

World-Class Procurement: Redefining Performance in a Digital Era

By Laura Gibbons and Christopher Sawchuk

Executive Summary

To thrive in an era of intensified competition and volatility, the onus is on procurement to evolve its capabilities to not only become more efficient but also enable the enterprise to realize its strategic objectives. According to The Hackett Group's 2019 benchmark data, a customer-centric approach to service delivery is helping world-class procurement organizations influence 93% of spend and generate 75% more savings than the peer group. Further, the emergence of digital tools such as robotic process automation and advanced analytics has given typical procurement organizations not only a new way to accelerate progress toward world-class status, but even exceed it if they fully optimize their technology architecture while reevaluating the way they work.

The Digital Imperative

Digital competition is shaping the business model of the future. Although few businesses are truly there yet, business leaders understand that digital is changing everything. Nearly 60% of business leaders from a variety of functions responding to our 2019 Key Issues study say digital transformation has already had a high or very high impact on their industry, a number that will grow to 72% within two to three years. Forty-six percent report it has strongly affected their operating model today; 72% expect it will do so within two to three years. When looking only at responses from procurement executives, the expectations are similar. Eighty-six percent of them anticipate a high impact on the procurement function's performance over the next two to three years, and a similar percentage say digital transformation will have a substantial influence on their operating model.

A variety of trends are pressuring procurement organizations to digitize their operations (Fig. 1). Rising consumer demands, disruptive technologies and increasing competition all require that businesses adapt quickly or be left behind. Procurement is not exempt from these demands and will need to step into a more strategic role as a business partner and operational enabler. Adoption of digital tools, agile thinking and behavior, advanced analytics and performance measurements adapted to the digital era are all core elements in the future procurement organization.

FIG. 1 Procurement change drivers and impact

Forces of change		Impact on the procurement function	
	Economic slowdown & geopolitical volatility		A focus on agility and cost optimization
	Intensified competition & business-model innovation		Emphasis on becoming a business partner/advisor
	Disruptive technologies		Adoption of smart automation technologies and tools
	Increased data volume, velocity and veracity		Architecting the information value chain (also analytics)
	Rising stakeholder demands		Customer-centric mindset that leverages design thinking

Source: The Hackett Group

Procurement organizations are moving beyond inward-focused KPIs to also measure the experience of their key internal and external customers.

The 3 E's of Digital Value: Efficiency, Effectiveness and Experience

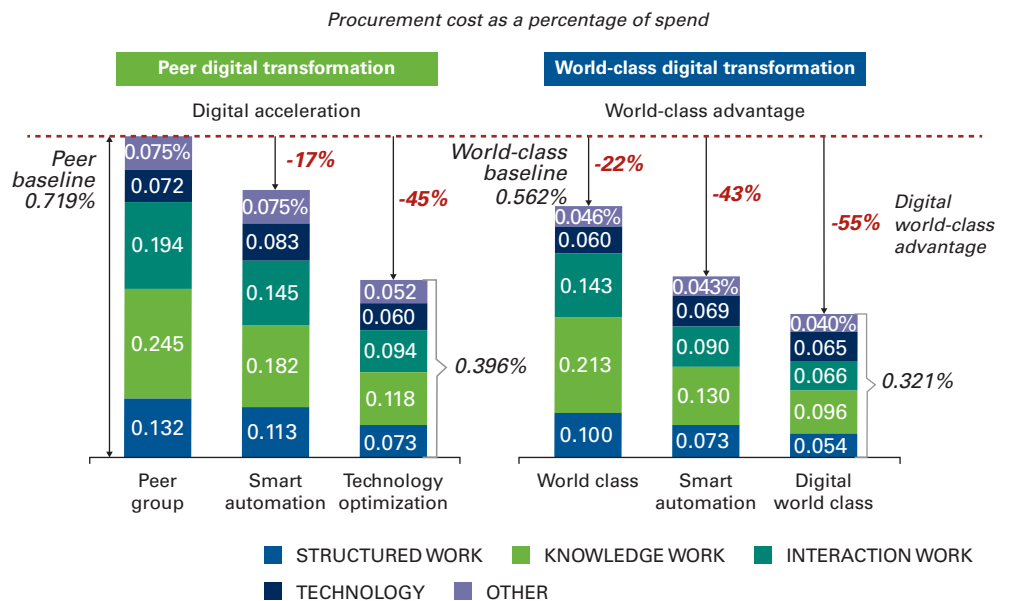
Traditional performance metrics evaluate procurement's internal efficiency and effectiveness. While these remain important, in the digital era procurement organizations are moving beyond inward-focused KPIs to also measure the experience of their key internal and external customers.

