



Procurement GPS: Strategies to Navigate the Technology Landscape

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Procurement GPS: Strategies to Navigate the Technology Landscape

Lack of automation across core process areas leaves procurement organizations susceptible to the failures of the past and constrains each group's ability to gain and maintain credibility and optimize operations and performance. Technology alone will not win the day, but it is frequently the difference-maker that gets procurement performance to the next level. While innovation in the market continues to make the technologies more accessible, affordable, and easier to deploy, the procurement solutions market remains competitive and nuanced. Before a procurement team begins its automation/transformation journey, it should be armed with the latest research and insights on the technology market. It should also know where it wants to go and have a map to get there. This report will provide readers with the guidance they need to navigate the solution landscape and make the best technology choices for their teams.

The Importance of Technology

Chief Procurement Officers (“CPOs”) and procurement teams across the globe are riding a wave of innovation that has transformed business processes and operations and has forever changed the face of the modern procurement department. Innovation has lifted many procurement teams out of the past, where manual, paper-based processes were the norm, and has delivered them to the future of procurement, where automated processes and digital technologies have all but reinvented the profession. The digital era, where tactical, transactional business processes can now be automated, repeatable, and scalable, enables the modern procurement organization to tackle strategic planning, relationship building, and collaboration, and to become agile vis-à-vis constant and sudden global change. It enables them to collect reams of business data, convert it to intelligence, gain visibility into operations, performance, and risk, and enhance their performance. In short, cutting-edge procurement technologies are guiding CPOs and procurement teams on their own paths to reach their full potential and deliver maximum value to the enterprise.

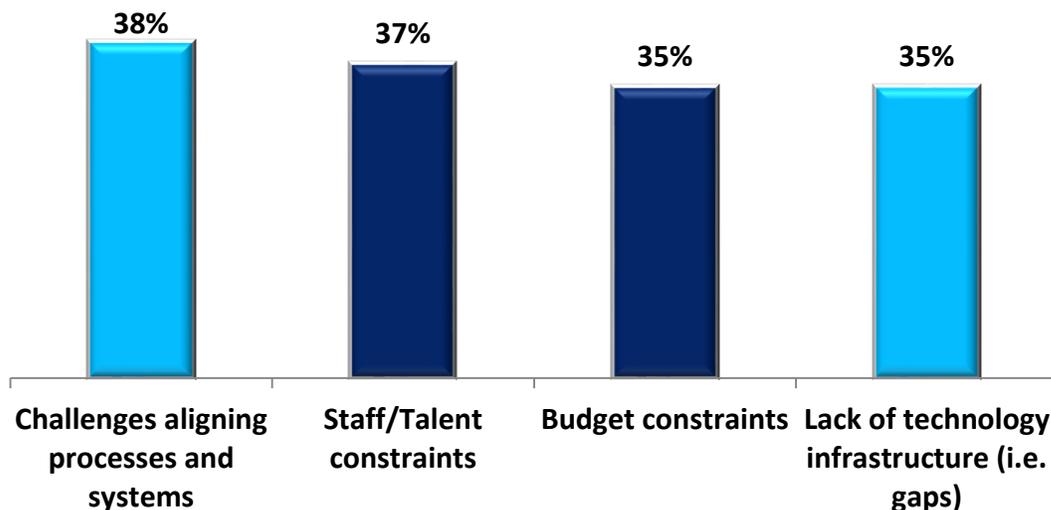


For these reasons, 53% of CPOs and procurement leaders recently surveyed by Ardent Partners regard new or improved technologies as top drivers for future success. Automated, digital procurement technologies enable staff-constrained procurement teams to do more with the same or fewer hands, thereby increasing their speed, efficiency, and productivity and enabling them to deliver more value to the enterprise. Cloud-based technologies that are offered “as-a-Service” provide teams of all sizes with robust capabilities but without the associated overhead costs of on-premise technology infrastructures and IT departments. And mobile-first or mobile-enabled procurement applications enable CPOs and their teams to be agile, and to operate virtually anywhere at any time and respond to emerging or routine events as needed, improving response rates and turnaround times.

