

4

NEW BUSINESS BENCHMARKS

FOR DIGITAL PROCUREMENT IN A
POST-COVID-19 WORLD!



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INTRODUCTION

When you think of procurement benchmarking, the impact of W. Edward Deming's quote - his actual quote **"It is wrong to suppose that if you can't measure it, you can't manage it - a costly myth"** immediately comes to mind.

At no other time were Deming's words more applicable to the procurement world than during the COVID-19 pandemic.

Experts predict that the pandemic will be with us for anywhere from 12 to 24 more months. It is safe to say that the early lessons we are learning since the outbreak became a global issue is that even though we didn't measure critical areas of performance, we have been hurt by not managing them.

What are these key areas, and why didn't we measure them in the past?

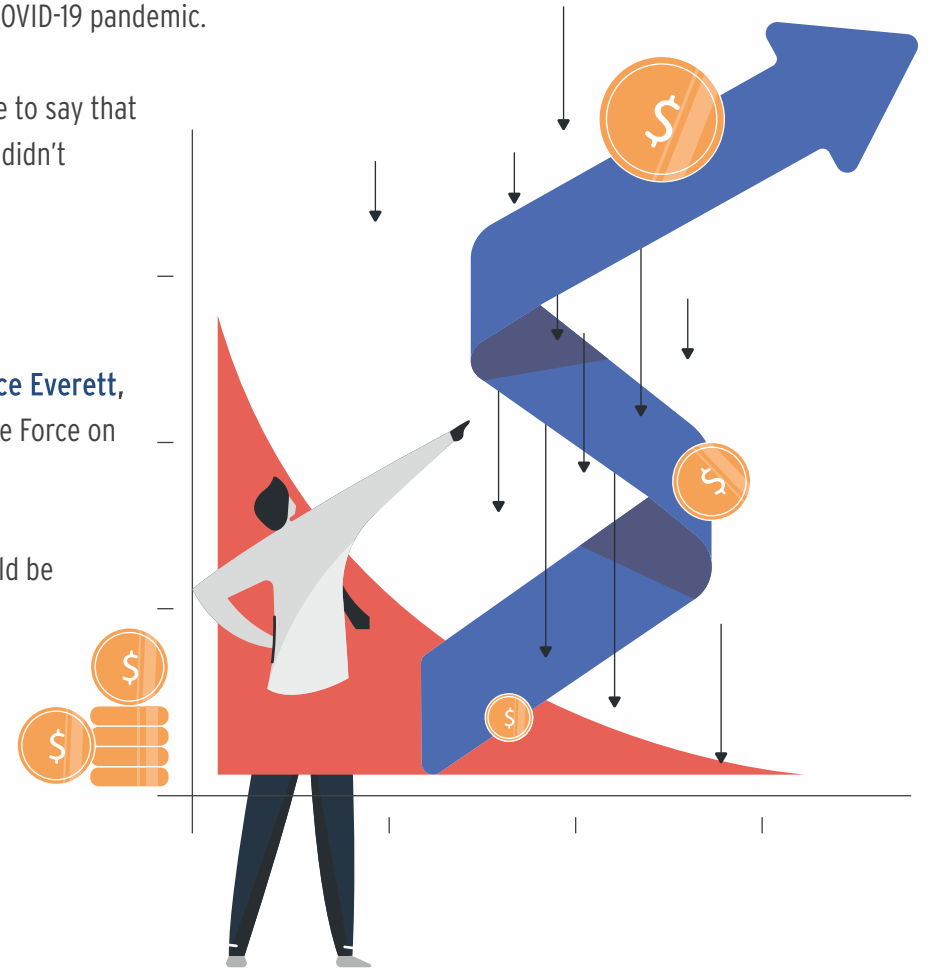
To help you find out, **Jon Hansen**, Editor and Lead Writer, Procurement Insights caught up with **Bruce Everett**, CEO APAC, IACCM, and **Paul Howard**, Chief Joint Defence Services (Commercial), New Zealand Defence Force on Zycus' webinar platform.

Together, they have outlined 4 key new business benchmarks that procurement professionals should be looking to master for better procurement management now and in the future.

These are:

- ❖ **Rebuilding The Supply Chain**
- ❖ **Managing Cyber Threats**
- ❖ **Financial Management**
- ❖ **Proactive Technology**

Read this exclusive eBook to discover their views on each of these benchmarks in detail.



