Introduction

A single initiative won’t transform Procurement. The process of optimizing the department’s operations and empowering it to produce maximum value never stops.

In Part 4 of Procurement Transformation: Industry Perspectives, we’re focusing on the steps Procurement should take to ensure its adjustments take hold and its evolution continues well into the future.

First, Vendor Centric’s Tom Rogers discusses Procurement’s potential to guide organizations as a risk manager. The department, he suggests, is perfectly situated to address and answer concerns across the supply chain.

He’s followed by Michael Lamoureux, who offers his thoughts on the future of Procurement technology. The Sourcing Doctor encourages organizations to pursue more advanced solutions and always keep abreast of emerging developments.

Source One’s own Diego De la Garza brings the discussion to a close by focusing on momentum. He cautions Procurement against resting on its laurels post-transformation and advises a dedicated approach to maintaining its new image.
Procurement hasn’t always been the most popular department. There’s no disputing this. With an outsized affection for policies and procedures, Procurement has historically impressed stakeholders as something between a nuisance and an out-and-out enemy.

Even the purchasing process – on paper, Procurement’s domain – often features boundaries to keep the department from exerting too much influence. Functioning as little more than a checkpoint, Procurement has not only failed to reach its full potential, but has also contributed to its own negative reputation. The department’s fondness for checklists and well-worn processes has kept it tactical and obscure within all but a few organizations.

That’s not to suggest compliance isn’t important. In fact, compliance is beyond important. It’s essential for maintaining efficient operations and effective relationships with both internal and external stakeholders, including regulatory bodies.

At its most tactical, Procurement plays a crucial role in keeping businesses from descending into non-compliant chaos. Not everyone, however, is always on-board.

C-suite executives and other internal business leaders are often skeptical of a department they associate with the three-bid-and-buy process, budget slashing, and purchase orders. Procurement, too, has played a role in slowing down its maturation. Old habits die hard, and Procurement’s favorite tactics are no exception.

Even relatively forward-thinking Procurement teams aren’t always quick to pursue executive buy-in and diversify their offering.

Oftentimes, it’s outside forces that finally, successfully make the case for broadening Procurement’s focus and improving its processes. Unfortunately, the outside forces impacting Procurement include a growing number of unexpected data breaches and a variety of new government regulations from agencies like the Office of Management and Budget, the Federal Financial Institutions Examination Council, and the Centers for Medicare and Medicaid Services.

Data breaches, natural disasters, ethics violations, and other supply chain disruptions have become an almost daily occurrence. Organizations ranging from HBO to the U.S. government have learned the hard way that managing vendor relationships means much more than identifying best-fit vendors and negotiating for an agreeable price. It means addressing all aspects of the vendor relationship which includes regulatory and contractual compliance, performance management, and a heightened focus on reducing risk.
As a point of comparison, think of the talent management process. Even the smallest companies realize the importance of managing all stages of the employee lifecycle. They don’t stop with hiring. Once they’ve recruited talent, interviewed them, and welcomed them to the team, the organization engages in a thorough on-boarding process. Supplemented with regular check-ins, career path development, performance reviews, and active listening, these processes encourage new hires to continuously improve and reach their maximum potential. Within leading companies, they never cease. The process of managing and optimizing talent continues to evolve and mature throughout the entirety of an employee’s tenure.

There's no reason managing vendor relationships should be any different. They, too, evolve as new risk factors, leverage points, and cost reduction opportunities emerge.

Companies should devote the same effort and resources to overseeing the lifecycle of their vendor relationships that they typically reserve for managing their internal teams. They need to start building dedicated vendor management units and continually emphasize the importance of non-stop risk management. In some cases, the Procurement department is perfectly positioned to oversee all of this.

According to a survey of Procurement leaders, only 20% of organizations have structured risk mitigation plans in place.
That doesn’t mean Procurement should perform these functions independently. Risk oversight is a great area for Procurement to distinguish itself, but leaving these complex processes to Procurement alone is almost as short-sighted as disregarding the department altogether.

Within most organizations, Procurement is not nearly mature enough to accept these duties by themselves. What’s more, even the most advanced Procurement functions can’t (and shouldn’t) claim to speak for their entire company.

Vendor Management Committees should feature subject matter experts from across the organization. Leveraging a diverse array of perspectives and experiences, these groups will encourage a balanced, proactive approach to vendor risk management and ensure that expectations are clearly and consistently communicated.

They will also provide Procurement with the sort of hands-on, directly impactful opportunities that have previously eluded the department.

As a valued member of these groups, Procurement will gradually reveal its worth, build internal partnerships, and broaden its exposure to new business areas.