But, despite the potential that modern procurement technologies hold for the average procurement team, there are several things to consider before diving headfirst into the digital wave. For starters, 90% of CPOs and procurement leaders believe that their teams can and should be performing better. For a full decade, CPOs have consistently decried the talent challenge (staffs are both too small and lack important capabilities) as the primary reason for

this underperformance, but that is starting to change. In 2016, “people” remain an issue, but it has quietly been displaced by an issue involving technology. As Figure 1 illustrates, more than a third of all procurement departments struggle to align their processes with systems (38%) while a similar number point to gaps in technology (35%) as a major hurdle to success. What this means is that solution adoption, by itself, cannot and will not be the “silver bullet” for a procurement team that lacks process alignment, training, or the technical expertise that go hand-in-hand with such an investment. Selecting the right solutions and having the right long-term strategy to leverage full business value from them is critical to success.

Figure 1: The CPO’s Top Hurdles to Success



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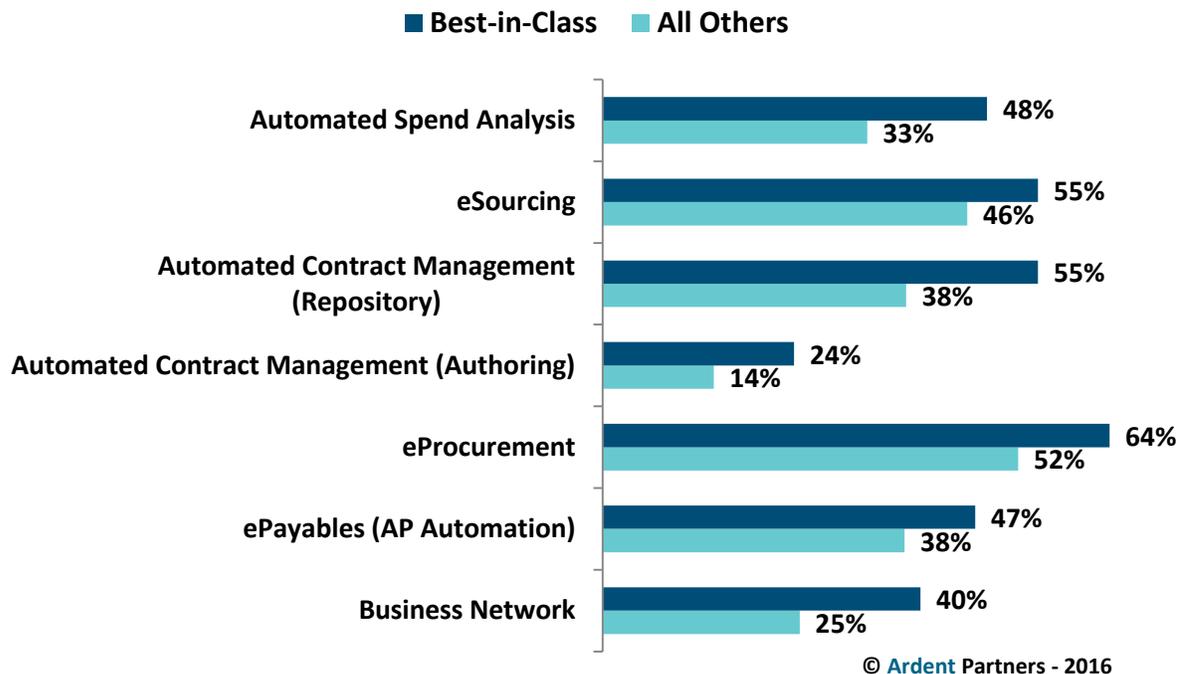
Procurement Tech Adoption: The Best-in-Class Advantage

Although there are numerous challenges to adopting, implementing, and fully leveraging modern procurement technology solutions, like automated spend analysis and eSourcing, today’s market leaders have been able to use their technology investments to enable high performance, and they are reaping handsome financial and operational rewards. Ardent Partners defines these Best-in-Class procurement organizations as the top 20% of market performers. These leaders have placed, on average, 90% of spend under the management of the procurement organization and competitively source more than 60% of their addressable spend each year. A quick look at Best-in-Class procurement technology adoption reveals that, for the most part, they are leaps and bounds beyond their less mature competitors, with

comparative adoption rates exceeding those of their peers by an average of 40% across the source-to-settle solution spectrum of applications shown in Figure 2.

