Procurement's Digital Divide:
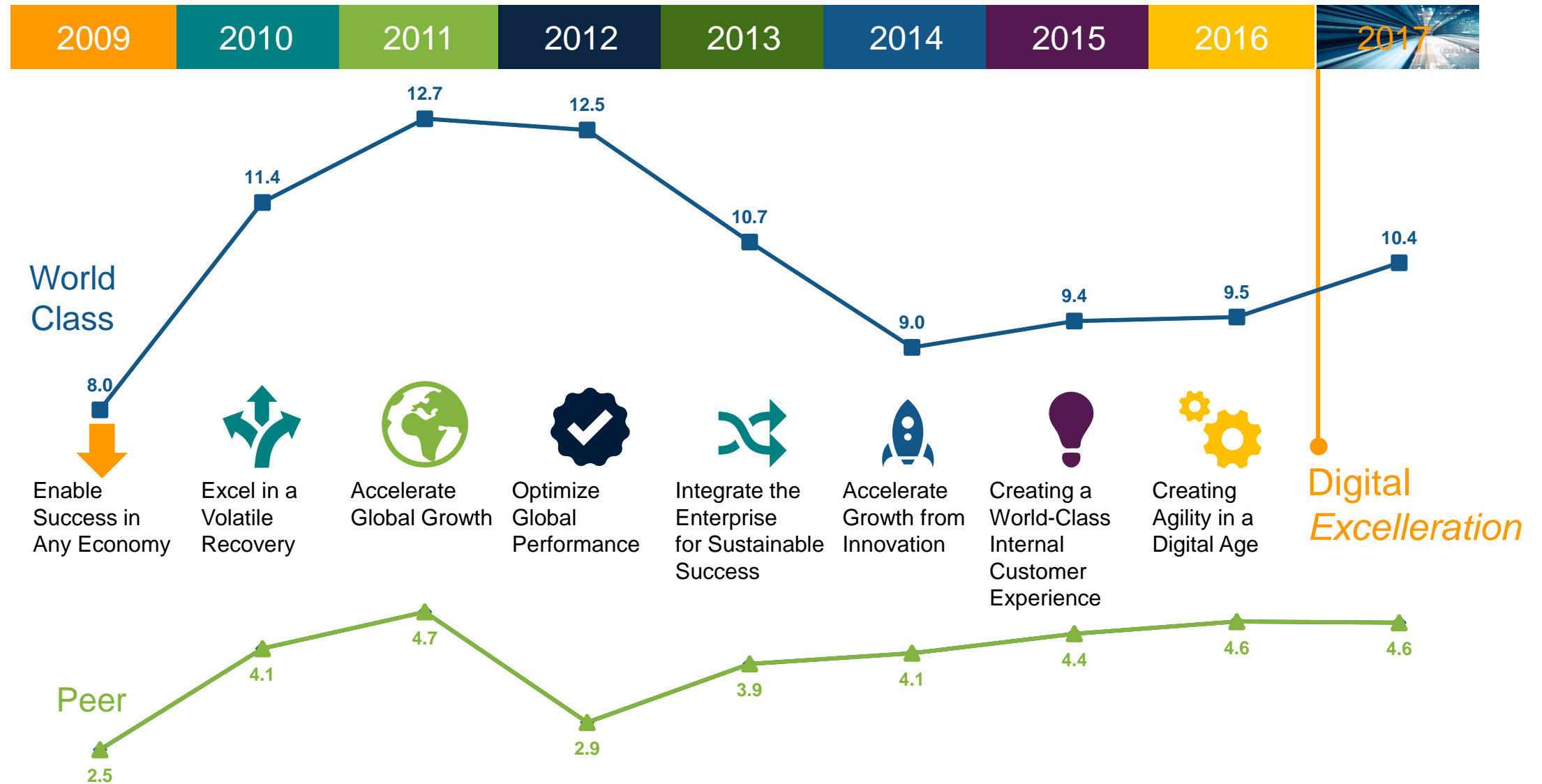## How Digitization is Driving Next Level Procurement Performance

Speakers:

Amy Fong, Assoc. Principal, P2P and Procurement Advisory
Richard Waugh, VP Corporate Development, Zycus Inc.

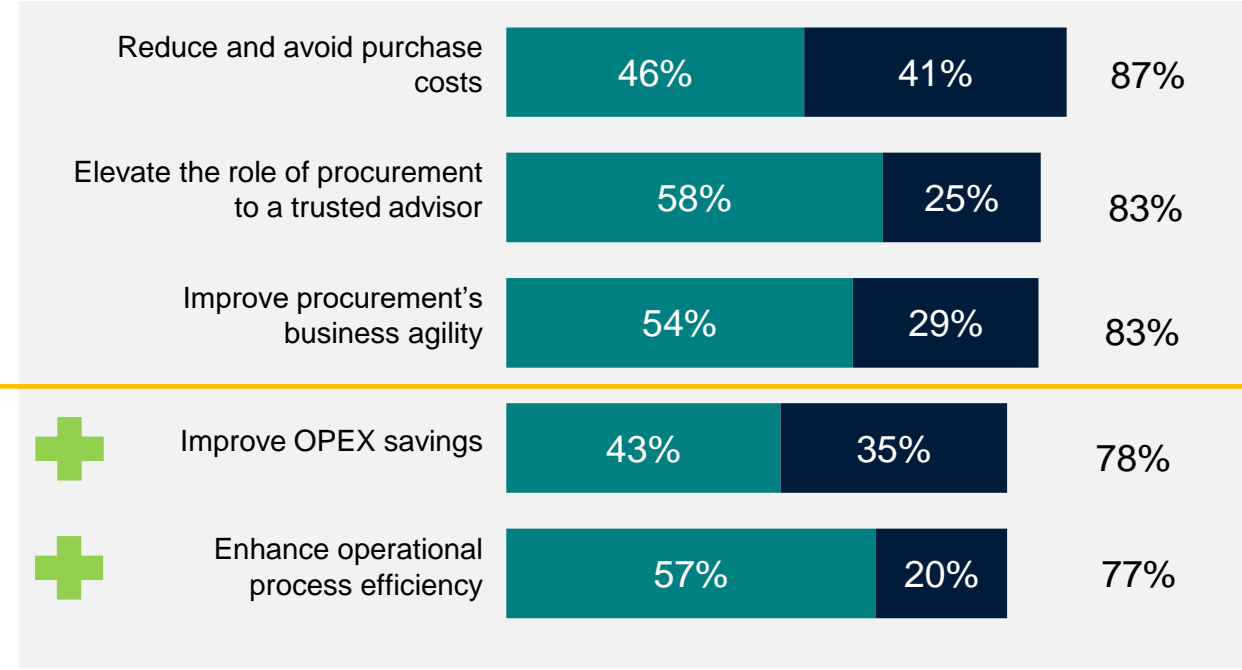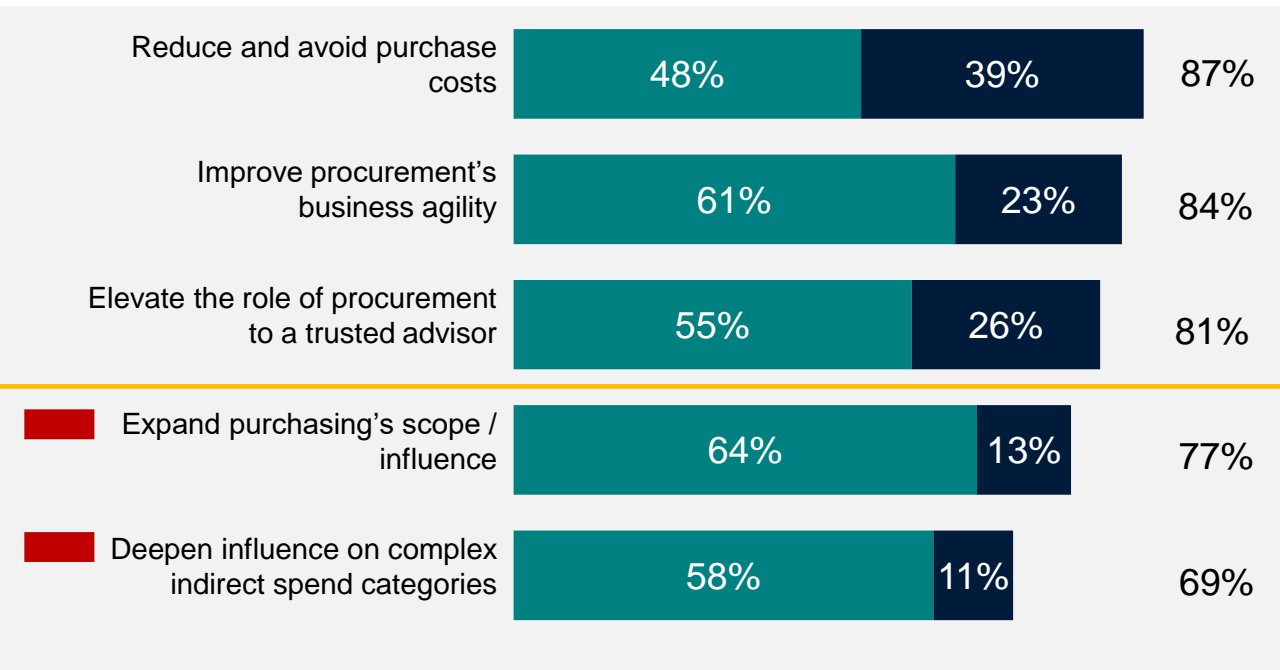# The ROI of world-class procurement and Hackett research themes through the years

