

WHY SUCCESSFUL DIGITAL PROCUREMENT TRANSFORMATION NEEDS THE RIGHT OPERATING MODEL



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If not effectively managed, supply chain disruptions can cost an organization between 6% and 10% of revenues.¹ In addition, the disruptions impact reputation, increase operating costs and diminish customer loyalty.

The financial impact is significant, as organizations experience a major supply chain disruption an average of once every three years. Consider the disruptions since 2020 — the Australian bush fire, Indonesian floods, blasts in Beirut, locust swarms in Africa, riots in several parts of the world, the Suez Canal crisis, the current shipping container shortage and, the largest of all, COVID-19-related disruptions — and now, the geopolitical instability due to the Russia-Ukraine war.

The escalating level of uncertainty has made the CPO's role in managing supply chains more critical. The world is headed toward an even more volatile environment where disruptions and black swan events are expected to occur at higher frequency, driven by factors such as climate change and geopolitical power shifts.

The question for CPOs is how to build a resilient and agile supply chain that can respond and recover faster than the competition, as it is the ability to rebound quickly that distinguishes one organization from all the others in the marketplace.

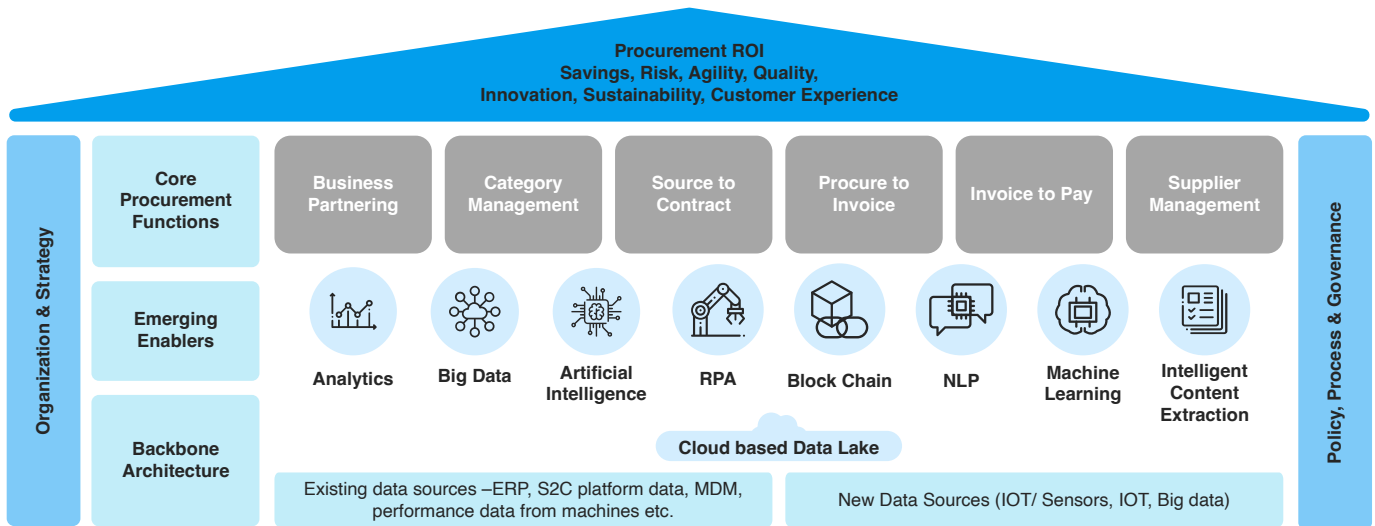
Digital transformation has been touted as the panacea that can transform organizations — the theory is that a mix of new tools such as robotic process automation (RPA), machine learning, artificial intelligence (AI) and natural language processing (NLP) combined with existing S2P suites is expected to make procurement deliver dizzying results, reduce costs by 55%² and become a corporate rockstar.

How true is the hypothesis? History often repeats itself; today's new tools are distant cousins of e-sourcing platforms and S2P suites of the early 2000s. If your organization didn't get the maximum out of these first-generation platforms, there is a good chance that investments in new tools will offer comparable results.

Our previous paper from the Digital Procurement Series, [How to Ensure Your Digital Procurement Transformation Program Delivers on the Promise](#), discussed the digital promise and what organizations must do to enjoy the full benefits — what must change, what must be adopted and what must be brought back. This paper will focus on the procurement operating model — what got you here and what will not get you there.