Best-in-Class adoption of procurement solutions runs in parallel with superior financial and operational performance. For example, these teams manage significantly more of their spend than all other procurement teams (90.0% vs. 53.1%), due, at least in part, to their ability to gain visibility into their spend, sourcing, and contract compliance and make adjustments as needed. And, their ability to source more of their spend helps Best-in-Class procurement teams report an average of 14% greater realized savings than all other procurement teams. They also report contract compliance rates that are between 24% and 30% higher than all other procurement teams, and PO-based spend that is nearly 35% higher than all other teams.

Figure 2: The Best-in-Class Technology Advantage



Strategies to Navigate the Landscape

A critical part of any procurement automation initiative is finding the solution or solutions that meet the organization's requirements. Before getting to the 'solution selection' stage however, an organization should go through the steps necessary to determine its specific

requirements and craft the right plan to help keep the project focused on the largest near-term opportunities while also building towards a long-term vision of an automated future state.

Clearly Define the Project Scope

A procurement automation project may start with a focus in one area within either sourcing or operational procurement or it may pursue a “big bang” strategy. No matter the initial project approach or budget, one unifying characteristic of Best-in-Class procurement organizations is the holistic, long-term view of process automation that they take from the start. Competing short-term initiatives from distinct organizations within the enterprise can result in parallel projects that have no contemplation of the others; while a fragmented technology landscape can often trap organizations that focus solely on short-term requirements from ever realizing the far-greater, long-term value that a cohesive and comprehensive approach and program can deliver. There are numerous other obstacles and risks to achieving procurement excellence; but, with proper planning, most can be avoided or, at minimum, anticipated and minimized.

Where and when a technology project begins are ultimately less important to realizing long-term success than the development of the strategic plan that is designed to support it. For enterprises that are just beginning a process automation project, it is important to understand that the approach does not have to be “all or nothing.” In fact, many organizations take a phased approach and then look to extend their project footprint and increase the value of their initial investment. For those that have already begun, it is not too late to revisit or develop and/or modify the original plan.

Wherever an organization lies in its quest for procurement automation, taking a holistic view and having the right project plan to adopt is imperative to a successful outcome. Even if current budgets and general orientation focus in on one area of the large source-to-settle process, Best-in-Class performers understand that automating the entire process is desired. The most direct and effective path to procurement excellence begins with a plan that looks holistically across the entire process and incorporates and prioritizes the requirements of all stakeholders.

Understand the Deployment Options: “To Cloud or Not to Cloud”

Before reviewing the different solution categories, it is important to understand the different solution delivery methods as this is often a key factor in the decision-making process and one that is easily confused. There are two major methods of delivering solutions: cloud-based or installed on-premise.

Software delivered in the cloud (or “Software as a Service”) is typically hosted, maintained, enhanced, managed, and upgraded on the application and server side (hardware infrastructure) by the cloud solution provider and is generally paid for in some form of consumption or time-period basis (rather than a traditional perpetual software license). Cloud-based solutions have risen dramatically in popularity in recent years because of the faster time to deployment, lower initial investment, and the lower level of internal support required to maintain the solutions. Cloud-based solutions typically have the following characteristics:

- Accessed via the web
- Cost is based upon usage (i.e., subscription and/or transaction-based fee versus an upfront investment)
- Requires the provider to maintain the software (often with the use of service level agreements or “SLAs”)
- Hosted or resides at a centralized facility
- Multi-tenant architecture
- Capable of quick utilization
- Constraints in what can be customized in the solution; solutions often have a distinct list of configurable items or features.

