

A HARVARD BUSINESS REVIEW ANALYTIC SERVICES REPORT



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HIGH-PERFORMANCE SOURCING AND PROCUREMENT DRIVING VALUE THROUGH COLLABORATION

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Building the Ultimate Revenue Center

Highly effective strategic sourcing and its massive impact remains elusive for many of today's enterprises. What's holding them back—outdated and overly complicated business workflows.

Legacy software systems, disparate spreadsheets, and email chains block effective collaboration between stakeholders, make performance metrics difficult to measure, and chase away top talent (especially among millennials). In short, they drag the enterprise and sourcing back into the weeds of tactical administration, crippling success and the ability to reach full potential.

High-performing executives understand that revenue generation is only half of the cash flow equation; skillfully navigating the “loss” side of P&L is equally critical to maximizing growth reinvestments and investor returns. Their policies and systems for managing cash flow go beyond raw savings generation to incorporate a broader strategic lens. This magnified visibility is what allows an agile executive to quickly understand underlying cost drivers, gain stakeholder alignment on spend decisions, and act on strategic intents quickly.

What distinguishes high-performing executives and teams from the rest of the pack? They leverage cloud consumer-grade technology with three critical elements in mind:

- **Ease-of-Use:** Accelerate savings and impact realized from the enterprise spend by implementing agile software. Cutting-edge sourcing applications come with user interfaces for establishing high adoption across suppliers, stakeholders, and sourcing managers—and the ROI is realized in weeks or months (not years).
- **Collaboration:** In a world of real-time collaboration, software is a make or break investment. Strengthen sourcing's influence with both internal stakeholders and external suppliers through a collaborative interface.
- **Visibility:** Centralized data allows a more transparent experience for suppliers, and enables the measurement of sourcing impact down to the bottom line.

When sourcing and procurement are aligned with top-level vision and empowered by technology capable of driving successful business outcomes, the payoff for the enterprise is huge. Data points that show collaboration and automation allow enterprises to not only yield savings faster, but also manage more, improving overall operational efficiency. As this Harvard Business Review Analytic Services study demonstrates, high-caliber sourcing and procurement teams use data, collaboration, and automation to effectively guide decisions and improve speed to market—and the entire enterprise reaps the benefits.

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HIGH-PERFORMANCE SOURCING AND PROCUREMENT DRIVING VALUE THROUGH COLLABORATION

Sourcing, procurement, and supply-chain management are critical to enterprise success

NO ENTERPRISE IS AN ISLAND; each one exists as part of an expansive ecosystem of customers, competitors, and collaborators. At their core, enterprises must generate economic value by identifying and addressing their customers' needs more efficiently and effectively than their customers can themselves. To thrive, they must also address those needs better than their competitors. And to succeed in serving customers, besting the competition, and achieving growth and profitability objectives, companies ultimately must rely on a group of critical collaborators: their suppliers and vendors. In an era of rising customer expectations, intensifying competition, increasing globalization, and rapidly changing business conditions, high-performance sourcing, procurement, and supply chain management have become crucial to enterprise success.

Historically viewed as back-office operational functions, sourcing and procurement are now strategically at the forefront of the business, helping companies not only maximize efficiency, but also respond flexibly to the demands that drive the marketplace. Strategic sourcing—including activities such as alignment of plans to business objectives; supplier research, assessment, and development; contract negotiation; and supplier relationship management, including risk management—today plays a wide-ranging and highly influential role in the enterprise's effort to address business challenges, build strategic partnerships, and maximize opportunities. Enterprises that focus on strategic sourcing can generate substantial economic value not just by eliminating waste, reducing costs, and improving administrative efficiency, but also by building stronger relationships that can make them more competitive while improving margins and simultaneously increasing the speed of procurement.

Despite the growing recognition of strategic sourcing's influence on bottom-line success, many of even the largest enterprises still execute sourcing and procurement activities using an ungainly combination of legacy systems, spreadsheets, email, and manual processes. A recent Harvard Business Review Analytic Services survey of 376 senior executives, for example, found that many companies are making little use of advanced digital technologies for non-customer-facing operating activities, including sourcing and procurement. [figure 1](#) The lack of technological integration and automation in this area is particularly problematic given the increasing pressure to run the business efficiently, make strategically aligned decisions around the globe, provide valuable insights, and improve collaboration across the board.

Happily, enterprises seeking greater visibility, integration, and automation in the sourcing and procurement arena now have cloud technology options that can generate positive results quickly, with a minimum of implementation-related risk. Leading-edge technology platforms can bring together previously siloed personnel and processes, remove resource-intensive and error-prone manual interventions, provide end-to-end visibility into sourcing projects and performance, facilitate an enterprise-wide sourcing methodology, and allow both internal and external stakeholders to work together effectively in real time. This can provide the foundation for a radical rethinking of procurement and a sourcing transformation—which, in turn, are vital objectives for any enterprise striving for strategy-driven results.

FIGURE 1

PROCUREMENT LAGS THE ORGANIZATION IN DIGITAL TRANSFORMATION

The use of digital technologies in noncustomer-facing operating activities, including sourcing and procurement, lags behind technology utilization for other critical business activities.



SOURCE HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JUNE 2016

“A strategic inflection point is a time in the life of business when its fundamentals are about to change. That change can mean an opportunity to rise to new heights.”