MOVING FROM CRISIS MANAGEMENT TO PERMANENT POLICIES



Jon Hansen

Does it take a crisis for procurement to become innovative? Also, what is the stickiness once that crisis has passed?



Paul Howard

We did realize early on during the pandemic that we were unprepared. While we did have business continuity plans (BCPs) in place, most of those were centered around earthquakes, aimed at moving people across different offices and not geared to moving people out of office.

We also lacked decent back-up and contingency plans with any of our suppliers. However, quickly moving to a mode of remote working and swiftly communicating to our suppliers that we'll be relying heavily on them helped. While we as a defence force did not deploy in the first wave of lockdown, we did build up stocks for PPE kits, which were meant to be used by our forces to help the local police force with crowd control, if such a need arose.



Permanent practices and policies do not mean rigid policies and practices. Being agile and flexible will help ply existing practices and policies

- Bruce Everett





Jon Hansen

Bruce, from your experience how many organizations had a contingency plan? Were they ready for the pandemic?



Bruce Everett

In my opinion they were ready individually- as most had a business continuity plan- but they weren't ready collectively. The general thought was that the pandemic was going to impact them and a few of their neighbors but it wasn't going to affect the whole world.

So when everyone enacted their BCPs together- to address supply chain continuity, enable remote working, ensure cyber-security during the transition phase- it just smashed all the providers. For e.g. internet providers' bandwidth went for a toss as everyone was working remotely, the system suppliers bandwidth too took a hit as many organizations only had a fraction of their employee-base working remotely.

To summarize, contingency plans were there but the duration and breadth of the pandemic forced organizations to bring some of their off-shore services back into the country, or find an alternative source to ensure operations were kept running.

Also, I think we need to be intentional about what we carry from this crisis. There are a few things that we have learned such as giving visibility to risks, engaging with our suppliers in terms of working in a collaborative way. However, permanent policies and practices do not mean rigid policies and practices, and being agile and flexible will help ply existing permanent practices and policies.





Because we are so far away from anything here in New Zealand, that the relationships that we have with our suppliers is key, which also helped us heavily lean on our suppliers during this pandemic

- Paul Howard



BENCHMARK 1: REBUILDING THE SUPPLY CHAIN



Jon Hansen

As a result of the pandemic, to what extent will there be a change in an organization's supply chain?



Paul Howard

Our view so far has been that there's actually been not too much of a disruption to our supply chains. However, it also depends on factors such as geographic locations, and I believe that in some areas there will be a significant change.



Jon Hansen

Is that reflection of the fact that you had a good plan in place to begin with?



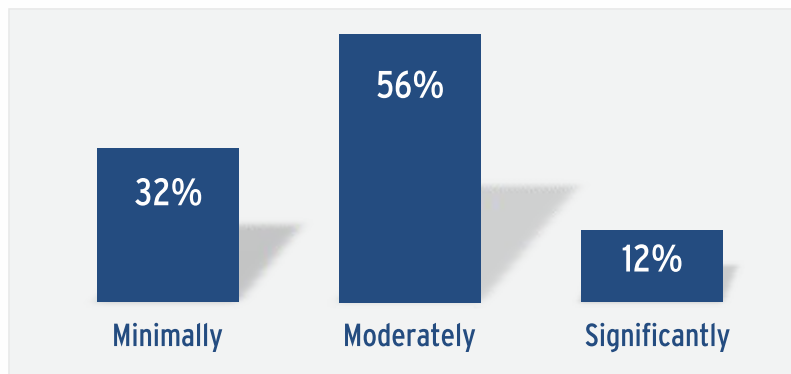
Paul Howard

Here in New Zealand we do understand the value of having strong supplier relationships, and because we are so far away from anything here that the relationship that you have with the supplier is key, as a result of which we were able to lean quite heavily on them. What also worked for us was the clear communication that we sent out to our suppliers regarding our expectations and also extended them the required support in these difficult times.

Bruce Everett

While the overall impact has been moderate, it also depends on what organizations are buying. If it's a big ticket size item and has long standing contracts with only a few suppliers then the impact can vary. Also, over the last two decades procurement has increasingly outsourced and off-shored, which has resulted in increased supply chain risks.





According to a recent Zycus survey, a majority of procurement professionals in ANZ believe that the supply chains will be moderately impacted by COVID-19



Jon Hansen

Do you believe that it was far easier for the public sector to adapt to the COVID-19 crisis as opposed to the private sector?



