

# Harvard Business Review

## WEBINAR SUMMARY

# Reimagining Procurement with a Strategic Lens

*Featuring Caperton Flood*

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# Reimagining Procurement with a Strategic Lens

**PRESENTER:**

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**MODERATOR:**

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## Overview

The “golden decade” of procurement has reached its end; organizations that were able to help their companies unlock value during that time now find they are stuck, unable to create additional value for the business.

Some procurement organizations, recognizing that the environment has changed, are refocusing their efforts to take more of a strategic approach to how they create value. This strategic shift goes beyond just a smart buyer approach that focuses on negotiating better prices; it includes value chain management, better spending techniques that emphasize controlling demand, reducing complexity, improving processes, value engineering, and optimizing the supply chain. Reimagining procurement also prioritizes digital strategies based on identifying key use cases.

## Context

Caperton Flood of Bain & Company discussed challenges procurement organizations are facing, as well as approaches savvy teams are taking to overcome and respond to these challenges.

## Key Takeaways

**Procurement’s “golden decade” has ended as organizations face new challenges.**

Over the last decade, procurement organizations around the globe drove significant price reductions and high ROI. The strong deflationary environment and recession-led focus on “buy better” strategies created a unique “golden decade” for procurement. However, procurement organizations face a very different world today and must contend with new challenges.

## PROCUREMENT TRENDS AND CHALLENGES

**Shift from a deflationary to an inflationary environment:** a 5% shift in underlying inflation is dramatically changing what procurement can do. Traditional levers aren't leading to savings; at best, they enable the business to break even or potentially offset some costs.

**Increasing supplier sophistication and consolidation:** in many markets, consolidation has resulted in two main suppliers. This gives the suppliers higher margins and ROI than their customers.

**Increased speed of change:** businesses need to take a fresh look at a category every 6 to 12 months.

**Talent limitations** are high: teams need the right set of digital, analytic, and strategic capabilities.

**Changes in tariffs** are disrupting global supply chains.

**Digital programs are beginning to bog down** due to multiple challenges; internal stakeholders have not bought into the tools and the businesses are unable to realize full value of these tools.

**Executive skepticism** exists due to the inability to track savings to the bottom line.

“We’re being asked what is the next step of performance that’s going to unlock cost, increase innovation, manage risk, and help sustainability. At the same time, we’re struggling to hold down the fort.”

—Caperton Flood

### Organizations are focusing on strategy to unlock additional value in procurement.

Most procurement organizations are relatively immature and stuck in the early stages of the procurement maturity curve. Strategic procurement planning helps organizations move up the curve and unlock the next tranche of value.

