DIGITALLY TRANSFORMING PROCUREMENT

The opportunity in the 'long tail'

New technology gives CPOs an historic opportunity to ensure that the 40-60% of an organisation's procurement spend that is decentralised is cost effective, efficient, compliant and ethical

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Digital technology has given the back office the chance to be at the forefront of business strategy. Some chief procurement officers have already launched digital transformation initiatives and are at differing points on the maturity curve. Many are talking about it and planning to invest in it. A few are just talking about it, unsure how they get to the end goal: transforming the procurement function to make it more effective, resilient and flexible to deliver strategic value within a digitally-driven organisation.

We should not confuse automation with digitisation. The management consultancy Gartner has clarified the difference, arguing that automation is a matter of improving what it is already being done, whereas digital transformation is about using digital technologies in combination to do things differently, create value and drive innovation. Digital transformation affects every department in the organisation and every aspect of procurement, particularly the long tail or, as some call it, 'operational procurement'.

Nine out of ten procurement events across organisations are low-value sourcing decisions (typically below $500,000 in the corporate sector and below $250,000 in the government sector), which are often made on a decentralised basis by a multitude of buyers across multiple units within the organisation.

9/10
procurement events across organisations are low-value sourcing decisions

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40-60%

Sums spent may be small but collectively can represent 40-60% of an organisation's spend

"The sums spent in each particular transaction may be small but collectively they can represent 40-60% of an organisation's spend. In other words, it adds up and provides a significant opportunity for procurement to take control, save money and prove its strategic value to the organisation," says James Leathem, CEO of VendorPanel, a business-to-business (B2B) and business-to—government (B2G) procurement and marketplace platform. "By managing operational procurement more effectively, the function can enhance compliance, reduce risk and improve probity and governance and drive savings and insights," he adds.

Managing 'operational procurement' spend has typically been arduous, cumbersome and time-consuming. Reflecting their legacy mindsets and legacy technologies, many organisations have found themselves relying on an alarming combination of Enterprise Resource Systems, spreadsheets, emails, phone calls and disconnected tender portals.

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"This kind of procurement is typically initiated and managed by operational staff," says Leathem. "They usually have to follow a 'three quotes' type of policy, but the actual process is manual, inefficient, lost in email, and biased to incumbent suppliers. In most organisations, this is a lot of money, which is poorly managed and presents a lot of risk." Common hazards include leakage, lack of transparency, difficulties when it comes to reporting, and audits.

> *Muddling through on a day-to-day basis, it's easy for organisations to overlook the need for change*

Yet by muddling through on a day-to-day basis, it is easy for organisations to overlook the need for change. However unsatisfactory the status quo might be, there is, as the management guru Peter Drucker observed: "An organisational inertia which always pushes for what we are already doing". The very term transformation conjures up visions of revolutionary change on a vast scale and a long timeline, a challenge that looks both exciting and daunting. The misleading mantra that seven out of ten change management projects fail may be cited to justify inaction or procrastination. In reality, as Drucker said, transformation is driven by the recognition that "if an organisation wants to work on opportunities, it must be able to abandon the unproductive and slough off the obsolete".

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Transforming operational procurement does not have to start with an all-encompassing, meticulously detailed five-year-plan. As Matthew Clyne, chief revenue officer at VendorPanel, says: "There is a compelling alternative to the monster project mode in which organisations start small – probably a single department – focus on the desired results, which will often be cost avoidance but could also be supplier diversity, or spend insights. Once those are delivered, a structured communication plan of project updates, can build momentum for further change and clearly demonstrate value to the organisation."

Procurement is, by nature, risk-averse. You don't get promoted or rewarded for taking on too many risks. Introducing new systems and processes on a modular basis minimises the risk and lowers the initial cost. With the latest procurement technology – such as VendorPanel's

Source-to-Contract procurement platform – this modular approach is much more feasible than it was in the era of expensive turnkey IT and ERP systems. This method also allows the procurement function – and the systems it is introducing – to show results much more quickly and demonstrate the return on investment.

VendorPanel's experience with private companies and public bodies is that Source-to-Contract procurement platforms can, in a relatively short timeframe, improve the bottom line, mitigate risk and strengthen compliance. The new systems simplify life for users and suppliers and bring transparency to operational procurement.

"For users, this means that everything is in one place: tenders, internal panels, approved contractor lists, external panels, whole-of-government or sector arrangements, local supplier sourcing and social procurement from the wider marketplace," says Leathem. "For suppliers, it gives them easier access to more opportunities. For procurement, this means total visibility of all enterprise sourcing from top to bottom and the ability to get ahead of the curve with powerful integrated sourcing analytics."

2.5

is the average number of hours saved in administration time for every RFx (Request for Quotes)

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In pure financial terms, the rationale for transformation is compelling. A VendorPanel study of audited and peer reviewed data covering 35 customers found that, on average, each organisation saved 9.74% on spend across all marketplace categories. Separately, clients reported 2.5 hours in administration time saved for every RFx (Request for Quote). Digital technology can help bring the long tail under managed spend – without adding to the workload of the hard-pressed procurement function – giving management greater confidence in their processes and probity, facilitating record keeping for audits and, by introducing new suppliers, stimulate competition. The fact that procurement also has easy access to the right data can lessen the function's administrative burden and create an opportunity for it to adopt a more strategic role.