Bruce Everett

Public sector has led the way in this because they could afford to at the moment. There's a lot of money going into sustaining supply and economic stimulus. Whereas, the private sector has shareholders and therefore their response has been different. In a few years time when the tax income goes down, the Government will hope that the private sector steps up.



Paul Howard

Governments and public sector organizations could respond as one because there's no competition between them. As soon as the crisis hit, the Government could pull in experts from various different agencies to address supply chain issues and move as one, whereas private sector lacks that collaboration because of the competitive nature of supply chains.

Having said that, one of the things that we all are going to suffer from is the lack of people movement. In procurement, the high-level of expertise required doesn't necessarily reside in a tool but it resides in a person's head and with the current scenario, certain programs are being put on hold simply because we aren't able to move people across the globe.



Jon Hansen

Cash-flow management was obviously a key aspect, and while a majority of organizations reached out to their suppliers to extend terms, Government organizations took a completely opposite route and was one of the immediate areas that they addressed. Your comments Paul?



Paul Howard

Prior to the COVID-19 hitting the shores, the Government had decided to move to a regime to pay suppliers quicker, especially local suppliers so as to enable the economy and solve cash-flow problems. While the overall plan was to move to a 10-day payment period from the date of receipt of a valid invoice in June, we in the defence force were able to upgrade our systems in a week's time from lockdown to facilitate that. In parallel, we are also asking our prime suppliers to push this down in the supply chain so that there's less strain on the economy. The only thing that Governments haven't done yet is look for early payment discounts, which organizations in the private sector will probably do.



Jon Hansen

Will early payments and reduced payments period become common place in private sector organizations as well?



Bruce Everett

I do think so. One of the things that we have learned from the pandemic is that we are all in this together. Similar to what Paul talked about in the Government sector, private sector banks also came together and offered moratorium on housing and other loans to make it easier for people. Even utility organizations are working together to ensure that the economy is afloat and customers are happy. While it depends on every industry, we are definitely seeing collaboration between public and private sector organizations to help the customers and in turn the economy come out of this better.

In addition to collaboration we also need transparency right through the supply chain. We need to know if sub-contractors of our suppliers are abiding to laws such as the modern slavery act. Transparency right through the supply chain will also help organizations better manage risks.

BENCHMARK 2: MANAGING CYBER THREATS



Jon Hansen

As we move towards cloud computing and remote working, who do you think should be responsible for identifying and proactively managing risk in the supply chain?

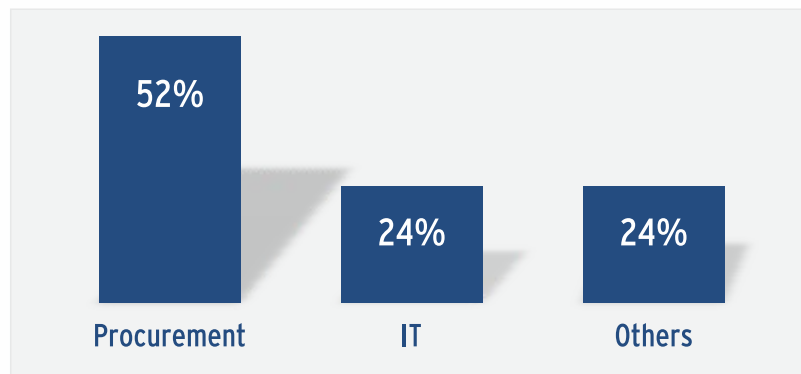


Paul Howard

I believe it should be equally shared between various departments, especially the likes of procurement, and I.T. We as an organization have regular meetings with the Chief Information Security Officer, Commander Logistics, and our supply chain people as we look at supply chain risk in its entirety.

Also, in the last few months there's been a rise in the number of cyber attacks on our suppliers, which has got us thinking about how are our suppliers managing such attacks. Do they have enough checks in place to ensure that they are able to safeguard our data, and also are they transparent enough to let us know which areas are being attacked?

While we do not have any concrete answers to the above questions, it has certainly got us thinking more in terms of securing ourselves from such cyber attacks.



