Is It Time to Transform Your Procurement Operations?

A Guide for Assessing your Strategic Sourcing & Procurement Department
This paper outlines the process for assessing the current state of a strategic sourcing and procurement department to identify hidden inefficiencies, strengths, and weaknesses. The outcome of the assessment will provide insights into whether a Procurement Transformation Initiative is necessary for achieving an optimum operating end state.

Businesses constantly change.

Mergers and acquisitions, management reorganizations, technological advances, and globalization constantly affect the way companies operate. The sustainable evolution of a company requires all departments to evolve as well – all the moving parts must be moving in the same direction to achieve the optimal velocity. Suppose you live in an area that’s prone to heavy snow in the winter months, and you want to purchase snow tires to help you travel more safely. You wouldn’t only put three snow tires on your car, and leave the fourth tire as a normal tire. All four tires need to be “upgraded” for maximum efficiency and performance.

Despite Strategic Sourcing and Procurement (SS&P) departments serving an increasingly critical role in supporting company operations – like the fourth tire of a car - they can still fall under the radar for “maintenance and upgrades” – and end up misaligned with the overall company strategy. SS&P must constantly be aligned with corporate strategic goals to ensure best-in-class business practices throughout the supply chain amidst business growth and change. If not, inefficiencies result and quality suffers.

The question then becomes – how do you know if your SS&P organization needs attention? And how much attention do you need to give it? (Does the tire need patching, or does it need replacing?) Perhaps your SS&P organization just needs a refresh on processes or some updated policies to stay current. Maybe some restructuring is in order. New tools and technology to transform silo’d rudimentary products to a collaborative procurement platform that places the suppliers at the center of the procurement process might be on the horizon as well. The reality is, it may be necessary to implement any and all of these examples, among others. But where do you start? What is right for your SS&P organization?

Conducting a formal assessment of your People, Processes and Technology is the first step on a path toward executing a proper Procurement Transformation Initiative (PTI). This PTI will unlock your SS&P organization and allow them to achieve not only savings, but also sustainability, efficiency, and transparency. Internal resources are frequently strained as they focus on core day-to-day functions, and do not typically have the time or access to outside benchmarking data to conduct a proper PTI.

As such, you may want to consider engaging a third party consultant with deep expertise in procurement services and transformative strategies designed to provide the needed relief and market intelligence to help accelerate your company through a PTI. A third party consultant can provide both the expertise and market knowledge to provide a comprehensive benchmark that defines improvement opportunities based on current capabilities and deficiencies.

Figure 1: Procurement Value Pyramid

To unlock optimum value, your Strategic Sourcing & Procurement operations must be executing effectively and efficiently in alignment with your corporate goals. This requires mastering the tactical activities in the short-term, setting goals for the long-term, gaining traction as a critical cross-functional service, and finally contributing to and supporting the company’s strategy. As SS&P operations achieve a higher state of maturity, they will see their sourcing projects completed with greater velocity while simultaneously improving the results of each initiative.
Why Assess

Many companies resistant to evaluation and change in SS&P often cite cost and a lack of resources. Some even grow complacent with current processes and adopt a "if it’s not broke, don’t fix it" mentality. These companies fail to recognize the return on investment for maintaining best-in-class practices within the organization’s supply chain. Granted, market conditions and flash-in-the-pan technologies and trends keep companies on their toes to stay competitive, and attention or focus naturally gets diverted to areas like R&D, marketing, and IT. Meanwhile, stakeholders expect SS&P to maintain the status quo (at best) or find cost savings to free up resources for those previously mentioned areas - conventional procurement performance.

Companies lacking the resources for conducting such an evaluation are often those most in need. Assessing the current state of SS&P operations may present cost savings opportunities in addition to revealing processes that, while "getting the job done", have the potential to operate more efficiently. For example, a SS&P Department that suddenly becomes laggard during rapid corporate expansion due to mergers and acquisitions may soon draw negative attention from different business departments or divisions. An internal assessment may identify deficiencies and limitations in the operating structure that are deterring the department’s ability to support business growth and/or bring to light company best-practices that can be implemented on a grander scale to boost efficiency.

While changing business environments and strategic goals often stimulate the need for improvement, sometimes departmental processes and tools simply become antiquated and need updating, or new processes and business requirements dictate the need for change. Unlocking value through a procurement transformation information requires a significant shift in the optimization of resources, more focus on the supply markets, and more opportunistic attitude to secure valuable business outcomes.