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |

World Class

- 8.0
- 11.4
- 12.7
- 12.5
- 10.7
- 9.0
- 9.4
- 9.5
- 10.4

Enable Success in Any Economy

Excel in a Volatile Recovery

Accelerate Global Growth

Optimize Global Performance

Integrate the Enterprise for Sustainable Success

Accelerate Growth from Innovation

Creating a World-Class Internal Customer Experience

Creating Agility in a Digital Age

Digital *Excelleration*

Peer

- 2.5
- 4.1
- 4.7
- 2.9
- 3.9
- 4.1
- 4.4
- 4.6
- 4.6

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2

In 2018 Procurement's priorities continue to focus on agility and becoming a trusted advisor

2017

	High	Critical	Total
Reduce and avoid purchase costs	48%	39%	87%
Improve procurement's business agility	61%	23%	84%
Elevate the role of procurement to a trusted advisor	55%	26%	81%
Expand purchasing's scope / influence	64%	13%	77%
Deepen influence on complex indirect spend categories	58%	11%	69%

2018

	High	Critical	Total
Reduce and avoid purchase costs	46%	41%	87%
Elevate the role of procurement to a trusted advisor	58%	25%	83%
Improve procurement's business agility	54%	29%	83%
Improve OPEX savings	43%	35%	78%
Enhance operational process efficiency	57%	20%	77%

High **Critical**

Source: Key Issues Study, The Hackett Group, 2018

For Procurement: What Digital Transformation Really Means

The Digital Business Strategy

Four pillars support procurement's digital business strategy

2 Omnichannel, personalized stakeholder experience

3 Digitally enabled procurement workforce

4 "Smart" orchestration of source-to-pay services

5 Ecosystem of networked solutions

Data and analytics form the foundation

1 Analytics-driven insights
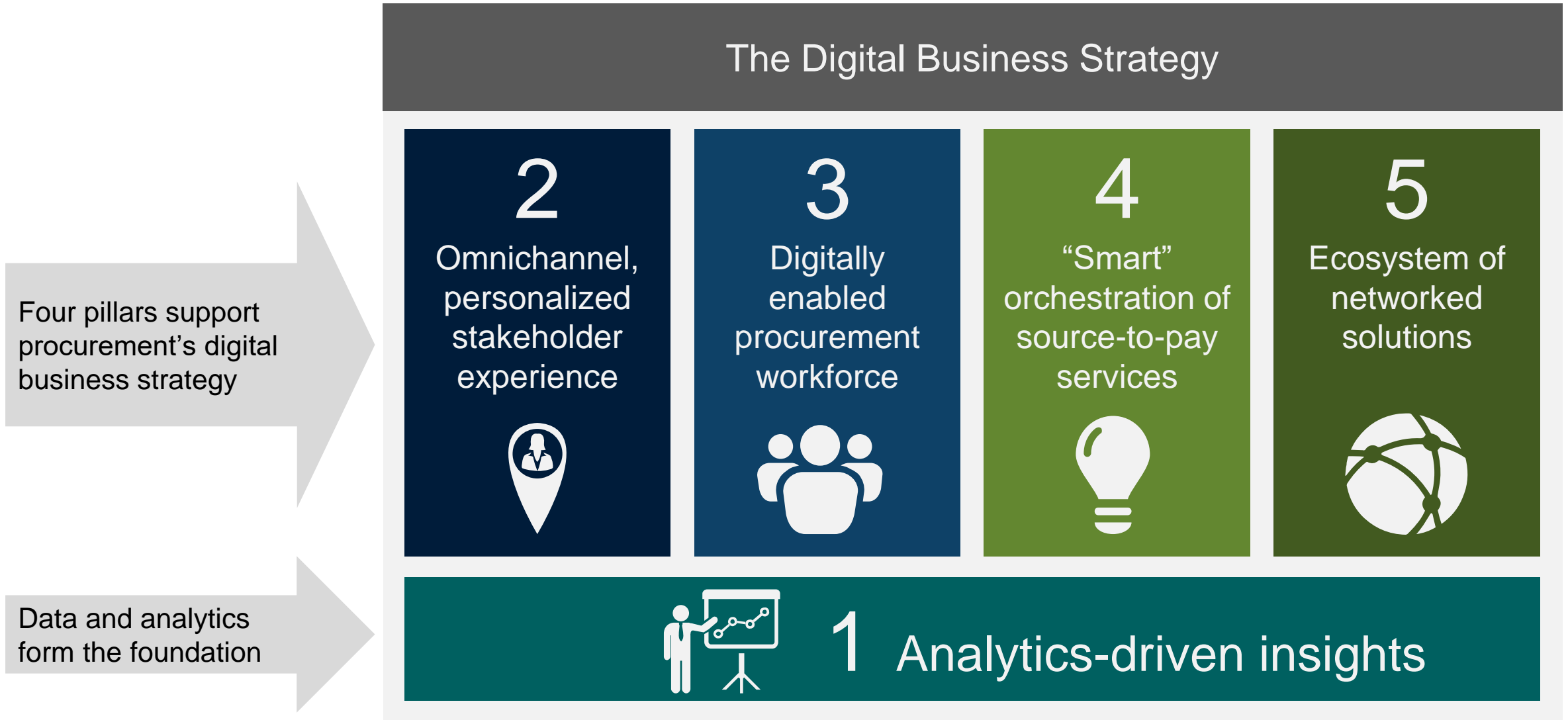
Why digital transformation is changing the way procurement evolves