Witnessing Procurement’s successes first-hand will, in turn, encourage leaders from these business areas to embrace Procurement’s more strategic role within the organization.

54% of CPOs consider risk management their business priority for the next twelve months.
Transformed Procurement?

This chapter is targeted at the average tech-enabled sourcing organization. They’ve ‘transformed’ in the sense that they’ve embraced e-Sourcing, but they still define e-Sourcing as e-RFX with maybe the odd auction here and there. Relatively speaking, they’re early on their e-Sourcing journey.

Why? e-RFX is great for collecting information and supplier bids, but identifying savings requires deep analytics, identifying cost avoidance requires demand management opportunities, and identifying new sources of value requires the ability to transform the way Procurement looks at data.

So how do you realize these next generation opportunities?

With advanced sourcing technologies.

Which ones?

Analytics, Modeling, Optimization, and Predictive Analytics. These technologies provide the foundation for cognitive sourcing, a topic you’ll hear a lot about throughout the next stage in Procurement’s digital evolution.

Without...

Good analytics, it’s going to be hard to identify the top 10 categories not under contract.

A sound understanding of demand, the alternate opportunities for demand satisfaction and reduction, and the respective costs of each, Procurement will struggle to bring demand under control.

The ability to slice and dice spend data, alternative category structures, and component costs the department will never identify new opportunities for cost control.
SHOULD-COST MODELING

Asking for current bids is one traditional way to get insight into current market pricing, but it doesn't always give Procurement insight into true costs.

If the supply base is small, for example, collusion can keep prices higher than necessary. Or, if the suppliers are poor at sourcing, they might not know that they are overpaying for their raw materials. Accurate cost models are the only way to truly understand if quoted prices are where they should be. Next-generation sourcing suites with built-in Should-Cost Modeling will transform your sourcing.

They’ll help define very accurate Should-Cost models based on bill of materials and production requirements. The best will allow Procurement to import a bill of materials, import commodity market feeds for current market cost data for each commodity, and import energy rates for the target market to calculate a very precise Should-Cost estimate for any product and provide a new level of security and insight.

The benefits of Should-Cost Modeling don’t stop there. The process also allows an organization to understand the true cost drivers of a product and, if the product cost is too high, zero-in on the best course for cost reduction. For example, if a raw material is too costly, the best course of action might be a product redesign.

A company might also learn that its energy costs are unsustainable and start an initiative to reduce consumption during production. Whatever the problem and whatever the solution, an organization can’t identify them without Should-Cost Modeling.

DECISION OPTIMIZATION

When an organization begins its sourcing journey, it traditionally focuses on unit cost. Focusing on unit cost reductions alone, however, typically leads to cost increases over time. Engaging far-away suppliers in low-cost locales, Procurement often sees significant increases in logistics costs that end up dwarfing their unit cost savings.

After a few expected wins turn into a few big losses, these organizations quickly smarten up and start focusing on landed cost. They force suppliers to bid the absolute lowest cost required to deliver a product and insist they take care of shipping. This results in savings across a number of categories, but could still leave money on the table.

In addition to import/export tariffs, organizations need to consider differences in quality and defect rates. These could affect their return, replacement, and warranty costs. Then, there are differences in temporary storage costs and concerns over carrier quality. The list goes on.

The best value comes not from the lowest landed cost but from the lowest total cost of ownership. Reaching this number isn’t easy either. Logistics costs vary based on lane and carrier, return costs vary based on destination, warehousing costs vary by port, and carrier discounts can vary wildly.

To take all of these costs into consideration and map out the absolute best award among a set of suppliers (shipping from multiple locations, with multiple carriers, offering multiple lane options) Procurement requires a modern decision optimization-backed sourcing system.
PREDICTIVE ANALYTICS

Identifying products or services with cost savings potential (using Should-Cost models) is a good start. Leveraging decision optimization to define the best award is a great application. But there are more savings to be found with the right addition to your advanced sourcing suite, and that addition is predictive analytics. Traditionally, most business intelligence and spend analysis applications provide reports that simply describe spend over a certain period of time.

Traditional tools can help an organization identify categories that haven't been sourced, direct categories with savings potential, and even the categories where they've reduced costs over the past year. They are less useful in prioritizing opportunities and helping organizations identify which hidden opportunities are worth pursuing.

That's where second generation predictive analytics comes in. It will augment spend reporting with trend analysis algorithms that can not only map historical spend to known, predictable purchasing patterns, but can also predict future costs based on incremental changes in the spend profile and changes in market pricing for the corresponding commodity categories.