Take for example an SS&P department who has been using the same RFP with an extensive scope as a template for soliciting information from suppliers. While the original RFP may have been ideal for a particular supplier, overtime, the template may have become the standard practice without variation. As a result, the template includes information that is redundant or irrelevant for the type of solicitations the organization requires. A simple review of RFP practices can identify these overlooked inefficiencies and provide ways to improve the process based on your organizations unique and growing business requirements.

“Transforming procurement involves sending the message about the importance of effective procurement beyond the immediate function.”

— Chartered Institute of Procurement & Supply

Moving from Reactive to Proactive

The discussion so far as centered on primarily conventional procurement and reactive processes – something transpires in the company that points to a need to re-assess SS&P operations. Reactionary procurement responds to events after they occur or as instructed. On the other hand, proactive procurement anticipates and makes changes before they can occur. Returning to the example of the car with snow tires – you don’t wait until after the heavy weather hits to put snow tires on your car.

Similarly, cutting-edge and leading companies don’t wait until an event occurs that negatively impacts profitability or performance, and then decide to look for opportunities to enhance SS&P. Instead, they are continually assessing and re-assessing efficiencies and capabilities of their sourcing and procurement groups and the health of their relationships with the organization as a whole. Proactivity leads to greater innovation, collaboration and market disruption, all which translate to tangible value.
Defining Assessment Goals

Different factors drive the need for change within SS&P such as global expansion, innovation, and risk and cost reduction programs. For example, a corporate IT program implemented to increase operating efficiency may initially prove unsuccessful in producing anticipated savings within SS&P. A thorough review of the SS&P processes, people, and technology can help identify any misuse of the program or potential misalignment of the organization’s requirements and actual IT program catalogue.

A Procurement Assessment as part of a larger Procurement Transformation Initiative can also provide the necessary insights for selecting ideal technology and the right components of systems that meet a company’s needs. Without a Procurement Assessment, stakeholders may be led to believe that that the problem is with employees using the technology ineffectively. However, a more structured assessment provides solid evidence (and help design solutions) for the need to transform the technology itself from conventional technology focused only on spend management to a modern, consolidated, collaborative and more supplier value-based procurement system.

Similarly, detached from corporate decision-making and planning, SS&P may become undermined by company growth. Unprepared or ill-equipped to support new business, the department begins to operate inefficiently. The Procurement Assessment/PTI will help realign SS&P with the rest of the organization by providing open communication with executives, as well as departments throughout the organization, and visibility for adapting to and anticipating future business growth.

Like any other improvement activity, an assessment must be goal-oriented and measurable. For a Procurement Assessment to produce the insights necessary for a Procurement Transformation Initiative, the organization needs clear goals and a means of measuring the results. First, let’s address the goals – which must strike a balance between quantitative and qualitative factors.

Your organization may have some combination of the following goals in mind:

- Establishing the current level of alignment between SS&P department and the corporate strategy
- Identifying actionable cost savings opportunities
- Establishing how well the company’s spend is under management across categories
- Defining how well current technology enables the intended spend management
- Defining how technologies enables organizational strategies for growth, agility, innovation, supplier risk management, and visibility
- Charting how activities fall on the spectrum from tactical to strategic
- Finding opportunities to increase sustainable value from suppliers
- Defining procurement processes that provide the visibility, insight and transparency needed to power and improve every procurement initiative and decision, from demand to contract.
- Defining levels of risk
- Defining the effectiveness of risk management practices

Procurement Organizational Skill Sets, According to Aberdeen:

1. Delivery of cost savings as a result of procurement activities outsources
2. Support of global operations
3. Delivery against SLAs, milestones, and procurement performance levels
4. Sourcing process competency
5. Customer References – procurement outsourcing experience
Defining Assessment Goals (continued)

Next, your organization must define the “units of measure” for achieving these goals. Let’s take the identification of actionable cost savings opportunities as an example:

- What constitutes savings? Hard-dollar, or soft-dollar?
- Is there a threshold of savings the opportunity must present?
- How does your organization define “actionable”?
- What other factors are dependent on cost savings?
- Are there goals upon which cost savings is contingent?

The central two-fold idea when it comes to defining goals for the assessment is 1) establishing the questions you want to answer and 2) establishing what the answers will look like. Only then will you know if the assessment was successful.

A Holistic Effort

Prior to kicking off the assessment, it is important to gain organizational support and executive buy-in. The assessment is a highly collaborative process, requiring multi-departmental support across the organization. Feedback on the effectiveness of the procurement, sourcing, and supply chain activities is necessary from all levels within the SS&P organization, not just from managers. External stakeholders also must be engaged to ensure that any changes that may be targeted as an outcome of the assessment align with company goals as well as internal departmental goals. Understanding the company’s penchant for change and achieving executive buy-in are critical steps before investing both time and money in launching the Procurement Transformation Initiative; therefore, those seeds must be planted during the Assessment phase.