New Ways of Doing Things

- Move beyond just automating existing processes
- Define completely new ways of doing things
- Enable with new technologies (e.g., cloud, big data, RPA, social media)

A Customer-Centric Approach

- Move beyond internally focused transformation
- Design from the "outside in", starting with customer needs
- Design new ways to engage the customer (internal and external)

Velocity of Change

- Embrace a fail fast philosophy
- Execute pilots in targeted areas and scale up rapidly
- Shift focus from discrete projects to continuous transformation

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A Customer-Centric Approach: Request Management

ZYCUS

Process

Requester — **Sends requests** → Approver — **Approves requests** → Procurement — **Manages and Processes Requests** →

← Reject inappropriate requests

Features

- Configurable Flexiform
- Configurable Approval Workflow
- Conditional Logic / Rules
- Calculated Fields
- Delegation
- Comprehensive Reporting

Use Cases

- Create Contract
- Create Sourcing Event
- Onboard a Supplier
- Pre-purchase Request
- Supplier Performance improvement
- PO Amendment
- Contract Amendment
- Task Assignment
- Initiating a Project
- Price or terms change request by Supplier

- eSourcing
- Contract Management
- Project/ Savings Management
- Supplier Management/ P2P

Customer-Centric Case Study: Request Management
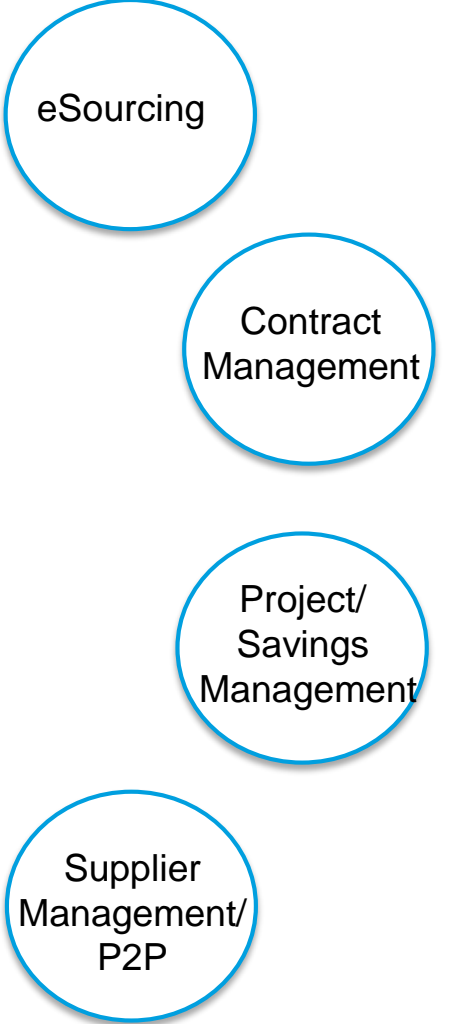
iRequest - Automotive

- Automated request management and tracking triages procurement's work queue – empowers and engages end-users

- Sophisticated, conditional approval workflows (>175 conditions, 4-5 approvals per form)

- Conditional logic integrates IT security reviews with on-boarding requests

- Supports multiple request use cases, e.g. negotiate contract, run sourcing project, on-board supplier, capital appropriation project approval

- Seamless process flow from request to execution – e.g. approved request initiates activity in target module

- Also supports non-procurement (Hotel, Facilities, HR, IT) requests

Customer-Centric

Integrating Business Processes

Extending Beyond Procurement Users

What Is The Digital Opportunity?

Digital Transformation In Procurement: Improving customer experiences, operational efficiency, agility and business value contribution by fundamentally changing the way procurement services are delivered using digital technologies as the enabler of holistic transformation.

At its Core, Digital Transformation will reduce the cost to execute business services functions….

…. for Procurement the value of digital goes far beyond cost savings to better business enablement

Percentage procurement process cost reduction attributable to digital transformation

Digital transformation — 24%
Baseline — Peer group

Digital transformation — 35%
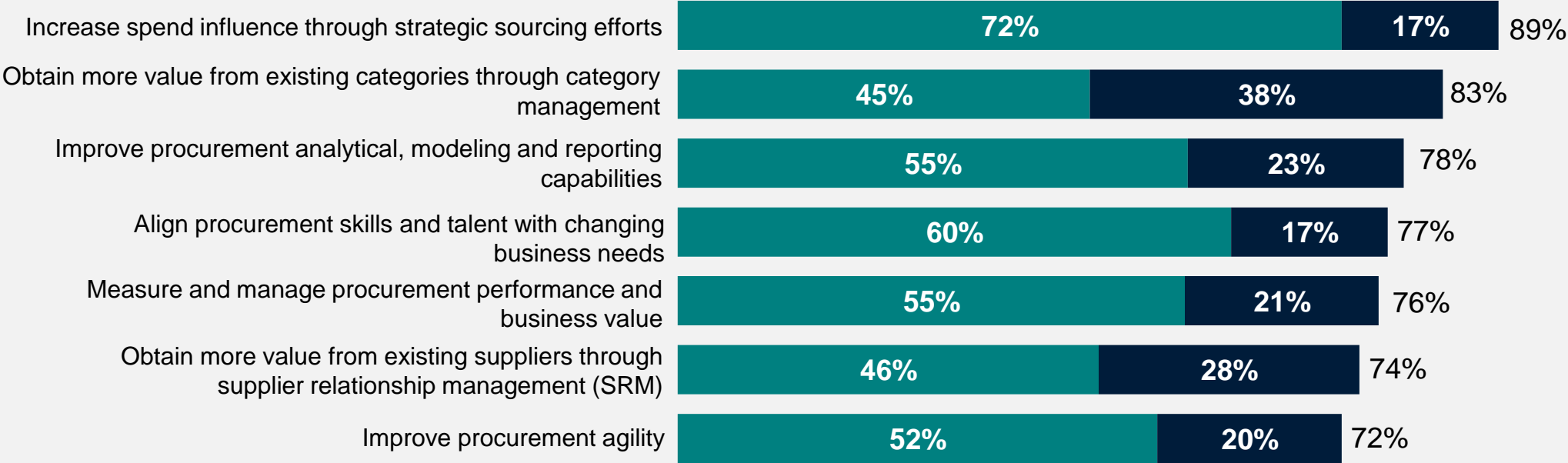Baseline — World class
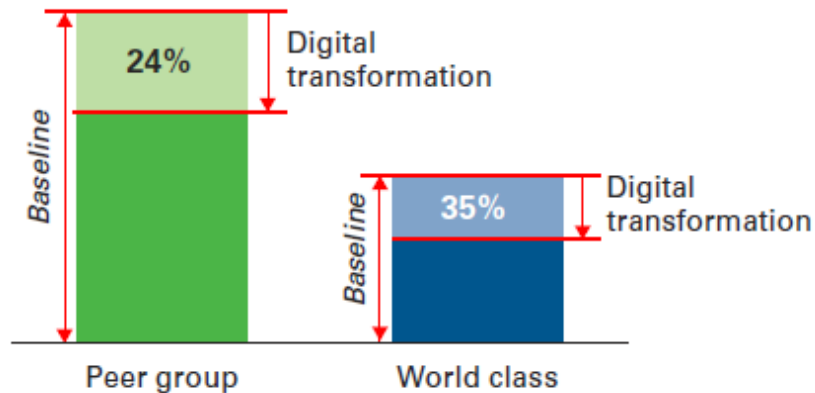
Value Beyond Cost Savings: Enhanced Value Above Spend Cost Reduction