Efficiency metrics

Typical efficiency metrics capture resource utilization per unit of work, such as labor and outsourcing rates per end-user equivalent. However, as procurement moves into the digital age, it must better understand the total cost to deliver customized services. For example, insight into cost to serve (e.g., the cost of delivering analytics services by specialists located in a center of excellence) will permit procurement to optimize its service portfolio and underlying delivery processes.

Analysis of The Hackett Group's 2019 benchmark data reveals that full deployment of relevant digital tools yields improvements in every performance category (Fig. 2).

FIG. 2 Procurement world-class and digital world-class efficiency gap



Source: The Hackett Group, 2019

93% vs. 64%

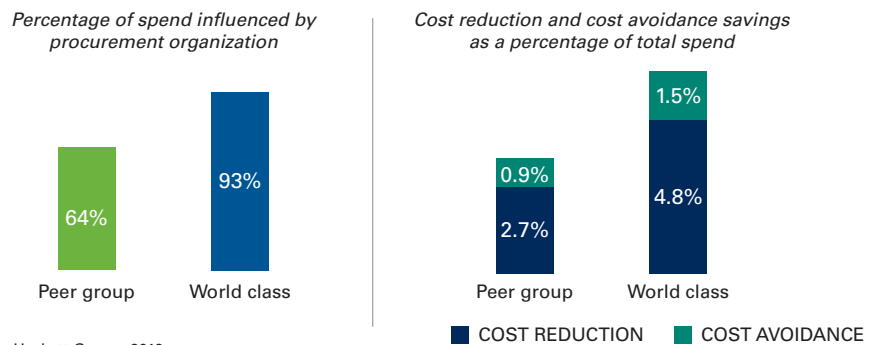
Percentage of spend influenced by world-class procurement organizations, compared with the peer group.

Effectiveness metrics

A similar shift is reflected in the evolution of effectiveness metrics. Good service level agreements are designed with customers in mind; however, procurement usually ends up assessing the degree of compliance with defined standards such as cost allocation, not value to stakeholders and customers.

Keeping cost and headcount down would be counterproductive if doing so reduced effectiveness. World-class procurement organizations leverage technology to support enhanced business performance. Optimized processes and greater automation enable world-class teams to minimize error rates across sub-processes. Using a more integrated system and leveraging new tools like cloud and smart automation¹, world-class organizations minimize the need for human intervention in routine, rules-based processes, for example, by avoiding the need to manually rekey data from one system into another. Fewer handoffs mean fewer mistakes. Choices like these are the reason world-class procurement influences 93% of spend versus 64% for more typical organizations (i.e., the peer group) (Fig. 3) and generate 75% more savings.

FIG. 3 Procurement effectiveness metrics: Spend influence, savings, data maintenance



