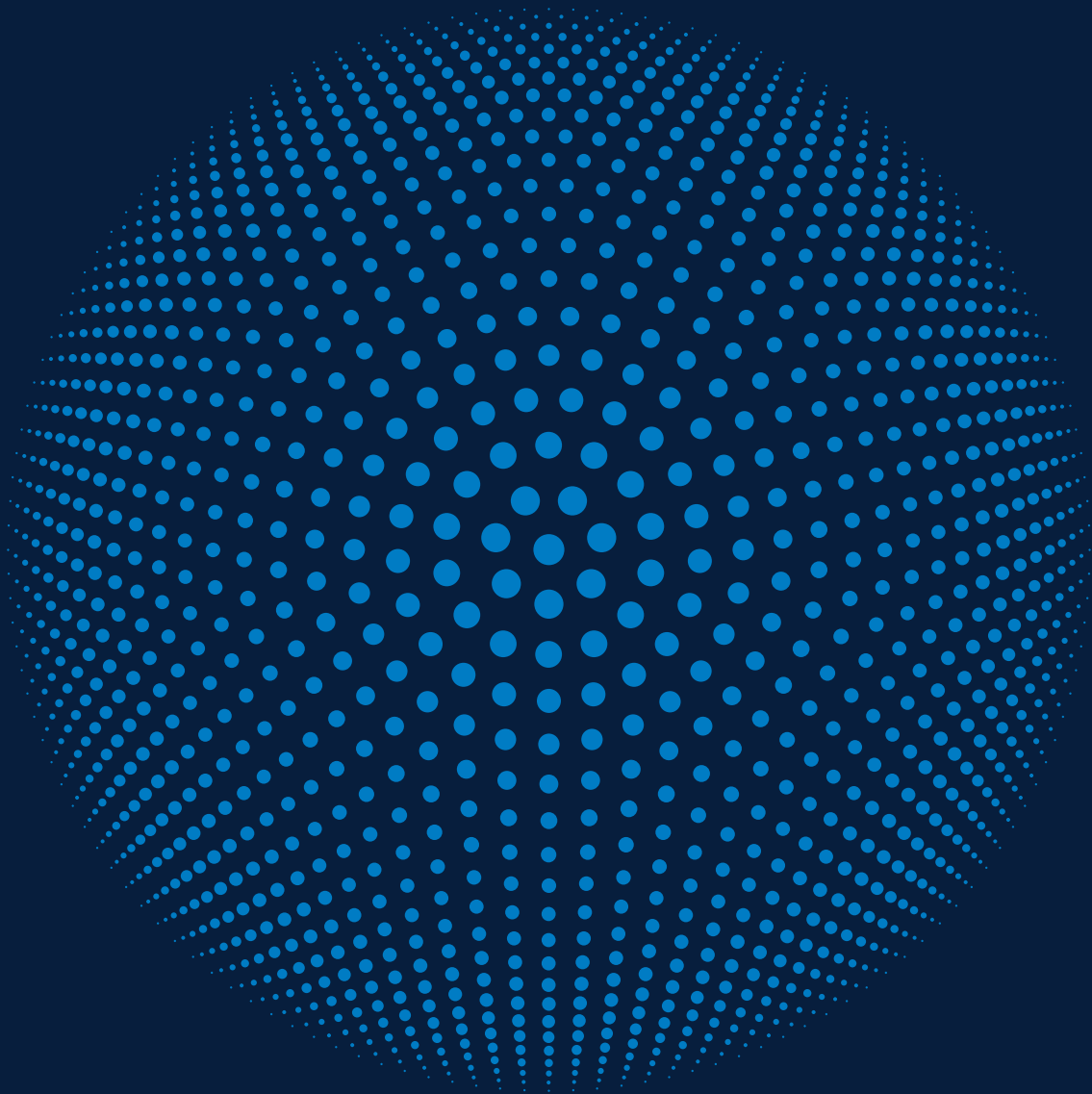




efficio
The Procurement Experts



PROCUREMENT 2025

IS DIGITAL TRANSFORMATION DRIVING
MORE EFFECTIVE PROCUREMENT?

FOREWORD

Welcome to Efficio's study on the digital transformation of procurement, conducted in collaboration with Cranfield University.

Many consulting businesses are discussing the benefits of new technologies, but few may be adopting digital processes to grow their own businesses. At Efficio, we are now a technology-enabled business and recognise that many of our clients are embarking on a similar journey of transformation, learning and opportunity.

Our own journey began with the transformation of some of our more mature processes, as we looked to use technology to make our consultants more effective. As a result, the activities our consultants focus on today are very different to a decade ago. This has allowed us to serve our clients more effectively and in a greater number of ways – although with new technologies continually emerging, our journey is far from over.

Our experiences have motivated us to carry out this research on whether digital transformation is driving more

effective procurement. To what extent are procurement leaders rethinking their approach as a result of new technologies? And what impact is this having – if any?

Strategic sourcing in procurement is what leads to improved product and service levels from suppliers at reduced total cost. High-performing companies manage to achieve 2-3% procurement savings on total third-party costs year on year (source: Bain & Company). This can only be accomplished by accelerating and achieving more through the sourcing process and entering into more innovative, sophisticated arrangements with suppliers.

Technology can be an essential component of that much sought-after year-on-year improvement when implemented correctly, but fundamental to its success is having the right people with the right skills in place to enable informed

decision-making. Our collaboration with Cranfield University on this study is therefore both timely and appropriate.

Through the Efficio Academy we have already developed a procurement and supply chain learning offering with Cranfield, aimed at our consultants and clients. We are delighted to have furthered this relationship with this global research study. Our special thanks go to Michael Bernon, Executive Development Director – Supply Chain Management at Cranfield University, for his invaluable input and support.



Simon Watson
Principal
Efficio

METHODOLOGY

AUDIENCE PROFILE

CPOs and procurement leaders globally with a third-party spend of £50m+



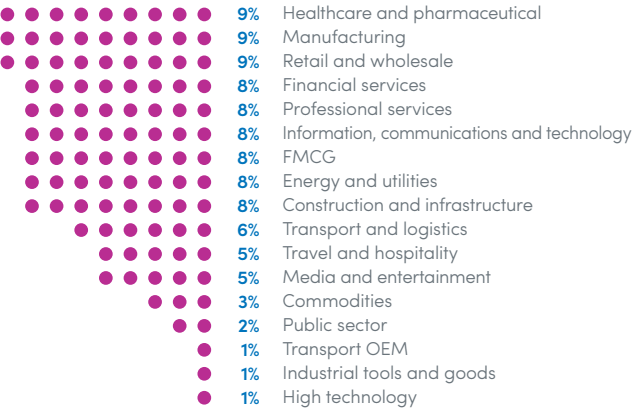
RESPONDENTS

75 Germany
75 UK
75 US

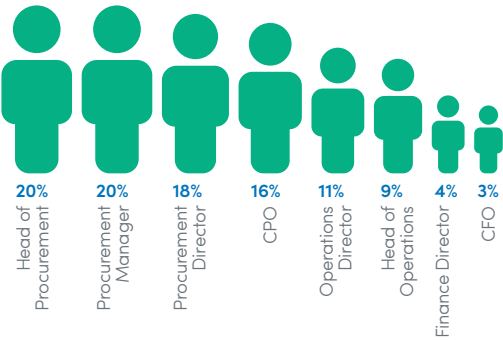
THIRD-PARTY SPEND (\$) ON PROCUREMENT



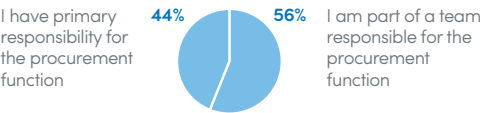
SECTOR



JOB TITLE



RESPONSIBILITY FOR PROCUREMENT



Some of the above data does not add up to 100% due to rounding

EXECUTIVE SUMMARY	06
1. NOW AND IN THE FUTURE	08
2. WHAT'S STOPPING YOU? BARRIERS TO PROGRESS	12
3. ACHIEVING THE FIVE-YEAR VISION	18
4. NEXT STEPS	22
5. THE SCIENCE OF PROCUREMENT	23
6. MALCOLM HARRISON INTERVIEW: TIME TO EMBRACE DIGITALISATION	24
ABOUT EFFICIO	26