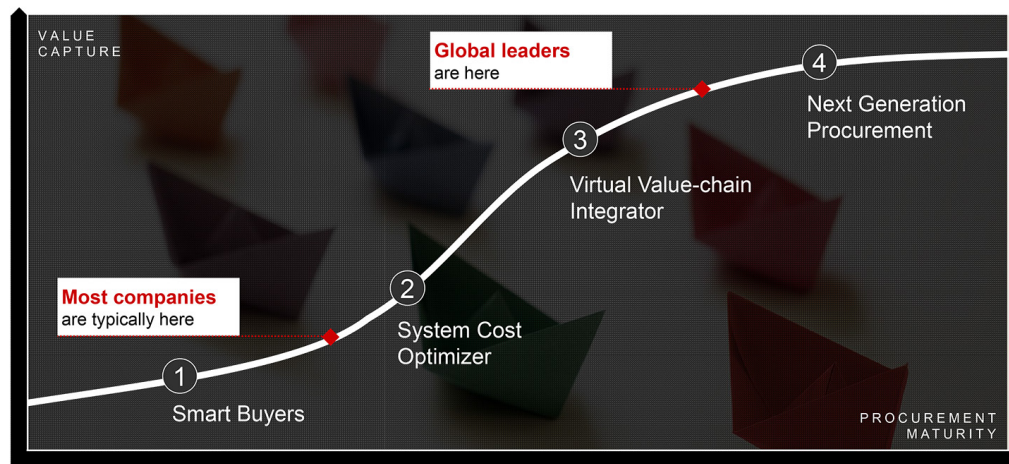


FIGURE 1: PROCUREMENT MATURITY CURVE

## STAGES IN THE PROCUREMENT MATURITY CURVE

1. **Smart buyers:** Tactical buying that targets uninterrupted operations; fairly reactive
2. **System cost optimizer:** Optimized sourcing with proactive application of TCO, sourcing levers, and demand management
3. **Virtual value-chain integrator:** Strategic procurement with matured category management embedded across functions
4. **Next-generation procurement:** Procurement provides a strategic competitive advantage with a revenue uptick

Next-generation procurement organizations (Figure 2) begin with strategies around saving money, keeping those savings, and sustaining the business. They use data, advanced analytics, and digital to underpin, enable, and accelerate strategic procurement planning.

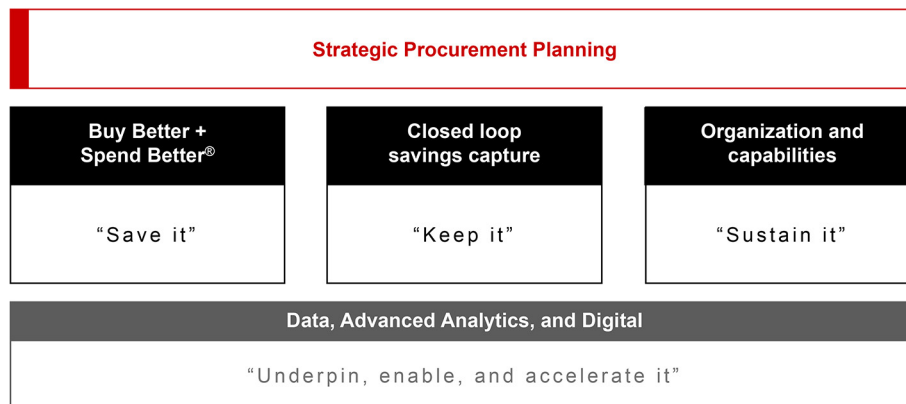


FIGURE 2: NEXT-GENERATION PROCUREMENT ORGANIZATIONS BEGIN WITH STRATEGY

**Those procurement organizations that are redefining excellence are following several common approaches.**

Bain & Company is seeing nine common approaches that procurement organizations are taking to redefine excellence.

CATEGORY OF APPROACH	COMMON APPROACHES TO REDEFINING EXCELLENCE
Strategic procurement planning	1. Value chain participation and profit pool management
Buy Better + Spend Better®	2. Attacking "Spend Better" in conjunction with operations, engineering, and HSE 3. Full adoption of Agile category management 4. Scaling of most sophisticated tools
Closed loop savings capture	5. Closed loop and/or zero-based budgeting (ZBB)
Organization and capabilities	6. Procurement organization aligned to corporate organization with next-generation capabilities
Data, advanced analytics, and digital	7. Data as a competitive weapon 8. Advanced analytics for visibility and scaling analysis 9. Clear digital roadmap with sequenced, test-and-learn waves

## Value chain management is the next evolution of procurement strategy.

Focusing on several of the common approaches to redefining excellence, Flood discussed the benefits of value chain participation and management in the procurement strategy. Value chain management reimagines the role of procurement by shifting from focusing on effective sourcing and risk management to helping the business determine where it should play in the value chain. However, few procurement teams are prepared and enabled for value chain management today, as they are lacking in one or more of the following:

- The right level of ambition among senior leaders for the role that procurement can play.
- Strategic and analytic tools to build proprietary market forecasts and deep category strategies, and assess total cost of ownership and risk.
- Financial tools to build robust business cases.
- Cross-functional ability to engage and influence senior cross-functional stakeholders.
- Implementation and project management skills (including agile) to ensure realization of complex strategies.
- Long-term mandate and focus, as opposed to quarter or in-year focus.