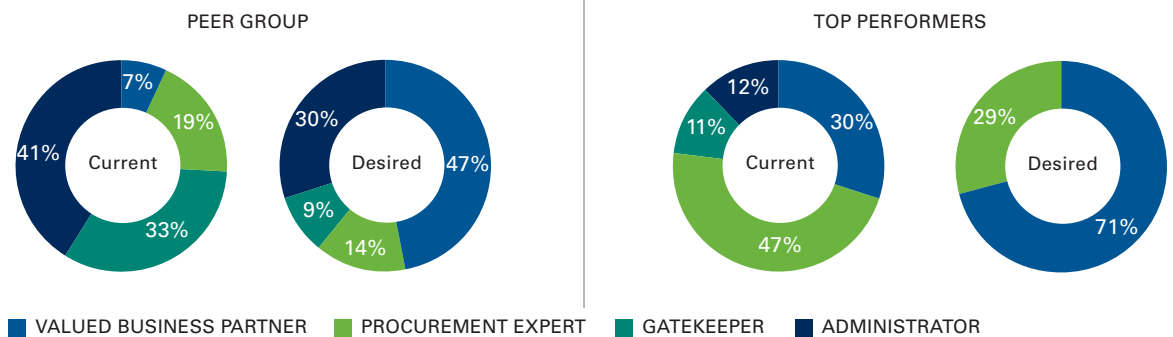
Source: The Hackett Group, 2019

Experience metrics

The Hackett Group’s performance analysis has always embedded customer experience as a component of its effectiveness measures (such as error rates or cycle time). At individual companies, customer experience has typically been tracked on performance scorecards based on findings from customer satisfaction surveys and other metrics. Companies would measure the cost of delivering services by channel, then create incentives (or disincentives) to drive traffic to the cheapest channel.

By contrast, digital-era customer experience metrics assess performance from the point of view of the consumer of the services (Fig. 4). While traditional customer surveys still have value, procurement must adopt more sophisticated customer experience-related KPIs.

FIG. 4 Stakeholder perception of procurement



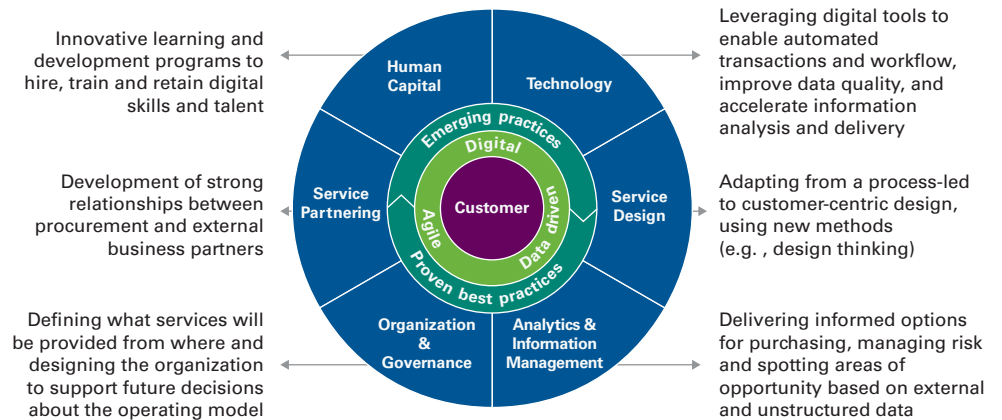
Source: The Hackett Group, 2019

¹ The Hackett Group defines smart automation as a category of automation technologies used to optimize structured, knowledge and interaction work through deployment of robotic process automation (RPA), smart data capture, conversational interfaces, cognitive automation, and agile orchestration technologies.

World-Class Digital Service Delivery

Procurement organizations achieve world-class performance and business value by maximizing performance through their service delivery capabilities; this is the “how” of digital world-class performance. With the customer at its core, the service delivery model focuses and influences the digital, agile and data-driven enterprise culture that must surround and orient around the customer. Proven and emerging best practices provide the horsepower and transfer momentum from the outer ring of six interconnected service delivery capabilities. These are technology, service design, analytics and information management, organization and governance, service partnering, and human capital (Fig. 5).

FIG. 5 Digital service delivery model and main trends



Source: The Hackett Group

There are several key performance indicators associated with each service delivery capability. Most reveal significant gaps between the peer group and world-class organizations. A sampling of these are provided below, along with definitions for each capability.

Technology

The focus of this service delivery model component is on the way procurement defines and executes its own strategy to automate transactions and workflow, improve data quality, and accelerate information analysis and delivery.

