DIGITAL PROCUREMENT TRANSFORMATION
2: REDESIGNING PROCESS
**INTRODUCTION**

“We cannot solve our problems with the same thinking with which we created them.” The words of Albert Einstein, one of humanity’s greatest problem solvers, should resonate with chief procurement officers as they seek to digitally transform their function – and the processes it uses.

Digital technology gives CPOs – and procurement functions – the chance to start afresh. Status quo’s are often unsatisfactory, with processes and technologies representing an imperfect compromise between past investment, present practice and future needs. Organisations that do not have contemporary or best-in-class procurement processes may have little understanding of what is being bought, by whom and from whom; be exposed to fraud through lack of controls; fail to meet budgets; risk harming their reputation through late payments, adversarial behaviour and unethical practices and suffer from fragility in their supply chain, often because invisible technical and commercial changes have affected buyer and supplier.

Such challenges underline why CPOs should heed Einstein and avoid falling into the trap of digitizing an unsatisfactory status quo and settling for the belief that “doing well” is delivering incremental improvements in performance.

As Santosh Nair, vice president, technology at GEP, the world’s leading provider of unified procurement and supply chain solutions, says: “Organisations have an opportunity, provided by a critical mass of emerging technologies, to transform sourcing and procurement and subsequently demonstrate its significant value to the wider enterprise.”

The critical technologies include: unified source-to-pay software, artificial intelligence, big-data analytics, and mobile, cloud-connected devices. Applying these technologies intelligently in combination, organisations can create a new procurement function where barriers between contracting and purchasing have been removed, the realisation of savings and value is instant and transparent and buyers and suppliers can collaborate to drive innovation that benefits them both.
This transformation is essential if organisations are to remain competitive. Procurement’s purpose is now more nuanced, complex and wide-ranging than ever. Historically, the function’s job (which it has largely accomplished) was to keep costs low. Today, in a global economy where significant changes come with increasing speed and impact, the function needs to be intimately involved with every aspect of the business as it strives to meet a range of key performance indicators, which may vary from generating on-going value from supplier management to mitigating risk or acting as a profit centre.

The opportunity to reinvent processes presents one obvious question: what role does procurement play in the company’s philosophy? Is it destined to remain a process-oriented, savings-obsessed back office function? Or does it have a broader, strategic remit to create value, encourage innovation and advise the CEO and CFO? Many organisations are demanding that procurement becomes a strategic function while, for some businesses, low costs will remain the chief competitive edge. As obvious as it may sound, some procurement functions are not aligned to help the business achieve its goals because of a lack of clarity about their remit.

So how do we define contemporary and appropriate procurement process? Each organisation will have their own particular definition; yet, in an ideal world, designing a procurement process should start by answering four questions.

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1. Where are we now?
You can’t get to where you want to be, if you don’t know where you are. So the organisation needs to thoroughly assess present processes, collect relevant data (activities, technology, approval mechanisms, time and cost), map each process and benchmark KPIs against leading practice and evaluate current tools while identifying additional opportunities for information.

Some CPOs deliberately seek out their fiercest internal critics to get their feedback. Others benchmark themselves against other departments within the business, procurement functions at outside businesses, and other departments at outside businesses. Some collaborate with suppliers – many of which have forthright and pertinent views on, for example, how better requests for proposals could save buyer and seller time and money.

2. Where do we want to be?
This is where you map out the “to-be” ideal process that suits the organisation’s present and future needs. At this stage, procurement needs to identify the financial, technological and human implications of change, develop a plan to acquire any necessary additional resource (which could be technology or people or both) and quantify the benefits and costs so it can make a compelling business case for change.

Procurement’s internal image is primarily defined by the rules, processes and systems it puts in place. So transformation will be harder to accomplish if staff are left wondering why the purchasing software is so much less intuitive than their smartphone apps. Equally, if procure-to-pay systems are too complicated, the business will spend too much time managing transactions, and procurement’s efforts to create value will be...
negated. Too many investments are made on the false premise that technology will instantly fix a particular challenge, but it can only do so if the right technology has been specified and the change is managed correctly vis-à-vis the users of that technology.