## Buy Better + Spend Better® techniques create value through savings.

Many organizations are already focusing on “Buy Better,” a supply-led process to create improved value by negotiating to get the best prices. Buy Better typically drives 40% of the value.

The next evolution is to incorporate “Spend Better,” an operations-led process that drives 60% of the total value. Spending better goes far beyond just getting the best price and allocating volume. It is a function of controlling demand, enforcing compliance, reducing complexity, performing value engineering, improving processes and collaboration, and optimizing value-add in the supply chain.

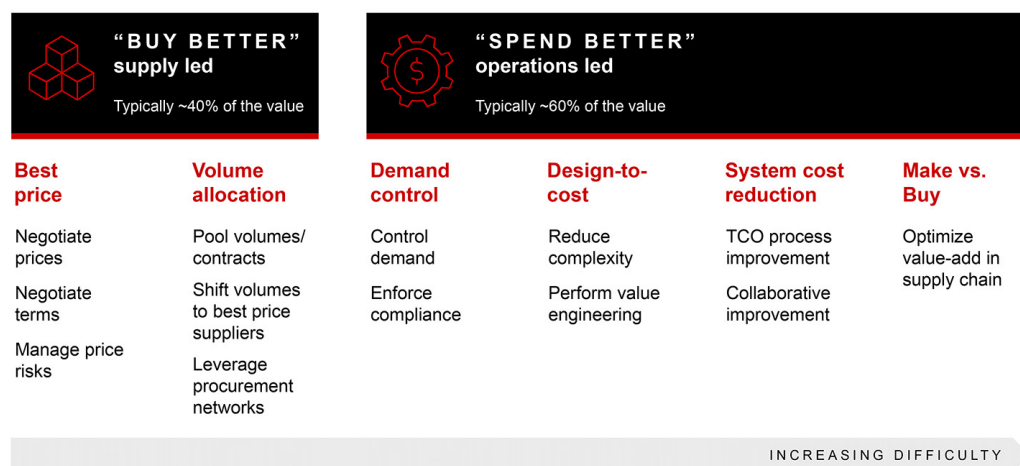


FIGURE 3: BUY BETTER VS. SPEND BETTER

“Spend Better” enables procurement to show stakeholders in the business that the procurement team is a strategic partner, not just a team focused on negotiating the best prices. This is a two-step process:

1. **Show that procurement can deliver on the basics** by having good processes in place, delivering cost savings and value over time, and engaging well with stakeholders.
2. **Pilot two or three strategic opportunities** where procurement works collaboratively with stakeholders to unlock greater value.

“Choose a couple of opportunities, double down on them, and make sure they’re successful. Not only will that be a win you can talk about internally, but you’ve built internal champions.”

—Caperton Flood

### **Leading companies use a strategy/value back approach to develop digital plans.**

The current digital landscape is massively complex and fragmented, and it’s often hard for organizations to know where to begin when implementing technology solutions that help the business. Rather than start from the multitudes of procurement technology solutions available today, leading companies are grounding their digital plans in strategy to decide which tools are most likely to provide the business with real value.

The strategy/value back approach starts with a vision of where procurement wants to be in the next three to five years to support the business’s needs, and then walks backwards into the most appropriate technology solutions. By walking through the value chain, the business identifies which steps need to be addressed, and ultimately, which tools and technology are needed to help improve those steps.

Beyond identifying use cases, procurement teams need to identify the right level of granularity to prioritize these use cases (Figure 4). This task begins with the procurement value chain and then looks across solution endpoints to group use cases together. The result is building a larger, cohesive use case, which includes interdependencies among discrete components of the value chain. Understanding the complete end-to-end use case helps identify technology solutions that can address the big-picture need.

