

Making Procurement More Strategic – How To Address Current Challenges And Realise Future Opportunities

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INTRODUCTION

As a global provider of e-commerce and online procurement solutions, cloudBuy has a unique opportunity to talk to procurement professionals working in organizations in many nations and in a diverse range of industries. We also see the possibilities and pitfalls which modern technologies and global supply chains provide.

In this discussion paper we have documented some of the current procurement challenges which we are hearing about – and also some of the innovative ideas and future opportunities those in the profession are debating.

In July, 2015 cloudBuy led a one day workshop on state of the art procurement as part of the Consero Procurement and Strategic Sourcing Forum in California. We would like to thank the participants who provided valuable input to many of the topics outlined in this document. Organizations included Equifax, Panda Restaurant Group, Infinera, University of Colorado and City of Los Angeles.

EXECUTIVE SUMMARY

Despite years spent implementing ERP and purchasing systems, many organizations' procurement processes remain costly, inaccurate and paper-based. There are still opportunities for large savings to be made by improving purchasing data, processes and analysis. To take the benefits there needs to be focus on the following areas:

- » Ensure more purchasing data is right first time and keep it correct throughout the process. This can unlock many benefits, such as freeing the purchasing team to take a more strategic role.
- » Build up the holistic data picture on spending from right across the business to highlight good and bad practices – to increase savings and reduce off-contract purchasing.
- » Employee frustration is growing as they expect the simplicity of their own B2C online shopping experiences to be matched at work, even though B2B purchasing is more complex in nature.
- » Formal Change Management is needed to embed changed procurement processes.

This white paper provides more ideas and details on how to enable the procurement team to act more strategically.

STRIVING FOR STATE OF THE ART PROCUREMENT

What we are hearing is that procurement teams in organizations of all sizes have gone almost as far as possible in driving price savings from suppliers, with the tools they have available and the information they can access.

Buyers and their suppliers have the same goal - to satisfy the end user of the goods purchased. Price is important but ultimately the better the quality of the goods supplied and their on-time delivery, in conjunction with the overall service and experience provided, will cement the buyer/supplier collaboration and secure the supplier's long term position.

The increase in supply chain globalization over recent years has provided the potential to make local differences in procurement processes and practices more visible. This can shine the spotlight on examples of great collaboration with suppliers. It can also highlight best practice procurement which goes beyond just a drive to secure or offer the lowest global price. Both purchasing organizations and their suppliers have limited resources. They must work better together as partners to maximize the return on investment made on both sides to deliver state of the art procurement.

Even after decades of ERP and procurement system implementations, there still seems to be the need for improvements in these systems and processes. This is feedback we have heard from organizations of all sizes. Centralized ERP systems remain the beating heart of businesses but over the years the arteries have become clogged. In fact, with the increase in end users' experience of B2C online shopping and their personal use of apps on mobile devices, there is an increased demand for B2B procurement to be simple and to 'just work'.

B2B procurement is usually dealing with more complexity than B2C purchasing. For B2B procurement to 'just work' the quality and accuracy of the data entered into the system and the ability for it to flow securely online between end-users, procurement professionals and suppliers becomes paramount for several reasons:

- » If data accuracy can be improved then the end user procurement experience 'just works' because they receive what they want, at the right price and quality, when they need it - as discrepancies, queries and disputes due to inaccuracies will become a thing of the past
- » The procurement team then have the time to shift their focus from handling queries to sourcing strategically
- » Suppliers who step up can become true collaboration partners competing on the overall quality of service rather than just the lowest price
- » The right decisions can be made on sourcing locally or globally

- » A pool of procurement transaction data can be built up to inform future strategic sourcing decisions and contract negotiations

We are being told that pressure is mounting to further increase the efficiency of procurement processes and that, especially in transactional processing, optimization potential still exists. There is a desire to turn the procurement department into “a core competitive weapon” which can increase shareholder value, but to summarize, this can only happen through:

- » Better systems which connect all parties and bring the simplicity of the B2C experience to B2B procurement, enabling procurement to ‘just work’, whether the supplier is local or global
- » Improved information enabling a database of performance history to be built up which shows not only the track record of suppliers but also the performance of buyers
- » Better processes based on more accurate data which will enable buyers to switch their focus from the transactional level to take a more strategic view
- » Enhanced collaboration between end-users, buyers and suppliers based on the true picture of overall quality measures.

OVERCOMING PROCUREMENT OBSTACLES AND CHALLENGES

The single most critical business document for procurement teams is the purchase order (PO) as it feeds many business processes and systems, ranging from purchasing and ERP systems, to IT asset management, vendor management, risk mitigation, and financial controls.

Any problem with PO data quality quickly becomes a larger issue that can have a negative impact on audits, financial decisions and reputational risk. Therefore, any changes to purchasing systems and processes must focus on the integrity of this data and driving up its quality.

Procurement professionals tell us that in their experience many procurement transformations fail because of an underestimation by the organization of the importance of change management. Teams get used to traditional ways of working and in general, there is a huge reluctance to improve processes.

