A Digital Strategy:

Why Procurement Needs One & How to Create It

Presented by ProcurementIQ and Bertrand Maltaverne

ProcurementIQ

procurementiq.com

1-888-878-9429

info.iq@procurementiq.com

The Digital Transformation of **Procurement**

You've heard about the *digital transformation of procurement* and how *digital procurement* is changing the purchasing landscape.

Simply put, digital procurement involves applying digital technologies to your procurement strategy to achieve goals like saving money and time, cultivating better stakeholder and supplier relationships, improving efficiencies and identifying areas for improvement.

Sounds great! But the truth is: much of the procurement function is stuck in analog – using outdated technologies, employing manual procedures, tracking information on massive spreadsheets and lacking an understanding of how to use data to predict, automate and enable processes.

As technology changes today's business environment, procurement must continue to prove its overall value by supporting organizational goals, monitoring supply chains for risk and finding opportunities for savings. And, with the emergence of new technologies, procurement professionals are now expected to learn how to use technology to implement it within their organizations and use it to make data-based business decisions.

Implications of **Ignoring Digital**

While dozens of recent surveys have shown that CPOs and other procurement executives are aware of the potential impacts and benefits of digital technologies, very few organizations are progressing at the rate necessary for achieving overall digital goals – if they've set any goals at all.

If "digital strategy" means simply automating a few processes, a department won't be able to achieve the potential goals of strengthening the organization's competitive position in the marketplace and improving stakeholders' and suppliers' experiences.

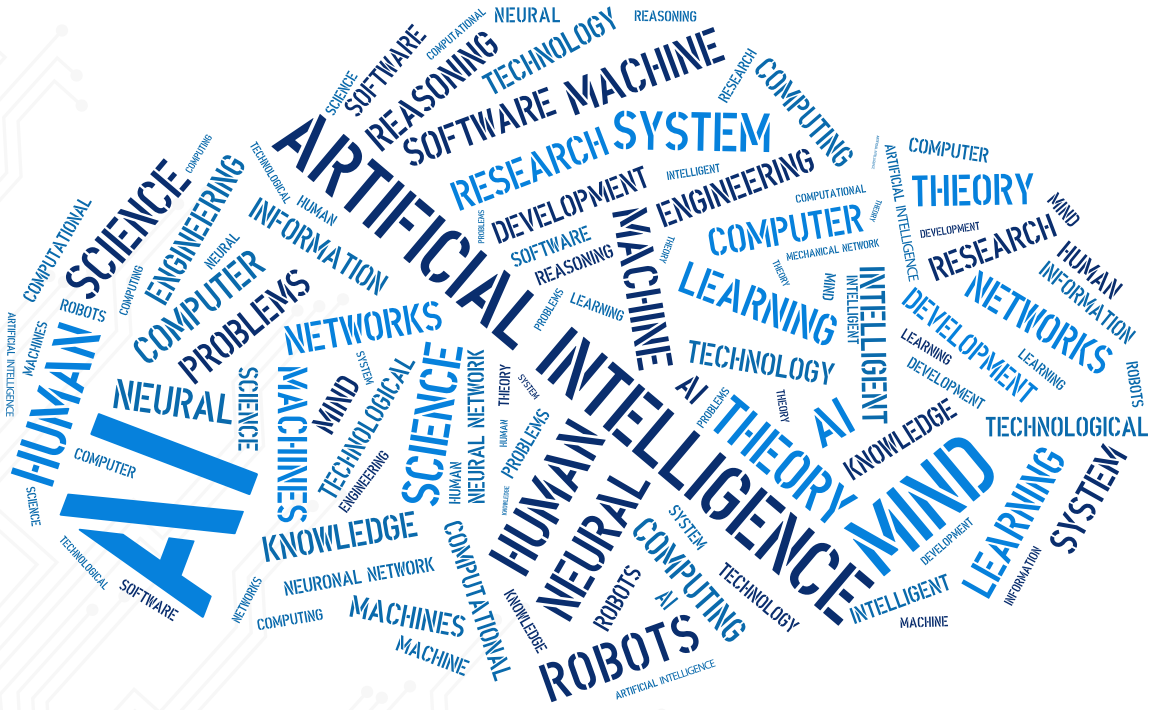
Procurement leaders who don't see this and act swiftly will likely watch their departments fall further behind the competition, be outsourced or eventually be replaced by bots and machines.

It's important that procurement departments acknowledge the importance of the digital revolution and even more critical to put a digital strategy in place to drive the department forward. We'll provide the reasoning needed to prove WHY you need a digital strategy and HOW to start the process of creating one for your department.