A platform that can regularly absorb market pricing and organizational spending, re-run the pricing trend analysis, and detect when rapid upswings or downswings are about to happen can save an organization a considerable sum of money. For example, they might determine when they should source a category early to avoid high costs or hold out for better pricing and lock in a contract later.

In other words, traditional e-Sourcing platforms are good, but platforms that include advanced sourcing technologies are better. They provide an organization with new opportunities to identify savings, generate value, and ultimately transform their operations.
Showcasing Procurement’s Value

ELEVATING PROCUREMENT

Earlier in this series, Joe Payne suggests there is no function within an organization that can be as impactful as Procurement. Touching every other business unit, the department’s value-producing potential is unparalleled. He does not, however, focus on Procurement alone.

Rather, he highlights the role played by those other business areas who are supported by Procurement throughout a transformation. That role is especially critical once the transformation activities have taken place and the “assimilation” phase begins.

What I mean by this is that once new policies and procedures are in place, new technologies are implemented, and the new structure is rolled out, that’s when Procurement has reached peak potential and peak executive buy-in. Now, our efforts to truly elevate the function begin.

Prior to a transformation, Procurement was likely perceived as a tactical and reactive group within the organization with little of substance to offer. Ideally, leaders from other business units participated in the transformation directly.

Regardless, it is very possible that not all departments were involved in the same way. Even those units who were heavily involved may still feel anxious. They’re likely struggling to understand how their efforts will return value to their own function – or even to procurement itself.

In other words, their perception of procurement may have not changed very much because they haven’t seen the transformed function in action.

ENABLING BUSINESS UNITS

I’m a firm believer that perception is reality. Whatever state your Procurement department is in, its perception across the organization will have a direct impact on its performance.

Simply put, business units that have always perceived Procurement as a tactical function are unlikely to abandon this notion. Old attitudes might keep them from (pro) actively seeking the department’s strategic advice. This, in turn, could hinder its impact and limit its value within the organization. Undergoing a transformation to become strategic is never a guarantee.

If procurement is to operate as a strategic group, it has to be perceived as such.

Whose perception does Procurement need to manage? In short, they’ll need to manage every business unit’s perception, and they’ll need to do so in different ways.

To elevate its perceived value, Procurement should develop a communication plan focused on “Enablement.”

This plan’s messaging should center on one question in particular: “How does Procurement enable our business?” Positioned properly, that message will prompt business units to engage Procurement earlier and more often to support their strategic goals. It will also enhance Procurement’s visibility into what these various business units really need from them.

Over time, the culture of engagement and collaboration will produce results well beyond cost savings, the true value of the transformation will reveal itself, and stakeholders will better understand what high-performing Procurement is all about.

So let’s break it down.
Enhancing the Organization

To challenge its existing perception and align with business units on “enablement,” it’s important for Procurement to speak the language of these other units.

Let’s remember that procurement enables the entire organization in different ways, and recognizing the metrics that matter to each area and functional unit is critical to achieving a consistent perception.

In communicating its results, Procurement must take care to “translate” them into the language of other business areas. “Speaking the language” of each individual department is extremely important. IT and Marketing, for example, don’t look at Procurement the same way. While the former cares about service levels, licensing count, and up-time; the latter is focused on budget optimization and supplier management. Procurement also needs to learn when to put aside its own language.

Discussing savings with Marketing is far more likely to shut down doors than it is to open them. The same is true for Operations, Legal, and other units. Understanding what matters to each of these functional units, and properly communicating how procurement can provide this, is as important for Procurement as promoting the value of its own work. It needs to make itself relevant to everyone – yes metrics do matter.

Executive buy-in is on the rise. 73% of Procurement leaders believe they have the support of their business’ leaders.

Generally speaking, enhanced Procurement departments reveal themselves in many ways:

- Optimizing processes and generating visibility into spend patterns
- Providing benchmarks, generating levers and creating best practices for negotiations
- Creating order and establishing controls
- Impacting the top and the bottom line by enabling supplier innovation and reducing costs
- Increasing market share and competitiveness (through supplier innovation and managed performance)
- Reducing risks – through adequate supply chain management
- Consolidating spend without compromising on quality
- Increasing competitiveness and driving innovation
- Improving product specification and service delivery
So, how does leadership perceive Procurement?

If a transformation has taken place, it’s safe to assume that the CPO (or equivalent leader) perceives the department as relevant, strategic, and potentially impactful.

This perception, however, needs to be fed and calibrated constantly. In order for Procurement to manage those perceptions, it is critical to collaborate with leadership in developing a unique value proposition and aligning internal resources to that value proposition so they execute with the right goals and values in mind.