Decision Support: New Insights And Intelligence

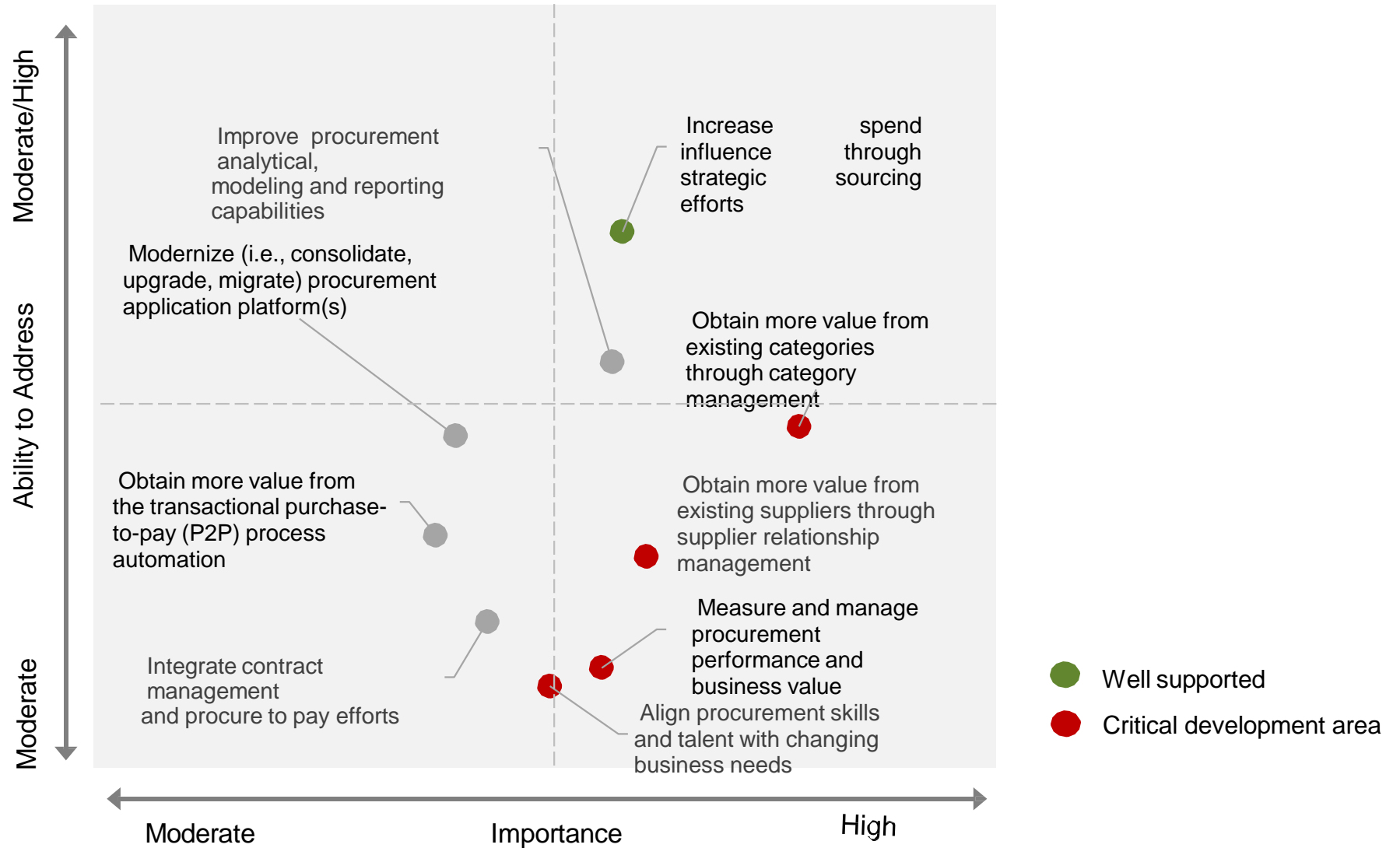Shift Effort: Commercial And Supply Relationships

Business Alignment: Enhance Agility And Internal Customer Experiences

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Source: The Hackett Group, Digital Transformation Framework

Importance in improvement of procurement's capability or performance levels in 2018

	High	Critical	Total
Increase spend influence through strategic sourcing efforts	72%	17%	89%
Obtain more value from existing categories through category management	45%	38%	83%
Improve procurement analytical, modeling and reporting capabilities	55%	23%	78%
Align procurement skills and talent with changing business needs	60%	17%	77%
Measure and manage procurement performance and business value	55%	21%	76%
Obtain more value from existing suppliers through supplier relationship management (SRM)	46%	28%	74%
Improve procurement agility	52%	20%	72%

High   Critical

Source: 2018 Key Issues Study, The Hackett Group

Procurement needs to stay focused on improving procurement agility, talent and SRM

Increase influence strategic efforts

spend through sourcing

Improve procurement analytical, modeling and reporting capabilities

Modernize (i.e., consolidate, upgrade, migrate) procurement application platform(s)

Obtain more value from existing categories through category management

Obtain more value from the transactional purchase-to-pay (P2P) process automation

Obtain more value from existing suppliers through supplier relationship management

Measure and manage procurement performance and business value

Integrate contract management and procure to pay efforts

Align procurement skills and talent with changing business needs

Ability to Address — Moderate/High / Moderate

Importance — Moderate / High

● Well supported

● Critical development area

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Few Satisfied with Ability to Measure Business Value

Ability to Address (vertical axis): Moderate → Moderate/High

Importance (horizontal axis): Moderate → High

Improve procurement analytical, modeling and reporting capabilities

Increase spend influence through strategic sourcing efforts

Modernize (i.e., consolidate, upgrade, migrate) procurement application platform(s)

Obtain more value from existing categories through category management

Obtain more value from the transactional purchase-to-pay (P2P) process automation

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Integrate contract management and procure to pay efforts

Measure and manage procurement performance and business value

Align procurement skills and talent with changing business needs

● Well supported
● Critical development area

- How can Procurement more effectively measure and communicate performance and value delivered to the business?

