



White Paper

Change Management in Procurement Outsourcing



Executive Summary

Several thought leaders and industry practitioners have written about, and discussed at length, the significance of instituting a change management process that requires implementing outsourcing solutions. The purpose of this white paper is to showcase the change management process, challenges and solution approach in a procurement outsourcing scenario.

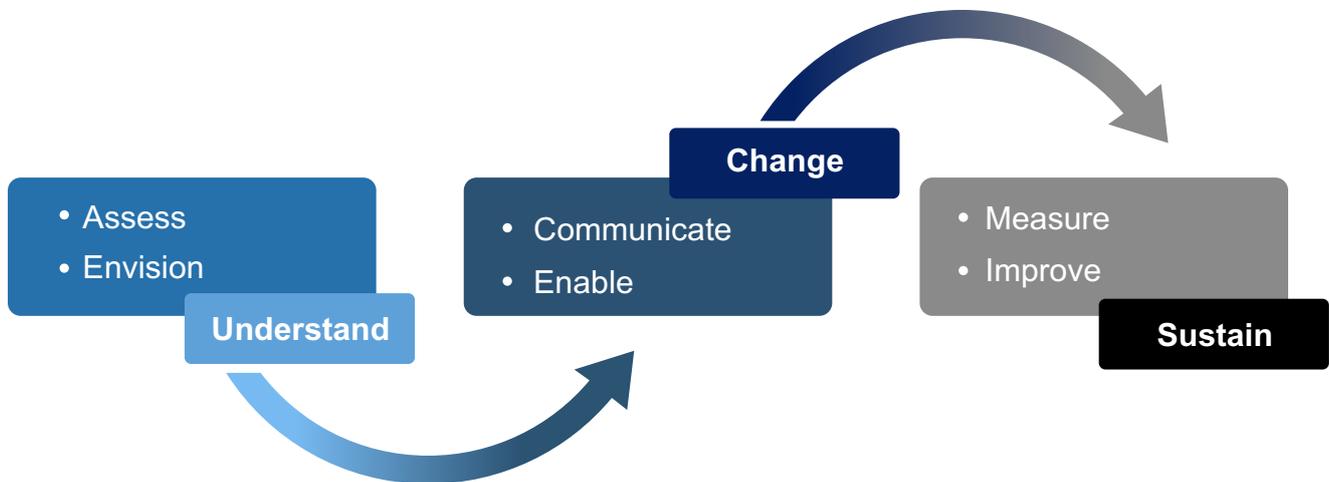
The GEP experience reveals a clear disparity between individual and organizational goals, while implementing procurement outsourcing solutions. Benefits can be accrued only from a holistic change management solution, which strikes a balance between the two goals. Business cases rely on changes and, more often than not, they tend to underestimate the true potential of change management. This is significant for the organization, as well as the individual, and if not addressed proactively, it may lead to disruptions, resistance and, possibly, to project failure.

The procurement function creates value through improvement in effectiveness and efficiency. The key levers influencing value creation are spend under management, percentage of savings over the spend addressed, the alignment of procurement functions with business functions, robustness of risk management initiatives, procurement's operating costs, etc.

Procurement outsourcing positively impacts each of these value levers and brings realizable benefits to the organization. The changes involved in adding a procurement outsourcing partner can be multifarious and need to be handled with a meticulous change management initiative. The most frequent change agents include partnering seamlessly with the outsourcing team, processing realignment, adopting technology, signing up for stretched targets, and transforming existing processes.

To tackle these change agents, we propose a six-step framework that is integral to an effective change management program.

Figure 1: Change Management Process



I. Why Change Management?

Procurement as a function is playing a more influential and strategic role within enterprises while creating a strong impact on the business function's strategies. This transformation has been brought upon by an adverse business environment, operational and supply chain maturity, increased focus on return on investment and developing sustainable business practices. Procurement leaders today have a much wider influence and reach.

Procurement outsourcing has helped in the metamorphosis of the procurement function by creating greater value compared to the traditional practice. Outsourcing brings flexibility and uses a shared resource pool to meet procurement needs of business functions across multiple locations and divisions. Setting up onsite teams of category experts in procurement functions and off-shoring the tactical procurement activities to low-cost countries have been a sought-after way to gain greater effectiveness and efficiencies.