Digital Technologies
Impacting Procurement

What digital technologies are we talking about? You've probably been hearing about Artificial Intelligence (AI), blockchain, the Internet of Things (IoT), big data … indeed, these are exciting and emerging technologies with the potential to impact procurement and the business world for years to come. Whether they are significantly affecting your procurement department currently is a question only you can answer.

But there are plenty of digital technologies that are affecting everyone NOW, like predictive analytics, e-procurement, web-based market intelligence and cloud technology. Fortunately, establishing a strategy for current technologies will guide you as additional technologies come online and begin to affect your business.



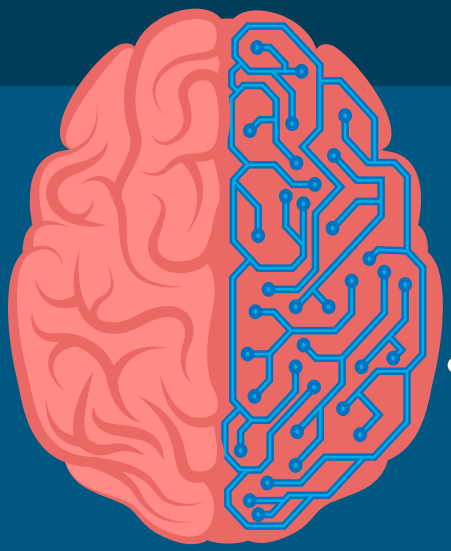
Benefits of **Digital Technologies**

Procurement departments can use technology in countless ways to achieve goals like:

- Making stakeholders' lives easier by providing an intuitive, streamlined buying experience
- Building trust and encouraging stakeholders to involve you earlier in their processes, where you can provide the most value
- Mitigating organizational risk by improving supplier audits and compliance processes
- Encouraging supplier-led innovation
- Increasing connectivity inside and outside your organization by creating platforms where internal and external parties can access data, processes and more
- Fostering "open source" concepts like crowdsourcing for ideas and innovation and/or for finding talent
- Improving Corporate Social Responsibility (CSR) initiatives by integrating CSR into processes like supplier evaluations and sourcing decisions

Current and Emerging Technologies Impacting Procurement

No matter whether your department is transaction-based, strategically minded or somewhere in between, you can reap all those benefits and more by going digital. Following is a sampling of new and older technologies with a brief definition and selected applications within procurement.

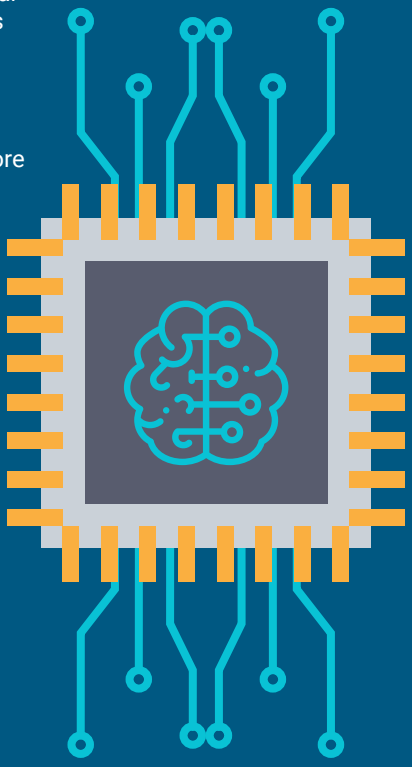


Artificial Intelligence (AI)

Simulation of human intelligence processes (including learning, reasoning and self-correction) by computer systems

Example Applications:

- Analyze massive amounts of data from internal and external sources (more data than humans ever could). Use this analysis to develop new knowledge, gain better insights and identify correlations, then develop predictive models.
- Tailor solutions to interact with people in a more natural way, such as Adaptive User Interfaces (AUI), chatbots and digital assistants.



Cognitive Computing

Encompasses technologies like AI, machine learning, human-computer interaction, speech recognition, face and image detection and much more

Example Applications:

- In a general sense, cognitive computing involves processing massive amounts of data, especially natural language and unstructured data, in the same way a human would. The advantage is that computers can process this data at a level and rate that no human ever could. Procurement teams can then use that processed data to solve problems.

