool itself is great, one of the best in the market. But it doesn't have any fuel in the form of data or usage. So, it never gets going. It sits there idle.

What could they have done differently? They could have designed a new contracts operating model up front, keeping in mind the people, process and data implications. They could have sought better visibility of contracts, compatibility with one of the many technology solutions out there, technology that would slot in to the new model seamlessly and facilitate the improvements they were looking for. Of course, it's always easier to write that in a couple of sentences than to actually do it. But do it we must to get the fuel in place and power whatever technology solution we implement. A Ford with a one-liter engine would have traveled faster and further than a steam-powered Tesla.

Technology's Promise to Procurement

So far, we have established in this chapter that technology is there to support an operating model. And new technology can help support

new and better operating models in Procurement. Specifically in Procurement, there are three key ways we see that technology can support a better operating model in the future.

The first and most obvious is automation. Taking Procurement as a whole, the operational activities in the purchase to pay (P2P) part are more feasible to automate because they are more repeatable. However, most companies have not gotten close to automating their P2P, processes yet. But artificial intelligence (AI) already makes this possible. In P2P, there are often a myriad of processes in just one company, and it is not always possible to standardize them due to the need to account for local requirements and to retain flexibility.

AI helps by not only remembering all these processes (which conventional software can do anyway) but being able to translate machine speak into human language and interact with the user. This way it can handle queries and reduce the time it takes for a business user to, say, purchase a component they need. The “bot” can ask the user a series of questions, perhaps relating to volume and specification, and then either raise the order with a preferred supplier or pass it to someone in the upstream sourcing team if no source yet exists.

If the case does get passed there, then the strategic activities in Procurement, such as sourcing and supplier management, are harder to automate completely; but even here, AI can get us some of the way there. For example, it can help to identify new opportunities by analyzing spend and contract data, helping to build a pipeline. It can also help with predictive risk modeling with key suppliers, by trawling the Internet for signals that would impact a risk score and updating the allocated supplier manager. This codification of logic treats Procurement as a science in which logic is programmed into machines that in turn put compelling insights into the hands of decision makers. These decision makers can then make much more effective decisions, no longer needing to either spend all of their day collecting and interpreting data or giving up and just using their hunch or “experience.”

Despite AI’s potential here, it is important to appreciate that simplifying processes in the first place is a key enabler of automation. AI should not be the first step. Simplifying current processes should be. That will unleash the full potential of AI.

The second major application of technology in Procurement is communication—between suppliers and the businesses trying to buy their services or products. Business-to-business (B2B) marketplaces are still lagging behind their business-to-consumer (B2C) counterparts (such as eBay) in popularity, but they have a huge impact on the ability of businesses, and users in those businesses, to communicate with each other. Until now, communication within business has been slow and narrow. Needing to go through certain individuals to speak to one of your suppliers. Or potential suppliers not on your books never being able to communicate with you about what they sell. Which could be exactly what you need! Technology could open all this communication up.

Finally, trust in Procurement data, and indeed in all types of supply chain data, is set to be transformed by technology—specifically, blockchain. This is important because a significant portion of time today in Procurement is spent manually checking compliance in the supply chain, whether it is auditing suppliers, tracking and managing supplier performance, or paying for the goods and service they provide. Furthermore, who has ever been in a meeting looking at Procurement data and someone pipes up that they don't believe the data, or the data must be wrong? How about we rephrase that, who *hasn't* been in one of those meetings?

While blockchain is still to be properly let loose in the world of Procurement, it is coming, and its impact is going to be profound. Without going into the technicalities of it (not many people can!), blockchain is a secure method for tracking transactions that is not owned by any one person or system. The data is encrypted and cannot be changed without everyone in the chain being made aware. All of these characteristics (not owned by one person, encrypted, can't be changed) make the data in the chain completely trustworthy.

Investing in Technology—the Fundamentals

So, now that we can see the promised impact of technology in Procurement and we've learned about the potential perils of only investing in solutions without taking the wider operating model into account, how should you go about digitalizing the Procurement

function? It's a question we get asked a lot and, as with many such questions, there is no one-size-fits-all answer.

For one, companies don't all have the same starting point. While some Procurement functions are still desperately manual, there are a few trail blazers out there who have been using technology to streamline their operating models for years. And then there is everyone in between. There are, however, three common, guiding principles that most of the trail blazers have adhered to in order to ensure the success of their digitalization journey.