ANDREW S. GROVE

KEY BENEFITS OF STRATEGIC SOURCING

Bridging the business with a crucial constituency—its suppliers

Today’s sourcing and procurement function has come a long way from its original back-office and tactical operating focus. Once almost exclusively concentrated on driving down costs and executing the nuts and bolts of contracts, high-performing sourcing and procurement teams now have the opportunity to manage global networks of suppliers, embrace new procurement models, improve speed to market, and drive enterprise innovation.

Pressure on the sourcing component of the broader procurement function has become especially acute, as demands for strategic planning and alignment, business consultation and decision support, negotiation, risk management, and supplier relationship management have intensified. “Over the past 20 years, companies have started investing more in the strategic work of sourcing and procurement, rather than the transactional work,” says Mike Daher, principal and U.S. sourcing and procurement practice leader at Deloitte Consulting LLP. “Business requirements have become more complex, and sourcing has become more global. Because sourcing sits between the business and the supply markets, expectations for them to be able to optimize relationships with suppliers and extract more value from the supply markets have increased.”

Propelled by expanding and increasingly complex business requirements, high-performance sourcing yields a wide range of business benefits, including:

Driving efficiencies

Traditionally the primary measure of sourcing effectiveness, achieving cost-savings targets—including hard-dollar savings and soft-cost savings gained through demand management, consolidation, or extraction of additional value (e.g., higher-quality goods, more extensive service or support)—is now a baseline requirement for a high-performance sourcing and procurement function. “We have a goal of saving 5 percent of our spend year-on-year,” says Larry Wood, finance operations director at Intuit, noting that theirs is a typical, best-in-class target within industries where spending is concentrated in indirect categories. Although such savings may not always be redistributable to the business lines, “They’re real value that we drove to the organization,” Wood says.

Focusing on strategic sourcing doesn’t only yield savings, according to sourcing and procurement leaders—it yields savings *faster*. But that doesn’t mean that strategic sourcing is simply about driving a harder bargain on a transactional level; in fact, high-performance sourcing uncovers savings opportunities through closer engagement and collaboration with both internal stakeholders and external suppliers. Indeed, today’s strategic sourcing function has an extraordinarily broad scope, with an unparalleled perspective on both the requirements of the business and on the supplier

landscape, including suppliers' capabilities and competitive motivations. That perspective allows sourcing teams to stimulate healthy and constructive competition, while accounting fully for business stakeholders' needs and objectives.

Sourcing and procurement leaders point out that any cost savings realized through sourcing improvement drop directly to the bottom line, which in turn can have a substantial impact on profitability. If a company sells an additional product, a large percentage of the sale often goes to cost of goods sold and to the cost of sales, boosting revenues but ultimately improving profitability only nominally. By contrast, "every dollar that my sourcing and procurement team saves through its efforts goes straight to the bottom line," says Greg Tennyson, chief procurement officer at VSP Global, a doctor-directed organization that includes the nation's largest not-for-profit vision benefits company. "The return on the bottom line is arguably greater when you negotiate and drive savings to the bottom line versus selling more product."

Even as they seek to achieve further cost savings and cement their roles as valued partners and consultants to the business, sourcing and procurement organizations are also under pressure to improve operational efficiency—and they are succeeding. A recent Accenture study shows that a typical procurement organization's operating cost is around 0.8 percent of the company's overall spending, down from 1 percent in 2007. In industries in which company spend tends to be concentrated in fewer categories, the cost of procurement can be as low as 0.5 percent on average.¹ The upshot of all these savings and efficiencies? Enterprises that implement strategic sourcing methods and processes can see returns of five to ten times their original investment. High-performing sourcing and procurement functions save \$82 for every \$8 in cost to procure, according to Accenture—effectively saving more than 10 times the cost of the procurement function.

Pursuing proven processes from an enterprise perspective

Although achieving cost savings and other efficiencies continues to be an important outcome of high-performance sourcing and procurement, practitioners in the field emphasize that these are just the tip of the iceberg in terms of the impact that sourcing can bring to the enterprise. "It's not just about cost savings—which was the traditional mind-set of the procurement function," says Neil Aronson, head of global strategic sourcing at the San Francisco-based online transportation network firm Uber Technologies Inc. "It's about continually improving and reevaluating how we're buying to make sure we're getting the best outcomes," Aronson says. "The sourcing function brings a rigorous process to bear to drive value beyond cost savings." In addition to a meticulous, enterprise-level approach to sourcing activity, sourcing professionals also bring deep market insight, well-honed expertise in negotiating and managing supplier agreements, and a wide-angle view on supplier relationships across the company's business lines, functional areas, and activities across the globe.

The ability to adopt that bird's-eye view across the enterprise and across the supply base is essential to the value that sourcing and procurement can deliver, says Dean Edwards, vice president of global strategic sourcing at clothing company Levi Strauss & Co. "We get to see an awful lot across the organization, and can help make connections throughout the various parts of the enterprise," Edwards says. "If we see one function undertaking a project, and a close parallel somewhere else in the company, we're able to connect those dots, so that those stakeholders have visibility into

¹ Procurement's Next Frontier; Accenture (2015). https://www.accenture.com/t20161127T221524_w_w_/us-en/_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_14/Accenture-Procurements-Next-Frontier.pdf

“At times, it’s difficult for business stakeholders to even know what they need—especially in a company that isn’t just pushing the envelope, but inventing the envelope.”

what’s going on.” In many cases, Edwards says, separate teams engaging in parallel activities are able to pool their resources and buying power to come up with a sourcing approach that benefits both groups and the enterprise as a whole.

