

Global Digest



Strategic Challenges and Opportunities for Indirect Procurement





Background

CASME RoundTable meetings on the strategic challenges and opportunities for indirect procurement were held in Singapore, Sao Paulo, London, Frankfurt, Hong Kong, Mexico City, Chicago and Sydney between August 2018 and June 2019. The following main topics were discussed:

- Business challenges
- Adapting Procurement's organisational structure
- Developments in strategic sourcing
- Increasing the strategic value of Procurement
- The impact of technology on Procurement
- Procurement personnel and skills development.

This Digest provides the key points, good practices and insights identified by delegates around the world. Full notes from each meeting are available on the subscriber-only CASME Resource Centre.

Business challenges

- The business challenges Procurement is experiencing include increased competitive pressures, evolving consumer expectations and regulatory compliance requirements. Procurement is becoming more risk averse and is developing strategies for managing financial, technological, personnel, supplier and compliance risks.
- Ensuring compliance with regulations, such as the EU General Data Protection Regulation (GDPR), is increasing the emphasis on data security. Factors impacting the supply chain include trade wars and geopolitical changes, such as the UK leaving the EU (Brexit), and the requirement for supplier compliance with the organisation's policies and code of conduct regarding corporate social responsibility (CSR), sustainability, CO₂ reduction, ethical buying, fair wages, modern-day slavery and anti-bribery.
- To manage these challenges while providing strategic value, Procurement is educating the stakeholders and suppliers, implementing supplier due diligence procedures, working with compliance and security teams during supplier onboarding, and developing scorecards to monitor ongoing compliance.
- The management of supplier compliance requirements is supported by the protocols being embedded in the company's culture, addressed in requests for proposals (RFPs) and contracts, and when necessary, extended to the suppliers' suppliers. However, contracts have become more difficult to negotiate and some suppliers need assistance with achieving compliance due to the additional cost involved.

Adapting Procurement's organisational structure

- The centralisation of Procurement is an effective approach for managing categories and changing requirements. Strategies are typically developed and led by global category managers, and executed by regional and local procurement teams. Global strategies are providing some flexibility to accommodate regional and local requirements, stakeholder preferences, markets, cultures, laws and regulations.
- Global strategies and contracts are being applied effectively in many categories, as supply markets continue to evolve. Regional or local strategies benefit from strategic insights, templates and supplier qualification procedures provided by the centralised global team. Regional and local teams are often concerned by the global team's lack of understanding of local issues, which needs to be managed by effective communication and obtaining their input to the strategies.
- The achievement of consistency is being supported by the use of standardised processes involving preferred supplier lists (PSLs), spend analysis and RFx tools, supplier onboarding processes, contract templates and a central document repository. Many companies have developed global policies and procedures, with a single governance framework and the flexibility to include local variations.
- Procurement's productivity and effectiveness are being improved by separating tactical, operational and strategic roles, enabling increased focus on strategic activities and interactions with the stakeholders. To achieve this, many tactical and operational activities are being outsourced. Strategic sourcing is regarded as a core competency requiring in-house expertise and is not normally outsourced. Although outsourcing is expensive, it allows Procurement to refocus its resources on meeting the stakeholders' requirements. Internal shared services centres can achieve similar results and may be more cost-effective.
- Many companies have established a centre of excellence (COE) to provide support to procurement teams. The responsibilities of a COE typically include being a global, centralised source for spend analytics, market intelligence, contract management, information repositories and supplier relationship management (SRM). The COE enables consistency in sourcing strategies, the use of analytical tools and other specialised skills.



Developments in strategic sourcing

- Stakeholders' expectations of Procurement are typically to be flexible and responsive, to deliver improved results and increased speed to market. This requires the effective application of strategic skills and the streamlining of processes to increase efficiency.
- Comprehensive category management is being used to ensure strategic alignment, for which Procurement's effective engagement with the stakeholders and suppliers is necessary to obtain their input and support. Optimal strategies require the consistent and disciplined use of sourcing, tendering and negotiation processes that take market dynamics and customer influence into account. A common strategic objective is to become a customer of choice to suppliers, which requires effective relationship management and commitment.
- As markets evolve, companies are increasingly applying global strategies for indirect categories. This improves spend and cost control, and provides opportunities for consolidating volume to maximise the company's leverage in negotiations with suppliers. To obtain the required level of service coverage at the regional and local levels, the suppliers are typically expected to have regional and local partners to fulfil the requirements. To ensure consistency within Procurement, global contracts should be negotiated by the global category manager.
- To control tail spend, Procurement is implementing the use of catalogues, purchasing cards (P-cards) and online marketplaces; or outsourcing the requirements to external service providers, which can provide cost savings, standardised processes and improved customer satisfaction, but can be costly to implement.
- Procurement is applying demand management practices to influence the stakeholders to reconsider or reduce their requirements. By applying business strategy and relationship management skills to purchasing, Procurement has the ability to better forecast and manage demand, and obtain optimum results for the business.
- Consortium buying is a potential strategy for achieving cost savings, by consolidating requirements with other companies to obtain volume discounts from suppliers and optimise resources. Logistics is a good category for consortium buying, as it enables companies to benefit from sharing the use of the supplier's services, assets and resources, while reducing costs and delivery times. However, attempts in other categories have provided minimal success and value.

