Procurement Transformation: Industry Perspectives

Part 5—The Last Word (For Now)
We’re finally here, the last installment of *Procurement Transformation: Industry Perspectives*.

This time around, Source One’s Jennifer Ulrich brings things to a close with her discussion of Procurement’s essential metrics and the importance of reporting. Effectively tracking the department’s performance and strategic value generation, she writes, is an essential step in building the business case for a transformative initiative. What’s more, better metrics and reporting will keep momentum alive both during and after a Transformation.

Though we consider the five installments of this series to be definitive, comprehensive, and even exhaustive - we’ll be the first to tell you that the conversation is far from over.

We might be ending this particular discussion today, but we look forward to many more like it in the future.

Thanks for reading.
Over four installments, this thought leadership series has covered a range of topics. From planning an initiative to sustaining momentum, they all fall under the broad umbrella of Procurement Transformation.

It’s safe to say we’ve communicated the breadth and complexity of the topic. I hope we’ve also made the notion of transforming Procurement a slightly less overwhelming one.

Though we’ve discussed the Transformation process from start to (temporary) finish, taking a deep dive into Procurement’s essential elements, we’ve only indirectly discussed metrics and reporting.

In a sense, metrics and reporting provide the bookends for a Transformation.

If an organization is hesitant to commit itself to refining Procurement, it’s likely because they can’t imagine a good return on investment. Making a tactical, low-value function slightly more strategic and slightly more valuable rarely looks like a worthwhile endeavor.

For Procurement, building the business case for this transformation is largely a matter of demonstrating ROI through reporting and metrics.

It’s almost a paradox.

Before the function can dramatically improve its potential ROI, it needs to prove its ROI is significant enough in the first place. As a result, organizations who’ve habitually taken a hands-off approach to tracking metrics like cost reduction and cost avoidance could find it difficult to get an initiative off the ground.

Only 31% of Procurement leaders feel “highly supported” by executives within their organizations.
When discussing the potential benefit of a Transformation, organizations tend to describe ROI in relation to the three “pillars” described in Part 3 of this series.

**TECHNOLOGIES**

“We’re not sure why, but we definitely need it.”

It’s not hard to see why technology inspires so many Transformations. After all, there aren’t exactly salespeople out there singing the praises of better processes.

Technologies are presented to Procurement with an emphasis on their immediate, considerable ROI.

Once implemented, the right tool’s ROI will be clear, demonstrable, and (hopefully) sustainable.

That’s why it’s so easy, as Kristian O’Meara suggests, for organizations to mistake a new technology for a full-on Transformation.

**PROCESSES**

“We’re a reactive function because our stakeholders do not engage us when they should, our workflows are inefficient, and we communicate poorly.”

The conversation around process is a little trickier. It’s obviously a less tangible concept than technology and its ROI is similarly more nebulous.

It’s more challenging to pinpoint how a new way of doing things has created efficiency from a cost perspective. Building this business case for Strategic Sourcing is one thing.

Replacing tactical buying with proactive planning and sourcing certainly promises an ROI. Attaining the buy-in necessary to support Contract Management, Supplier Management, and Risk Management programs, however, is another challenge altogether.

**PEOPLE**

“We don’t have the right skillsets or level of expertise in-house to support the business.”

Though the ROI of effective Procurement talent seems obvious, this also seems to be the one pillar that organizations are most likely to neglect.

In any organization, Procurement’s people are at the center of the equation.

Post-transformation, it’s up to them to navigate the new processes and employ new technology effectively. Otherwise, you’ll never realize that ROI you fought so hard to demonstrate while building your business case.

You can have the Lamborghini of Procurement Technology suites and the most efficient, streamlined Processes imaginable, but without qualified, well-trained People in the mix, you are just wasting time and money.

This is typically the most difficult pillar to tie a concrete ROI to, but that does not mean the ROI isn’t there.

While conducting a Transformation, Procurement should work to transform its metrics and reporting to better reflect the importance of great talent.
Selling a Transformation

You can talk about ROI until it loses all meaning, but – as the saying goes – the proof is in the pudding.

Before, during, and after a Transformation, you need to demonstrate an ROI with hard, discernible metrics.

When trying to sell a Transformation to leadership they want to know one thing above all else, how will this help drive top line growth or impact the bottom line.