Solving business problems and improving speed to market

High-performing sourcing organizations specialize in partnering and collaborating with internal stakeholders to gain a deep understanding of business requirements. At the same time, in their role as an expert consultant positioned between the enterprise and the supply base, they are closely engaged with suppliers and vendors to come up with innovative solutions and fresh ways of approaching business problems. This can be particularly important in extremely fast-growing organizations that need to move quickly to find innovative solutions for an ever-changing constellation of business needs.

At one Silicon Valley-based, hyper-growth software firm, sourcing and procurement team members are “part of the larger project team, focused on supporting the needs of the business, whether that’s buying a widget that’s never been thought of before or a new service that’s never been considered before,” according to the leader of the company’s sourcing function. “At times, it’s difficult for business stakeholders to even know what they need—especially in a company that isn’t just pushing the envelope, but inventing the envelope. My team members can help guide stakeholders along that journey.”

Encouraging constructive competition

The fresh perspective that sourcing and procurement organizations bring to bear to support the business can also help enterprises set the conditions for constructive competition among members of the supply base—producing opportunities to derive greater business impact from its supplier relationships. “Business stakeholders are experts in their respective domains, but they naturally develop relationships as they engage in the business from day to day,” says Aronson. The sourcing and procurement function can help support sound decision making by providing the business with an objective point of view. “Sourcing and procurement can offer a fresh and different perspective—asking hard questions and driving a competitive environment,” Aronson says. For their part, suppliers participating in an RFP process that they perceive as fair, transparent, and standardized are more likely to submit their best bids because they’re confident that they’ll be judged fairly.

That fresh perspective and focus on fostering constructive competition can involve challenging established conventions, according to sourcing and procurement leaders—a process that is often supported by new, best-in-breed technology solutions that can help facilitate highly efficient sourcing interactions through methods such as real-time reverse auctioning. At Intuit, electronic reverse auctions are reducing program cycle times and delivering millions of dollars in hard savings

Sourcing and procurement groups particularly excel at working with in-house counsel to systematically identify and scrutinize high-risk contracts.

to the business. “We recently conducted a reverse auction with telecom vendors, which I think really pushed the envelope,” says Intuit’s Wood. “Even some of our consultants cautioned us that telecoms have complex pricing processes, governed by pricing boards, and that they wouldn’t be able to do dynamic pricing in a real-time environment. But we found that it actually worked quite successfully in practice—just as a reverse auction should,” he says, noting that the company’s cloud-based, reverse-auction solution provider developed new capabilities to accommodate telecoms-related bidding “almost overnight.” High-performing sourcing and procurement organizations are not only challenging assumptions about individual sourcing relationships, but even long-held, well-established spending assumptions.

Managing supplier-related risk and ensuring compliance

As business requirements and compliance needs become more extensive and complex, so do the risks associated with supplier relationships. Ensuring compliance with both internal policies and external regulations is more challenging than ever before and requires the participation of a broader set of stakeholders. High-performance sourcing and procurement organizations contribute enterprise-wide value by providing a collaborative environment that has a real-time lens on business agreements including—but not limited to—contracts governing purchases. As one sourcing leader points out, “Legal people will tell you: risk is not just about the dollar amounts involved. In certain complicated areas of spend, we’re actually reviewing contracts for partnerships that have zero dollars in value assigned to them. A strategic sourcing organization should support risk mitigation on any agreement of consequence that the company is entering into, because at the end of the day, the company is committing to certain liabilities by entering into that agreement. The legal department and the sourcing function are two of the last gate checks for these types of risks.”

Sourcing and procurement groups particularly excel at working with in-house counsel to systematically identify and scrutinize high-risk contracts (as opposed to lower-risk agreements), regardless of associated dollar amounts. As Gregg Focht, global indirect sourcing operations leader at Owens Corning, notes, “A small-dollar award can become a multimillion-dollar lawsuit if the right contractual language isn’t in place.”

One of the top risk priorities for sourcing and procurement organizations has traditionally been—and continues to be—ensuring business continuity by avoiding disruptions with key suppliers. But as more and more digital information is developed between businesses, sourcing and procurement groups must increasingly factor the ownership, management, and use of information into their negotiations with vendors and suppliers. The security of information is now a high priority for many sourcing and procurement teams’ risk management and compliance efforts. “In our digital world today, we have a two-headed dragon that we have to slay: not only business continuity, but also cybersecurity—protecting the data that’s in our systems,” says Intuit’s Wood.

Information-security exposure can arise not just in cases where enterprise partners are developing and sharing data as they do business, but in a wide and expanding array of business relationships where the risk may be far from obvious. As VSP Global's Tennyson points out, the ubiquity of internet-connected devices in remote monitoring tools and equipment placed by third-party vendors can create a tempting target for hackers. Comprehensive supplier onboarding and offboarding processes, along with close monitoring and management of key suppliers throughout the life of the engagement, are now key contributions that sourcing organizations are making to ensure that information handling remains compliant and secure—and that enterprise practices are in line with an ever-widening range of regional and global regulations that govern the use and management of data.

MEASURING OUTCOMES

Focus on sourcing improvement yields substantial returns—fast

On one level, quantifying the value of high-performance, strategic sourcing and procurement seems straightforward: in addition to improving operational efficiency—measured through metrics such as decreased cycle times, percentage of on-time payments, and many more—high-performance sourcing and procurement yields clear cost savings, which can either drop to the bottom line or be reinfused into the enterprise. In practice, however, measuring and understanding the value of high-performance sourcing and procurement extends far beyond simply monitoring operational-efficiency metrics and identifying cost savings.