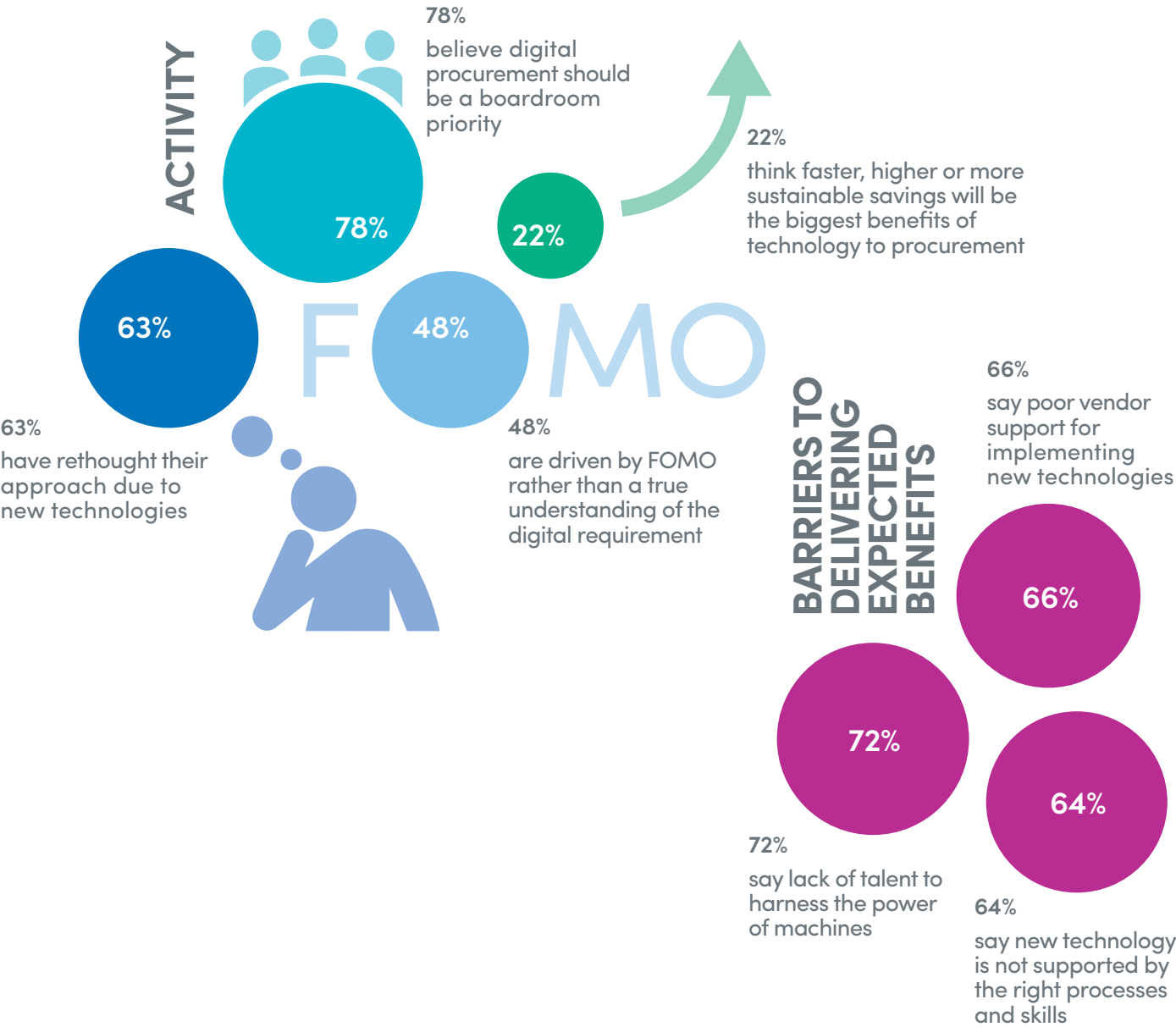
EXECUTIVE SUMMARY

Our survey shows that digital procurement is driving significant activity among procurement leaders, with 63% having rethought their approach due to new technologies and 78% believing it should be a boardroom priority. Much of this activity is, however, being driven by fear of missing out (FOMO) rather than a true understanding of the digital requirement, as acknowledged by nearly

half (48%) of our survey respondents. This inhibits realisation of the full value new technologies can bring.

Almost a quarter of leaders (22%) think that the biggest benefits of technology to procurement will be in the delivery of faster, higher or more sustainable cost savings through the strategic sourcing process.

Among the biggest barriers to technology delivering the expected benefits according to our respondents are lack of talent to harness the power of machines (72%), poor vendor support in implementing new technology (66%) and new technology not being supported by the right processes and skills (64%). Interestingly, the capability of current technology is the least-cited barrier to success, with only around a third (37%) of procurement leaders viewing it as a significant hurdle.



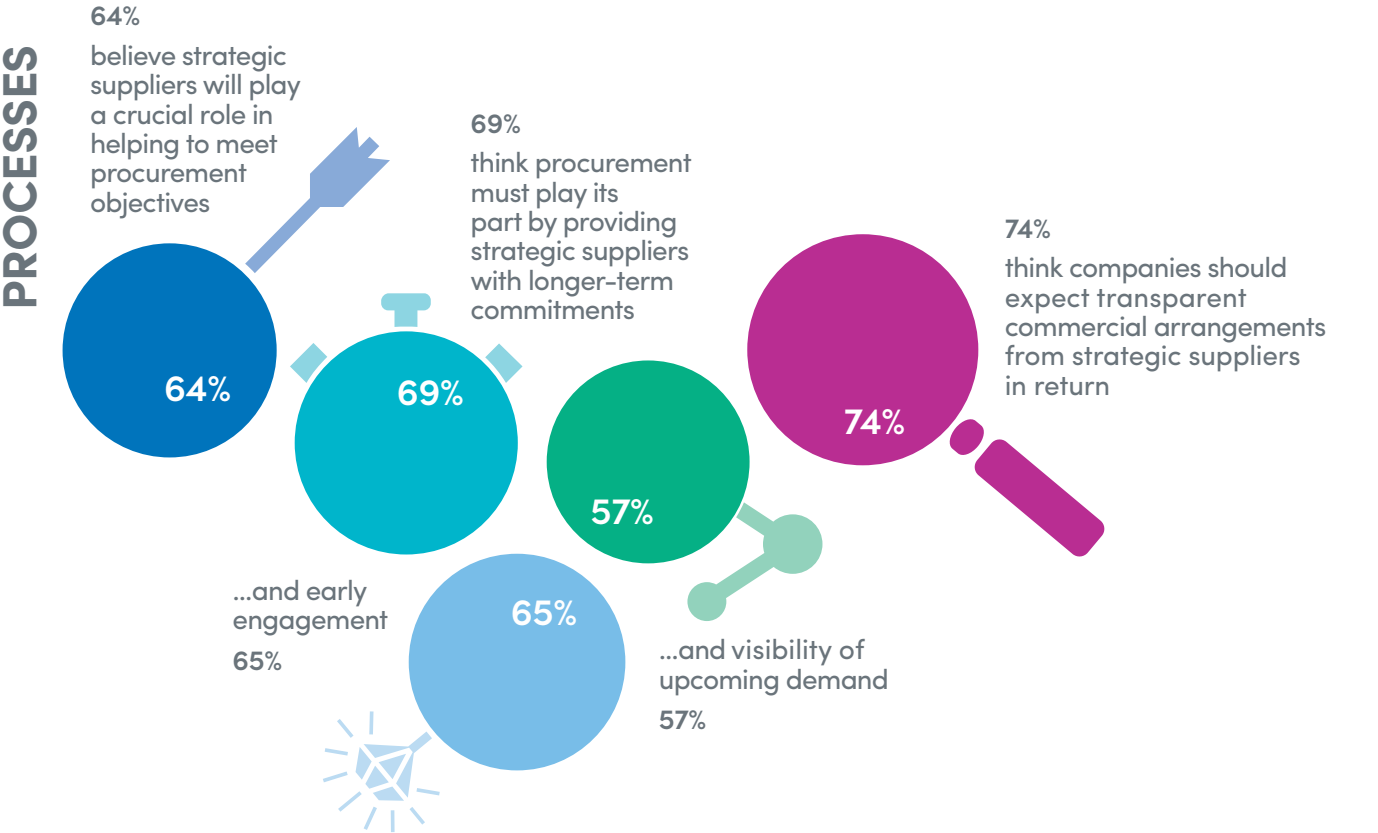
To ensure an optimal return on technology investment, companies first need to take a step back and consider their current and future processes. They then need to decide what roles they want humans and machines to play and how to optimise that synergy.