## What level do we prioritize at?

### Prioritize

**Areas of the Procurement value chain first, and then solutions as necessary**



**Across full solution "end points"**



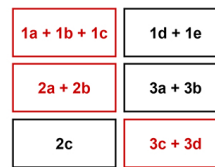
Integrated intake/  
routing throughout  
process  
**Seamless workflow  
management**

Unified discovery  
tool with external/  
internal data

Automated contract  
compl. and  
expiration alerts

**User-friendly,  
integrated  
sourcing platform**

**Across elements of solution "end points"**



**Recommend this level**  
Ability to conceptualize tradeoffs as 'discrete' deliverables  
Consideration of solutions across full value chain

**Across individual use cases**

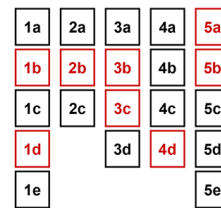


FIGURE 4: PRIORITIZE USE CASES ACROSS ELEMENTS OF SOLUTION "END POINTS" (GROUPS OF USE CASES)

Similarly, digital roadmaps that work backwards from big-picture concepts allow the organization to implement solutions that ensure tangible and discrete progress (Figure 5). In the digital roadmap below, the vision statements—such as “simple, user-friendly, automated sourcing tools”—are identified on the right side. Working backwards to today, the roadmap shows the tangible, discrete steps needed to drive value along the way to the vision. This helps the business break digital projects into waves and allows the business to revise and course correct as it needs and as technologies change.

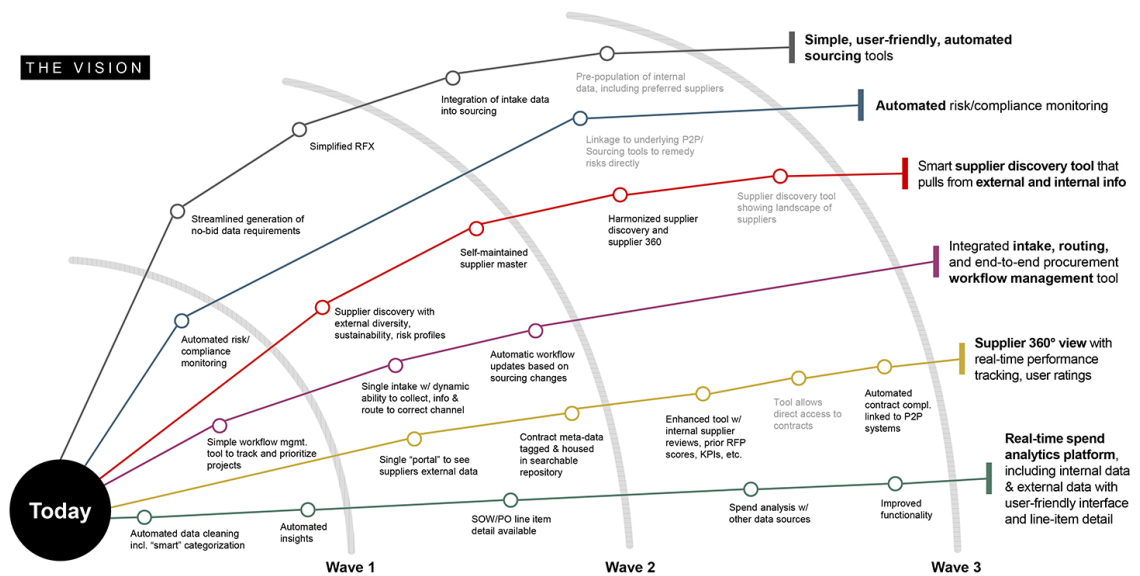


FIGURE 5: SUCCESSFUL DIGITAL ROADMAPS ENSURE TANGIBLE AND DISCRETE PROGRESS

Identifying the right use cases, vision, and technology also helps ensure that the data collected can be used with advanced analytics tools, bringing even more insight and cost benefit to the business.

## Key concepts for procurement organizations to consider in today's challenging market.

Over the next five years, in more challenging market conditions, successful procurement organizations will need to move up the maturity curve to extract more value for their business. Organizations can extract more value by:

- Underpinning their value chain with leading-edge techniques to attack “Spend Better” levers.
- Deploying agile teams that develop close partnerships with manufacturing, engineering, and other groups across the business.
- Leveraging advanced analytics capabilities that scale across categories and are supported by the right fit-for-purpose tools and technology.