When measuring and reporting business impact, sourcing and procurement organizations tend to be conservative—careful not to claim credit for the efforts of their colleagues in the business, and equally careful to validate savings and efficiency gains, often with assistance from the office of finance. This approach provides business leaders and decision makers with clear insight into the value driven specifically by sourcing and procurement. As a sourcing leader at one fast-growing software firm explains, “We are conservative in the way we assess savings. We only report the number that sourcing has successfully been able to influence. If our business partners have already been able to negotiate 10 percent or 20 percent off, we assess our contribution from there—we don't count what the businesses were able to achieve on their own.”

The definition of these savings is becoming more nuanced, as sourcing and procurement teams strive to report, understand, and improve their value contribution. “As we've evolved, our definition of savings has evolved with us,” says Levi Strauss & Co.'s Edwards. “We've gone from simply ‘A saving is a saving’ to ‘How do we categorize this saving?’ What should be categorized as cost avoidance? What qualifies as negotiated savings? What qualifies as hard money that we can free from the budget and redirect to other projects?” The finance team is a key partner in the effort to understand and communicate the sourcing and procurement team's impact, Edwards notes. “We are very focused on that partnership with our finance colleagues, and also on communicating results to our business partners, so that there's recognition,” he says.

In addition to delivering hard- and soft-cost savings, strategic sourcing and procurement teams increase overall impact by freeing the company's working capital, which can then be strategically invested in other areas of the business. Sourcing teams regularly negotiate more favorable payment terms to improve their company's working capital position, but they also contribute to operational improvements that boost working-capital efficiency—for example, by arranging with a supplier to deliver goods on a just-in-time basis, while holding inventory in the supplier's facilities.

“It’s our annual ritual to establish goals for value creation. They’re generally stretch goals, and we’re constantly looking for new and creative ways to meet them.”

GREGG FOCHT, GLOBAL INDIRECT SOURCING OPERATIONS LEADER, OWENS CORNING

At Owens Corning, every organization in the global sourcing function measures a “value creation index,” which encompasses cash and working-capital metrics such as discounted cash flow, in addition to hard-savings metrics. “It’s our annual ritual to establish goals for value creation. They’re generally stretch goals, and we’re constantly looking for new and creative ways to meet them,” says Focht. These efforts have added up to impressive results. In 2016, Owens Corning’s sourcing team was able to contribute millions of dollars of hard savings to the company, which helped it achieve record levels of adjusted EBIT and free cash flow.

While sourcing and procurement groups are continually working to refine their reporting of the highly quantifiable dimensions of their impact, some aspects of their contribution are much more difficult to quantify. Quantifying the value of risk avoidance, for example, is notoriously challenging; many sourcing and procurement groups measure their risk-related performance using operational metrics tied to the execution of risk-management processes. Also difficult to quantify are sourcing and procurement’s contribution to innovation, creative problem solving, and other business outcomes beyond savings—contributions that may well be manifested in additional revenues, but not in outright savings. For these, reporting often takes a narrative form.

Indeed, companies can substantially improve their financial performance by working on sourcing and procurement without significant disruption in their operations and without having to wait for moves focused on revenue generation to produce results. For these reasons, sourcing and procurement improvement was a high priority in an overall operational-improvement effort at Australia-based manufacturer Bradken, according to CEO Paul Zuckerman.

When he joined the company, Zuckerman says, Bradken was “an old-school production and engineering-oriented business,” focused on its core work of using its highly sophisticated technology and engineering know-how to mold heavy equipment for the mining, heavy manufacturing, and construction industries. As part of a global effort to drive overall business performance, improve efficiency, and refine supply chain execution, Zuckerman and his management team quickly identified “plenty of opportunities to improve business outcomes without selling more products.” Standardizing and centralizing sourcing activity was an obvious place to start, Zuckerman says, because it could yield very substantial value, quickly. Unlike customer-driven improvement efforts, “sourcing is something that’s almost entirely within our control,” he notes. “Not only are we delivering a prize in the form of substantial added value to the business, but we can chase that prize at our own pace. Inflection points don’t usually look inspirational at first glance, but leveraging the familiar is what we did to reinvent ourselves and it paid off,” Zuckerman continues. Bradken is now generating impressive returns through its sourcing-improvement efforts, which have been well received by investors; Zuckerman says the company is realizing between AUD5 and AUD10 for every AUD1 that it’s spent on sourcing. The potential to drive 400 percent ROI—or

more—through a self-paced, self-driven effort is a big reason why many companies are taking a closer look at sourcing and procurement.

Although some dimensions are more straightforward to quantify than others, the concrete financial returns of focused sourcing and procurement efforts are quick to accrue and very easy to identify, executives say. The work is tangible and measurable, with a rapid and unambiguous impact on shareholder value. Once the company undertakes improvement, executives point out, the financial benefits begin to accumulate rapidly. As Bradken's and Owens Corning's results demonstrate, companies that focus on strategic sourcing enjoy not just enhanced profitability, but a range of positive results including improved cash and working-capital performance—results that, in turn, are rewarded by investors.

KEY CONSTITUENTS: INTERNAL STAKEHOLDERS, OUTSIDE SUPPLIERS

Winning influence, boosting collaboration

In their role as a key bridge between the business and its supply base, strategic sourcing teams collaborate closely with a broad array of internal and external stakeholders. Not only do they need to understand the ins and outs of the company's supply base—from competitive players (and their particular goals and drivers) to trends in innovation to shifting business models to high-level market drivers and much more—sourcing must also align closely with internal business stakeholders to ensure that its actions support business objectives and, ultimately, help realize the company's broader strategy.