Nearly two-thirds (64%) of our survey respondents believe strategic suppliers will play a crucial role in helping them to meet their procurement objectives over the coming five years. At the same time, they

think procurement must be willing to give something away in the form of longer-term commitments (69%), early engagement (65%) and visibility of upcoming demand (57%) if it is to expect transparent commercial arrangements in return (74%). New technologies can facilitate all of these and demonstrate why successful digital transformations matter.

By executing a digital strategy, we believe companies can make their procurement functions twice as effective through a

number of different sources, whether faster cycle times or more data-driven decision-making – enabling the function to become more scientific than it has ever been. Necessary for this is the capture and reuse of knowledge, which ensures work is never duplicated or redone and that the procurement team is confident that the decisions it takes will drive maximum value.



1. NOW AND IN THE FUTURE

Where are we now?

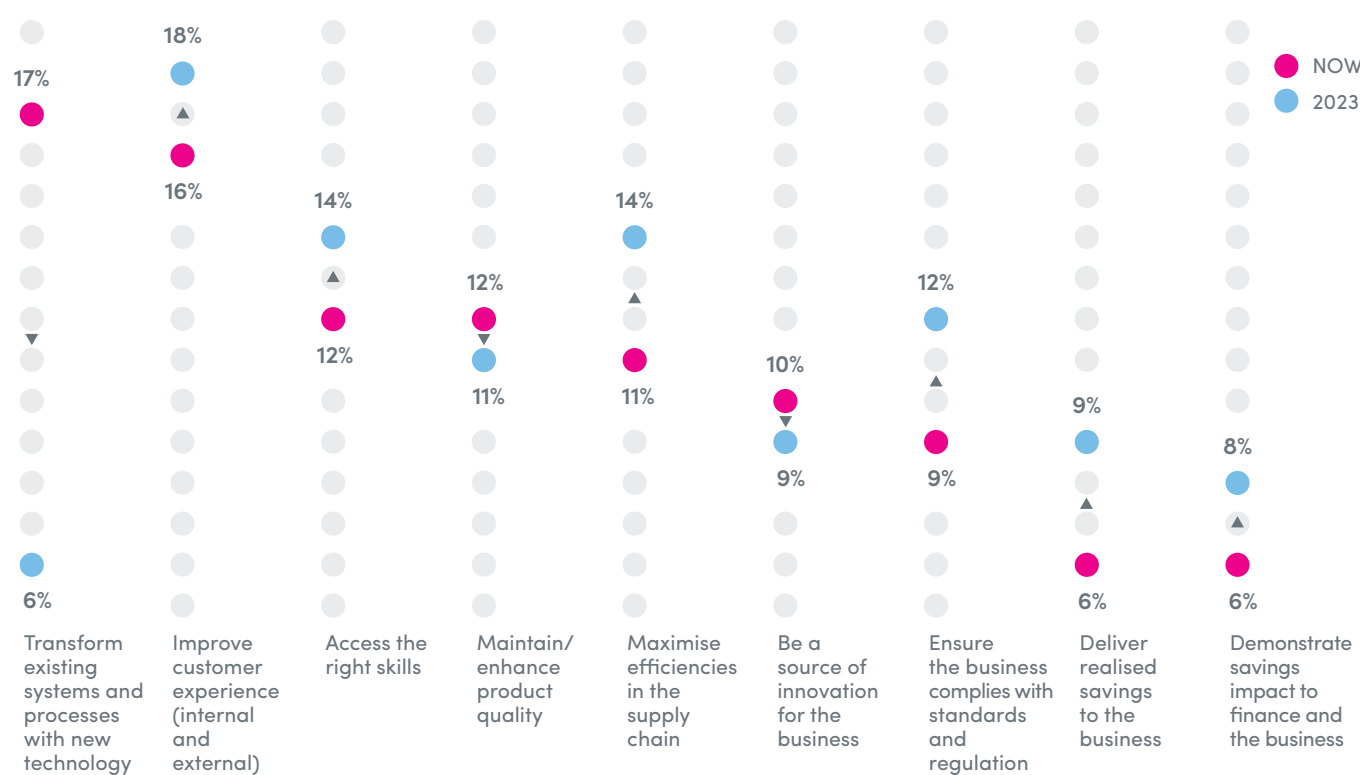
Our survey results present an interesting picture of where procurement functions are now and where they are heading, particularly in terms of digital transformation. Just over three-quarters (78%) of participating companies believe digital transformation should be a boardroom priority, while 42% consider themselves to be ahead of the competition when it comes to delivering this transformation – clearly indicating the importance it plays within these organisations.

This viewpoint is reinforced by the current focus of today’s procurement functions. Transforming existing systems and processes with technology is frequently cited as the top procurement objective for 2018 by our survey respondents, ahead of more traditional aims such as getting access to the right skills, delivering savings and being a source of innovation for the business.

These findings clearly point to a function that is embracing new technologies and the transformation opportunities they can potentially bring. But is this the full story?

Our experience suggests an alternate reality, with many procurement professionals confused by the current technology provider landscape and unsure of which digital solutions can potentially add value to their organisations – both today and in the future. Even of those companies investing in technology, many are, in our view, still leaving significant amounts of time and money on the table while they reinvent the wheel on vital but repeatable procurement activities related to cost reduction and strategic supplier management.

Figure 1 | TOP CURRENT AND FUTURE STRATEGIC PRIORITIES



We believe there are numerous cases of digital transformation activity being driven as much by FOMO as by a true understanding of what the long-term business case for it is. Indeed, a staggering 48% of our respondents agree with this statement. Add to this the fact that some procurement functions believe a one-hit investment in technology will enable them to accomplish their business objectives, and the potential perils posed by a combination of these attitudes are clear. The reality is that companies need to embrace the view that digital transformation is a journey and one they need to remain on top of for the longer term.

Focusing on short-term fixes is not new to procurement functions. Delivering savings that may not be sustainable, failing to place sufficient emphasis on capability development and, even in the case of external players such as consultancies, not focusing enough on the long-term transformation of clients, have all been limiting factors for the industry.