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FIGURE 1



Source: GEP

WHY IS DIGITAL OPERATING MODEL CLARITY IMPORTANT?

Adding 10 instruments to an orchestra with an absent or ineffective conductor only leads to more noise. The procurement operating model serves as the conductor, and organizations should pay more attention to it when building a new age procurement function.

An operating model clearly defines responsibilities, key performance indicators and enablers for internal and external team members. A tunnelled view of merely investing in a new platform and expecting magical results, hoping that teams use it effectively, will only lead to expensive mistakes and heartburn for the organization and suppliers.

So, which is the “right” procurement operating model, and how does one build it?

The answer, as with most things, is it depends — there is no one-size-fits-all approach.

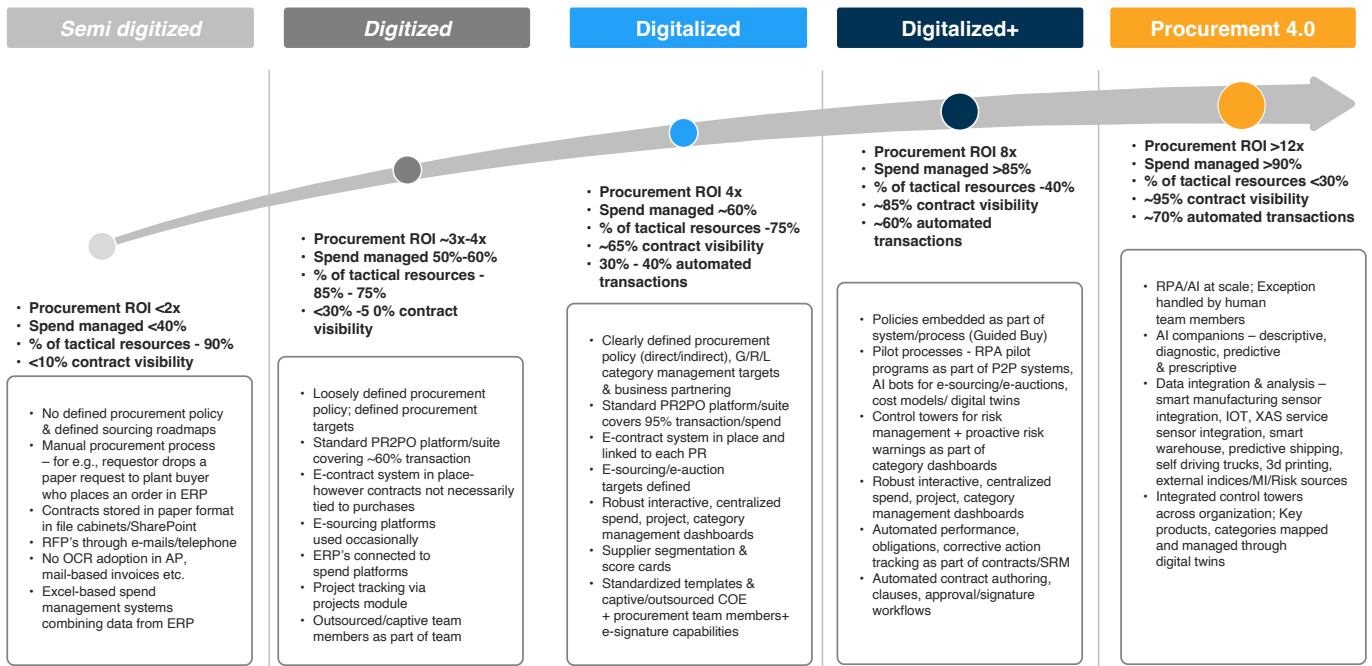
The right operating model is an evolving entity based on current procurement maturity. It depends on factors such as current return on investment (ROI), platform utilization, availability of quality data, relationship with business/budget holders, needs of the business, experience and the motivation levels of procurement team members.

Figure 2 shows the segments an organization can fall into based on maturity. For example, one that invests in a decent S2P module/suite and processes can be anywhere between a semi-digitized to digitalized-plus state.