Lastly, it’s important for procurement to manage its own perception and keep momentum alive. As Procurement gains relevance within the organization, it needs to ensure that its value is consistently recognized and articulated within the department itself.

Ultimately, managing the perceived value of Procurement in the long-term depends on close monitoring and consistent visibility. The department should advertise its triumphs early to bolster its credibility and continue building momentum. Start small. A newsletter with simple metrics can go a long way in revealing Procurement’s value and making the department’s continued growth and success a company-wide priority.

Procurement’s transformation doesn’t end when an initiative ends. Refining the department and enabling other business units are both ongoing processes that require unceasing effort. Without momentum, a valuable, strategic department can easily find itself faced with disengaged business units and disappointing results. Neither Procurement, nor the business it supports, can afford this.

1. **Generate a value proposition**
   
   This mission statement for Procurement should align with the organization’s core values and resonate across all business units.

2. **Embrace digitalization**
   
   Taking a proactive approach to new technologies and training everyone on their use will ensure the department remains innovative and strategic.

3. **Establish clear and aggressive development plans**
   
   Incorporate category expertise, leadership, and strategic thinking into these plans to identify, develop, and retain high performers. These leaders will represent Procurement and enable the business well into the future.
ABOUT SOURCE ONE, A CORCENTRIC COMPANY:

Source One Management Services is a premier procurement services provider and strategic sourcing consulting firm. Since 1992, our team of spend management experts has supported best-in-class organizations in ensuring their procurement and sourcing capabilities are optimized and that they achieve the most value at the best possible price from their suppliers.

We serve as an expansion of client’s existing teams, saving them time and resources by applying our experience, tools, cross-industry best practices, and customized solutions.

In 2018, Source One joined Corcentric, LLC – a leading provider of Procurement, Accounts Payable Automation, and Billing Solutions. Together, Source One and Corcentric help companies optimize how they purchase, pay, and get paid.

ABOUT DIEGO DE LA GARZA OF SOURCE ONE:

Diego De La Garza is a Director at Source One Management Services, LLC, a Supply & Demand Chain Executive-recognized Pro to Know and winner of the Council for Supply Management’s 2016 Emerging Leader Award.

Forging his procurement expertise in his nearly 10 years with Source One, Diego has helped countless organizations optimize their supply management operations – providing the right guidance on strategy, processes, human capital, tools, and technology to enable them to become world-class procurement organizations who deliver value to their business beyond cost savings.

In addition to his dedication to delivering procurement solutions for his clients, Diego is an industry thought leader, regularly contributing articles to numerous procurement publications and a frequent guest speaker at major industry events.


ABOUT MICHAEL LAMOUREUX OF SOURCING INNOVATION:

Michael Lamoureux is one of the most prolific writers and experts in the procurement and supply chain areas “the doctor” of sourcing innovation, a leading resource for education on supply management best practices, technologies and trends.

Michael’s path to procurement falls outside the box. After leaving academia upon completing his Ph.D. he worked for a few early e-commerce companies where he designed online databases and virtual shopping carts before most people even knew what the World Wide Web was. During these activities, he stumbled onto a startup that wanted to change procurement forever by bringing optimization to strategic sourcing. His job at this firm, as the first hire, quickly morphed from building the data model, to feeding the optimization model, to building the sourcing model itself.

In 2006, he started his own blog, and since then, has always enjoyed – well, almost always – the banter with Jason Busch and company at Spend Matters, with whom he currently partners with as Consulting Lead Analyst on Advanced Sourcing Technologies.

ABOUT TOM ROGERS OF VENDOR CENTRIC:

Tom is founder and CEO of Vendor Centric, a boutique consultancy that specializes in helping organizations take a disciplined approach to managing the risks, costs, compliance and performance of their vendors. He is a trusted advisor in vendor management to organizations from $5M to $5B across the United States.

In 2011, Tom formed Vendor Centric to address a growing need he was seeing with his clients. The contractual relationships they were entering into with their vendors were getting riskier and more strategic, yet his clients didn’t have the right people, processes and systems to manage the all of the costs, compliance and risks associated with those relationships. So he focused Vendor Centric on the emerging business discipline of vendor management, and created one of the first models for a Vendor Management Framework that is the foundation of the firm’s work.

He is a frequent speaker and writer on the topic of vendor management, and hosts the Rethinking Vendors podcast. He is an adjunct professor at Georgetown University, served previously on the NIST Board of Examiners for the Malcolm Baldrige National Quality Award and serves currently on several nonprofit boards and committees.