Indeed, the sourcing and procurement function's essential path to value contribution stems from its ability to gain influence among internal business stakeholders. "Sourcing professionals have to be really good at influencing the business, leveraging their EQ skills, and wearing multiple hats. In terms of how they're spending their time, they may have to invest up front to sell their services and value add, but this pays off in the long run when you build a cadence of active partnering on critical business initiatives," says Antonio Humphreys, senior manager for global procurement at Adobe. At Levi Strauss & Co., which has in recent years invested substantial resources in its sourcing function as part of an overall effort to streamline the business and improve performance, "There was much more of an outreach initially to various functions as they got comfortable with our capabilities and with the value that we offer," notes Edwards, adding that his sourcing teams are now in high demand at the company.

Spending time in close consultation with business stakeholders is the activity that defines truly strategic sourcing, according to practitioners. "You cannot do strategic sourcing without spending time with the decision makers and executives in the organization. You have to understand their vision, where they're taking the business, and how that direction will ultimately translate into what they are purchasing," says Wood. Adobe's Humphreys makes a similar point. In his role, Humphreys manages marketing sourcing for the company's portfolio of marketing- and sales-services spend. "If I were to speak to our CMO about things not related to her core objectives and metrics, then it's a show stopper. My team has to be aligned and focused on her business goals so that we're all successful in the end," he says.

At most enterprises with high-performing strategic sourcing teams, formal mechanisms help foster internal collaboration. For example, the annual development of strategic plans ensures

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that sourcing professionals are involved in key initiatives from their inception. But acting as a consultant and collaborator with the C-suite and the wider enterprise involves more than just participating in formal planning processes—however valuable that may be. High-performance sourcing and procurement teams are engaging in real-time collaboration with their colleagues across the enterprise and with suppliers around the world, focusing attention on understanding business imperatives, and investigating how sound sourcing methods and processes can help achieve those business goals.

In addition to proven processes for identifying requirements and evaluating suppliers, one of the most important things that sourcing and procurement teams can bring to the table to gain the attention and the buy-in of decision makers is information, according to sourcing and procurement leaders. Competitive business requirements are raising the bar for procurement analysis, as total cost of ownership modeling and supplier optimization techniques become more complex. Enhancing these analytical capabilities helps sourcing teams match business requirements with the capabilities of the supply base.

Leading-edge sourcing organizations are also seeking to serve the business by bridging sourcing (and, ultimately, operations) and finance. Many high-performing sourcing teams are working, for example, to integrate sourcing information—in particular, spend analytics—more closely with financial planning and analysis (FP&A) processes, including the annual budgeting process. By “marrying analytics on historical spending with directionally useful information on planned expenditures by business unit for the year, we gain insight into any recurring trends year over year,” says VSP Global’s Tennyson. “If there are new projects planned, we then engage with the business and go deeper to identify what they’re doing and how we can help. It’s an opportunity to gain key insights into what the business is doing and to engage to do a sourcing event.”

Close collaboration between the sourcing and FP&A functions is essential to avoiding unwelcome financial-performance surprises, notes Intuit’s Wood. “It’s important too for sourcing and FP&A to work together on the front end of the annual planning process, to ensure everyone understands how projects will be funded and that there’s visibility into expected cost streams,” he says. “It’s important for us to understand the business units’ road maps for sourcing, including upcoming projects, in a form that we can share and track with FP&A to make sure there’s a tie into their system. Financial surprises continue in this world for all kinds of reasons, and one needs to have a robust connection between sourcing and FP&A in order to mitigate some of those.” To facilitate collaboration and communication among sourcing and other functions across the business, Wood notes that Intuit is working toward making spend analytics available on a self-service, on-demand basis to a range of company stakeholders and decision makers, including the FP&A function.

As business stakeholders and the office of finance gain a better overall lens on sourcing activity—and the ability to use sourcing processes to influence business outcomes—they tend to become

more invested in the process. As their involvement in and interest in sourcing increases—along with the underlying complexity of sourcing activities—sourcing and procurement leaders say that it is essential to make interactions with procurement easy, straightforward, and seamless. “Business stakeholders interact with sourcing processes very infrequently—sometimes only once or twice a year,” says Edwards. “Expecting them to retain a lot of detailed knowledge about how the sourcing process works is a bit of a stretch.”

The need to make interactions as easy and friction-free as possible extends to sourcing and procurement’s other major constituency: external vendors and suppliers. Procurement organizations are leaving behind the old-school adversarial, transaction-based approach to suppliers and replacing it with more constructive, collaborative, and transparent interactions that are focused on finding efficient and innovative solutions that benefit all parties. High-growth enterprises, in particular, have a strong desire to be regarded as a “customer of choice”—and thereby gain access to the best offers from the highest-quality, most in-demand suppliers. “You want to be viewed as a customer of choice—a firm that’s easy to do business with,” says VSP Global’s Tennyson. “Suppliers want to operate with buyers that are easy to work with, because it helps them manage their own costs.”