Own your data and don't over-configure!

I hosted a panel event at a Global Digital Procurement Summit last year, and one of the questions that was put to the panel was, "When considering Procurement technology, is it better to go for an end-to-end suite or adopt a best-of-breed approach of different tools?" I'd heard this question and debate many times before, and, in my opinion, both can work. But what is so much more important for a CPO is to own their data and then design their solution around that, whether it's end-to-end or best-of-breed.

The end-to-end versus best-of-breed debate becomes moot! Procurement functions suffer badly from a lack of data transparency: the source of most of their problems, in fact—be it not knowing how to prioritize work, struggling to find the most promising opportunities, not knowing how their suppliers are really performing, or rushing contract renewals a week before expiry. All these are caused by poor data. But it doesn't have to be this way. In fact, it is in the hands of the CPO to make sure it isn't!

So, you first need to create a plan and process for how you are going to take ownership of your data. A concrete example of this is simply linking spend and contract data. Having a common taxonomy for spend and contracts allows you to look at your contract coverage by category, which in turn enables you to know whether there could be a sourcing opportunity or indeed how much risk exposure you might be carrying in that category.

To make sure this is not just a one-off exercise, ensuring that spend data is live and new contracts are filed against the common taxonomy

is key. Basic Procurement technology exists for this, and has done for years. But surprisingly few firms take care of this fundamental step. To advance this a little further, adding the same taxonomy to your list of Procurement initiatives, for example, (whether sourcing, supplier management, or otherwise) goes a long way. Every time an initiative is created, it should be assigned to a category from the same taxonomy, and the underlying spend data used to size the initiative should come from the same spend data set. Initiatives can also be assigned to owners from the team.

All of a sudden, we have a way of telling not only what our spend categories are, but also how many initiatives we have for each, the value of them, who is working on what, and whether there are contractual gaps. This enables much more effective prioritization and ensures that the team is working on the most value-adding things at any one time.

This is just a simple example of investing in master data management in a small area. But it can and must be expanded to other areas, such as supplier performance data, data from the P2P process, and more.

Having designed your future processes in a way that allows you to own your data, you are now ready to make your technology investment to help with their automation. And you will find many that can do the job. The key here is to find a solution that won't need a lot of configuring to fit your processes. A lot of money and time is spent unnecessarily configuring off-the-shelf technology to fit a very unique process that doesn't need to be very unique. If no technology exists without a serious configuration requirement, modify your future data process to fit.

Visualize your data

Getting on top of, and owning, your data is fundamental, as we have just seen. But to really harness the power of being on top of your data, you need to visualize it. There is some excellent data-visualization software out there that allows you to interpret and read what your Procurement data is telling you in a way that you could never do by looking at a raw data extract. Most people visualize their data in PowerPoint or Excel, if indeed they do it at all. But visualization software allows you to easily interrogate the data and drill down in a way you can't with a static PowerPoint graphic.

So, why is visualizing data important? Simply put, you are aiming to put data into the hands of decision makers. Decision makers who have, until now, made decisions on supplier awards, negotiations, work allocation, risk mitigation, and prioritizing, based purely on their feel for what is happening. This means more effective decisions and a revolution in how effective Procurement can be done as a result.

But, visualizing data is not just about buying software. That's the easy part. Understanding who needs to know what information to make them better at their job is the hard part. I have seen one company do this brilliantly, particularly in the area of supplier management. Its data and insights manager spent significant time talking to senior stakeholders to get an understanding of how they go about their role and the information that would help them manage certain suppliers better, if only they could get hold of it. The manager then worked back with her team to figure out how they could generate those insights and then what the data sources would be.

Needless to say, most of the data wasn't available immediately, so they set about putting in place processes to ensure the data would be built over time. That meant engaging suppliers for some of it. Some obliged, but not all it has to be said. But she wasn't afraid to draw a line in the sand, accept not being able to deliver the finished product straightaway, and then progress from there.

As data started coming in, she first presented the insights in the traditional static way: PowerPoint and Excel. The feedback was mixed. It turns out that translating what people say they want to see into something they actually want to see is not easy! So, she iterated. As her insights became more valuable with greater volumes of data, the company invested in a digitalization tool and a supplier communication tool to automate the collection of the data that had to come from suppliers. Other data from internal systems was also automated.