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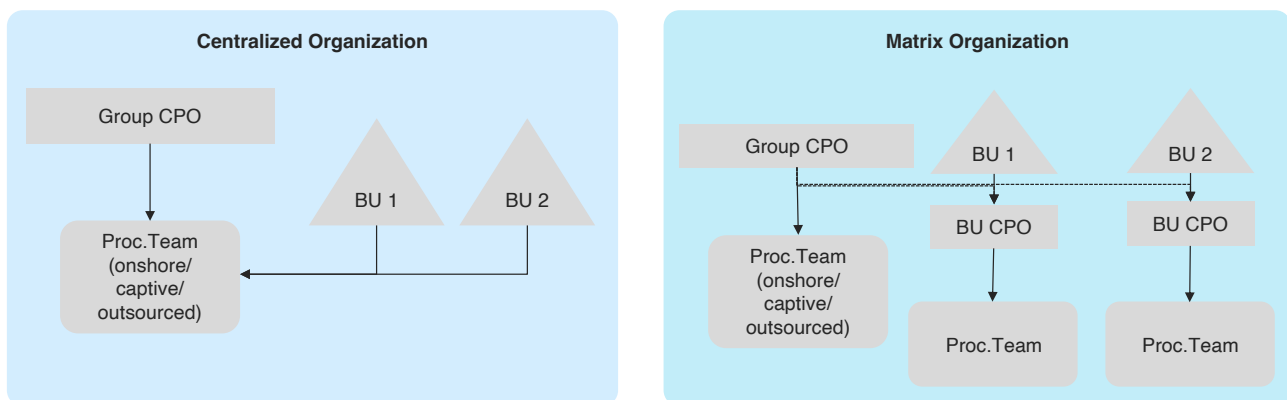
FIGURE 2



Source: GEP

Adding to this complexity, depending on how previous investments in a platform and nearshore/offshore team mix turn out, the organization may have a centralized or matrixed procurement structure. This impacts future investments in procurement platforms and the flexibility to restructure the existing organization to be able to reach the next maturity level.

FIGURE 3



Source: GEP

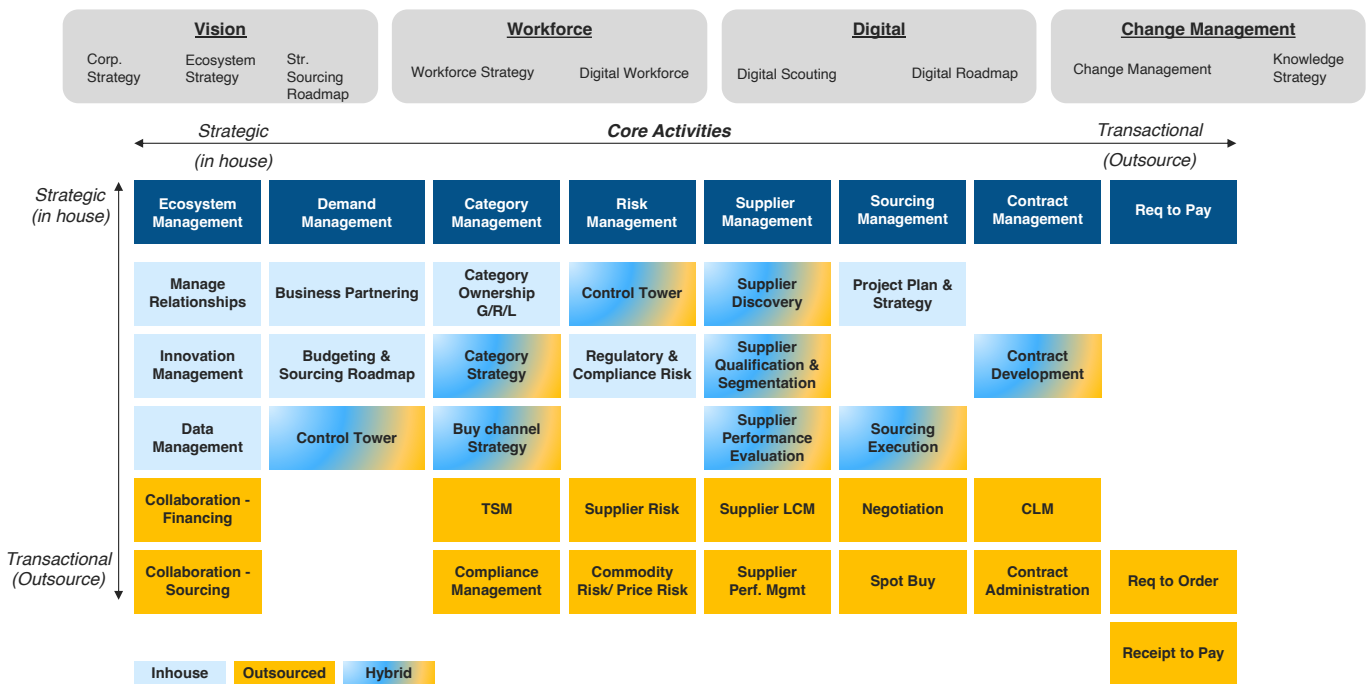
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For a typical organization with centralized platforms for P2P, contract management, projects and spend, the solution may involve investing in solutions such as guided buying, RPA and control towers. It may be possible to keep the current operating model with a responsibility split. We expect organizations to automate or outsource more non-core functions and focus their resources on more strategic functions (see Figure 4).