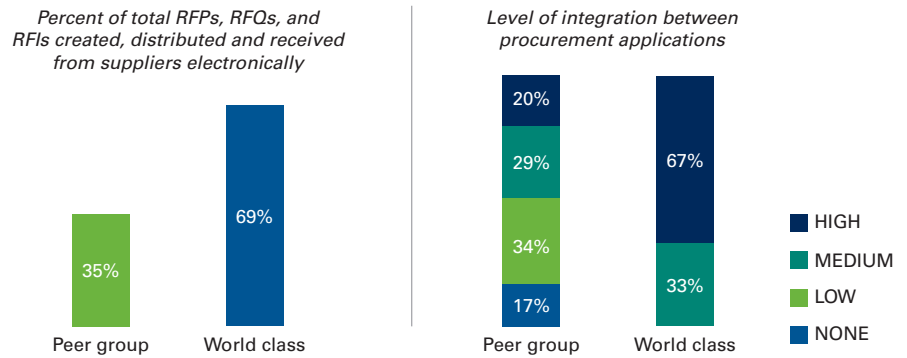
Ten years ago, procurement’s processes were highly manual and largely tactical, but today, its success relies on the ability to provide strategic value to the business. At the forefront of the current technology conversation in procurement is the concept of digital transformation. The Hackett Group defines digital transformation as “improving customer experiences, operational efficiency, agility and business value contribution by fundamentally changing the way services are delivered, using digital technologies as the enabler of holistic transformation.”

Not only are procurement leaders acutely aware of the importance of digital transformation, they are increasingly shifting resources into technology innovation to support their strategic goals. Specifically, world-class organizations have recognized the importance of technology enablement and ease of use for end users and are switching gears quickly. For example, they conduct 70% of RFIs digitally compared to the peer group’s 39%. They also emphasize integration between procurement applications to provide a seamless experience for end users, both internal and external (Fig. 6).

70% vs. 39%

Percentage of RFIs conducted digitally by world-class procurement organizations, compared with the peer group.

FIG. 6 Procurement technology enablement and integration

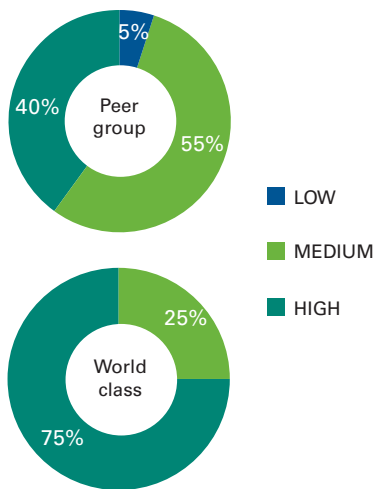


Source: The Hackett Group, 2019

Service design

Service design looks at how procurement designs processes to meet customer needs and desires. Adaptability to changing market and service demands is a core element of a properly developed service design.

FIG. 7 Degree of procurement strategy alignment with overall business strategy



Source: The Hackett Group, 2019

Historically, service design centered on standardization of processes and services to benefit the bottom line. The perspective of customers and suppliers was rarely considered. While operating autonomously used to be an acceptable strategy, procurement organizations are now aware that alignment with the overall business strategy is a strategic requirement (Fig. 7).

By taking into consideration the business strategy and requirements of both internal and external stakeholders, procurement can design processes that ensure the end results align with business needs. For instance, when deciding what kind of information to provide, in what format, and what other services might help the business accomplish its strategic objectives, procurement organizations should look first to the needs of end users.