A cross-functional, multi-disciplined approach can best provide accurate insights into the current state of operations. As procurement departments take on more responsibility to support different business operations, resources and time become less available to take on new initiatives, even those that will support them in achieving world-class supply chain operations. An experienced external firm with the resources and specialized expertise can take the lead in a conducting an unbiased assessment of SS&P operations, reporting findings, and making high-level recommendations. The third party consultant can also facilitate gaining stakeholder support by providing the necessary transparency in to the relationship between SS&P and other departments.
Current State Assessment

After defining the assessment goals, a baseline of SS&P operations is established through in-depth review of the department’s current processes, people, technology, and metrics. The assessment will bring to light strengths and weakness of existing procedures that can then be compared to others in the industry in the form of benchmarking, which we discuss later. The timing of the assessment process will differ with each company based on individual needs for reviewing each area. With that said, it is important to note that the requirement for thoroughness of the process should prevail over the requirement for urgency to produce valuable and actionable results. An audit plan should be developed to establish timelines along with key milestones, roles, and responsibilities throughout the assessment.

Procurement’s Objectives

by Robert Handfield, PhD

1. Support Organizational Requirements
2. Manage the Procurement Process and Supply Base Efficiently and Effectively
3. Develop Strong relationships with Other Functional Groups
4. Develop Integrated Purchasing Strategies, Goals, & Objectives
Information gathered from the assessment can answer key questions:

- How efficiently is the team functioning within the current process structure?
- How well are existing processes documented and followed?
- How well can you support the strategic procurement decision-making process from demand to contract?
- Do processes take into account the full life cycle of procurement functions including the initiation of a need through compliance tracking upon contract implementation?
- Do processes support 360° business alignment? Do processes support the supplier life cycle?
- Is the approval process appropriate for purchases being made? For example, does the company implement the same three bid process for procuring an item under $1K vs. one that costs thousands?
- Should approval thresholds be evaluated?
- What does the communication within the process look like?
- Are all necessary teams cross-trained on each other’s processes?
- Are duplicate systems in place in different locations?
- How often are processes reviewed and implemented?
- How do processes in place today align with industry best practices?
People Review

The roles, responsibilities, and structure of the procurement team also must undergo an audit in relation to how the department implements processes and technology to perform tasks and meet corporate key performance indicators (KPIs). From transactional-focused buyers involved with purchase orders, to strategic sourcing experts that manage supplier identification and management, every position is assessed to define the workings within the department and how they support the company. An audit of the department’s organization also provides a better understanding of its internal structure, its degree of (and level of success in) interaction with other business units, as well as its position within the management reporting structure.

The data collection process begins by reviewing current job descriptions and interviewing SS&P staff to outline actual tasks performed by the department, job responsibilities, and job structures. An assessment may reveal that an individual handles more than his/her job description. For example, a team member defined as a buyer may actually be taking on sourcing responsibilities. Alternatively, a team member may have a sourcing title but most of his/her daily work is that of a buyer, etc. Individual assessments also can reveal how well a person fits into a role. Rather than a performance evaluation, the assessment determines if personnel have the subject matter expertise to effectively execute their roles or if they need additional training.

While the inward-facing assessment provides key pieces of information on the effectiveness of the procurement team, an outward-looking investigation is arguably more telling. Interviewing stakeholders, such as Accounts Payable (AP), Finance, Legal, Operations, etc., provides insight into how well aligned the procurement team is with the needs of other departments whom it serves or on whom it relies. Hearing feedback directly from the procurement team’s “customers” provides a more complete picture of how the internal workings of the team translate to their results. A 360-degree review is the best way to determine how well an individual or team is performing. Looking only in one direction can seriously hamper the ultimate success of a transformation initiative.

Findings will reveal the department’s competencies and deficiencies matched against an ideal profile of optimum operating efficiency.
Technology Review

Virtually every business utilizes some type of procurement technology, from rudimentary software, to e-procurement tools, to fully integrated ERP systems. SS&P can make the most of procurement tools to automate transactional processes, support category and supplier management, integrate departmental activities, and conduct analyses.