The next five years

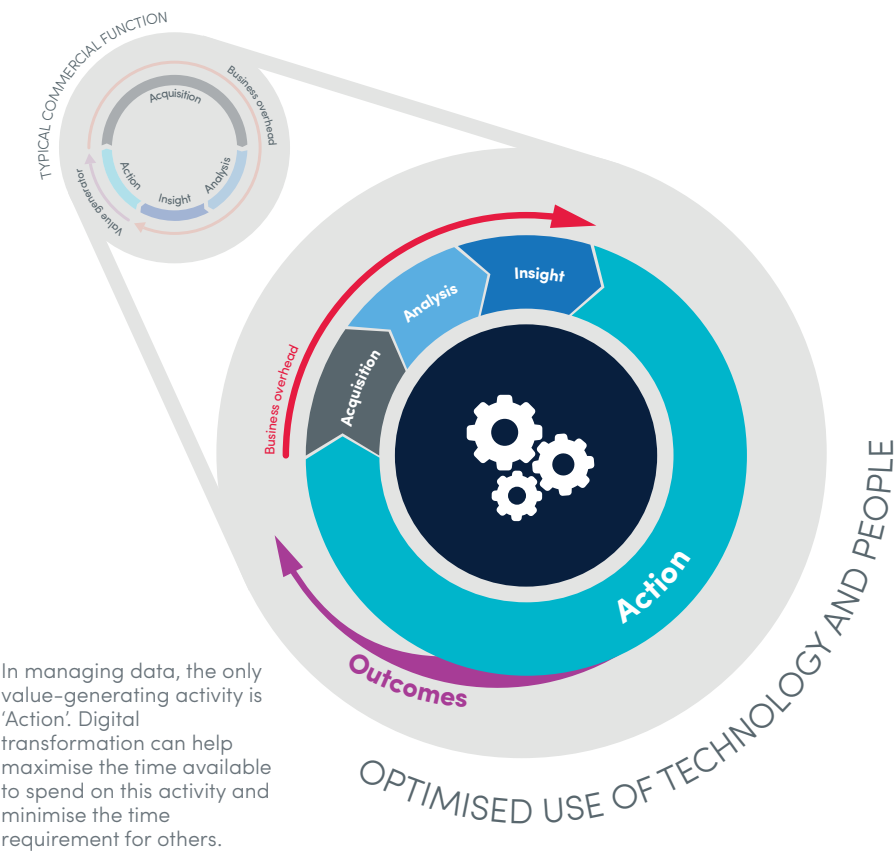
What do current trends tell us about the procurement function of the future? It is well documented that procurement needs to become more strategic and less tactical if it's to deliver greater value to the business. But what does this mean in practice – and in a digital era?

One interpretation is that less time should be spent acquiring, curating and analysing data and more time should be spent acting on the insights it provides to deliver outcomes. The use of intelligent knowledge-capture tools that record not only decisions but the data and reasons behind why those decisions were taken can allow for more informed and scientific decision-making in the future. If technology can facilitate and automate the data collection, analysis and insight cycle, the obvious

question is what will be the future purpose of a procurement function – beyond providing insight and foresight? Could we be on the cusp of businesses being able to self-serve their procurement needs in a way that individual consumers already do through e-commerce platforms today?

Our survey findings suggest this is a very real possibility. Procurement functions already appear to recognise this shifting landscape with the improvement of customer experience well ahead of any other strategic priority over the next five years. Nearly a fifth (18%) of participating companies anticipate this to be their primary objective for 2023, while 40% rank it among their top three strategic considerations. This is followed by ensuring they have access to the right skillsets and maximising efficiencies across the supply chain.

Figure 2 | MAXIMISING OUTCOMES THROUGH DIGITAL TRANSFORMATION



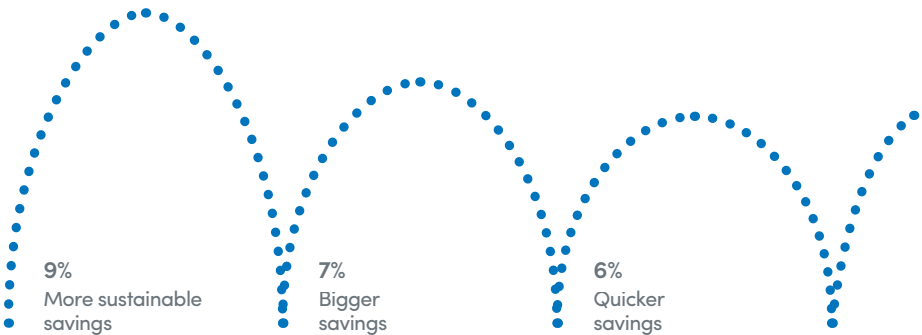
Identifying the key benefits of digital transformation

Our survey results show that the largest expected benefit from digital transformation will be faster, higher and more sustainable savings to the business. Of those companies surveyed, 22% rank either more sustainable savings, quicker savings or bigger savings as the most important expected benefit of technology in the future.

Reduction in risk and better engagement with the supply chain are also considered key benefits, both of which are achieved through closer partnerships with key suppliers. The majority of procurement leaders (78%) agree that, with the right information, suppliers can help companies innovate and become more successful.

To understand how digital transformation can lead to faster, higher and more sustainable savings, let us consider two case examples.

Figure 3 | BENEFITS OF TECHNOLOGY TO PROCUREMENT



Case study 1: The procurement function at a global pharmaceutical company built a highly sophisticated algorithm to calculate the optimal commercial way to produce the large number of different inner boxes needed for its goods. The algorithm considered price indices, supply base costs, demand from the business and the most effective method of producing the product both in terms of paper format, machine runs and net layout. Impossible to manage through Excel or offline tools, a technological solution empowered the company to contract in an innovative way and saved 19% on

the total cost of inner boxes. Enabling a precise description of the requirement to its supply base – using technology to overcome the inherent complexity – allowed the company to significantly reduce the risk exposure of its suppliers and, in return, achieve higher savings.

Case study 2: An infrastructure company broke the mould of setting up fixed-price contracts with its suppliers and moved to a gain share target-price model. Unlike fixed-price contracts that are characterised by change requests, target-price contracts offer an

incentive to both supplier and client to find efficiencies. But they come at a cost. For the model to succeed, considerably more granularity is required to understand and manage cost detail. Technology enabled the automation of project estimation, invoicing and commercial management with suppliers, leading to a radical new commercial model that contributed to a total cost savings target of 18% sustained over a five-year period.



INSIDE VIEW

COLUM COLBERT, HEAD OF PROCUREMENT SERVICES,
PADDY POWER BETFAIR

When I joined PPB's European procurement function in early 2017, our technology footprint was limited. It was confined to tools for purchase order generation, contract management and supplier credit risk assessment. I was given the task of devising a technology strategy that would help us achieve procurement excellence.

I started by researching the areas of procurement activity for which there were already technologies on the market. Then I identified which of these we actually needed and which providers' solutions would best suit our requirements.

One of my first learnings in this process was to only invest in technology where our existing process is mature enough for systems to be used. Our biggest fear is wasting money by buying something that is not really appropriate or needed and then left unused. Hence, we're not spending 'big money' on a large-scale 'ERP-style' procurement system whose functionalities are not all required or suitable. Rather, we're very selective in our approach, cherry-picking what we wish to invest in and when. In some cases, we simply buy a

single licence to test a standalone package for one year before deciding to expand our investment.

By mid-2018 we had extended our systems investment to the following areas:

- Spend analytics: we now have analysis of spend not just for Europe but also for our global operations in Australia and the US
- Market intelligence
- Category management

These systems were all standalone, off-the-shelf packages that didn't require huge outlay. Yet they are all being used to help develop our global category management and savings strategies. As such they show how diverse, low-cost systems can be leveraged cohesively to further strategic objectives.

As we near the end of 2018 our journey is continuing. We are currently building an integrated contract approval and management tool. We intend for this to support our objective of strong spend governance, ensuring spend happens correctly in a manner that doesn't present risk to PPB and achieves value for money.

78%

OF PROCUREMENT
LEADERS AGREE THAT, WITH
THE RIGHT INFORMATION,
SUPPLIERS CAN HELP
COMPANIES INNOVATE AND
BECOME MORE
SUCCESSFUL.

2. WHAT’S STOPPING YOU? BARRIERS TO PROGRESS

There are several internal and external challenges to the digital transformation of procurement and subsequent ability to meet objectives. Key among them is having the right people in place to make it work.

Nearly three-quarters (72%) of procurement leaders point to lack of talent as the greatest barrier to realising the power of machines. This is compounded by the implementation of new technology not being properly supported by vendors – an issue for two-thirds (66%) of survey respondents. Few procurement heads believe technology is not fit for purpose, with this being the least-cited barrier to progress.

To achieve the potential benefits on offer, organisations first need to take a step back and redesign processes, giving due consideration to the optimal relationship between humans and machines. Competency is key. A fundamental issue is that many teams are investing in technology but not looking for the core skills needed to make the technology work for them.

Capitalising on the benefits of technology will require people with a specific skillset, such as data scientists who are highly analytical but who also have a technological mindset and can, for example, understand how software is built. Having an awareness of concepts such as relational databases will enable people to be good data stewards. And as the lower-value work becomes more automated, people will be freed up to spend time on more strategic tasks – although some might be exposed.