Change management focuses on planning and implementing major organizational and inter-organizational change, including leadership, team development, measurement systems and the communication strategies.

The major constraints on successful change management are that there is a huge lack of resources, limited skill-sets and, surprisingly, the procurement teams own limited ability to influence purchasing processes and decisions.

Organizations’ lack of understanding on the strategic potential of the procurement function, is not only causing problems for procurement performance but also restricts business success.

Procurement professionals need access to the information to be able to demonstrate to the business how important their function can be; the wide-ranging implications if inaccurate procurement data enters the system; and how strategic sourcing can become a competitive advantage for an organization. It is in their hands to push for change but they need the right information and support to be able to engage with stakeholders and influence their thinking.

IMPROVING STAKEHOLDER ENGAGEMENT

In-depth 'spend intelligence' will provide procurement professionals with the information they need to engage effectively with the rest of the organization. Aggregating the right data and having the tools to analyze it across the business will offer a crystal clear view of the organization's entire spend.

This will enable the procurement team to identify useful information such as:

- » The best price gained across the business for particular goods or services
- » Alternative products that may be cheaper or of better quality
- » Where buyers are purchasing 'off contract' and what this is costing the business
- » If any areas of the business are achieving better than contracted prices

Such data provides the keys to open up the engagement with other parts of the organization. It may also be possible to benchmark one organization's procurement performance against another's.

Category management provides a strategic approach. It identifies the areas of the business and types of spend which the procurement team should focus on to deliver the greatest or most rapid benefits. The results can be significantly greater than traditional transaction-based purchasing methods.

Having the spend insights from across the whole business and its global supply chain will also help the procurement team to identify risks in the supply chain and provide the ability to offer alternative products and suppliers. Again, such information will enhance the engagement the procurement team can have with other departments and make discussions more strategic in nature.

For 'commodity products' e-auctions are seen as providing a great value-add, especially if existing purchasing processes are weak, with suppliers competing to provide the lowest price rather than the organization having to rely on the quality of its buyers and processes.

INTEGRATING PROCUREMENT WITH THE CORE BUSINESS

Our discussions with procurement professionals indicates that the majority of organizations continue to have procurement carried out by a central function within the business. Supplier relationships are managed centrally and performance is also monitored and managed here.

The key benefits of consolidated procurement include:

- » Centralized negotiations and contracts with major suppliers
- » Consolidated performance management with a view across the business
- » The ability to deploy key corporate initiatives such as ethical sourcing; purchasing from local suppliers; complying with anti-bribery and corruption legislation in different countries
- » The possibility to champion new procurement methods, systems and technologies

Even so, the feedback we have received indicates that traditional procurement processes are still cost prohibitive and increasingly ineffective. Embracing new thinking, sharing best practices and utilizing new systems and technologies, is needed to better integrate the procurement function into core business.

The procurement professionals we have talked with see the development of new processes and systems for procurement as the way to help elevate the often-battered purchasing profession to new levels. By 're-engineering' procurement, the purchasing function finally has an opportunity to rid itself of paper-driven processes, and the non-value adding bureaucratic activities and controls which paper brings.

Connecting buyers and suppliers via the same cloud-based platform, exchanging accurate online documents, and providing payment gateway capabilities, is viewed as the way forward. This will allow the collection of the performance data from across the business, providing the procurement team with the useful information it needs to bring to key business discussions, and to ensure its place at the table when strategies are being formed.

Despite the investment and complexities of implementing e-procurement, procurement professionals are finding little research to provide managerial guidelines for developing effective procurement strategies and for successfully implementing e-procurement. Therefore, they see it as their mission to show their organizations what state of the art procurement will look like in their own context and lead the way to the benefits it will bring, not only for their organizations, but also for the reputation of the procurement profession.

IN CONCLUSION

Despite years spent implementing ERP and purchasing systems, many organizations' processes remain costly, inaccurate and paper-based. There are still large savings to be made and efficiencies to be found. End users are demanding more based on the simplicity they find from the online B2C purchasing experience.

Cloud-based e-commerce platforms can now provide the way to connect global supply chains, while at the same time removing the inaccuracies and the frustrations, which paper-based processes create. This offers the opportunity to make purchasing simpler for the end users, while at the same time building up the information needed by procurement professionals to add value to strategic discussions and build deeper, more collaborative relationships with key suppliers.

The technology is now available to move procurement forward. It's up to purchasing professionals to seize the opportunities offered.



cloudBuy provides cloud solutions for buyers and sellers – and brings them together to trade securely and ethically via an increasing number of public e-marketplaces and private purchasing portals that are powered by cloudBuy technology.

cloudBuy solutions for buyers help B2B purchasers understand and control their spend, to reduce costs and increase value.

Our cloudSell solutions enable sellers of all sizes, from start-ups to corporates, reach new customers and grow their business.

cloudBuy's technology platform powers web sites, public marketplaces and private purchasing portals that enable all types of online interactions and relationships including, citizen and business to government; consumer to business; and business to business.

For more information visit: www.cloudBuy.com.



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