Any successful business case for Transformation will center on Procurement’s capacity to repay the efforts you are planning to put in, the resources you are going to take divert from other business operations, and the investments you’ll have to make.

If you can show leadership that Procurement is already a valuable mechanism, they’ll feel confident in its ability to evolve into a self-funding function powered by People, Processes, and Technologies.

From there, metrics and reporting should become a fixture of the day-to-day conversation. Tracking the success of the transformation is just the beginning.

Once Procurement has reached a high-functioning state, it needs to provide valuable reporting, market its success, and ultimately become the decision support mechanism it was always meant to be.

Just 1 in 4 Procurement leaders believe they are excellent business partners contributing significant strategic value.
METRICS MATTER

Becoming this trusted advisor will take time.
More importantly, it will take consistent, data-driven reporting.
It is easy to say that you can save x% on a contract renewal, it’s far more effective to show that you have saved x% in the past and based on market trends you can achieve at least that much.

Simply put, metrics matter.
For organizations looking to kick off a transformation, good reporting and metrics could provide the burning platform necessary to get things started.
For teams whose initiatives have stalled, they can provide the reassurance necessary to see things through.

Even organizations who’ve successfully carried out a Procurement Transformation can benefit from more effective, impactful reporting and metrics. For these organizations, a dedicated approach to reporting and metrics can help keep momentum alive and make Procurement Transformation not just a concept but a cultural imperative.

A JOURNEY

The concept of Procurement Transformation is nothing new. As Jim Baehr remarked back in Part 1, the idea has been out there in one form or another for several decades.
What we have learned in that time is how to navigate it better, engage leadership, and motivate the business to take part of the effort.
We have also empowered the Procurement function to understand that it’s just as accountable throughout Transformation as the organization it supports.

It’s up to them to drive change management by encouraging a change of mindset. When Procurement becomes its own ambassador it does more than advocate for change.

AS an advocate, The function moves from arguing for Transformation to actively invoking it. That’s when real, long-term change becomes possible.

A Transformation is not a single event. It is a journey, one that does not need to be nearly as scary or as intimidating as some organizations imagine.

It is your journey. You can tailor its path to your needs, resources, funds, and objectives.

While we do not typically recommend extending the main events of a transformation beyond a year and a half to two years, there is no rulebook for how a Transformation should proceed.

With a solid, dedicated team to manage the effort, there’s no reason a Transformation can’t go on indefinitely.
In Conclusion (Cont.)

THE NEXT GENERATION

Organizations would do well to introduce their new hires to transformative initiatives early and often.

These journeys are a great way to set the right pace and establish a solid foundation and introduce best practices, best-fit tools, and optimal processes.

The next wave of strategic leaders will be tasked with keeping Transformation alive.

They’ll need to guarantee that the change enacted through this era of Transformations is not only sustained but continuously improved over time. Those of who are currently embroiled in Transformations need to remain mindful of those that’ll follow us.

We need to establish an environment that’s accepting of change and open to innovation. We need to lay the path for new Procurement teams capable of supplementing today’s best practices with tomorrow’s lessons. Now that Procurement has caught up to the rest of the business, it needs to find a way to keep pace and maybe even jump a step or two ahead of its partners.

Whatever leaps the function makes down the road, expect our definition of Procurement Transformation to evolve alongside it.
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 JENNIFER ULRICH OF SOURCE ONE:

Recognized industry-wide as an authority on Procurement Transformation and Category Management, Jennifer Ulrich boasts over a decade of consulting experience.

She has successfully led large-scale initiatives for both direct and indirect spend categories in industries including: biotech, medical devices, pharmaceuticals, and consumer packaged goods. Source One’s clients trust her to provide the cross-functional procurement knowledge and innovative strategies necessary to develop transformation roadmaps and realize long-term savings. Her efforts have also included developing customized training programs for Strategic Sourcing, Contracting & Negotiations, Spend Analytics, Procurement Process Redesign, and Supplier Relationship Optimization.

Jennifer is a Supply & Demand Chain Executive Pro-to-Know, a contributor to Managing Indirect Spend, and a regular featured speaker at universities and organizations including Next Level Purchasing Associate and ISM-Philadelphia.