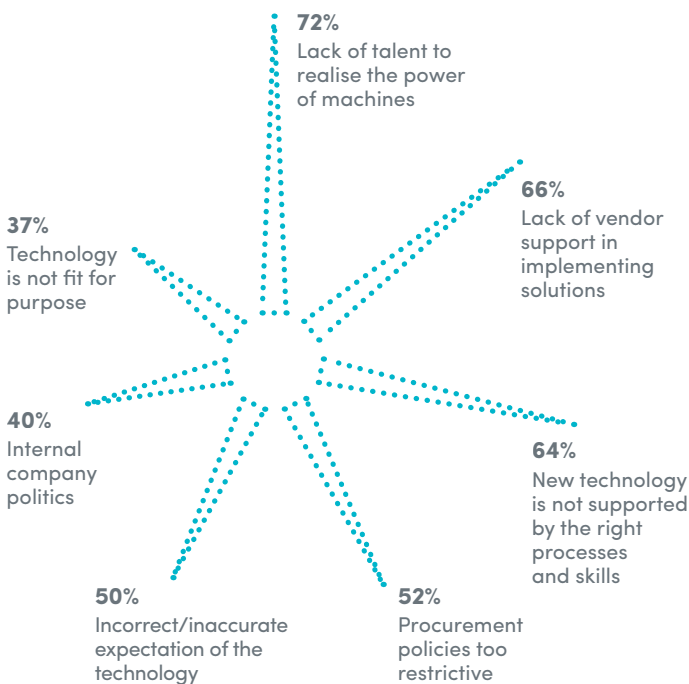
As previously mentioned, all too often FOMO – rather than a defined need – is driving people to make technology purchasing decisions. An additional consequence of this approach is that it is leading procurement functions to make the wrong decisions and impeding their ability to realise the full benefits of technology. It’s often the case that people recognise the challenges they are facing but instead of solving some of the basic, underlying issues, such as data visibility

and integration, they opt for new gadgets as the simpler, more exciting approach, believing it will be the panacea to all of their problems.

Technology providers may be directly contributing to the problem. The majority are product and sales-focused, and not all have become outcomes-oriented. Licence models incentivise a culture of ‘sell and walk away’ among providers, but clients are becoming increasingly frustrated by this approach. It means the benefits of technology become even harder to achieve – and that is difficult to change unless more providers start taking a genuine interest in the outcomes desired by their clients.

Technology and talent go hand in hand and are crucial to creating high-performing procurement functions. Get it right and they can help procurement occupy its desired position as a value-adding business partner, get it wrong and they can be severe blockers.

Figure 4 | BARRIERS TO HARNESSING THE BENEFITS OF TECHNOLOGY





INSIDE VIEW
CRAIG HILL, HEAD OF PROCUREMENT,
HSBC, UK

It is the technology advancements outside of procurement that are really driving us to think differently about how we deliver our core services. Our internal business partners want engagement with procurement to be simpler and more efficient. This is driven by many factors, but mainly by how they use technology outside of work and their everyday life. For example, at home they can purchase something in one or two clicks, but when they come to work they don't get the same seamless experience and that can lead to frustration.

For procurement there are some innovative tools that we've seen and some we are trialling, but generally it feels like procurement technology options are lagging when compared to the advancements we see elsewhere.

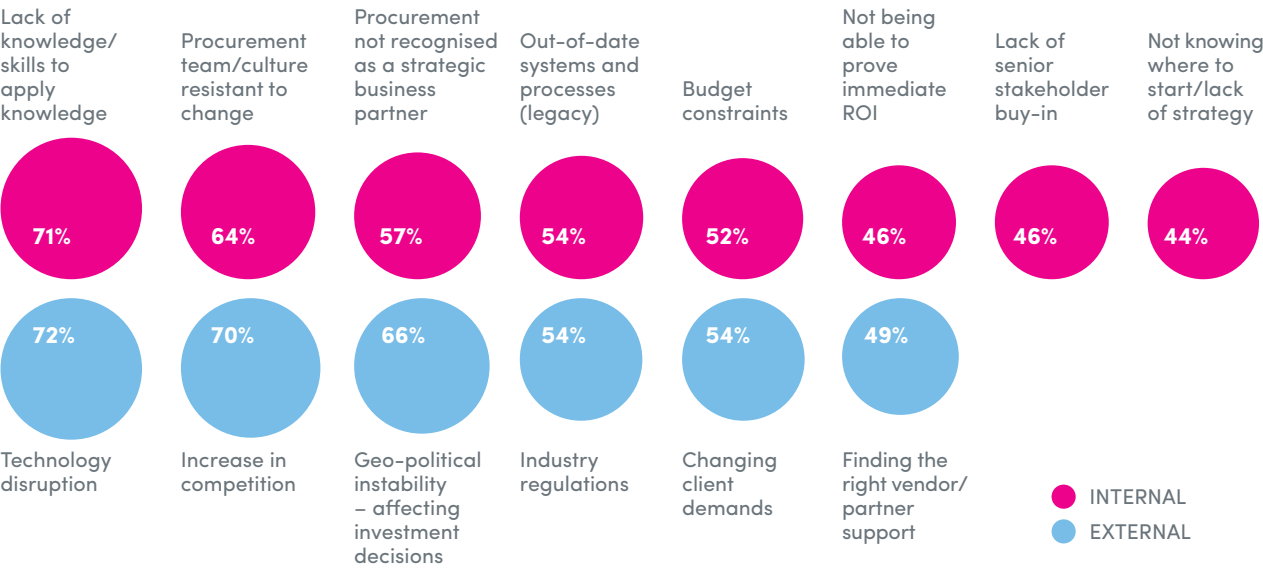
It would be good to see some of the new procurement technology options challenging the status quo – for technology to question some of our historical procurement processes rather than simply digitalising what we do now.

Our department has invested in systems to reduce manual, paper processes and improve audit and accountability trails for purchase orders and invoicing. It has also streamlined due diligence and risk controls on suppliers to create a single platform that is adopted globally.

Another consideration when looking at your technology strategy is to ensure that whatever solutions you choose, you understand how you can connect them and get the best out of the data. It's a mistake to buy a solution and expect it to do everything; you also need to invest in software and people that can pull the data across disparate systems and report it in a way that helps drive faster business decisions.

The ability to extract and present this data in a timely, relevant way helps procurement get to its end state of being a strategic business partner.

Figure 5 | INTERNAL AND EXTERNAL BARRIERS TO ACHIEVING STRATEGIC OBJECTIVES



State of the nations

There were some inevitable geographical variations in the responses from procurement leaders surveyed across the UK, US and Germany. Here we highlight some of those differences and offer insight into why this might be.

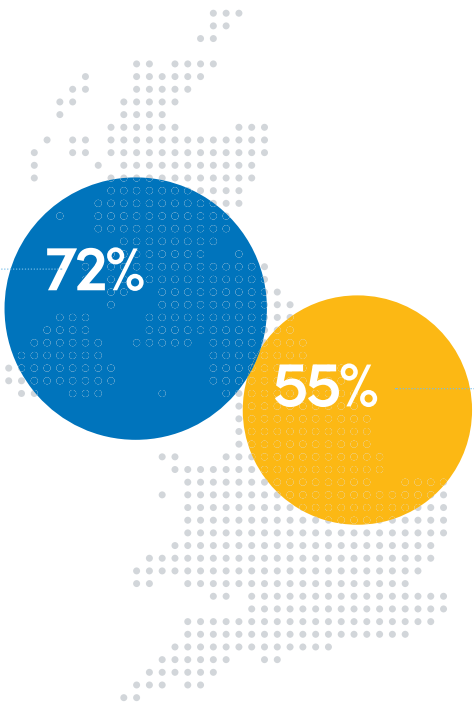
UK
Results analysis by Simon Watson,
Principal, Efficio

- 72% of UK procurement leaders strongly agree that investment in data visibility and automation will help improve bottom-line performance (above the total average of 65%)

“There are some recent examples of procurement teams in the UK investing in technology solutions to position themselves as sources of data and insight for the company as a whole, creating a pull for their services. This has undoubtedly been a factor in enabling more informed decision-making across the organisation and driving efficiencies in different areas.”