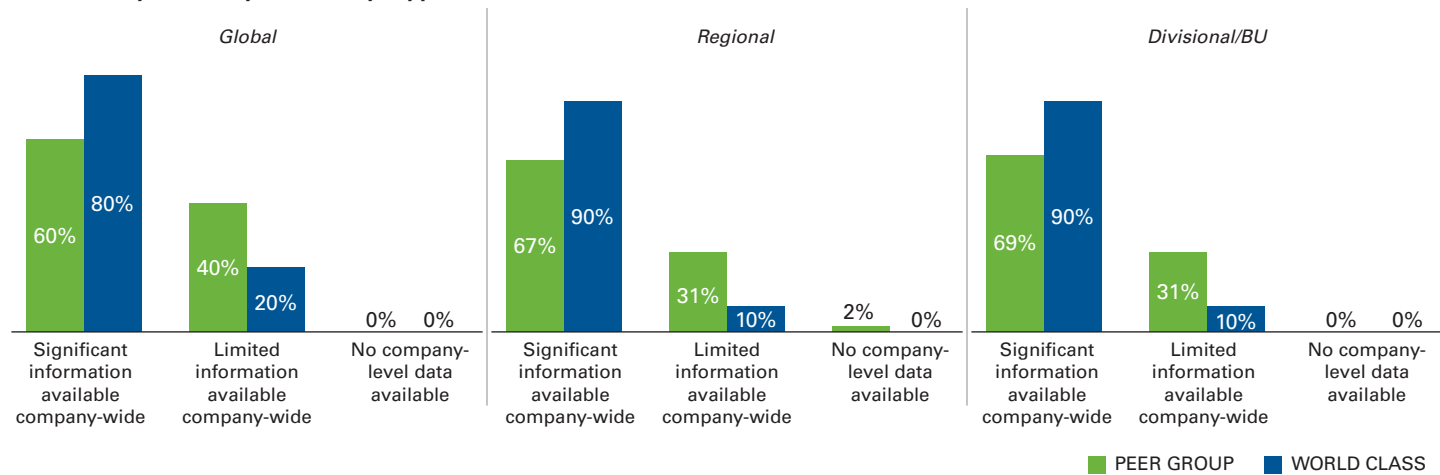
Analytics and information management

Improving procurement’s performance depends on its ability to maximize the value of digital tools. In addition, delivering informed guidance for purchasing, managing risk and spotting areas of opportunity requires staff with the ability to conduct sophisticated analysis using data from internal and external sources.

Advances in analytics and information management open up a whole new world of decision-making capabilities for procurement organizations. Traditionally, data existed in silos, isolated by different technology applications and structures. Difficult to extract and keep updated, data was used principally in structured reporting, such as supplier KPIs or spend-analytics exercises.

Advances in technology that make it possible to harness data on a global scale are today considered essential in the procurement function. New tools for data aggregation and data mining can provide insight about the past, helping to deliver savings from cost reduction and cost avoidance by anticipating future behavior. Advanced business intelligence tools designed for self-service use by procurement staff can be leveraged to identify new opportunities and track savings opportunities. Today, a majority of procurement organizations have access to a significant amount of global, regional and divisional supply information company-wide (Fig. 8).

FIG. 8 Ability to view spend data by supplier



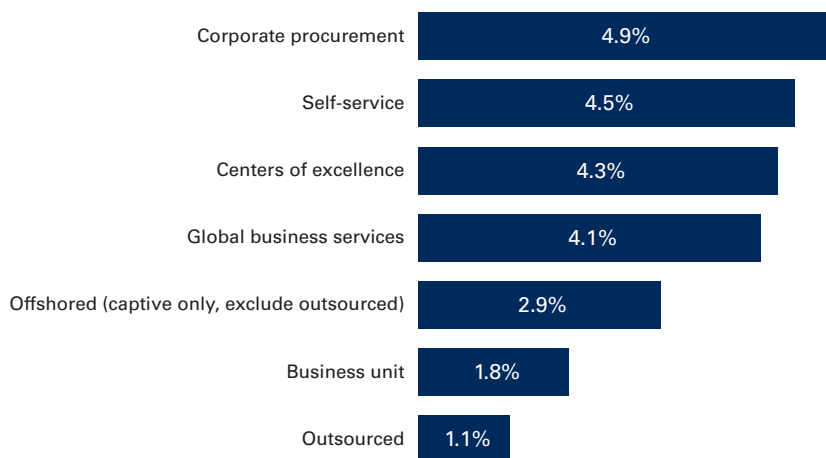
Source: The Hackett Group, 2019

Organization and governance

This component of the service delivery model addresses which services will be provided from which delivery points and designing the overall organization structure to support future decisions about the operating model for procurement.