**Caperton Flood** is a partner based in Bain & Company's New York office. He leads the firm's global Procurement practice and is an expert in the worldwide Energy & Natural Resources, Advanced Manufacturing & Services and Performance Improvement practices.

Across these spheres, Caperton's sector specializations include chemicals, mining, oil & gas, aerospace & defense (A&D) and industrial equipment. However, he has advised clients across a robust range of sectors, providing cross-industry insights and best practices. He also supports large-scale Zero-based Redesign (ZBR) and Zero-based Budgeting (ZBB) efforts.

Caperton holds an MBA from Stanford University and a bachelor's degree from Vanderbilt University.



**Julie Devoll** is Editor for Harvard Business Review Webinars and Director of Marketing and Communications for Harvard Business Review Press. In her 20 years at HBR, Devoll has led the marketing strategy—events, media relations, social media, and more—for HBR's bestselling books, articles, and authors. She has partnered with many high-profile experts on promoting their ideas to a broad audience of business professionals, including AG Lafley, former CEO of Procter & Gamble; Reid Hoffman, Co-Founder and Executive Chairman of LinkedIn; Sallie Krawcheck, CEO and Co-Founder of Ellevest; and Daniel Goleman, author of the *New York Times* bestseller, *Emotional Intelligence*.

Devoll also led the foundational team that launched HBR's presence on social media platforms, notably Facebook, Twitter, and LinkedIn. In her editorial role for Webinars, Devoll works to identify thought-leaders and content that creates value for clients, HBR subscribers, and webinar participants.

Prior to her time at *Harvard Business Review*, Devoll was a Product Manager for MediaMap, Inc. (now Cision) where she managed the research and development for Cision's high-tech media product. Devoll graduated cum laude from Stonehill College with a Bachelor of Arts in English and a minor in Mass Communications and Journalism.

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## Unlock Value in Procurement with Business Spend Management

The “golden decade” of procurement may be over, but the platinum era of delivering true value to your organization is just beginning. For strategic procurement professionals, the future shines bright.

With the rise of comprehensive, cloud-based **Business Spend Management (BSM) technology**, you can easily optimize the entire source-to-pay lifecycle, solving for demand control, designing to cost, reducing systems cost, and delivering value across your organization's entire supply chain.

**Modern BSM technology** helps procurement organizations spend smarter by rapidly automating and optimizing the entire source-to-pay process and tapping into the power of the cloud to ensure your organization is maximizing the value of every dollar spent.

Whether you are beginning your journey as “smart buyers” or advanced far along the curve focused on “next generation procurement,” it's imperative to select a BSM technology partner that will scale with your organization.

In the past decade, as digital transformation initiatives across organizations have consolidated complex and fragmented point solutions into singular cloud-based platforms for functions such as sales and human resources (i.e. CRM and HCM technology), procurement leaders were left in the technological dark ages. These days are over.

Traditional point solutions for sourcing, procurement, expenses, invoicing, and payments do not serve the needs of the modern procurement organization. Comprehensive BSM technology empowers a procurement leader's strategic vision by consolidating sourcing, procurement, invoicing, expenses, and payments into one cloud platform and managing all transactional data in one place.

BSM technology “sees” and analyzes not only one organization's spending data, but also the collective data of thousands of businesses. This enables never-before-possible collaboration opportunities such as multi-company group sourcing events and crowdsourced knowledge. It also provides unprecedented insights and benchmarking based on this anonymized spending data across thousands of peer organizations.

Solving one problem today with one-off “fit-for-purpose” tools and technology can cause a ripple effect and make it much harder to achieve your big-picture vision for strategic procurement. The efficiencies and insights gained from unifying these processes in a single suite—having all data in one place and at scale across a critical mass of organizations—is far greater than the sum of its parts.

Regardless of where you are on your procurement maturity journey, the right BSM technology partner will offer the solution you need today *and* the solution you need tomorrow. For more information on how Coupa can help you reimagine procurement and become a strategic procurement organization, visit [www.coupa.com](http://www.coupa.com).