Cloud Computing/ Technology

The delivery of computing services like storage, databases, networking, software, analytics and more over the Internet ("the cloud") instead of a computer's hard drive

Example Applications:

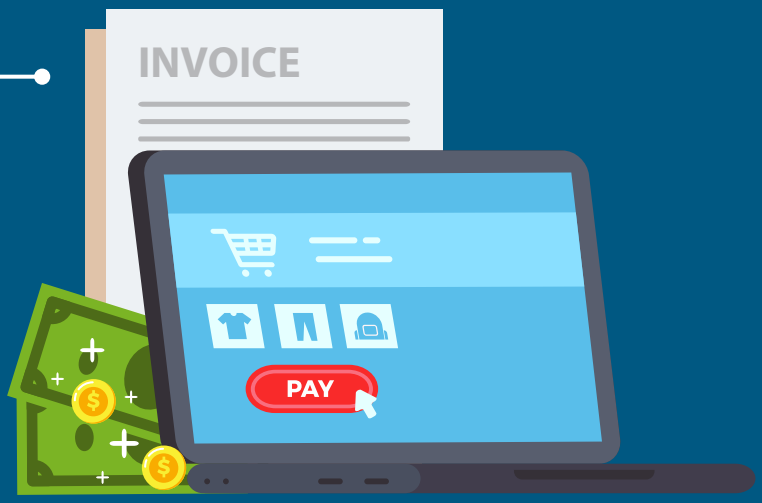
- The ability to move away from complex ERP systems, instead using more "app" based systems that are cheaper, more reliable, more user-friendly and encourage collaboration.
- Allows organizations to create connected platforms where teams can access and execute processes with internal/external data and collaborate with internal/external parties.

eProcurement

The electronic selling and purchasing of products and services via an Internet-based platform

Example Applications:

- Improve transparency in the purchasing process, increase efficiencies and help organizations capture and track savings.
- Automate invoicing and supplier payments: when a delivery is processed, the automation mechanism triggers payments, further freeing up time for the procurement team to focus on high-value activities.



Internet of Things (IoT)

A network of devices, vehicles and appliances that are connected to the Internet via electronics and software, which enables these things to "talk" and exchange data

Example Applications:

- Increase spend visibility by understanding what is being used, what is needed and when it's required.
- Seamlessly manage areas like monitoring and reordering stock to improve budget and contract management.

Machine Learning

A machine's ability to continually improve performance without needing human intervention to explain how to accomplish its tasks

Example Applications:

- Simplify contract compliance by quickly scanning and storing contract data and automating alerts for renewals.
- Improve contract negotiations by searching through your contract history to highlight opportunities for savings or growth.
- Run spend analysis reports before, during and after a sourcing event to gain a more complete picture.

Market Intelligence

Information (including market structure, pricing, risks and more) relevant to a company's supply markets, gathered and analyzed to support accurate and confident decision making in the procurement process

Example Applications:

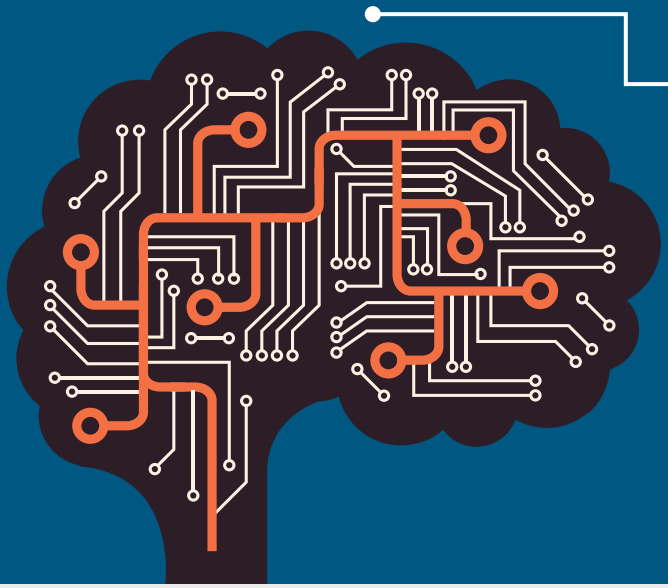
- Forecast and monitor potential supplier risk using data collected from third-party sources.
- Utilize analysis to successfully leverage data during negotiations.
- Greatly reduce research time, freeing up the procurement team to perform high-value activities.

Predictive Analytics

Uses techniques (including machine learning and AI) to analyze data and trends to make predictions about the future, including identifying risks and opportunities

Example Applications:

- Track purchasing patterns to forecast demand, needs, capacity and market price changes to avoid shortages.
- Identify potential future issues and be proactive in activating new or alternative supply sources or adapting contractual terms.