In the past, procurement (like other business services) operated in a silo, often very disconnected from the wants and needs of the business. Today, however, procurement is moving more work to centralized hubs such as corporate procurement and self-service portals (Fig. 9).

FIG. 9 Planned 2019 changes in procurement workload by location



Source: Key Issues Study, The Hackett Group, 2019

Procurement is moving more work to centralized hubs such as self-service portals.

By bringing similar processes together, companies can improve service quality through standardization and error reduction and achieve greater process control. Moreover, these hubs provide opportunities for procurement specialists to develop their skills and design career paths in ways not previously available.

Service partnering

Service partnering refers to the development of strong relationships between procurement and external business partners, such as offshore providers of procurement services. These are key stakeholders in the effort to drive better business performance.

As procurement organizations evolve from transactional to strategic, so must their strategy for service partnering. They must evaluate the kinds of partnerships they form with outside providers in comparison to the services they continue to provide internally.

Once this evaluation is complete, activities deemed non-core can be safely and reliably handed off to partners.

Although the overall difference between the peer group and world-class organizations is small, individual processes vary significantly. In some areas, like PO processing and compliance management, peers and world-class organizations outsource to approximately the same degree. But for sourcing execution, world-class organizations' level of outsourcing is more than three times that of peers, and supplier management and development is four times higher (Fig. 10).

FIG. 10 Procurement outsourcing cost as a percentage of spend

Process	Peer group	World class
Supply data management	0.002%	0.004%
Purchase order processing	0.007%	0.008%
Scheduling	0.002%	0.000%
Receipt processing	0.004%	0.002%
Compliance management	0.001%	0.001%
Product development support	0.001%	0.000%
Sourcing execution	0.004%	0.014%
Supplier management & development	0.001%	0.004%
Customer management	0.003%	0.001%
Sourcing and supply base strategy	0.002%	0.001%
Functional management & administration	0.001%	0.001%

Source: The Hackett Group, 2019

Softer skills such as people management and communication are an increasing necessity for procurement associates.

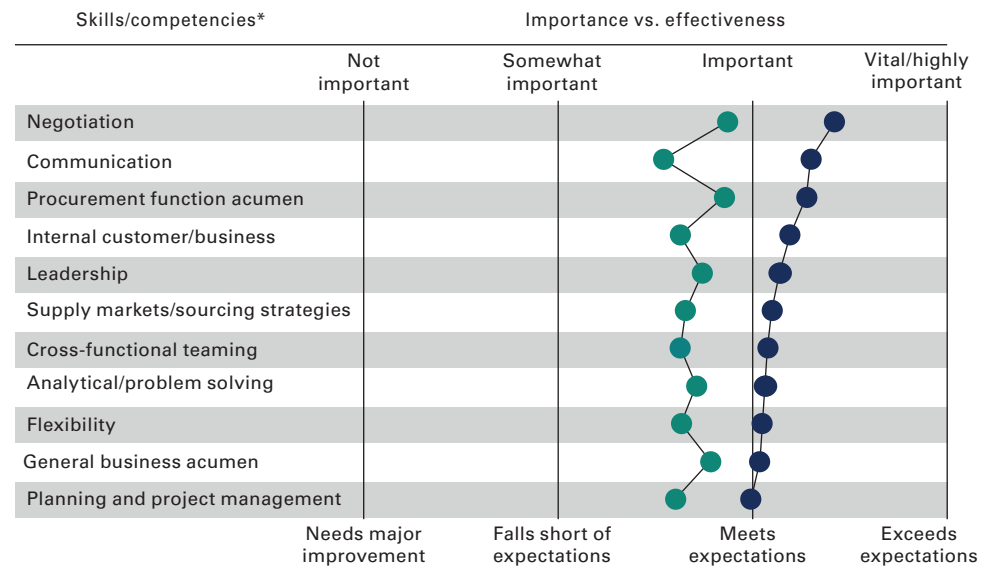
Human capital

This critical component of the service delivery model centers on how improved talent deployment and development can lead to world-class performance and create a culture of continuous learning in the procurement organization.