In addition to improving process efficiency and reducing transaction costs, technology helps to standardize processes, decrease cycle times, improve data and work flow management, and collaborate with internal stakeholders as well as external suppliers. The effectiveness of procurement processes and personnel depends on how well they utilize the technological tools that support them, and how well-suited those tools are for meeting the team’s requirements. Outdated or improperly utilized tools can impact operational effectiveness.

Global procurement organizations are now focusing on technology that delivers value beyond predictable savings by optimizing the procurement process and better managing knowledge and information to support procurement transformation. For years, aggressive savings has been the procurement standard but in today’s environment, the new standard goes beyond cost reduction and into how to enable organizational strategies for growth, agility, innovation, risk management, and visibility. This approach also integrates supplier lifetime value throughout the entire strategic procurement process providing the visibility, insight, and transparency needed to power and improve every procurement initiative and decision, from demand to contract. SS&P organizations should consider implementing new tools such as BravoAdvantage to capitalize on this opportunity.

Another important aspect to consider is how other departments’ tools interact and communicate with SS&P’s toolsets. Process efficiency within SS&P goes beyond its own walls by integrating effectively with supporting tools.

Using the same assessment techniques employed when evaluating processes and people, procurement tools, and technology are evaluated by reviewing documentation then interviewing procurement personnel to discuss how tools are actually used to support operations.

An assessment should determine:

- What tools and technology platforms are currently in use?
- How well do they integrate within one another?
- Does the technology support each step of a strategic procurement process from demand to contract?
- Is there robustness appropriate for their specified functions?
- Are the tools under or over utilized for their functionality?
- Has a needs assessment ever been conducted? In other words, are the tools in place because of a perceived need or has the procurement team actually discussed what is needed to perform their tasks efficiently?
- What are the costs of the system in place?

Information gathered from the assessment provides a full picture of how well technology supports the SS&P team’s needs, as well as how well the SS&P team makes use of the technology.
Metrics

Reporting is critical in measuring the success and contribution of SS&P to the organization. However, establishing the right metrics and KPIs for specific department activities – at the right time – is critical for a true evaluation of business activities.

For example, metrics for SS&P tasks can focus on total value of identified savings and overall ROI, while metrics for Supplier Relationship Management (SRM) can include % of on-time delivery and supplier quality and customer service (See Table A). Understanding the goals of the corporation and what is important to the business should define the metric. In addition to the example metrics noted below, the assessment should factor in collaborating departments’ feedback. Depending on the reporting maturity of SS&P, aligning cross-departmentally will require understanding the needs of other departments and how they correlate to SS&P’s goals.

An assessment may show that metrics are too general and should be better defined for specific activity, or that data is not properly captured to even measure the performance. As a worst case scenario, no one may be taking action on the metrics because the remediation process has never been defined. You can’t manage what you don’t measure, but you can’t measure for the sake of measuring. The best companies handle their metrics as they do any other requirement that requires planning, budgeting, and ongoing assessment.

Table A: Sample Metrics—will differ by the type of tasks performed within the Procurement and Strategic Sourcing Department

<table>
<thead>
<tr>
<th>Category</th>
<th>Metric</th>
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<tbody>
<tr>
<td>Procurement</td>
<td>Visible Spend Under Control</td>
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<tr>
<td></td>
<td>% of Spend with Approved Suppliers</td>
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<td></td>
<td>Requisition to Order Cycle Time</td>
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<tr>
<td></td>
<td>Total Approvers per Requisitions</td>
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<tr>
<td></td>
<td>Total Approval to Pay Hours</td>
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<tr>
<td></td>
<td>% of POs sent through EDI (or other automated methods)</td>
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<tr>
<td></td>
<td>Self-Service Potential</td>
</tr>
<tr>
<td>Strategic Sourcing</td>
<td>Total Value of Implemented Savings</td>
</tr>
<tr>
<td></td>
<td>Total Value of Implemented Savings + Cost Avoidance</td>
</tr>
<tr>
<td></td>
<td>Total Value of Identified Savings</td>
</tr>
<tr>
<td></td>
<td>Total Ratio of Implemented Savings to Identified Savings</td>
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<tr>
<td></td>
<td>Sourcing &amp; Procurement Department ROI</td>
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<tr>
<td>Supplier Relationship Management</td>
<td>Incremental Revenue Generated by Enhanced Products</td>
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<tr>
<td></td>
<td>Supplier Quality &amp; Customer Service</td>
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<tr>
<td></td>
<td>Improved Supplier Performance</td>
</tr>
<tr>
<td></td>
<td>% of On Time Delivery</td>
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<tr>
<td></td>
<td>Supplier Innovation Program</td>
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<tr>
<td>Supplier Diversity &amp; Historically Under Utilized Business</td>
<td>HUB Supplier Count</td>
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<tr>
<td></td>
<td>Total HUB Spend</td>
</tr>
<tr>
<td>Contract Management</td>
<td>Cycle Time to Create MSA/ Task Order</td>
</tr>
<tr>
<td></td>
<td>Total Contract &amp; Task Orders Created by Business Unit</td>
</tr>
<tr>
<td></td>
<td>Cycle Time to Add Suppliers</td>
</tr>
<tr>
<td></td>
<td>% of Active to Total Suppliers</td>
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<tr>
<td></td>
<td>Total Number of Changes Made to Supplier Database</td>
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<tr>
<td></td>
<td>Total Cost to Manage Supplier Database</td>
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</table>
In Summary