The ideal “to-be” process will also need to be able to accommodate the volatility – social, economic and technological – that is now woven into the fabric of corporate life. Sourcing strategies are becoming increasingly complex and challenging – local sourcing may make sense in some markets, but not others and those calculations may completely change in a matter of weeks. Yet the uncertainty facing companies, and their procurement function, is far more profound than that. The ability to make – and execute – a quick decision when faced, for example, with the sudden devaluation of a major currency, could save the organisation millions of dollars. The ability to instantly analyse data in response to a new disruptive competitor – and plan accordingly – could be even more valuable. And in an era when companies are changing not just strategies but business models, the process needs to be able to accommodate sudden, dramatic change.

3. How do we get there?
Implementation is where many attempts to redesign process go awry. They shouldn’t. Some organisations recognise the need to

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document and prepare standard operating procedures for all key tasks and develop the tools and templates required for new processes, but then fall down because their migration plan does not make any realistic allowance for communication, training and the time it takes to enact meaningful change. Skimping on training, as some organisations have done to cut costs, is a false economy that could slow the uptake of new procedures and damage staff morale.

Most CPOs will look to data analysis to assess how implementation is progressing. A system such as SMART by GEP, a unified procurement software platform native to the cloud, provides a seamless flow of information being generated both upstream and downstream, thereby transforming an organisation’s ability to track performance, quickly identify whether planned savings are being achieved and highlight non-compliance.

Yet, as Einstein said, not everything that is measured counts and not everything that counts can be measured. Anecdotal feedback can round out the picture and some CPOs argue, in the early stages of implementation, the old fashioned skill of management by wandering about can prove extremely useful. It also helps if staff know how – and to whom – they direct feedback or queries. Once again, this sounds crushingly obvious but it is a point many organisations underestimate. However, keep in mind that although user satisfaction can be hard to measure, it does drive adoption – which drives actual usage, which in turn drives results, which can be measured.

4. Where do we go next?
In many ways, the most critical stage is to keep improving the process. That requires developing robust KPIs to continuously monitor progress, agreed review mechanisms and a willingness, expressed in deeds not words, to fix processes that aren’t working.

Many internal stakeholders – even at board level – may regard redesigning the procurement process as an event, not a continuous development. That’s why it is vital for the procurement function to maintain the momentum for change. Clarity and buy-in from the top about the next targets for improvement can help maintain momentum. Assigning ownership of the improvement process to specific individuals or teams will help. Procurement also needs to be visible, spreading the word about improvements throughout the organisation – something, historically, the function has not been that good at.
Using the transformative power of digital technology can free procurement departments to focus on something they consistently identify as their biggest problem: suppliers. Too many transactions go awry because KPIs are unrealistic, the purchase changes scope (driving up costs), buyers communicate too little – or too much, trying to micromanage the supplier, or because suppliers over-promise in the tender (or become complacent after an order has been placed). Nurturing relationships with suppliers to avoid or minimise these problems can make a substantive difference to the bottom line.

Reinvention is always risky. When you ask tough, complex questions, the answers may surprise you. Yet CPOs should seize the opportunity to collaborate with, inspire – and be inspired by – other stakeholders, internal and external. In so doing, they can challenge the stereotype that procurement is a back-office function in charge of cutting costs and enforcing rules. By doing that, they can begin to build a new, better brand for procurement within the organisation.

And that is, in the long run, a more valuable use of procurement’s time and expertise, than cobbling together supplier scorecards from spreadsheets and reports weeks after the event.

By digitally reinventing itself – in the process acknowledging that software is where procurement happens, and ultimately determines what can and can’t be accomplished – procurement can become a trusted adviser to the organisation, with a hand in shaping strategy. GEP’s Nair says: “Reinventing procurement is not about technology, process or people in isolation, it’s how you use all three to transform the function’s performance.”
Digital procurement transformation 2: Redesigning process

RE-INVENTING PROCESS IN FOUR STEPS

The organisation needs to do the following:

1. **Assess existing processes**
   Collect relevant data, engage with stakeholders, map processes and benchmark their KPIs against best practices, evaluate current tools and identify additional opportunities for automation.

2. **Redesign the process**
   Develop the “to-be” process ideal that meets business needs, identify the financial, technological and human implications of change, decide whether it needs – and if so how it will acquire – additional resources (technology or people), and quantify the benefits and costs to make a business case for change.

3. **Implementation**
   Document and prepare standard operating procedures for all key tasks, develop tools and templates required for new processes and create a migration plan to the new processes, factoring in communication, training and timelines.

4. **Continuous improvement**
   Assign ownership of the process, develop robust KPIs to monitor, control and fine-tune the process, develop methodologies to measure KPIs and prepare review mechanisms.

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