Robotic Process Automation (RPA)

A type of software that mimics the activity of a human in carrying out a task (usually repetitive, clerical duties) within a process; RPA does not attempt to think, reason or interpret

Example Applications:

- Eliminate repetitive processing by using current and historical purchase and inventory data, then pinpointing when orders need to be made and even placing the orders.
- Simplify data management by copying and pasting data from one system or document (ERP, Excel) to another to edit, update or create records.

Digital Procurement**= Opportunity**

Procurement and purchasing departments are already being affected by the technologies and innovations mentioned.

Don’t ignore them and hope they’ll go away!

While there are challenges with implementing them, these technologies are making it easier for purchasing practitioners to play a significant role in optimizing business, managing the supply chain and delivering tangible cost savings and value to the organization.

But don’t fall into the trap of thinking that technology is the solution to all problems. Technology and digital platforms are tools that can assist you in achieving your goals – but they are NOT your strategy. Nor should they be used to simply speed up or mechanize old ways of doing things. Instead, when applied in a well thought out and deliberate way, you can use technology to do things you previously thought impossible! But … you need a strategy.

> *84% of procurement organizations believe that digital transformation will fundamentally change the way their services are delivered … Yet only 32% have developed a strategy for getting there.”*
> ***-The Hackett Group***

Why Does Procurement **Need a Digital Strategy?**

Just as many surveys have indicated that CPOs realize the potential impacts and benefits of digital procurement, those surveys also indicate that the level of preparedness is incredibly low. In fact, Deloitte's 2018 CPO survey notes,

> *"Only 6% of the procurement leaders … believe that their digital procurement strategy will help them to fully deliver on their objectives and improve enterprise value. Only 18% … have a digital procurement strategy supported by a complete business case."*

Deloitte went on to say that,

> *"applying digital technologies to the procurement function will enable strategic sourcing to become more predictive, transactional procurement to become more automated, supplier management to become more proactive, and procurement operations to become more intelligent."*

So, whether you are a practitioner who can advocate for a digital strategy or a procurement leader who has the power to implement it, this is your opportunity to gain significant competitive advantage for your organization. Digital solutions can help you accomplish your goals like cost savings, cost avoidance, time savings, stronger stakeholder relationships, better supplier management and improved contracts.

But to maximize these advantages, procurement needs a digital vision and strategy that

is action-oriented, flexible and able to be scaled up to accommodate new technologies. The strategy should focus on engagement and experience for users, stakeholders and suppliers.

Bertrand Maltaverne, an expert on the impact of technology on procurement processes and organizations, presents ***How to Create a Digital Strategy***

Many organizations are considering the implementation of digital tools to optimize their procurement activities. But for newcomers to the digital procurement scene, the process can seem daunting at first. You probably have questions like:

Where do I start?

How can I create a successful digital strategy that will deliver the benefits we're looking for?

How do I get buy-in from procurement and organizational management?

Read on for a four-step process to help you create a digital strategy for your procurement department that will benefit you, your stakeholders and suppliers, and your organization overall.

Step 1:
Create a non-digital strategy

Step one is to forget about 'digital.' **First and foremost, organizations need a strategy.** The temptation to get caught up in digital solutions is real (What features do these solutions offer? What can these tools do?), but without a clear strategy in place, these considerations will get you nowhere fast.

An overall strategy will define the outcomes (value) that procurement should deliver to the rest of the organization regarding:

- **Effectiveness** (price down, cost down, revenue up)
- **Sustainability** (risk down, innovation up), and
- **Efficiency** (time-to-market, resources, processing costs)

It's also important to remember the "experience" component. It may be a softer aspect than your usual KPIs, but it is just as essential. The quality of the experience that customers, stakeholders and suppliers have when working with procurement has a direct effect on whether:

- Procurement is included in initiatives early on
- Procurement is granted access to critical capabilities, resources and information

When stakeholders enjoy working with procurement and treat the department like a value-adding partner, this situation will create tangible business value for procurement by increasing spend under management, and the organization as a whole, for example, by contributing to innovation.