Increasing the strategic value of Procurement

To successfully become recognised as a valued business partner and achieve effective ongoing stakeholder engagement, Procurement needs to:

- Be actively involved early in the business units' project planning and budget development process, with the emphasis that Procurement's aim is to assist the stakeholders to achieve their business objectives. To maintain alignment and encourage collaboration, good practice is to establish joint objectives and key performance indicators (KPIs)
- Apply a proactive approach to sourcing, use best-in-class practices, conduct comprehensive spend analytics and demonstrate a positive return on investment (ROI), enforcing Procurement's strategic role by helping the stakeholders to achieve more value from their budgets and become the suppliers' customers of choice
- Communicate Procurement's role and strategic objectives by sharing success stories with the business and educating new employees, and conducting internal forums with the stakeholders to introduce procurement personnel and promote the value of the negotiation skills, market intelligence, supplier relationships and innovation provided by Procurement
- Gain trust and credibility by demonstrating category and market knowledge, using the stakeholders' terminology, quickly address their feedback and share the credit with them for successful projects
- Provide strategic value through financial capabilities, including should-cost modelling and total cost of ownership (TCO) analysis, to help the stakeholders to understand how factors beyond price impact the overall cost, identify cost reduction opportunities and potentially generate innovation from the suppliers
- Apply proactive change management practices and conduct stakeholder mapping to plan engagement strategies, and identify the factors that influence the decisions of specific stakeholders, in order to develop appropriate engagement and influencing strategies
- Establish an effective SRM programme focused on developing partnerships based on trust and transparency with the company's key suppliers, usually those that are regarded as being critical and/or strategic, and typically only represent a small percentage of the supply base



- Demonstrate strategic value by fulfilling key performance indicators (KPIs) other than the traditional metrics for achieving cost savings, on-time delivery and stakeholder satisfaction, such as successful risk management and SRM programmes, as well as financial and supply chain analytics, and the delivery of supplier innovation.

Innovation

- The delivery of supplier innovation is one of the most influential ways for Procurement to demonstrate its strategic value. Approaches for achieving this include conducting workshops and/or innovation days to encourage suppliers to offer innovative solutions to fulfil the company's requirements, incorporating the provision of innovation in requests for proposals (RFPs), supplier selection criteria and contractual requirements, and establishing expectations early in negotiations.
- Supplier incentives for providing innovation include being placed within the category PSL, the potential to obtain additional business, a share of the cost savings gained through the innovative solutions they deliver, formal supplier award programmes, and the ability to publicise their achievements to their other clients.
- Successful innovation programmes require effective collaboration, acceptance by the client and supplier companies that a certain level of risk is involved, the availability of the necessary resources to implement the solutions, and the relevant metrics to track the results.

The impact of technology on Procurement

- The automation of procurement processes through technological applications is expected to significantly impact Procurement by enabling greater emphasis on strategic activities and stakeholder engagement. The digital transformation of Procurement will be extended beyond the current use of e-Sourcing tools, e-Catalogues and enterprise resource planning (ERP) systems, to include the application of robotic process automation (RPA), artificial intelligence (AI), big data, blockchain technology, machine learning, cognitive procurement and the internet of things (IoT).
- AI will assist in the automation of RFx procedures and enable quicker invoice processing. Through data mining, recognition of patterns and predictive analysis, cognitive procurement will be used to expedite and improve spend classification and analysis, to enable buyers to make better decisions more quickly.
- Digital transformation involves developing a comprehensive plan to digitalise, automate and integrate procurement processes with other business functions. Implementing integrated systems is often costly and may be difficult to justify, but the increasing business pressure to remain competitive is a significant influencing factor in the business case. Effective collaboration is essential between Procurement, the key stakeholders, business functions and users to develop a comprehensive plan.
- Although in many companies, Procurement is not yet investing in emerging advanced technology, it is essential for procurement teams to learn about the developing technological advancements, in order to ensure they are ready when it is decided that the company will implement them.

Procurement personnel and skills development

- It is important for procurement personnel to have the appropriate soft skills to effectively manage the stakeholders' requirements and increasing business challenges. These include good interpersonal, written and verbal communication skills, for engaging with stakeholders at all levels, conflict-resolution, problem-solving, and collaboration abilities, as well as resilience, flexibility, and sales capabilities to propose and influence decisions.
- Change management skills and training are essential, in order to enable Procurement to be at the forefront of change. This involves developing effective influencing strategies and the ability to prepare concise and inspirational summaries of strategic initiatives that can be ready for spontaneous interactions with senior executives such as during an elevator ride.
- The hard skills that procurement professionals need include IT knowledge to remain up to date with technological developments, financial skills to conduct spend analysis and cost modelling, research skills to understand market dynamics, negotiation skills to negotiate with stakeholders as well as suppliers, and effective project management capabilities.
- Providing training in these skills is important for increasing Procurement's strategic value. Effective approaches include establishing a procurement academy and an apprenticeship programme to ensure consistent skills development, as well as a job rotation scheme to familiarise procurement personnel with the various business units and categories. Competency assessments assist with establishing career development plans for individuals.
- The recruitment and retention of procurement talent requires greater incentives than competitive salaries. Candidates are typically seeking from potential employers comprehensive training programmes



and commitment to their career development. The provision of professional training, job rotation, recognition and career advancement opportunities are powerful incentives for employee retention.

- Recruiting subject matter experts for certain categories, and teaching them procurement skills is effective for ensuring that Procurement has adequate specialist knowledge for particular categories.

Resource Centre Links

The following are links to the full meeting notes for each region:

Asia	Hong Kong
Asia	Singapore
Australasia	Sydney
Europe	Frankfurt
Europe	London
Latin America	Mexico City
Latin America	Sao Paulo
North America	Chicago

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Important

These notes are a summary of the facilitated discussions held between the delegates various meetings. We recommend that any references, particularly to legislation, or recommendations contained in these notes are cross-checked by the reader in order to verify their accuracy prior to being acted upon. Any third party organisations named in this document are not recommendations but are examples of companies mentioned during the meetings that might be considered when tendering for appropriate goods or services. These are not intended to form an exhaustive list and it is likely that other organisations not listed may also provide similar goods or services.

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