FIGURE 4

Operating Model:
New core functions (in-house) vs. functions which could be outsourced vs. managed collaboratively



Source: GEP

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WHAT MAY CHANGE IN THE PROCUREMENT OPERATING MODELS THAT EMERGE?

All non-core activities that can be automated will be automated:

- Downstream activities such as P2P and contracting have a high chance of being automated. Similar to how outsourcing lowered costs in the mid-to-late 2000s, a wave of RPA-led automation is expected to lower head count and cost in downstream processes either at the organizational level or indirectly through optimization at the outsourced partner.
- Expect to see desktop procedures and swim lane charts that detail new bot user onboarding processes, the workflow split between people and bots, exception handling and SLAs measuring the number of exceptions and the time it took to clear exceptions.
- There is likely to be more digitalization in activities such as supplier relationship management, supplier score card, tail spend management and spot buy.

There will be a switch to strategic activities and new areas of focus:

- Internal team members are expected to focus on new areas such as supplier innovation management, business partnering and budgeting, managing ecosystems, data management and control tower management.
- Traditional S2P lead roles would change to ecosystem manager positions with a focus on content optimization between the various best-of-breed solutions and stand-alone cloud-based platforms.
- To achieve this strategic switch, outsourcing/captive operations (nearshore/offshore) are expected to increase, and many operations that are currently deemed strategic will be delegated to external/captive partners. At the L4, or last level, a clear demarcation of global, regional, and local responsibilities and automated sourcing abilities may accelerate this devolution of responsibilities.
- Buying channels will be clearly defined through buying channel optimization exercises and guided buy/chat bots will guide end users through the appropriate buying channels.

There will be innovation in control tower and center of excellence (CoE) hubs:

- Over the next decade, control towers will be empowered with consolidated data feeds from systems, risk management platforms, crowdsourcing and other streams that offer descriptive, predictive and prescriptive outputs.
- Control towers will be horizontally integrated across business units with key decision makers from business, finance, logistics, compliance and procurement.
- The digital CoE function within procurement will be integrated and work with different partners to implement initiatives at scale (transformation) as well as address a focused issue (spot solutions).
 - o Creating a companion bot to assist in sourcing road freight — spot solution
 - o Transform purchasing to achieve 70% automated transactions — transformation

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All organizations face the same rough seas, yet not all of them are in the same boat.

Every industry has its own challenges, and to prepare for this change, it is critical that companies think about what they need from their procurement operations.

They need to take a holistic view based on current ROI, data accuracy, investment appetite and other parameters, and they must make decisions on future investments. An unbiased assessment of your current state will help you define the best operating model for your organization and avoid costly mistakes. It is important to balance performance and cross-functional integration for procurement excellence.

¹ “The Business Costs of Supply Chain Disruption,” The Economist Intelligence Unit, March 2021 | https://impact.econ-asia.com/perspectives/sites/default/files/the_business_costs_of_supply_chain_disruption_gep_1.pdf

² Matt Leonard, “Report: Procurement offices can see 45% cost reduction with digital transformation”, Supply Chain Dive, 29 August 2019 | <https://www.supplychaindive.com/news/procurement-cost-reduction-digital-transformation/561800/>



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100 Walnut Avenue, Clark, NJ 07066 | P 732.382.6565 | info@gep.com | www.gep.com

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