Step 2:
Incorporate digital to achieve goals

Once the department knows which area(s) to focus on, it can move on to the next step: **exploring how digital technologies can make these goals possible.** Digital technology can support and enhance procurement teams in four key areas:

1. ***Automation:*** eliminating mundane and repetitive tasks; digitization of data
2. ***Decision-making:*** improve the understanding of structured/unstructured data; digital assistants for recommendations
3. ***Connectivity:*** collaborative/smart workflows; internal/external portals with advanced collaboration and communication; open technological platform (standard protocols, interoperability, APIs)
4. ***Innovation:*** product, customer and supplier insights; portals (including public/open for crowdsourcing)

Depending on which outcome(s) an organization wants to focus on and reinforce, it can identify potential digital solutions that are best suited for the defined goals. While exploring, it's important to assess how a specific technology contributes to delivering the expected business results.

You need to identify:

- **Prerequisites and/or key success factors**

Adoption is the most important key success factor, so design-thinking and focus on experiences are both critical. Also, most technologies introduce strict data requirements (availability, completeness, accuracy, validity) that are not compatible with the reality of many organizations. Other cultural aspects like risk-tolerance and digital acceptance need to be evaluated as well.

- **Further enablement**

Each step you take to introduce more digital technology in an organization enables further digitalization. This is because it often leads to the digitization of more data, making the digitalization of new processes possible. That newly captured data can also be used to learn more about suppliers, stakeholders and collaborators so that procurement organizations can tailor experiences more effectively.

Step 3:
Digital tool selection

The next step in defining a digital strategy is **to select possible digital tools to implement.** In this step, you want to ensure that the solutions are capable of supporting teams in delivering the expected outcomes by pulling the right lever(s), and that the teams are capable of using the solutions to maximize the delivered value. This means that, once again, the digital aspects must be put aside to address softer topics first.

The first critical area to assess is readiness. The accurate identification of prerequisites and key success factors completed during the previous step serves as the basis to help organizations answer two "simple" questions:

- Am I (is my organization) ready for technology X?
- Is technology X ready for me (us)?

It is also critical for organizations to look beyond features. You need to consider the business domain knowledge and experience that comes embedded in the solution (templates, models) and the expertise and reliability of the people working for the solution provider.

Step 4:
Creating a successful digital strategy

Finally, there are two main stages that will lead to the creation of a successful digital strategy:

Do the Right Thing

Develop the right vision and business strategy. At this stage, "digital" is not the focus because technology doesn't provide value to a business on its own. Technology's value is derived from what it helps businesses achieve. With the right digital tools, organizations can start doing business differently, which opens the door for new potential and opportunities. Key questions at this stage are:

- What business value should we deliver?
- What kind of experience should we deliver?
- What lever(s) (automation, decision-making, connectivity and/or innovation) do we need to pull?

Do Things Right

Identify potential digital solutions and select the right one. This is a phase of exploring available technologies followed by a selection process that looks beyond features to ensure a viable solution is implemented. Key questions at this stage are:

- Which technologies activate the lever(s)?
- What does it take to implement this technology? Are we ready? Is the technology ready?
- What comes next (additional/next opportunities, challenges, risks)?

After these two stages, organizations will have defined their digital roadmap. However, the next steps will make or break your digital strategy: making the change happen, rolling out the digital solution and making sure it's used! This last phase is the one that will actually deliver value because "strategy without execution is hallucination."

Where is This Whole **Digital Thing Going?**

As with many things in the business world, the digital revolution of procurement is an ongoing journey and not something that will happen overnight. In the coming years, the evolution will continue, with procurement finding opportunities to use more and more data to aid in even more advanced decision making.

The digital transformation is happening

Burying your head in the sand and ignoring it won't make it go away and won't keep your stakeholders from demanding it. So, you need a plan of attack – a way to scale up to accommodate new technologies, skill up current staff, add talent, get buy-in and show your competence.

In short: it's critical that you get started on your digital procurement strategy now to ensure you're not left

About ProcurementIQ

Recognized as a trusted and independent source of procurement research, ProcurementIQ offers a comprehensive library of data and analysis on over 1,000 categories. With an extensive online portfolio valued for its depth and scope, ProcurementIQ equips procurement professionals with the insight necessary to make better, faster purchasing decisions. ProcurementIQ is a division of IBISWorld and serves a wide range of public and private organizations from its US headquarters in Los Angeles.

About Bertrand Maltaverne

Bertrand Maltaverne has extensive experience in the area of Procurement and, more precisely, in the impact of technology on procurement processes and organizations. He currently works for a Procurement technology provider to help customers achieve success in the digital transformation of their procurement practice. Before that, he had various responsibilities in the procurement function of a Fortune 500 company. He is active on various social media platforms and he also blogs (medium.com/@bmaltaverne).

procurementiq.com 1-888-878-9429 info.iq@procurementiq.com