A thorough assessment establishes a baseline of SS&P department’s current processes, people, technology, and metrics. The assessment will bring to light strengths and weakness of existing procedures that can then be compared to others in the industry. This comparison is known as Benchmarking - a strategic tool that measures business performance, supply chain efficiency, and supplier relationship adeptness against industry best practices. The comparison, however, is only one piece of the puzzle. A true Benchmark report produces actionable insights for an organization’s processes, people, technology, and metrics. Benchmark report data, combined with visibility into the SS&P current state can provide the necessary insights for determining the ideal SS&P end state.

A gap analysis of the existing state and the ideal end state vision of operations helps determine the disparities between current capability and the levels of performance needed to support the strategic path of the corporation. Furthermore, a gap analysis will provide the necessary insights for taking actionable steps towards improvement or the objectives of a procurement transformation initiative. The implementation of those changes will reposition SS&P as a value-added operation that supports the strategic goals of the corporation.

A well-defined and well-executed Procurement Transformation Initiative will help unlock maximum value from SS&P operations aligned with the overall strategy of the organization. Taking a methodical approach to PTI can best ensure its success. Securing corporate buy-in is essential for the initiative to have funding and support throughout the enterprise. Be sure to define the limits of the initiative so it does not derail and try to answer everyone’s issues.

The Need for Objectivity

If seeking external support, avoid firms who enter the assessment with presupposed solutions looking to upsell SS&P additional software & products. Hiring an objective third party firm that will provide unbiased solutions only after an object assessment is done is key for sustainable results.

Of course, every organization must do its own cost-benefit analysis before kicking off a Procurement Transformation Initiative. They may find that they lack the resources or subject matter expertise to implement such a project, but can’t afford to wait until some indeterminate time when those resources will be available. In those instances, organizations partner with firms who have the resources, subject matter expertise, market intelligence, and proven history of obtaining savings to put them on the path to sustainable procurement excellence. When they find the right partner, those companies never have to worry again about whether they can withstand the winter storms and stay the course.

For further reading:

From Source One:
- The Guide to Category and Supplier Benchmarking
- Implementing Supplier Relationship Management

From BravoSolution:
- Ten Steps to Unlock the Power of Procurement
About Source One:
Source One Management Services, LLC is one of the oldest and most experienced procurement services providers in the world. Source One offers a full suite of strategic sourcing, supplier relationship management, and supply chain services to a roster of Fortune 500 and mid-market clients - supplementing clients’ time, expertise, and resources with experience, market intelligence, technology, and people to deliver savings and optimize value. With its specialized Procurement Transformation Advisory offering, Source One helps organizations establish their SS&P maturity, define and implement a transformation strategy, and maximize the return on investment. For more information on Source One’s Procurement Transformation Capabilities, visit them on the web at www.sourceoneinc.com/procurement_transformation.html.

About BravoSolution:
BravoSolution is a leading global strategic procurement solution provider. Their procurement technology platform and practitioner experience help more than 600 companies and 65,000 purchasing professionals in over 70 countries unlock the power of procurement to drive financial performance, build procurement organizational excellence, manage risk, and influence innovation. BravoSolution’s approach to strategic procurement consistently delivers business outcomes to enable customers to outperform their market. To learn more about BravoSolution, visit them on the web at www.bravosolution.com.

About Our Partnership:
Source One and BravoSolution are strategic partners delivering cross-industry market intelligence and best practices combined with cutting edge, supplier management-focused technology. Adapting to each client’s unique requirements, Source One and BravoSolution empower internal teams to conquer their high-magnitude waves of responsibility and deliver unmatched value. Customers that leverage both of our core competencies are able to transform their procurement processes, people and technology, to see an immediate return as well as a long-term increase in the effectiveness of their entire procurement operations.