EMPOWERING STAKEHOLDERS THROUGH TECHNOLOGY

Business requirements lead; technology transformation follows

What is the key to sourcing and procurement’s ability to bring facts, information, and analysis to the table, while at the same time ensuring simple and straightforward interactions with internal stakeholders and external suppliers? The right technology systems. A recent Harvard Business Review Analytic Services survey shows that senior executives recognize that failing to experiment with new and innovative systems, persistent ties to legacy systems, and rigid organizational silos go hand in hand to block companies’ ability to make effective use of digital technologies. [figure 2](#) As VSP Global’s Tennyson points out, “Sourcing interactions are enabled through easily accessible technology. When technology provides an easy-to-use collaborative environment that provides suppliers with transparent access to projects, and the process is easy to follow, it signals to them that you value their time and that you will maintain a relationship based on mutual trust. Automation allows all parties to get things done as quickly as possible without a lot of fanfare or oversight.”

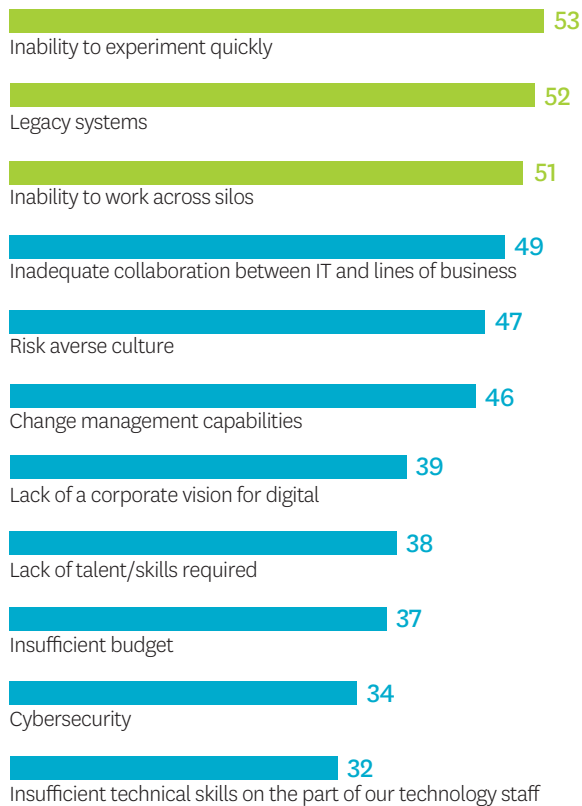
Indeed, putting the right technology solutions in place can help ensure continuity in supplier relationships, support sound decision making based on information and analysis, provide visibility across the enterprise and across the supplier base, facilitate collaboration within the enterprise and among suppliers, and set the conditions for the kind of fair and transparent competition that yields maximum value. The transactional side of sourcing and procurement—the execution of the procure-to-pay process—tends to be reasonably well automated at many companies. But the sourcing process, which generates value by improving collaboration, alignment, and visibility, presents a broad range of opportunities for technology systems to add value. “It’s impossible to drive effective global collaboration using a standard spreadsheet,” says Uber’s Aronson, adding that “having a sourcing solution in place is critical, because there’s always attrition. If you’re only using email to manage sourcing events, you’ll lose a lot of history when someone leaves—but having that history and visibility in a single, searchable repository can drive substantial long-term value.”

Technology and automation also play a major role in ensuring that sourcing and procurement capabilities can scale up as a company grows or its requirements expand. “At a company growing as quickly as ours, technology has been essential to our ability to scale,” says one sourcing executive, adding that her company couldn’t simply “throw more bodies” at its requirements. “We needed to

FIGURE 2

BARRIERS TO DIGITAL TRANSFORMATION

Problems tied to a lack of flexibility—including the inability to experiment with technology, persistent ties to legacy systems, and rigid organizational silos—are the most substantial obstacles to companies’ ability to make effective use of digital technologies.



SOURCE HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JUNE 2016

scale up without asking for a huge investment, which meant we needed to automate,” she continues. As Levi Strauss & Co.’s Edwards points out, the more successful sourcing and procurement teams become at influencing internal stakeholders, the more important it becomes for them to be able to scale up their efforts. “We have a finite resource pool of sourcing professionals, and the demands on their time are only increasing as business stakeholders come to understand what they do and the value they can bring,” he says. “To the extent we can automate activities like savings tracking, project management, RFP communications, and so forth—the more of those things we can at least make easier, the more productive we can be as a sourcing team.”

At Levi Strauss & Co. and in other organizations, technology is helping extend the sourcing function’s reach and influence by placing powerful sourcing tools directly in the hands of the enterprise, while at the same time facilitating the sourcing function’s participation, support, and oversight. At VSP Global, the procurement function is taking its sourcing pipeline tool—which supports its sourcing and procurement professionals by documenting sourcing opportunities, assigning

savings goals, and monitoring conversion of those goals to actual results—to the next level, by placing the origination of sourcing events directly in the hands of its business stakeholders. “It’s a self-service tool for the enterprise to present opportunities to the sourcing professional. The business stakeholder is able to upload information to the system and trigger a sourcing event; then the sourcing professional can step in to collaborate on the event, making sure that sound sourcing processes—prequalification, scoring, and so on—are followed,” Tennyson says. “In most cases, the business stakeholder is the subject matter expert on their needs. Why not give them the comparative tools they need that enable them to take a holistic view of the opportunity and collaborate with others from the inception of the sourcing event? It’s about automating and simplifying the process by putting tools at their disposal to run the business more efficiently, while procurement focuses on creating better business outcomes in its advisory role.” Taking this approach to sourcing and procurement technology, Tennyson adds, leverages the capacity and talent already in the business to promote overall efficiency and better decision making.