- In particular, how can Procurement align more effectively with Finance to ensure value contributions are acknowledged?

- Which processes/platforms can enable Procurement to create credibility with the C-Suite and sign-off from the CFO on value delivered?

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World Class Defined and Enabled

Source: Key Issues Study, The Hackett Group, 2018

Financial Savings Management Challenges/Solutions

Challenges

- Most organizations tracking with spreadsheets/home-grown tools
- Existing tools lack Finance collaboration and approval workflow
- No standard definition of savings calculation and allocation methods exists, and lifecycle tracking visibility is missing

Combination 7%

An Excel Spreadsheet 17%

Developed In-House 33%

A Purchased Software 43%

Source: Gartner/Rutgers Survey
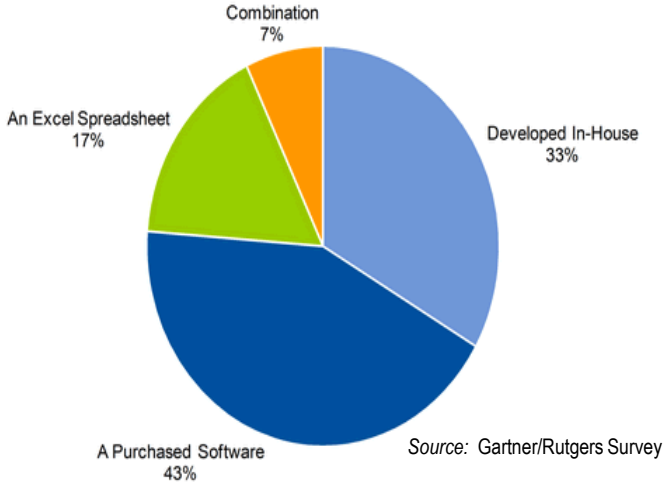
Align:
- Import baseline spend from Spend Analytics
- Establish Finance-approved spend baseline and savings calculation formulae on common, enterprise platform

Validate:
- Employ workflow to obtain validation from stakeholders
- Map savings projects to stakeholders and approvers

Analyze:
- Segregate savings by type, e.g. cost reduction vs. avoidance, and accounting period
- Identify savings by project/sourcing strategy
- Map savings impact to P&L, Balance Sheet, Cash Flow

Solution

iSave - Telecomunications

600+
Savings Projects Initiated

$40-50M
Annual Incremental Savings Realized To Date

000's of Users
40 Power Users Create Savings Projects and Collaborate with 000's of Stakeholders (600 Financial Analysts Alone)

25% Productivity Gain
Category Managers Save 2 Hours per Day from Data Gathering Tasks

Single Version of Savings Truth
- Standardized calculation/allocation formulae
- Full audit trail and version control
- Secure user access by BU/Div/Dept/Cat
- Fx conversion and multi-lingual UI
- Flexible/multiple savings types/definitions
- Approval workflow sign-off by budget owner and Finance
- Dashboard analytics and Financial Statement impact reporting: P&L/Budget/Balance Sheet,/Cash Flow

Savings Tracking for Non-Procurement
Platform applied to non-procurement savings projects (e.g. Reorg, ERP Consolidation, M&A), Budgeting/S&OP, Cash Flow Forecasting

2018 Themes: Unlocking the value of digital procurement

Building Stakeholder-centric Value

Challenge

How to increase and broaden the value delivered from procurement and ensure alignment with stakeholder needs?

- Measure procurement's value proposition beyond savings
- Increase internal stakeholder satisfaction
- Deliver omnichannel and personalized stakeholder experience
- Establish consistency and predictability through business insights

Accelerating Digital Transformation

Challenge

How to leverage advanced technology to enable value from the supply base and achieve performance improvement?

- Reimagine the procurement vision through digital transformation
- Advance digital roadmap through process and technology
- Readiness of talent for digital procurement transformation
- Demystify emerging technology through learning and adoption

Establishing a Collaborative Supplier Ecosystem

Challenge

How to the next level with your supply base for improving relationships and generating results?

- Establish a new supply-base paradigm based on supplier innovation
- Manage supply base focused on supplier stakeholder alignment
- Create business continuity associated with the supplier portfolio
- Develop effective strategies for addressing higher-risk suppliers

Challenge

How to capture complete and accurate data, while incorporating intelligence driven approaches to enable improved decision-making?

- Acquire and apply knowledge-based skills through advanced analytics
- Harness the dynamics of big data to create true procurement intelligence
- Enhance decisions and create agility through intelligent automation

Driving Business Intelligence as a Core Competency

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Digital transformation is poised to fundamentally change procurement… but few have the strategy or resources in place to make it work

Importance of each objective or issue

Procurement impact

Digital transformation will fundamentally change the way procurement services will be delivered over the next 3-5 years.
42% | **53%** → **95%**

Digital transformation will offer step-change performance (cost, quality, cycle-time, etc.) improvement of the procurement function.
40% | **53%** → **93%**

Procurement execution capability

Our procurement function has developed and is executing a digital transformation strategy.
48% | **18%** → **66%**

Our procurement digital transformation strategy is aligned with or integral to the enterprise digital transformation strategy.
45% | **17%** → **62%**

Our procurement function has the resources and competencies in place to execute the digital transformation strategy.
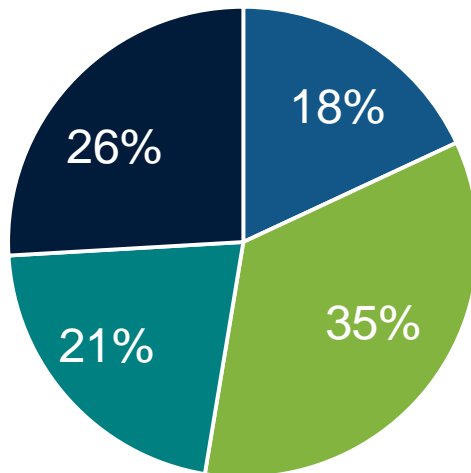**40%** | **6%** → **46%**

■ Agree   ■ Strongly Agree

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Source: 2018 Key Issues Study, The Hackett Group

How will it change procurement and the wider business?
The digital transformation landscape

INTENSIFYING COMPETITION

- Global competition
- Margin pressure
- Merger & acquisition

DISRUPTIVE INNOVATION

- Digital disruption
- Product and service innovation
- Business model innovation

BUSINESS EXPECTATIONS

- Cost leadership
- Delight customers
- 100% Perfect quality
- Agile operations
- Flawless compliance
- Enable innovation leadership
- Support decision-making excellence
- Extend service-partner value

CUSTOMER-CENTRIC

- Design thinking
- Digital customer engagement
- Customer journey mapping
- Segmentation
- Individualization
- Omnichannel