Procurement leaders have realized the necessity to innovate, and the corresponding benefits that procurement outsourcing can bring forth.

However, the process of outsourcing is associated with several changes to the existing procurement practice and companies expect greater results from each member of procurement. Typically buyers can deliver anywhere from 1 per cent to 4 per cent additional savings as a result of spend analysis, market intelligence, supplier performance management, contract management and other sourcing support related services.

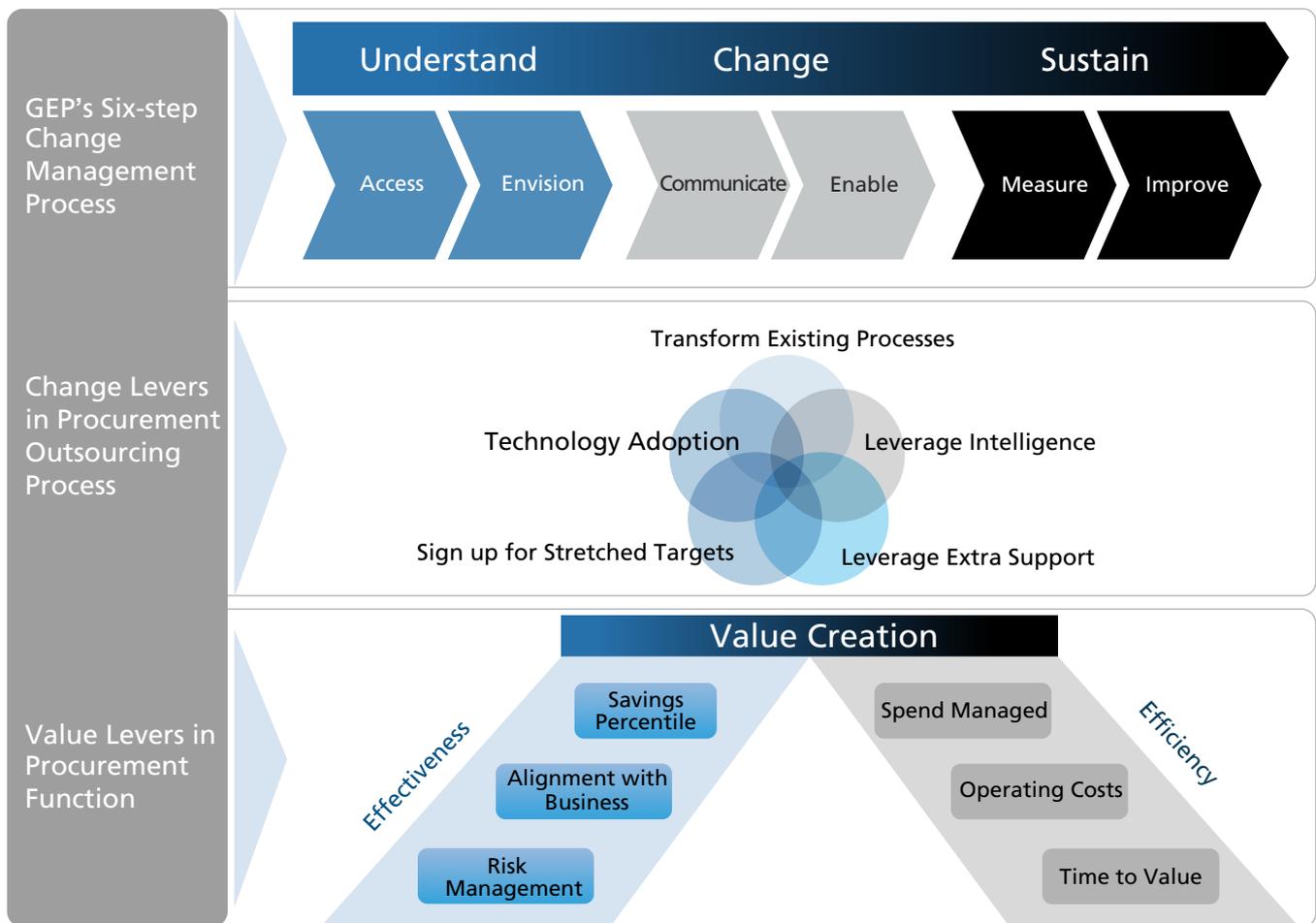
During this change process, when organizational and individual goals don't match, the outsourcing model fails completely. In several cases, we have experienced that the change management programs are heavily process driven and fail to address the emotional side of change. Change management in procurement outsourcing needs to address the "people side" - managing expectations, obtaining participation and involvement from them, and guiding them in making changes to their habits. Hence, there is a growing need for a robust model to manage the change and help realize benefits from the procurement outsourcing initiative.