A creative, dynamic approach to technology

As important as systems may be to reaping maximum impact from sourcing and procurement activity, few enterprises are able to find a single sourcing and procurement solution that will optimally address their complex needs. Even mature manufacturers that focus on sourcing direct goods and services through conventional supply chains can find it difficult to implement a single technology suite that will address the full constellation of sourcing activities effectively. “It’s challenging to find a single, integrated end-to-end solution,” says Owens Corning’s Focht. “They’re out there, but what we at Owens Corning discovered is that very few providers are good at the whole. Their technology has robust features, but can be extremely slow, clunky, and difficult to use in other areas. Because our team is global, we needed an easier way to collaborate, a way the older legacy systems could not provide. To address this disconnect, we adopted an automated and cloud-based solution so that the team, the business, and suppliers could collaborate in real time.” The need for easy-to-use technology may be even more acute among today’s growth companies, which tend to source large volumes of complex indirect services that must be tailored closely to meet highly specific—and rapidly changing—business requirements. “Even some of the newer solutions contain a bias toward manufacturers. But it’s harder to ‘catalog’ services the way you catalog manufactured parts,” says Intuit’s Wood.

Many companies interested in supporting sourcing and procurement activity through technology find themselves presented with a choice: in broad terms, either an integrated, end-to-end software application suite that addresses most or all components of the source-to-settle process, or a combination of best-in-breed point solutions and custom-built or legacy systems. While Intuit’s Wood believes that the “best-in-breed versus integrated suite” question is a “conundrum,” he notes that “every suite has strengths and weaknesses, and weaknesses in even one module can erode its overall value. Sourcing and procurement software suites can be costly, and because they’re typically implemented on-premises—rather than in the cloud—spooling them up is time-consuming and risky, requiring extensive IT planning, particularly since they often require extensive data entry and their user interfaces tend to be (to paraphrase virtually every executive interviewed for this piece) “incredibly clunky.”

The best-in-breed path, by contrast, is wholly consistent with the dynamic, creative, flexible, problem-solving approach that many sourcing and procurement organizations are taking to technology improvement. Because best-in-breed solutions are cloud-based—“the default model for delivering and running applications now,” as VSP Global’s Tennyson points out—they tend

Elevated consumer expectations for technology are a critical factor in determining just what will qualify as an intuitive, easy-to-use, valuable technology solution.

to be much less costly, quicker to implement, and more flexible. Best-in-breed solutions offer a community of fellow users that can provide insight into how to use tools effectively in practice. Vendors of best-in-breed solutions also tend to collaborate more with their customers and constantly look for ways to improve. Because their platforms are built on easily adaptable, modern technology architectures, best-in-breed vendors are able to release new capabilities in response to new customer requirements in short order. The user interfaces of best-in-breed applications—built with consumer sensibilities, expectations, and work habits in mind—are also more likely to be simple, elegant, and extremely easy to use. In general, although executives interviewed for this report are conscious of interoperability issues and challenges with data integration, most agree that the only path to an end-to-end, best-of-breed solution for sourcing and procurement is to implement point solutions wherever possible, custom build additional capabilities, and focus on managing the points of connection between solutions.

Much of this approach seems to come down to a desire for business requirements to lead and technology solutions to follow (as opposed to forcing the needs of the business to conform to system requirements). On the one hand, the off-the-shelf solutions that make obvious sense, executives say, are cloud-based, simple, and intuitive and offer easy-to-recognize benefits—whether in the form of information, analysis, workflow guidance, simplified communication, or something else—that can be put to work immediately, with a minimum of training. Ease of use, combined with genuine usefulness, virtually assures high rates of adoption, which in turn make it possible for the business to realize rapid returns from its technology investment. When adopting an e-RFP tool to manage RFP processes and RFP-related communications, for example, Levi Strauss & Co. sought a solution that was “simple, straightforward, and easy to use,” says Edwards. “We didn’t want something with too many bells, whistles, or complexities. If the system is complicated, with a lot of bells and whistles we don’t need, we expect the cost to reflect all those bells and whistles. We were looking for something intuitive to make communications easier and give stakeholders visibility into sourcing activities.”

On the other hand, solutions that require the enterprise to adapt existing processes and business structures to fit the system’s built-in requirements are looked upon much less favorably. “I remember having to change my whole sourcing and procurement process because the company adopted a solution that didn’t support it,” says one executive. “It caused a lot of pain and manual work. Were those costs being factored into the business case for that solution? I don’t think so,” she says.

Elevated consumer expectations for technology are a critical factor in determining just what will qualify as an intuitive, easy-to-use, valuable technology solution. “People use their phone today to do business tasks,” Wood says. “They’re accustomed to using a favorite social channel. And they expect the same intuitive UI when they interact with their work systems. If you don’t deliver that as a procurement and sourcing organization, you’re going to have an uphill battle.” At Levi Strauss & Co., “The entry-level analysts on my team are less accepting of off-the-shelf solutions

unless they demonstrate themselves to be really simple and really effective,” says Edwards, adding that team members entering the profession “have a strong inclination to analyze the data themselves” using standard business applications, so they can adapt their analysis to their own job requirements. “They’re kind of like mini-MacGyvers,” Edwards says. And as VSP Global’s Tennyson puts it, “Think of the outcome you’re driving toward—more spend under management, greater business impact from sourcing and procurement activity, and enhanced collaboration with suppliers to provide important sources of innovation. What enabling systems are required to make all of that happen?” he asks. “If a system is difficult to use, it won’t be widely adopted, and you won’t get the visibility into spend under management that you’re looking for—you won’t have the opportunity to influence that spend, and you won’t be able to easily facilitate creative collaboration with suppliers. It all starts with the technology. If it’s difficult to use, and it’s not user friendly, you’ll never achieve adoption—and will lose the opportunity to create value.”