DIGITAL OPERATIONS

- Mobility
- Cloud
- Social technologies
- RPA
- Internet of things
- Block-chain
- Artificial Intelligence

DIGITAL INSIGHT

- Big data
- Analytics
- Predictive modeling
- Data integration
- Data visualization

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While a majority of procurement organizations have either completed, or are currently exploring / piloting digital transformation, a majority note only a moderate ability to support it

Digital Transformation projects over the past three years

Ability to support Digital Transformation (strategy, objectives and initiatives)

Pie chart 1: 18%, 35%, 21%, 26%

Legend: ■ No plans ■ Exploring ■ Piloting ■ Completed

Pie chart 2: 4%, 9%, 57%, 30%
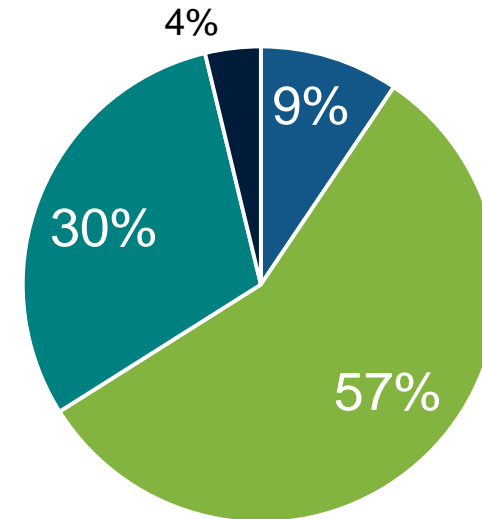
Legend: ■ Low ■ Moderate ■ High ■ Very high

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Source: 2018 Key Issues Study, The Hackett Group

Technology: Today's technological advances impact the full sourcing process

From

Automated Spend Analytics	E-sourcing tool	Contract Repository

To

Cognitive spend analytics	Cognitive sourcing	Cognitive Contract Lifecycle Mgmt

- Today spend analytics can in a highly automated way identify opportunities for defined parameters

- Future sourcing effort will be aligned on a risk and value basis, to provide best commercial value

- Higher value: Smart tools enhance insight and decision making

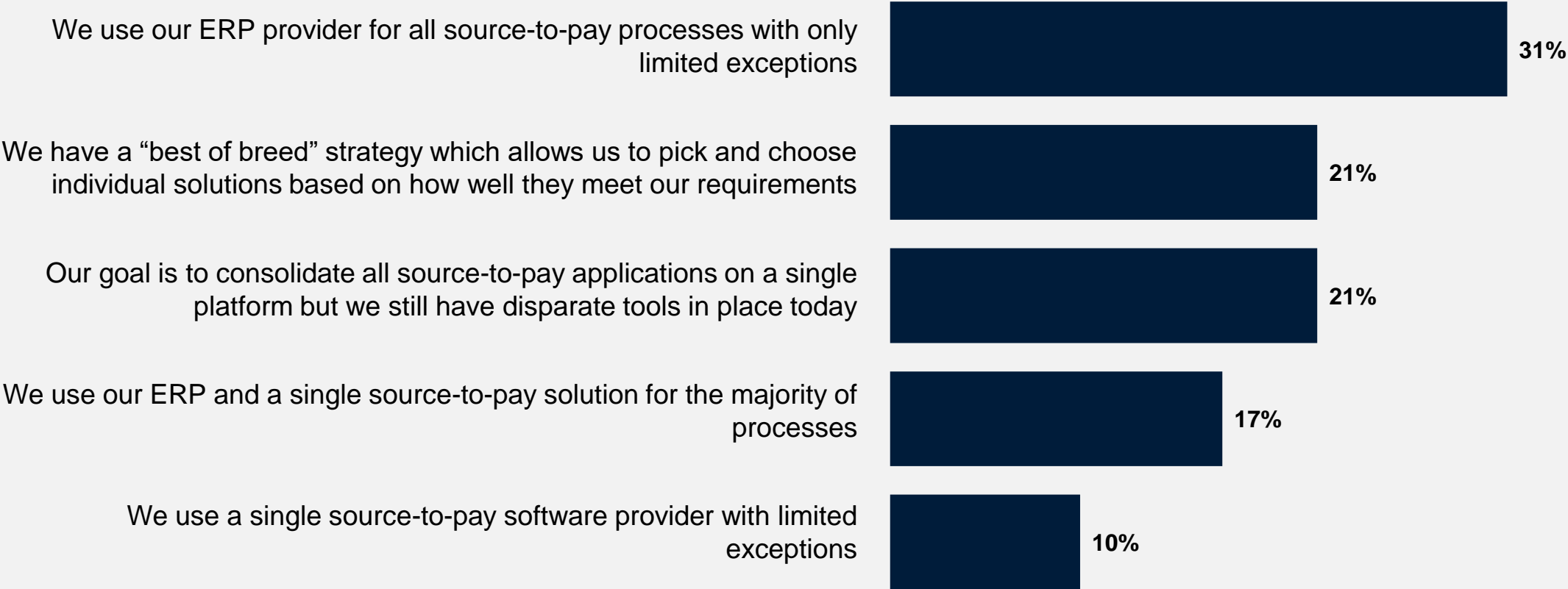- Lower value: smart tools execute, with teams handling exceptions and approving decisions

Profile Category	Develop Sourcing Strategy	Go-to-Market	Evaluate And Negotiate	Award And Transition	Manage Suppliers
Structure and mobilize sourcing team	Set sourcing objectives	Supplier assessment preparation	RFP Supplier Evaluation	Award Business	Manage Supplier Performance
Profile Demand	Develop sourcing strategy	Research/RFI to add bidding process	Finalize sourcing plan	Plan Supply Transition	
Profile Supply Market	Finalize targets & success criteria		Negotiation plan & execution	Develop Scorecards	
Develop cost model	Obtain stakeholder approval		Select suppliers	Execute Transition	
			Establish SRM Governance		