II. Change Management Process

A clear understanding of key value levers is essential to fully appreciate the need for the change management process in procurement outsourcing. The change management levers connect varying degrees to realize

the benefit potential. At a high level, a successful procurement outsourcing model improves effectiveness and efficiency of the procurement function. We have identified six key value levers that are vital for a successful procurement outsourcing model.

Figure 2: Change Management Program



III. Value Levers of Procurement Outsourcing

Table 1: Value Creation Through Procurement Outsourcing

Value Creation	
Effectiveness	Efficiency
Savings Percentile	Spend Managed
Alignment with Business	Operating Costs
Risk Management	Time to Value

Procurement teams constantly strive for higher savings. With procurement outsourcing, special functional teams help achieve this goal by bringing necessary skill-sets, best-in-class sourcing tools and industry best practices and benchmarking.

Procurement needs to be closely aligned with the business functions for planning and execution. Outsourcing frees strategic resources, enabling them to focus on strategic issues, explore potential opportunities, secure buy-ins and participate in new initiatives.

Risk management in procurement is a key focus area, where procurement proactively identifies and works toward various risks (supply, market and forex) and compliance. With access to market intelligence and support, procurement can have better insights into various risk parameters.

Due to availability of additional time from outsourcing activity, procurement can improve its selling skills to get greater spend coverage. The team now has access to category-specific intelligence as well as skilled resources to identify the best-fit strategies for a variety of spend groups. These resources also help in tail-spend management by identifying categories with potential savings opportunities. Implementation of

rigorous processes, such as contract management and addressing spend through catalogs, reduces maverick spend and helps facilitate monitoring of spend.

Procurement outsourcing brings flexibility and a shared resource pool that can service multiple divisions across several geographic locations. Outsourcing leverages technology to automate processes, improve productivity and increase responsiveness. A blended onshore and offshore team further reduces operating cost and improves ROI.

Procurement has come to the forefront, primarily because it has increased the time to value. Procurement outsourcing specifically helps in this process because it has a better understanding of the various risks in the process. Outsourcing also helps in standardizing SLAs, thus, adding a defined time perspective to the whole procurement process. Finally, distributed project management and workflow management help teams acquire necessary skills and reduce the overall time to value cycle.

Having understood the various levers for value creation from a procurement outsourcing perspective, it is necessary to understand the changes required to make the change happen and unlock potential value.

IV. Change Levers

From our experience, we have seen that in most of such initiatives the changes required are:

- Adopting Technology
- Leveraging Intelligence
- Leveraging Extra Support
- Signing up for Stretched Targets
- Transforming Existing Processes

Table 1 shows the impact of each of these change drivers on the value levers discussed in Section III. Let us understand how these changes impact the value levers.

1. Adopting Technology

Technology is at the forefront in a procurement outsourcing model. At one extreme is the increased utilization of ERP and on the other extreme are custom solutions such as catalogs, e-sourcing modules (eRFx, e-spend, e-contracts, e-auctions, etc.) Technology solutions automate processes, thus, reducing procurement lead-times and generate vast amount of data necessary for running analytics and supporting advance decision support systems.

Custom solutions like catalogs ensure contract compliance, supplier scorecard measurement and tracking supplier risks, while RFx and contract templates deliver great efficiencies.