According to a recent Zycus survey, a majority of respondents across ANZ believe that Procurement should be responsible for managing risks in the supply chain



56% of all breaches happen through a 3rd party vendor. 30% of organizations do not have a good grasp on how their partners manage their data, and 25% organizations think that it is in fact the supplier's responsibility to manage risks

- Supply Chain Digital





Jon Hansen

A study discovered that 56% of all breaches happen through a 3rd party partner, and that almost 30% of all organizations do not have a good grasp on how their partners manage their data, while 25% do not think it is their responsibility but rather their supplier's responsibility to manage data. Yet, do you believe that procurement should take the lead on cyber security?



Bruce Everett

Procurement is definitely responsible for 3rd party risk management but not solely. Suppliers need to manage the risks in collaboration with the procurement teams as well.

This is where an automated solution like Zycus contract management can help. It isn't about believing that the suppliers are managing risks, it's actually knowing. Having the evidence - analyzing their service level reporting, their vulnerability testing- to substantiate that belief and that's where automation, and Artificial Intelligence can help us.



BENCHMARK 3: FINANCIAL MANAGEMENT



Paying suppliers early shouldn't just be a tactical thing, rather it should be a core strategic thing to do

- Paul Howard



Jon Hansen

How has the pandemic impacted supplier payment terms?



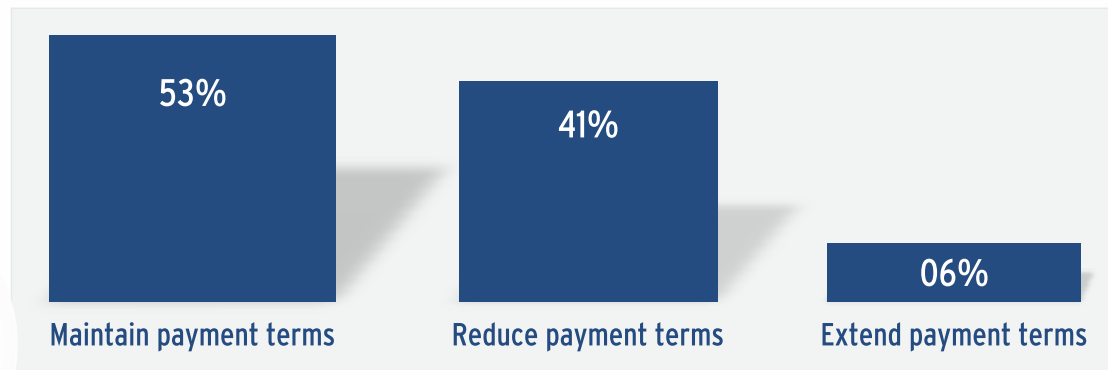
Bruce Everett

It primarily depends on which segment and industry we are talking about. Some organizations have extended payment terms for non-critical items, whereas others, depending on the need and viability have reduced or maintained payment terms. It isn't a one size fits all strategy w.r.t payments, it is rather based on how critical a supplier is to the business and also how vulnerable that supplier is.



Paul Howard

Public sector organizations can pay suppliers early, which is great from their point of view. However, in the private sector, organizations need to strike a balance between paying suppliers early and managing their own cashflows, which can be adversely affected if they aren't able to convince their suppliers to pay early as well.



According to a recent Zycus survey, a majority of organizations across ANZ have maintained their existing payment terms with their suppliers



Jon Hansen

What evidence is there that any element of the Australian public sector have a sophisticated understanding of supply chain management, which is not regulated by procurement rules? Where can we identify leaders? It does take leadership in either public or private sector procurement to be able to understand and take a step such as early payments, isn't it?



Bruce Everett

Obviously it is multifaceted. There are various associations such as the APCC, IACCM, PASA etc. who are helping to bring in good practices and inspiring leadership among procurement professionals.



Jon Hansen

Are reduced payment terms becoming scalable? You need to have the right people at the right place and time to affect these changes and do you foresee it as scalable beyond the current crisis?



Paul Howard

I certainly hope so. I have observed in the past that people look at such measures as tactical, whereas this is certainly a core strategic thing to do. If we have small players and suppliers going down then it certainly has an impact on the overall economy, and bigger organizations need to think if they were responsible for making a small business go under.





Jon Hansen

Isn't having a loyal supplier base and paying them early cost effective than losing suppliers due to longer payment terms and building up a new supply chain?



Bruce Everett

We need small and medium enterprises for their innovative spirit and since 2009 member groups such as CIPS, and IACCM with more than 70,000 members across the global have recognized the fact that it is right to pay smaller players early so that they can sustain in the market, which has a ripple effect on the overall economy as well. There's a definite shift in the thinking and organizations are now focused on maintaining relationships with small players.