Legend:
- More Manual
- Blended
- More automated
- Major change

Digital Enhancement

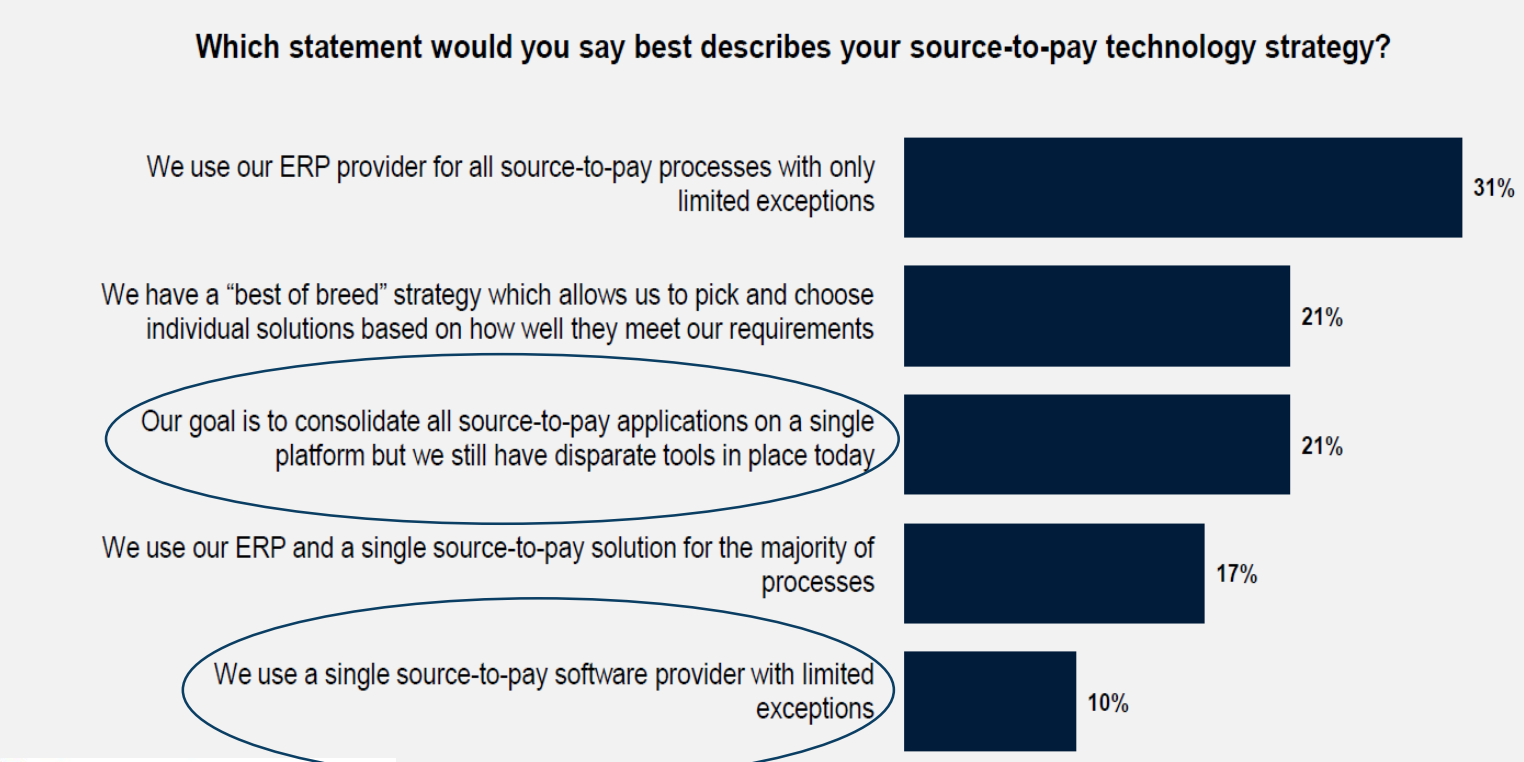|				
- Project team includes cognitive team member for support - Cognitive tools run, enhance, and enrich data based on previous learnings, then analyze, and recommend opportunities.	- Based on parameters, cognitive tool picks from standard set of digital sourcing approaches and toolsets. - Cognitive agent recommends strategy based on Q&A with team member.	- Cognitive tools apply standard approaches - Automated supplier e-discovery and e-sourcing tools. - Low value or 3 bid & buy fully automated. - Team effort only where commercial advantage	- Selection based on big data benchmarking or historical analysis.	- Cognitive tool selects based on Q&A from standard risk-based frameworks for contract, SLA/KPI performance, onboarding and transition plans. Amendments and execution based on risk / threshold.

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Source: The Hackett Group

21% plan to consolidate to a single source to pay platform… but only 10% have achieved that goal today

Which statement would you say best describes your source-to-pay technology strategy?

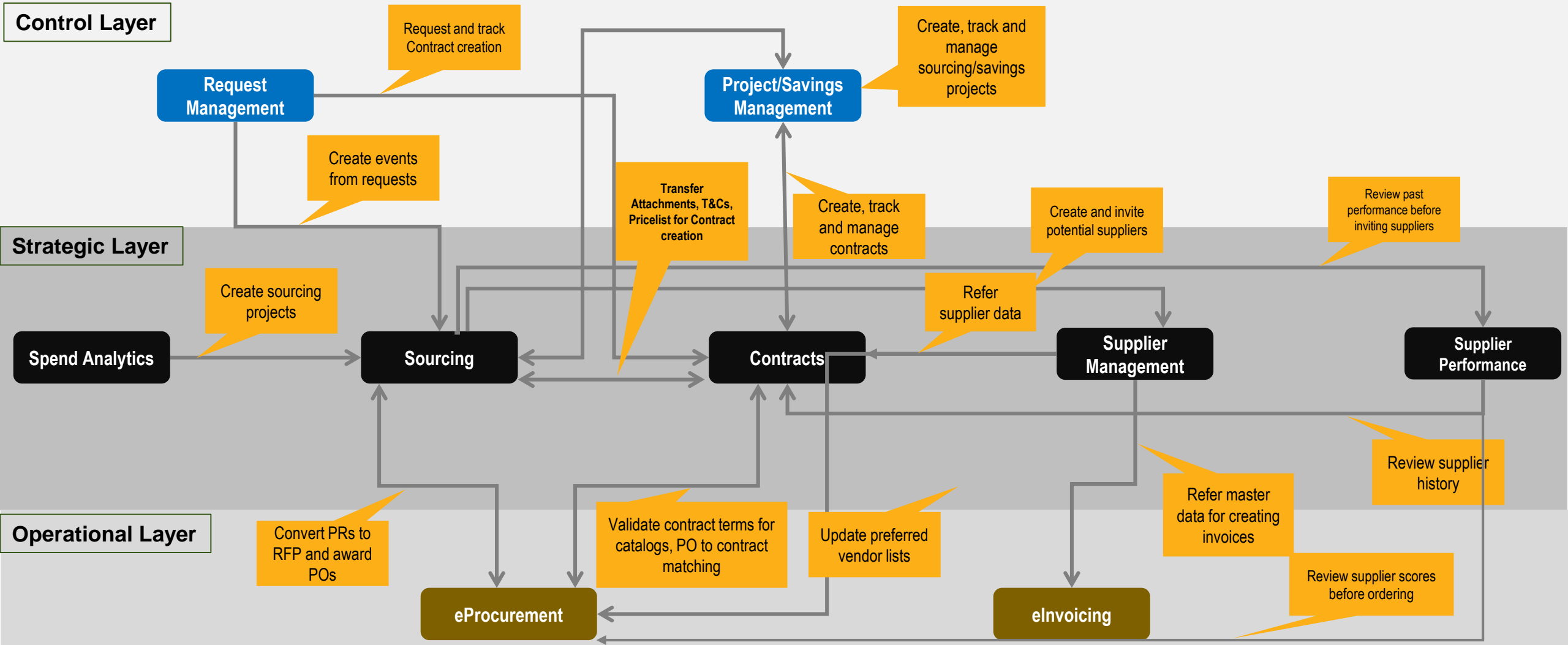| Statement	%
We use our ERP provider for all source-to-pay processes with only limited exceptions	31%
We have a "best of breed" strategy which allows us to pick and choose individual solutions based on how well they meet our requirements	21%
Our goal is to consolidate all source-to-pay applications on a single platform but we still have disparate tools in place today	21%
We use our ERP and a single source-to-pay solution for the majority of processes	17%
We use a single source-to-pay software provider with limited exceptions	10%

Many Organizations Plan to Deploy Single Platform S2P

21% plan to consolidate to a single source to pay platform… but only 10% have achieved that goal today

Which statement would you say best describes your source-to-pay technology strategy?