Table 2: Impact of Changes Required in a Procurement Outsourcing Initiative on Value Levers

Value Levers → Changes required ↓	Savings Percentile	Alignment with Business	Risk Management	Spend Managed	Operating Costs	Time to Value
Adopting technology			M	M	H	H
Leveraging intelligence	H	M	H	M		
Leveraging extra support	L	H	M	H	H	M
Sign up for stretched targets	H			M		
Transform existing processes	M	M	H	L	M	H

■ High ■ Medium ■ Low

2. Leveraging Intelligence

Experts within the outsourcing team bring with them a repertoire of knowledge-based expertise, such as market intelligence reports, industry best practices, category-specific expertise, sourcing strategies, and savings benchmarks. These reports are integral for developing category-specific procurement strategies and managing risks and self-assessment of a procurement program. They also help procurement in aligning itself with the business functions and proactively identifying other opportunities.

3. Leveraging Extra Support

The procurement outsourcing team takes the tactical activities out of the equation, leaving the in-house team to focus on high-impact areas. The extra support also comes in the form of a shared resource pool, which helps in streamlining procurement processes, thus significantly reducing operating cost.

4. Signing up for Stretched Targets

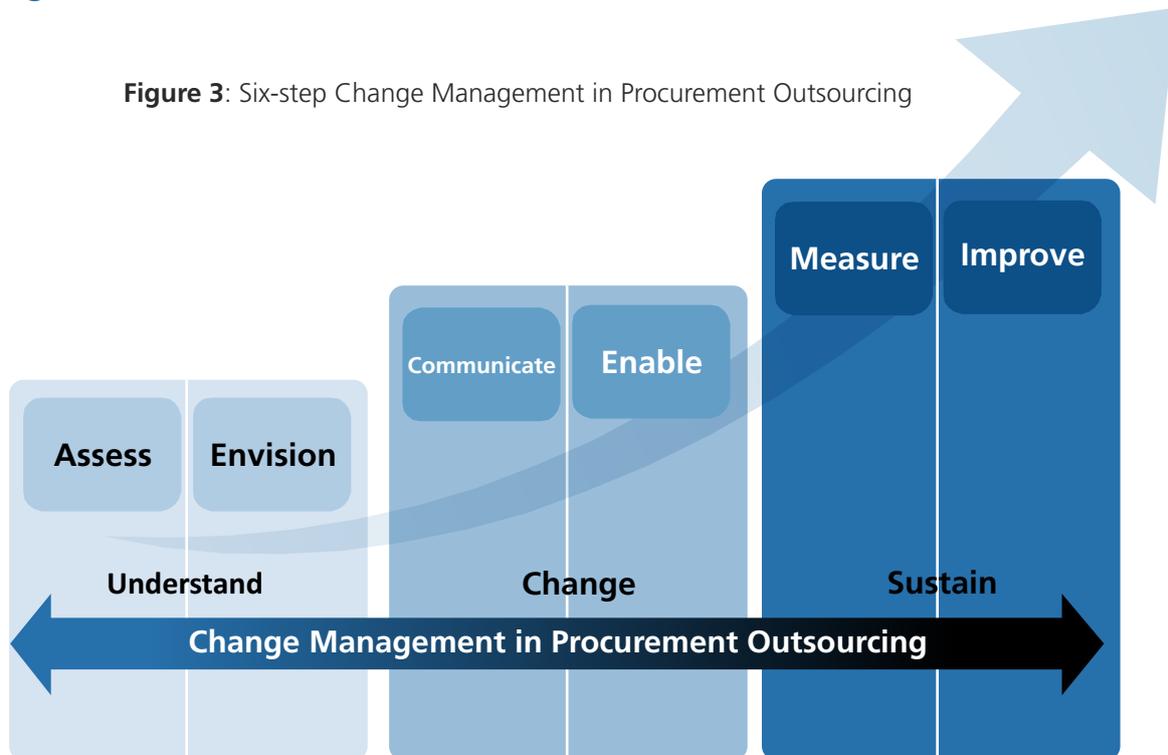
The procurement team can institute and actively monitor corporate social responsibility initiatives. Again, the procurement team can definitely achieve an additional 1 per cent to 4 per cent savings from the outsourcing process.