- More UK procurement leaders (55%) have segmented strategic suppliers based on standard criteria than their counterparts in the US (47%) and Germany (44%)
- “Larger companies in the UK tend to know who they class as their strategic suppliers and why. However, fewer companies have mastered the art of a truly strategic supplier relationship. This is one that minimises operational and transactional discussions and maximises time spent developing two-way, mutually beneficial relationships to deliver greater levels of innovation and competitive advantage over the longer term. There’s still some work to be done here.”

72% of UK procurement leaders strongly agree that investment in data visibility and automation will help improve bottom-line performance (more than the total average of 65%)



55% of UK procurement leaders have segmented strategic suppliers based on standard criteria – more than their counterparts in the US (47%) and Germany (44%)

GERMANY

Results analysis by Wolfgang R  th,
Principal, Efficio

- 87% of German procurement leaders plan to make better use of existing technology
- 68% want to modernise legacy systems (above the total average of 53%)
- 75% (above the total average of 59%) think the integration of existing technology will have a major impact on the procurement function over the next five years

"Many German companies are either multicountry or multisite and growing through acquisition, which puts stresses and strains on integrating systems. Yet rather than making huge technological investments, they work with what they have – although they may struggle to get the information transparency they need.

The information may be there but it's not presented in a way procurement wants because these different systems aren't working together yet."

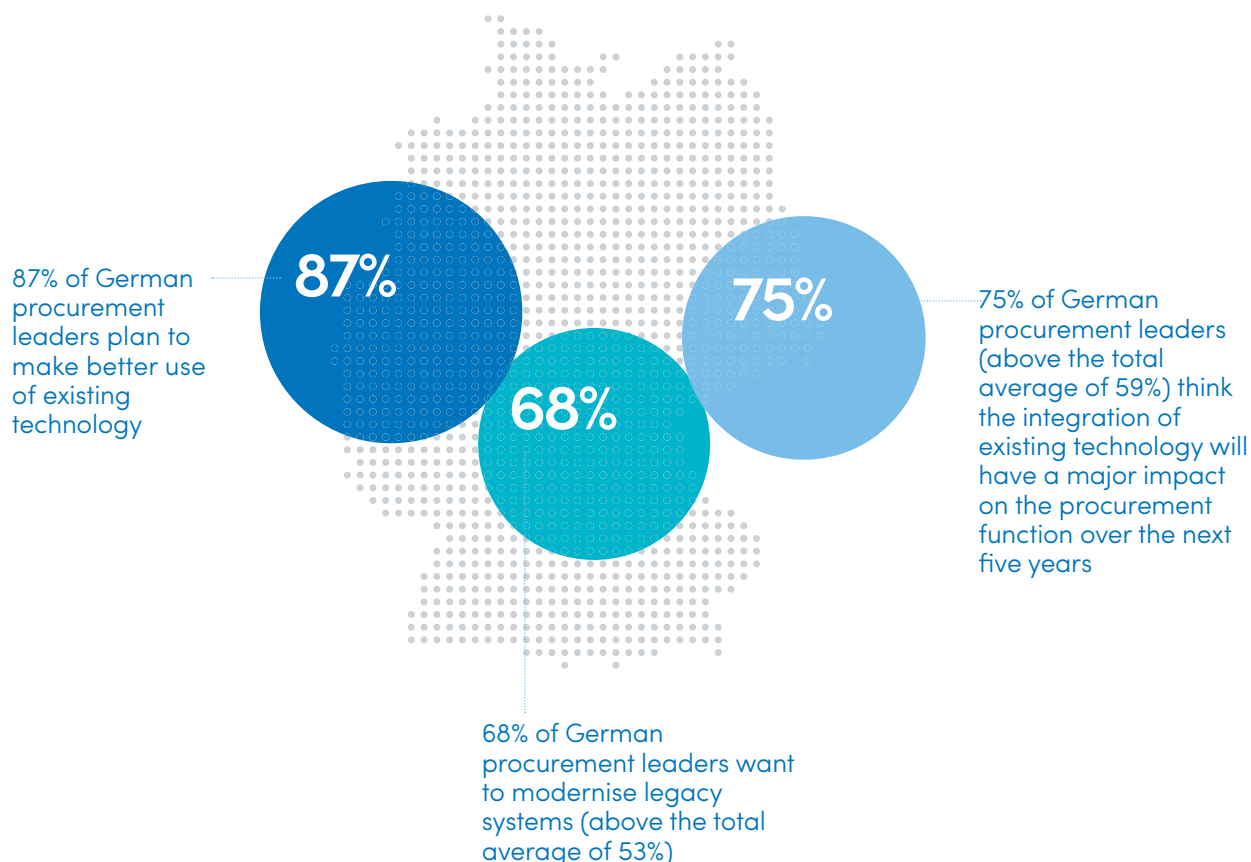
- 81% of procurement leaders in Germany are reviewing wider supplier markets to identify market-facing risk
- 80% are identifying new, safer sources of supply or are considering onshoring opportunities

"Germany has limited natural resources so sourcing materials or cheaper labour from abroad has always been a key strategy for German companies. But this is not without its risks. New regulations, rising costs and import tariffs, together with challenging logistics, have made places like China significantly more expensive over the years. The argument for bringing sourcing strategies closer to home is reinforced by the fact that quality can be better controlled and intellectual property

more easily protected. Also, in terms of automation, it costs the same to manufacture products with a robot in any country as labour costs cease to be an issue, so that too can be done in Germany."

- 61% of procurement leaders in Germany think they are either just keeping up with competitors or are behind competitors in terms of technology investments

"The procurement function has rarely been at the centre of technology investments. This has largely been because there has not been a strong enough business case to support the implementation of expensive systems, but also because businesses probably haven't wanted to invest. Procurement should not be blind to the benefits of technology to help them become more effective, although at some point they will need to put some money on the table."



US

Results analysis by Jose Oliveira,
Principal, Efficio

- 59% of US procurement leaders (above the average total of 49%) are waiting for further technological developments to be achieved before investing in new solutions
- Yet 65% (against an average of 54%) think out-of-date systems and processes are a barrier to progress

"The biggest bottleneck for procurement is getting the attention and support of the business for its initiatives. Having the right kind of analytical and functional capabilities would help it to frame its strategy correctly so that it could step in and engage the business more. Business change is more painful than upfront investment, but procurement isn't necessarily getting the financial support it needs and is employing older systems already used in other parts of the business. This is holding it back."

- 57% of US procurement leaders (compared to a total average of 48%) think today's procurement team culture is compatible with tomorrow's ways of working

"There is a higher level of trust in suppliers and vendor systems in the US. US businesses appear to trust their suppliers more than those elsewhere in the world, which will help with greater partnership working in the future."

- 60% of US procurement leaders (against a total average of 52%) think procurement policies are too restrictive compared to elsewhere

"People have more respect for process in the US but it can limit the procurement team. Instead of focusing on more strategic discussions with the business, they lose time on regulation and compliance issues."