Because of the success of this initiative, all sourcing projects in the company are now required to ensure commitment from their chosen suppliers to provide relevant management information during the competitive tension part of the sourcing process, thus avoiding a potential repeat of the "unobliging supplier" syndrome mentioned earlier.

This iterative approach has led to a part-digitalization of this company's supplier management process. Data collection and analysis

is now mostly automated, saving significant time. Granted, there is still a data validation step that requires human intervention, but it is manageable and over time the human requirement is decreasing.

But most importantly, people who make decisions on supplier management issues are now doing so in a data-driven, and by definition more effective, way because they can see the data they need in a digestible format.

Manage your knowledge

How many times do you think people spend reinventing the wheel when working on Procurement tasks? Well, I reckon you can double it. The classic example is Strategic Sourcing, in which contracts and categories need to be resourced every two to three years—or even multiple times in the same year, but by different regions or business units of the same global company.

Who can remember which suppliers we invited last year to the tender? What were our reward criteria? How did we ask the suppliers to price, and what cost model did we use? Given that you probably spent a lot of time figuring all that out from scratch the first time, isn't it surprising you didn't think to record it all and save yourself the trouble next time? Admittedly, you aren't necessarily going to run a carbon copy of the last sourcing process, but there will likely be many reusable elements. If only someone could hand them to you now, on a plate.

Those who used Microsoft Word in the late 1990s and early 2000s might remember that sweet, but occasionally annoying, animated paperclip that would suddenly appear in the bottom corner of the screen. "Clippy" was its nickname. "It looks like you're writing a letter," Clippy would say, correctly. "Would you like some help?" At this point, you could either boot Clippy into touch (which I sometimes did!), or click on "Yes, please." If you clicked "Yes, please," it would then give you a few suggested layout formats for your letter and other letter-writing tips—some more useful than others. The concept though, was excellent: helping someone to do something more effectively based on the past learnings of other people.

Procurement functions that want to digitalize should consider how they can help colleagues procure effectively by using their previous, and

future, experience. Providing knowledge and guidance during some of the more complex processes—whether sourcing, supplier management, or otherwise—is an excellent start. This knowledge can take the form of templates, process guides, benchmarks, and more.

But the knowledge can't just be a dump of previous work or original files that might be useful. No one is going to use something that would take them longer to find than if they were just to do it themselves from scratch. It needs to be curated and useable content, it needs to be accessible, and it needs to be available when the person needs it. Taking the time to curate this content is an investment, but it will pay dividends down the line.

This is relevant for all businesses—in particular, for large global businesses for which this approach is an essential way to make good Procurement scalable in the organization.

So, when shopping for Procurement tools, make sure you have designed your knowledge management process first, and choose a solution that supports it. Interestingly, technology that supports Procurement processes and enables easy and effective knowledge management is less common today than you'd think. But in our view, it is critical; otherwise, you get a tool that might support your processes but does not allow you to scale them for the rest of the organization. It doesn't allow the rest of the organization to meet their own needs based on the intelligence you have built up and can provide to them.

Technological Disruption Is Coming!

Which leads us nicely to our concluding thoughts for the chapter. As we have discussed in the last few pages, business—and Procurement in particular—has been slow to adopt new technologies until now. But, make no mistake, if Procurement doesn't, another party will.

To put it bluntly, if Procurement doesn't leverage technology to move to another operating model soon, one which does not set itself up as a bottleneck, it will suffer the same fate as the travel agents we read about earlier, and find itself with a very limited role. The Procurement functions that survive will get out of the way for routine processes, allowing the business to easily serve itself.

Already, there are third parties targeting business users directly (bypassing Procurement). They offer pre-sourced deals for all sorts of products and services—user-friendly interfaces with the ability to consolidate payments, for example. Procurement needs to get there first and change its value proposition to the business. In this new operating model, Procurement seeks to add value by fine-tuning the machine: curating knowledge, spotting patterns, opportunities, and risk in the data, and allowing the business to easily buy what it needs at the best total cost.

This is the challenge technology poses to Procurement today. But it is also an incredible opportunity. With a focus on getting data and processes right first, and by considering the needs of the people in the business, Procurement can leverage technology to completely reposition itself for the better!