Statement	%
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- Which modules constitute a full S2P Suite?

- What are the use cases enabled through a single integrated S2P suite?

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Source: Key Issues Study, The Hackett Group, 2018

Source to Pay Suite: Spend Analysis | eSourcing | Contract Management | Supplier Management | Savings Management | Project Management | Request Management | Procure-to-Pay

Connecting the Dots….for a Single Version of S2P Truth

Control Layer

Request and track Contract creation

Create, track and manage sourcing/savings projects

Request Management

Project/Savings Management

Create events from requests

Transfer Attachments, T&Cs, Pricelist for Contract creation

Create, track and manage contracts

Create and invite potential suppliers

Review past performance before inviting suppliers

Strategic Layer

Create sourcing projects

Refer supplier data

Spend Analytics

Sourcing

Contracts

Supplier Management

Supplier Performance

Operational Layer

Convert PRs to RFP and award POs

Validate contract terms for catalogs, PO to contract matching

Update preferred vendor lists

Refer master data for creating invoices

Review supplier history

Review supplier scores before ordering

eProcurement

eInvoicing

When it comes to emerging technology in procurement, RPA, IOT and Cognitive / AI will see increases in adoption over the next 2-3 years
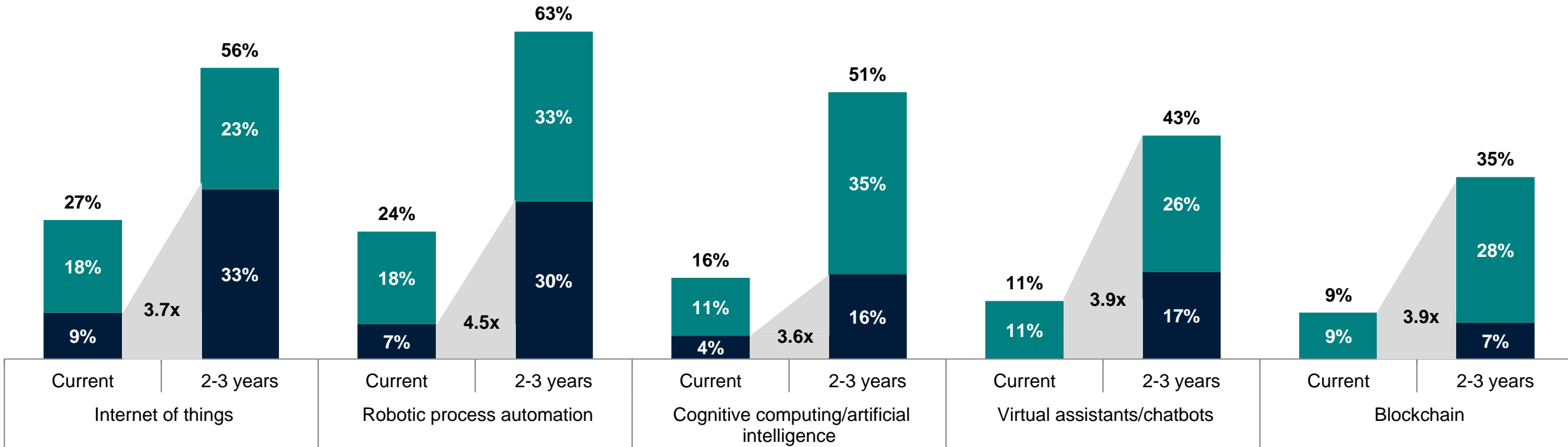
Emerging Technologies

■ Mainstream adoption ■ Limited adoption

Source: 2018 Key Issues Study, The Hackett Group

Human Capital: Thriving in the digitally enabled workforce will require these six skills

Data Analysis and Modeling

Process data and extract relevant information

Knowledge of analytical tools and methodologies

Translates analyses into actionable plans

Business Acumen

Understand key business drivers

Knowledge of factors, priorities and business demands

Identify problems and prioritize alternatives
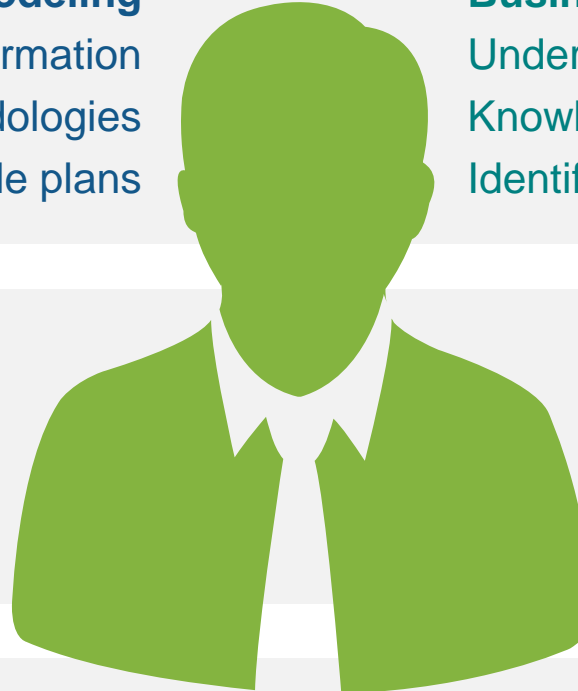
Strategic Mindset

Develop strategic frameworks and visions

Anticipates market changes

Address challenges and outline future direction

Relationship Management

Advanced interpersonal skills

Positively influence decisions

Open and approachable

Savings and Financial Analysis

Translate savings and value improvements to P&L impact

Develop tools to track, measure and forecast savings

Analyze supplier financial statements for detailed insights

Supply Risk Management Expertise

Assess and prioritize business and category-specific risks

Measure, prioritize, and address risk

Develop risk mitigation plans for high-priority drivers

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For more read: Six Critical Skills for Procurement to Succeed in a Digital World

Becoming Digitally Savvy Starts At The Top

Stakeholders First
Understand your customers' strategy and priorities for achieving their overall digital goals.

Pilot and Learn
Rapidly evaluate activities suitable for pilot to test and learn before deploying for scale – demonstrate wins!

Strategy and Roadmap
Revisit the strategy with a digital eye – define overall roadmap of initiatives, digital and native.

Education
Educate the organization on emerging digital technologies and their potential impact.

Continuous Alignment
Talk to stakeholders about your plans to ensure alignment and support. Be open, adjust and refine.

Know your Talent
Assess talent (be honest). Determine the digital talent you need for the new model.

QUESTIONS?

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