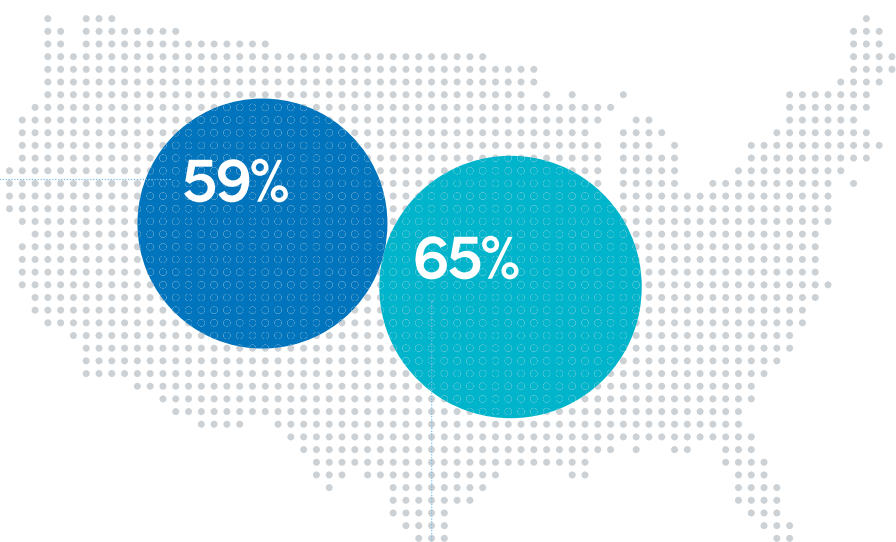
- 76% of US procurement leaders think lack of knowledge or skills will impact on their ability to achieve their strategic procurement priorities

"One of the biggest challenges around implementation is that these tools can't do everything for you. There is some uncertainty about how to apply the insights extracted from technology, and there is also the need for users to change their ways of working."

- 83% of US procurement leaders are taking a more user-centric approach to future strategies when it comes to progressing technology in their procurement function

"The US is a large market where procurement has generally been well known for some time. There are many legacy systems, a number of which have not been set up for procurement. For example, they may be finance or accounting systems and their functionality may not be easy to use or flexible for procurement's needs. Procurement wants to take a user-centric approach to developing technology platforms and make systems more relevant to it."

59% of US procurement leaders are waiting for further technological developments to be achieved before investing in new solutions (above the average total of 49%)



65% of US procurement leaders (against an average of 54%) think out-of-date systems and processes are a barrier to progress



INSIDE VIEW

JASON BUSCH, FOUNDER OF AZUL PARTNERS
AND CO-FOUNDER OF SPEND MATTERS

In the year 2000, sourcing technology did not exactly work 'as sold'. Since then, procurement technology, especially strategic procurement technology such as spend/procurement analytics capability, has come a long way. But there are huge differences between providers and what makes them suited to you or not.

Let's first consider the 'demand' side of the equation. There are also different groupings of buyers for strategic procurement technology today. The first – and best kind – is someone who has put together a business case and determined they need x, y, z. Unfortunately, they are in the minority. Most people buy sourcing technology to solve a particular problem. For example, they say: "I don't have visibility over my spend and I need basic insights to develop a category strategy." But not having even basic visibility is probably a symptom of something else. Spend analysis can do a lot, but if you can't get to the root cause, you won't get the whole picture and fix it for the future.

Another aspect that can lead to disappointment is ignoring implementation costs, such as those associated with change management. You may have the right tool but the wrong implementation model.

There's also often a disconnect between buyers and suppliers: people selling the technology are not

necessarily trained in figuring out the best solution for you, and procurement professionals are not technologists.

Overall, this is a really big and complex sector. Even what we call best practice organisations are generally early in their digital procurement journey. While they might have some great tools at their disposal, they haven't yet mapped all of those original needs to the capabilities of the current supply market and aligned their requirements and buying personas with an optimal set of providers.

Now, more than ever, consulting is important to help unpack those issues before jumping to technology. If you back up and ask all the right business questions you can pinpoint the best opportunities. It's almost like doing a category analysis from a sourcing perspective – you need to identify all the nuances of that category to identify where best to focus your efforts and identify the best-fit suppliers for your needs.

But there's good news. It is the golden age to buy technology if you're an informed buyer. Even if you spend a few hours getting smart on the supply markets that comprise procurement technology from different sources, you'll have a good sense of where to get started and how to accelerate your journey.

42%

OF COMPANIES THINK
THEY ARE AHEAD OF
THEIR COMPETITION.

3. ACHIEVING THE FIVE-YEAR VISION

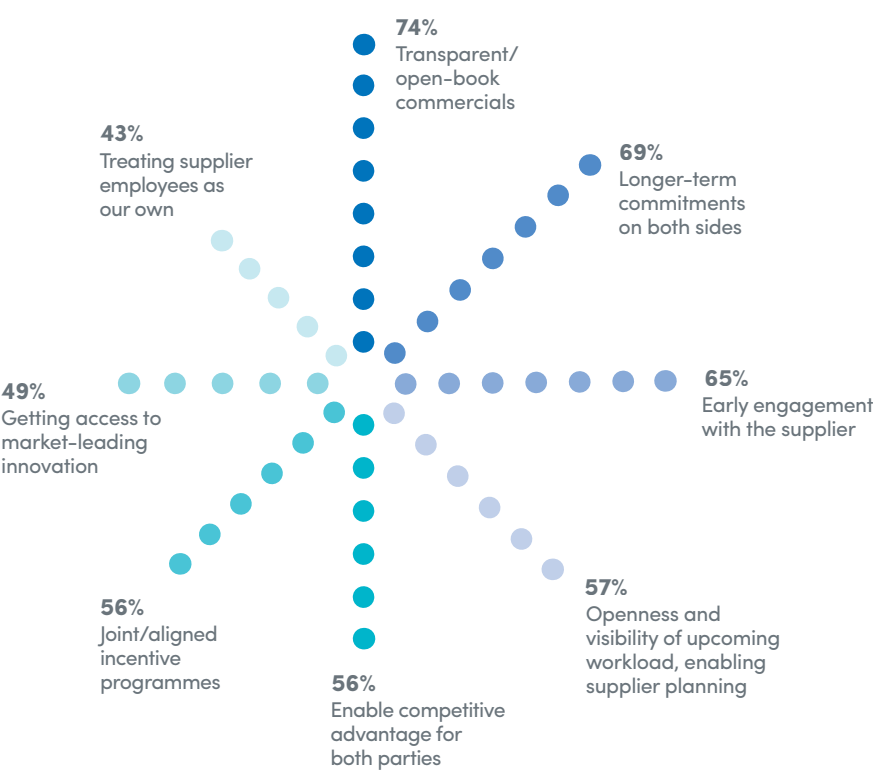
Developing strategic supplier relationships

Almost two-thirds (63%) of survey participants expect suppliers to have greater influence in the future, with 64% agreeing that the industry will become increasingly reliant on partner support to meet its objectives. Organisations also believe that in order to get that support they will need to be prepared to give something away in return.

When responding to how strategic supplier relationships should be typified in the future, longer-term commitments, early engagement and visibility of future demand featured among the top four responses.

Interestingly, these three factors are in the hands of the client. In return for extending these to supply partners, companies want transparent and open-book commercials, which was cited as the principal

Figure 6 | CHARACTERISTICS OF FUTURE STRATEGIC SUPPLIER RELATIONSHIPS



characterisation of such relationships in the future. Transparent commercials, if set up correctly during the sourcing process, enable total cost optimisation through benchmarking across the supply chain.

If strategic partners are to play an increasingly important role in the future, then selecting these partners through high-quality strategic sourcing processes will be critical. Truly strategic suppliers are those with whom businesses develop two-way, mutually beneficial relationships that deliver a greater competitive advantage over the longer term for both parties than could be

achieved by operating through a traditional arrangement. It is only possible to have a handful of such relationships. Despite this, just over half (52%) of organisations surveyed do not formally segment their supply base. This suggests there is work to be done to select these suppliers through well-designed sourcing processes before the benefits of supplier collaboration can be fully realised.

Technology can help to facilitate more strategic relationships by smoothing the process for data exchange. Ultimately, however, trust and communication will play a vital role. Over half (58%) of respondents identify lack of trust by either one or both sides as a barrier to working with strategic partners, while nearly two-thirds (63%) cite lack of sufficient communication as an obstacle. These issues will clearly need to be addressed before any improvement can be made to the way businesses and strategic suppliers work with one another.