Deploying elegant and intuitive solutions that make collaboration easier, smoother, and more productive can also be an important factor in establishing an enterprise’s status as a customer of choice among suppliers. “From a supplier’s perspective, the more difficult it is to do something, whether that’s submitting a proposal or collaborating with their customers, the more they’ll factor that difficulty into their contract. You could actually end up paying higher prices or experience more onerous terms if suppliers get the impression that your technology is antiquated and will require more administrative oversight on their part,” says Tennyson. When it comes to gaining the most value, embracing the digital speed of business pays off.

MAKING THE CASE FOR INVESTMENT

Equipping sourcing teams with the tools they need to drive value

Given the range of benefits—and the very substantial returns—that enterprises can reap from modernizing sourcing and procurement efforts, one might expect the business case for regular technology improvement in the space would be relatively easy to make. But many factors can work against procurement’s bid for resources. One issue may be senior decision makers’ tendency to conflate technology improvement in the sourcing and procurement space with the automation of the procure-to-pay transaction process. At most enterprises, procure-to-pay automation is essentially complete, but sourcing activities such as strategic planning, requirements identification, supplier research and evaluation, contract management, supplier risk management, and more are often conducted using a combination of spreadsheets, email, and other standard office applications.

Another challenge, executives say, is connected with the very nature of procurement as a support function. Cost-conscious, eager to improve efficiency, and committed to directing resources to customer-facing, revenue-generating activities, sourcing and procurement leaders can be reluctant to argue for diverting resources to a cost center—even if that cost center is their own function. “Compared with other areas of the business—even areas that aren’t revenue generating, like financial reporting and compliance—technology to support sourcing in particular is viewed as nice to have but not essential,” says one procurement leader. But the rewards for making the case for technology improvement can be impressive. “At Adobe, we constantly strive to delight our customers, scale our business, and innovate and invest for the future,” says Humphreys. “We recently implemented a new sourcing solution that has enabled our team to easily manage RFx activity across multiple categories, including in reverse auction formats. In one event involving multiple global suppliers, we were able to streamline negotiations to less than four hours and present savings options to the business for millions of dollars below the historical incumbent pricing.”

A cost-conscious, value-focused, business problem-solving culture leads many sourcing and procurement organizations to set very high standards for the technology solutions they adopt. “Something has to really aid us in our overall effort to simplify our business processes, be really adaptable, and be something that we can grow with for us to want to use it,” says Edwards. Another sourcing leader makes the strongest business case possible for technology by making sure that requests for funding are virtually certain to yield very substantial return on investment. “I basically have to make the business justification for investment a no-brainer,” she says, noting that her team had recently adopted a cloud-based, best-of-breed e-RFP solution to manage its RFP processes. In that case, she says, the cloud-based solution was so simple, intuitive, easy to use, quick to implement, and low risk that it easily qualified as a “no brainer.” “It’s not about a particular solution,” says the executive. “It’s about looking at things from a strategic perspective: how do I give my team the tools and solutions they need to do the strategic work we’re asking them to do? I wouldn’t feel comfortable encouraging my team to be more strategic and then not give them the tools they need.”

Indeed, having the right tools is essential for hiring and retaining a best-in-class sourcing and procurement team with the highest-caliber market insight, negotiation skills, analytical prowess, and collaborative business-partnership skills. “In a business like Intuit, retaining key talent is paramount to staying competitive. It’s absolutely critical to our future. Robust, intuitive solutions are essential to promote workforce productivity and retention,” says Wood. “If our workforce can say to us, ‘I won’t have a legacy technology problem if I go to another firm,’ then as a manager, I’m going to have an unnecessary challenge.”

One idea that may be particularly powerful for sourcing and procurement leaders who are building the business case for technology improvement is the parallel between sourcing and the ultimate revenue center: sales. As procurement leaders point out, sourcing and sales processes are mirror images of each other and two halves of a high-performing, bottom-line whole. “In sourcing, we have to qualify suppliers, similar to the way that salespeople have to qualify leads,” says one sourcing executive, noting that sourcing teams maintain pipelines of sourcing opportunities, complete with value-generation targets and conversion assessments. Just as the sales function uses deep profiles of individual prospects, in addition to visibility into the behaviors of the customer base, to improve sales performance, so too do sourcing functions drive value from in-depth, individual supplier profiles and visibility across the entire supply base. If the sales force needs to draw on state-of-the-art CRM and other solutions to gain the depth and breadth of insight that it needs to meet revenue goals, the executive observes, then why shouldn’t the enterprise supply the sourcing function with the technology tools it needs to support its mandate? “Our sales team has the best tools to do their jobs,” the executive says. “Why can’t our sourcing and procurement team also have the best tools that they need to do their jobs?” To do anything else, she continues, would be to send a mixed message to the workforce.

Although enterprise resources are finite by definition, and requirements are expanding to match the rapid pace of business change and growth, transformational sourcing and procurement leaders are optimistic about their ability to access the tools they need to fulfill their function’s growing mandate. As Uber’s Aronson says, “Sourcing is dynamic and exciting. Every day is different. Every day I get to engage with business stakeholders, with our global, collaborative sourcing team, and with our global supply base. Sourcing professionals have the opportunity to leverage all their skills—from analytical and financial skills to marketing and presentation skills—to make a difference. I love it.” For enterprises that have yet to devote significant resources to sourcing and procurement, the opportunity to make a business-transforming difference is waiting.

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