Visibility, transparency and data are essential to meet government requirements to spend with local suppliers, SMEs and organisations that benefit society. "At all levels of government, and increasingly in the private sector, the expectation is that procurement should be leveraged to benefit local communities, economies and the disadvantaged," says Leathem, citing the Business Council of Australia's Indigenous procurement targets as one example. "These obligations are increasingly being built into government contracts for goods and services – and procurement needs to use technology to execute these strategies if it is to achieve the specific goals."

> *If procurement is to acquire the strategic influence it deserves, it needs to change its image*

As a back-office function, procurement has historically been undervalued. Too often, procurement is still misunderstood as the department that says "No", enforcing rules that appear arbitrary to other stakeholders (even if they have been devised at board level). Digital transformation gives CPOs a once-in-a-generation opportunity to help procurement become a strategic adviser to the business. That's a generous reward for not much risk.

![VendorPanel logo]

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How ready are you?

These questions will help you prepare for digitising procurement

- Is your procurement function – and the technology it uses – fit for purpose and does it align with the organisation's strategic goals?

- Will the procurement function – and its technology – be fit for purpose and align with the organisation's strategic goals in 2025?

- Which of your procurement processes could be improved, simplified or eliminated?

- What are the most common criticisms made of your processes by other internal stakeholders?

- How standardised are the processes used for long-tail purchases?

- How common is non-compliance within the organisation? And what are its most common causes?

- Culturally, how receptive is your organisation to technological change?

- How many units, locations and geographies is your long-tail spend spread across?

- How diverse is your supplier base?

- Can you measure your spend benefits the local community?

- What are the five most serious challenges digitising procurement needs to address?

- How does the procurement function create strategic value for the organisation?

- Does your organisation need to hire more people with future-facing skill sets?

- Do members of your team have hidden technology skills?

Mistakes to avoid

• Underestimating the need for change management. Like many organisations, VendorPanel uses the ADKAR model of change management. The acronym stands for Awareness, Desire, Knowledge, Ability and Reinforcement. If operational change is to succeed, companies need to recognise the importance of all five factors.

• Duplication. Look for opportunities to collaborate across the organisation. VendorPanel's technology enables secure collaboration.

• Over-complication. Adoption will be driven by how easy buyers find the system to use. Remember, many employees' expectations will be shaped by their experience of simple, frictionless purchasing on consumer apps.

• Multiple systems. If you are to achieve full visibility – and glean the insights that will help you improve performance – all spend management needs to be on a single digital platform.

• Not sharing success. Quick wins will help build momentum for change and overcome scepticism when glitches occur.

End to end or best of breed?

What does good like? When it comes to digitising procurement, every organisation will have a slightly different answer to that question. A formidable array of factors come into play when investment decisions are made. Many are internal, notably corporate cultures, mindsets, the scale of the organisation, changing business goals, the volume and variety of suppliers and partners. The task of identifying 'good' can also be made more difficult by the pace at which systems and technologies develop, the wide range of options facing organisations and external competitive pressures.

In the past, for organisations of a certain size, complexity and global reach, the 'go to' technological fix when it came to improving operational efficiencies was an enterprise resource planning (ERP) system. The rationale was clear. With an ERP, the organisation was investing in a single 'end to end' solution that encompassed the entire enterprise, impacting almost every process and policy.

In practice, life has turned out to be a bit more complicated than that. Many organisations have expressed their dissatisfaction with ERP systems. As American business guru Rick Carlton has identified "weak business cases, malformed requirements, poor strategic/tactical planning, erroneous budgets, weak training, mismanagement of expectations and errors in the systems themselves" as the key sources of dissatisfaction, it is at least possible that the difficulties have as much to do with culture and structure as the technology itself.

8/10 *organisations were unhappy with their ERP systems, and 9/10 said they failed to deliver any discernible ROI*

Organisations face three options when they consider legacy ERP systems. They can abandon them, which comes with a high degree of risk but may still be the preferred route. They can persevere with them, although that may become problematic in the longer term as new solutions emerge. Or they can use the power of Application Program Interfaces to effectively act as the middle man between the ERP and other systems so the data is available on the new digital platform.

This reduces reliance on a single supplier, lowers the risk (because ERP systems do affect every part of the operation, mismanaging the transformation can disrupt the entire business) and can help organisations squeeze further value out of expensive ERP systems.

The Chief Procurement Officer and the Chief Information Officer can select the solutions that they feel best meet their specific needs and integrate them within their existing IT infrastructure. This approach will have its complexities in practice too but it has one fundamental advantage: any failure is unlikely to jeopardise the entire organisation.

> *By opting for best-of-breed solutions, organisations can retain the freedom to exploit emerging technologies*

By opting for solutions that are 'best of breed', organisations can retain the freedom to exploit emerging technologies – particularly artificial intelligence, the Internet of Things, machine learning and ubiquitous computing – as they develop in ways that can improve processes, procurement and performance. A more modular, agile approach could help CPOs and CIOs make a compelling business case for digitisation to other stakeholders and make it easier, and quicker, to demonstrate proof of concept.

VendorPanel helps clients unlock
the value of their spend by
transforming procurement from
a back office administrative
function to being a centre
of excellence and a
recognised business enabler.

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