An “on-premise solution” is software that is installed on the servers at the user’s site and typically involves heavier involvement from the user’s IT department and/or a third-party consultant. There is generally a larger one-time upfront license fee for such a model, allowing for perpetual usage of the solution (there may also be transaction-based fees). Solution providers typically charge an annual maintenance fee on top of the initial license fee. Implementation periods are usually longer because of a need to develop the entire site/instance infrastructure including hardware configuration and, possibly, a higher level of customization.

Gather, Rationalize, and Refine Requirements

As sourcing professionals well know, it is vitally important to engage stakeholders early and capture the “voice of the customer” while defining the requirements to any large strategic sourcing initiative. Successful sourcing teams also work to rationalize requirements to discern the “must haves” from the “nice-to-haves” so that the bid is not over- or under-specified. Doing this successfully ensures that the team contracts for what is truly needed while also empowering the stakeholders as project participants. These factors each play an important role in helping to drive the implementation and adoption of a new contract. The exact same principles hold true when it comes to selecting procurement solutions. Engaging stakeholders early and often empowers them in the decision-making process and helps to ensure acceptance when the solution is selected and adoption when the solution is launched. A primary difference with procurement solutions is that the lead customers sit within the procurement department.

Ardent Partners believes the areas that deserve consideration in the selection process include:

- **Functional requirements** – Can the solution support the core businesses processes?
- **Technical requirements** – Does the solution meet internal technical and general integration requirements?
- **User requirements** – Does the solution meet the needs of the actual system users?
- **Data and reporting requirements** – Does the solution capture, process, manage, and present data as is required? Does the solution allow for reporting to be done on the relevant metrics and data?
- **Usability** – Beyond specific user requirements, does the solution provide a user experience that will support and help drive usage and adoption?
- **Solution breadth** – Does the project scope expand beyond a single application? Does the long-term plan include expansion plans? If so, does the solution provider offer a broader suite of solutions to support that vision or plan?
- **Mobility** – How well does a solution function for remote and traveling users via its mobile capabilities?
- **Design** – Does the solution support the intuitive and straightforward design of its processes?

Each of these areas should be evaluated and prioritized with an understanding that each contributes to the level of adoption and usage of the solution which, in turn, directly correlates to the solution's impact and the overall return on the technology investment.

Product Innovation and Roadmap

The software industry is known, above all else, for its drive for continual innovation. However, it is important for procurement teams to distinguish between what *is* currently available in the solution and what *will be* available in the future. Given the fluid nature of software development, important decisions should not hinge on the capabilities that may be found in a future release. Doing so can needlessly expose the project's overall success to factors beyond the control of the project team. This caution is in no way meant to undercut the importance of selecting a solution provider with an active and innovative product roadmap and a strong history of bringing new innovations to market on a regular product release cycle.

Areas emerging in the enterprise software industry in general and within procurement specifically include data analytics and predictive analysis; enhanced, more social-based communication between internal and external partners (or system users); and deeper and more seamless integrations across products and/or a product suite.

The procurement technology market has now extended into services procurement to cover complex categories of spend and is now extending more directly into financial areas like accounts payable, B2B payments, supply chain finance, and cash management, as well as into supply chain areas like inventory and materials management.

Conclusion

In 2016, procurement organizations as a whole and Chief Procurement Officers ("CPOs") in particular frequently find themselves in the untenable position of having to enhance their performance while maintaining the resources that they currently have. This means that a procurement department's ability to use technology to, among other things, help scale resources, gain greater visibility, and make smarter decisions should be a critical competency. How procurement teams navigate this market is absolutely critical to their success. Incorporating the strategies detailed above will help these efforts.

Appendix

About The Authors

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Andrew Bartolini is a globally-recognized expert in accounts payable, sourcing, procurement, and supply management. Andrew focuses his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their finance and procurement departments. Andrew is also the publisher of CPO Rising, the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 250 times in eight different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their accounts payable, sourcing, procurement, and supply management operations and his research is currently part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on accounts payable and supply management.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a “real-world” context for his research and writing.

Andrew has been named a “Pro to Know” by Supply and Demand Chain Executive three times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

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About Ardent Partners

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