5. Transforming Existing Processes

With the help of the outsourcing team, the time required to turnaround a request shortens. The team becomes more proactive to the requests from business, substantially shortening the overall cycle to create value. All the risks associated with the procurement process get addressed by the new processes, as procurement can make much more informed decisions. This, in turn, helps in aligning procurement goals with those of the business.

V. Change Process

Figure 3: Six-step Change Management in Procurement Outsourcing



To ensure the success of a change initiative, all the five change levers listed in Section IV should be adequately addressed. Based on our experience, we propose a unique six-step Change Management Model (Figure 3), which provides a holistic solution to manage the change. Let us look into the various stages of this model.

1. Understand

Stage 1: Assess

Figure 3 shows the steps in the change management process for procurement outsourcing. The change management initiative begins by understanding the current procurement practices within the organization. This is done with the help of cost and value benefits.

This stage requires a bottom-up approach, where a mutually exclusive set of all as-is processes needs to be prepared. This shows the gaps within the system that need to be assessed and defined. Then, a sense of buy-in and urgency needs to be inculcated in the organization, especially the top management team to fulfill the gaps.

Stage 2: Envision

To get the buy-in from all the team members, procurement leaders should set a goal that can motivate the entire team. People should be able to feel that they are a part of something that is bigger than them as individuals and, thus, inculcate a sense of urgency.

This vision should be holistic, encompassing cost savings and other value benefits, softer aspects such as supplier and customer relationship management and implementing sustainable procurement practices. This vision must be simple in delivering its message and should also identify the goals from its implementation.

After the program level goals are established, based on the assessment made, an implementation plan needs to be developed. This should include all possible sub-functions with realistic timelines assigned to each. Then the roadmap between the as-is processes in Stage 1 and to-be goals should be developed. Based on the risks, timelines, and the subsequent benefits, the priorities can be set and the milestones can be fine-tuned.

2. Change

Stage 3: Communicate

The next step is the implementation. The implementation of the change is a top-down approach where the senior leadership in procurement gets the necessary buy-in from all the team members.

For implementation, a strong change management team should be created which can steer this change initiative safely through. The team members should not only have the formal power to remove any hindrances in the project, but also should have strong leadership, effective communication and project management skills. The team should be backed by a senior C-level executive. These people must be competent and credible with strong formal and informal powers.

Once the team is in place, the process of change communication should begin, which will be initially done by the leadership and then by the change management team. The communication must be plentiful because if the communication space is not filled with deliberate, optimistic and honest communication, then it will be filled by rumors, gossip and speculation from one set of employees. The communication must also be meaningful and situation-relevant. During the initial phase, the employees are only interested in communication that relates to their specific personal situation. In the case of sourcing support, the key benefit for the buyers is that they can now focus on more strategic activities, drive greater value and play a bigger role within the function. The change management team should train the managers in the department before sending out their communications to the team members so the alignment with organizational goals is maintained.

Conducting training sessions, demos, getting feedback from buyers on the sourcing initiatives and incorporating their feedback and focusing on creating a sustainable procurement outsourcing practice should be used in communication. Frequent communication between the procurement team and the outsourcing team should be ensured so that each team benefits from the other. This can be done using video conferences or getting the outsourcing team to travel

to the client location. This, in turn, should be used to set stretched targets as both the teams will be in constant touch.

Stage 4: Enable

The communication process sets the stage for implementation. The employees need to be enabled to make the changes. This can be done by removing the obstacles, changing structures and processes so they are aligned with the new vision and supporting the employees as much as possible. The change management team plays a large role here.

On the softer side of enabling, employees should be more involved with the process to minimize the impact of natural resistance. This can be done in areas such as design of work and work routines, processes, changes in performance measurement, transition management and communication. When involved, people feel a greater ownership of the change and hence feel more willing to embrace it. Employees should be continuously recognized and rewarded for making changes happen.