Jon Hansen

Will this have a long term stickiness and not be limited to only a stop gap action? What do you feel?



Paul Howard

Yes I do think so. A general sense across the globe is that the relationship with suppliers is really important, especially to make supply chains resilient.



BENCHMARK 4: PROACTIVE TECHNOLOGY



Jon Hansen

Deloitte, in a survey in October 2019 indicated that a majority of CPOs expressed dissatisfaction with their digital transformation strategies. Does this surprise you? How do we leverage technology more effectively to be able to realize the promise of the digital era?



Bruce Everett

Not surprised. Transformation is difficult. It is the execution part and not the strategy part where we've been let down. COVID-19 is in fact driving more digital transformation programs than most CXOs as it is encouraging us to work remotely, automate our processes, and look at what's important and what's not. Execution has been a consequence of the crisis, and not because of a strategy.



Jon Hansen

Has COVID-19 sharpened our focus on how to leverage the technology at our disposal?



Paul Howard

Change management is a constant theme that comes across every time there's talk of digital transformation. What people forget is that these are not I.T projects but are change projects. The biggest learning from my experience of driving eProcurement adoption in the early years is that if you did your change management badly then you won't be satisfied with your results. The other thing that I feel is that a lot of the technologies in the procurement and supply space are old, and have only got more bells and whistles on them. The need of the hour is for procurement to have agile tools and apps to be able to thrive in the modern digital world.



COVID-19 is in fact driving more digital transformation programs than most CXOs, as it is encouraging us to work remotely, automate our processes, and look at what's important and what's not

Bruce Everett



IN CONCLUSION

Tying this all together, our response to COVID-19 and the stickiness beyond the pandemic will be shaped by what policies, processes we maintain, and the leadership to have the courage to be able to move forward with these things in both public and private sector procurement.

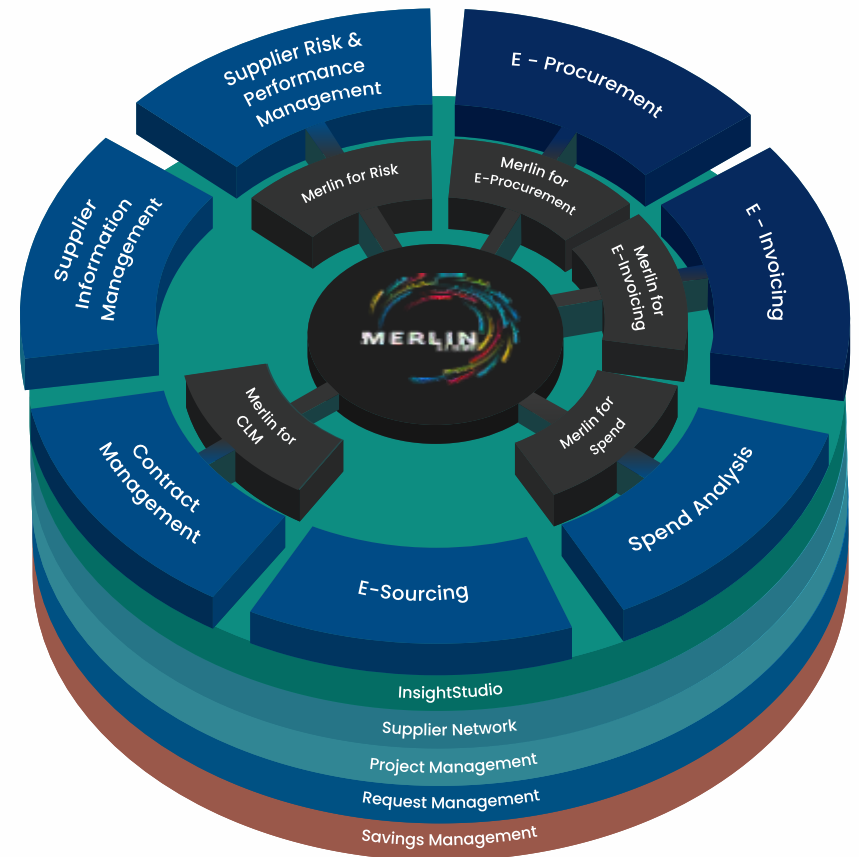




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