Human capital is one of the fastest-changing components of the model. There are many contributing factors, including technology advancement and the ubiquity of social media. In particular, the need to accommodate different cultures and demographics has many companies struggling with the question of how to hire and retain top quality talent. Successful procurement organizations have found ways to adapt, including use of rotational programs to develop agile employees. Also, employees are being asked to advance their understanding of data analysis and its use for making strategic procurement decisions.

While digital and analytical skills are important for the next generation of procurement associates, softer skills such as people management and communication are also increasingly necessary. In fact, stakeholders list soft skills as highly important; it should be a concern that procurement is falling short in meeting those expectations (Fig. 11).

FIG. 11 Procurement skills and competencies: Importance and effectiveness



*Sorted based on importance

■ EFFECTIVENESS ■ IMPORTANCE

Source: The Hackett Group, 2019

The scope of transformation must be holistic; improvements in just one or two areas will not move the needle.

Strategic Implications

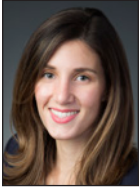
Becoming a world-class procurement organization and attaining the strategic partner role starts with a comprehensive framework for transformation, grounded in a clear business value proposition. The scope of the transformation needs to be holistic, as improvements in just one or two areas will not move the needle. While certain components of the service delivery model will be in greater need of transformation than others, performance improvements that will deliver the quickest benefits should be prioritized. Critical action items for most procurement organizations include the following:

- **Review KPIs and take action where improvement is needed:** Metrics should gauge the drivers of performance and strategic goal achievement. Additional thought should be given to ensuring that customer experience metrics are incorporated into the updated performance metrics. Work with business leaders to develop initiatives aimed at improving these performance barometers.
- **Put customers at the center of service design:** Design service delivery for different workforce segments and levels of management. Apply methods such as focus groups, design committees, user personas, customer journey mapping and iterative prototyping.
- **Use digital technology to increase productivity and improve the customer experience:** Provide information and tools that increase the productivity of procurement staff and the workforce as a whole. Use a “mobile first” principle to enforce simplicity of design. Introduce smart automation such as chatbots to handle routine inquiries.
- **Build analytics capabilities:** To develop better insights and decisions, assign dedicated analytics resources in every area of procurement. Establish data management governance and processes to provide consistent, usable and meaningful data for analytics.
- **Develop procurement’s data savviness:** Train staff to solve problems using data and package analytical findings into business-relevant stories and recommendations.
- **Increase procurement’s business acumen:** Recruit from other parts of the business. Assign staff to cross-functional teams to learn about the operations of different parts of the organization.

About the Advisors

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Ms. Gibbons has industry and consulting experience in areas such as purchase-to-pay, strategic sourcing, payment strategies, manufacturing operations, economic impact analysis, and organizational and process design. She previously worked in The Hackett Group's Strategy and Operations consulting practice, where she specialized in sourcing, procurement and supply chain. Before joining The Hackett Group,

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Principal & Global Procurement Advisory Practice Leader



Mr. Sawchuk leads The Hackett Group's global procurement advisory practice. He has over 20 years of experience in supply management, working directly with the Global 2000 and mid-sized companies around the world and in a variety of industries to improve all aspects of supply management, including process redesign, digital enablement, operations strategy planning, organizational change and strategic

sourcing. Mr. Sawchuk specializes in working directly with CPOs to help define a long-term strategy. He is a regular contributor to business publications, a frequent presenter at industry events and author of numerous reports and books. Mr. Sawchuk's background includes engineering, operations and sales roles with both United Technologies and IBM.

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