Depending upon the type and size of procurement outsourcing, it may take more than a year to implement change. During this period, it is common for employees and managers to lose sight of the purpose of the project and direction. This can be countered by setting short-term goals and celebrating multiple short-term wins. Early savings generation and key success stories related to specific categories or regions should be recognized and communicated to the larger procurement teams to generate momentum.

On the business side, the procurement team should use the additional intelligence, such as industry reports, supplier scorecards, top players within the industry, and best practices to set realistic targets. Pilot transformation programs should be used to begin. The success of the pilot programs will help get more buy-in from the teams and also help in correcting the process by reviewing the results.

3. Sustain

Stage 5: Measure

Various performance metrics can be laid down by the change management team. A few of them can be savings per FTE, percentage of maverick spend – purchases not from contracted suppliers or cataloged suppliers, usage of procurement tools, time per FTE, spend managed, number of strategic initiatives taken up, addressing concerns of business groups, or milestones reached. These will help in assessing the program's effectiveness and refining future goals.

Joint performance metrics should be defined for both the procurement team as well as the outsourcing team. A few of these metrics can be:

- Percentage of activity outsourced vs. additional spend addressed by the procurement team
- Market intelligence leveraged vs. additional savings attained
- Reduction in time to value vs. usage of technology

In addition to the value figures, there should also be metrics considering the motivation levels and employees' willingness to take up higher targets.

Stage 6: Improve

Making improvement a part of an organization's philosophy can be done in several ways:

- Spread pilot success stories within the organization. Irrespective of the size and impact of the accomplishment, these should be well-publicized. The stories should be shared on the internal portals, during team meetings, conferences, etc. They should also be incorporated in the corporate training material as best practices by the company.
- Feedback process should be encouraged across business, outsourcing and procurement teams. The feedback should be constantly evaluated and the necessary changes should be a part of the continuous improvement program.

- The change management team should constantly focus on keeping the targets stretched by involving procurement managers in the process and making them more responsible for the results. This way, they will be constantly working towards improving the current process and achieving greater results.

VI. Conclusion

In outsourcing, some key processes of sourcing and procurement functions require changes. Employees will have to do their jobs in a slightly different way and they may have to interact with foreign employees from a partner company. This change needs to be taken seriously by the management and communication around this change throughout the transition process is critical. The aim of the change management process is ultimately to ensure that procurement outsourcing is implemented as expected with no disruptions to the service; to maintain or to increase employee engagement and productivity; and to maintain a good working relationship between the outsourced department and the rest of the organization to maximize savings and value for the client organization.

Based on our experience, we propose a six-step model for a smooth change management program in procurement outsourcing.

Summary

Understand

Stage 1 - Assess: The whole change management initiative begins by understanding the current procurement practices within the organization. To lay a roadmap for the change, the gap between the current and the proposed model should be evaluated. Essentially, this stage requires a bottom-up approach to be followed, where the mapping between the as-is and to-be processes is made.

Stage 2 - Envision: A powerful vision has the ability to motivate and inspire people to move. People must want to change, and this inner motivation can come by following a leader and his or her vision. It is the role of the senior management team to create a strong vision and ensure complete participation from procurement.

Change

Stage 3 - Communicate: This is a top-down approach where right communication needs to go from the senior management to the procurement team members. For this purpose, a well-qualified change management team should be established, which should be competent and credible with strong powers.

Stage 4 - Enable: Changing processes to align them to the new vision, getting rid of obstacles and supporting the employees as much as possible is required. Resistance management is an important element in managing change. So, empowering employees and giving them a sense of involvement with the process is essential.

Sustain

Stage 5 - Measure: Various performance metrics can be laid down by the change management and measured continuously at set intervals. These will help to identify how well the outsourcing initiative has been addressed and how the future targets can be set. All the metrics should consider both the teams - procurement team as well as the outsourcing team. Apart from the value benefits, there should also be metrics considering the motivation levels and employees' willingness to take up higher targets.

Stage 6 - Improve: To make continuous improvement a part of the organization, the new behavior needs to be reinforced within the organization. This is done in two ways -- firstly, by spreading early success stories within the organization, and secondly, by creating and sharing the successes in a best practices database.



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