Figure 7 | SEGMENTATION BY STRATEGIC IMPORTANCE

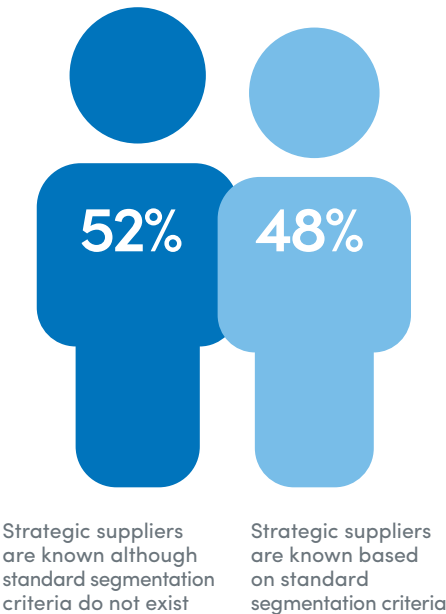
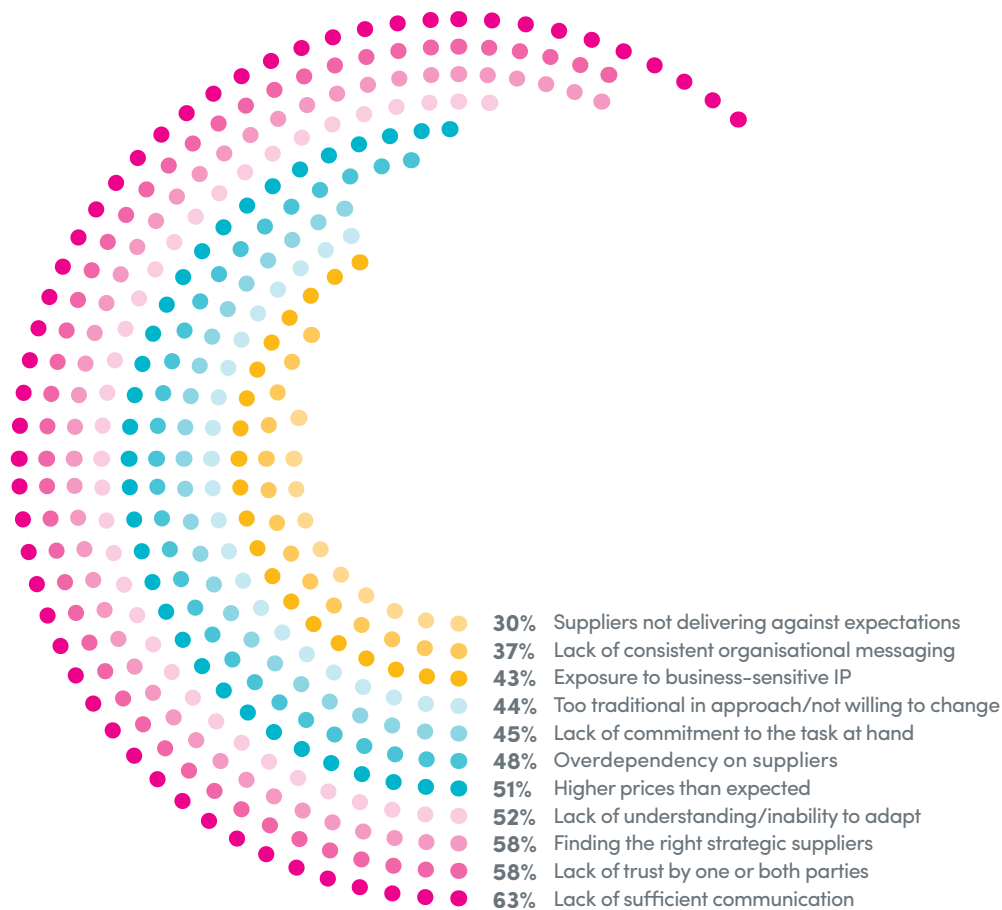


Figure 8 | WHAT ARE THE BARRIERS/RISKS INVOLVED WHEN WORKING WITH STRATEGIC SUPPLIERS?



Accessing the right skillsets

Having the right capabilities in place will be just as important for high-performing procurement functions of the future as implementing the right technologies and processes – an issue identified by procurement leaders as currently being a blocker. It is simply not worth investing in technology without having access to people with the suitable skills and competencies to maximise its value. This means procurement functions need to look beyond employing traditional tactical dealmakers and include a greater mix of people who can understand how data needs to be collected, analysed

and turned into insight and foresight that enables data-driven decision-making. These data scientists will need to work effectively with the available procurement technologies to achieve this.

By focusing on the core competencies needed by procurement professionals of the future, organisations can rely on specialists outside of their strategic core areas for specific knowledge and expertise when required. You only need to look at how businesses have generalist in-house lawyers and call upon specialist external lawyers when the need arises. In our opinion, the procurement personnel model is likely to head in a similar direction in the future.

Knowledge and informed decision-making

To enable the more informed decision-making discussed earlier in this report, procurement first needs to organise, understand and then apply its knowledge. Crucially, this not only involves capturing data but contextual information about that data too. This will then need to be disseminated and made accessible to people when they need it, in a format they can use. This is the only way to enable continuous learning and ensure decision-making success is optimised.

According to our survey, however, 71% of respondents consider lack of knowledge to be the biggest single barrier to achieving business priorities. Why should this be the case? We believe that building a knowledge and data platform is a journey – and that journey needs to start somewhere. At some point, companies will need to put a stake in the ground and begin, while accepting that they won't necessarily see the benefits immediately.

To understand how this can work in practice, consider the case of a multinational food and drink company that has set itself three challenges to achieve its knowledge and insight goals:

- 1 It mastered basic analytics. Focusing on spend data, it ensured all spend was categorised using a uniform, global taxonomy. An intelligent, scalable tool was a key building block to this step.
- 2 It embarked on a modelling phase, developing data models to support its different businesses. An example of a data model is the precise cost breakdown of a key commodity that models how the commodity price index, conversion costs, logistics costs, marketing costs, distribution costs and their margin come together to make the final price. The key challenge is to model data in a way that can be customised and configured to respond to the needs of each business unit or geography. In this way, each entity can identify the data that is of interest and create a pull for procurement input during the process.
- 3 A predictive step is still to come and involves integrating internal and external data sources to feed the data model. Using predictive analytics, the procurement function wants to be able to approach business leaders and proactively warn them about, for example, rising commodity prices three months down the road. Continuing the example from the modelling phase, this not only gives the business visibility of cost but will enable it to take the right decisions ahead of time.



INSIDE VIEW
TIM COLES, COMMERCIAL AND PROCUREMENT
DIRECTOR, THAMES WATER

Over the past 18 months we have been making significant investments in both technology and people as part of our digital transformation journey. On the technology side we've moved beyond tech-enabling our spend analytics and benefits tracking to more mature, sophisticated activities such as tracking and forecasting commodities and other indices to understand what is driving costs, and how. This will help us to decide more intelligently whether to potentially hedge or bulk-buy. We've also recently used technology to help us with a large multibillion pound demand forecasting review, something we previously did using offline tools.

When it comes to our people, we have developed new skills and capabilities within the team to help turn


the large amount of data that exists in the company into insight, then action. We are looking at things in new ways and trying to overlay different types of data. One of the biggest killers of innovation is lack of time, but by taking a step back, providing insight, examining if things could be done differently and opening doors to new areas, we are starting to overcome this.

The concept of digital is very exciting but relies on everyone in the supply chain operating in a certain way and supporting each other. Digitalisation can't just exist in one pocket of an organisation. Our whole company is on one big digital journey. To really unlock benefit you need the entire business with you.

4. NEXT STEPS

Technology is ever-changing, making it a mind-boggling field of exploration. Here are six steps you can take to help tackle the digital transformation challenge in procurement:

- 1 Start with a vision. Consider the big picture of where you're trying to get to and why.
- 2 Analyse your requirements. What is your key deliverable to the business? Is it agile buying processes, cost savings, supplier quality, risk control, access to innovation and new revenue streams or something else? Invest time considering how and where technology and people will each add value. How does purchasing this tool or employing that system help your procurement function meet its core requirements and contribute to the overall aims of the business?
- 3 Build a digital roadmap and prioritise. Digital transformation is an ongoing journey and it's vital to keep on top of it. To facilitate and carve it into manageable chunks requires an agile roadmap. Remember your vision, the point you want to get to and then divide up the actions you need to take. Decide what you hope to have achieved in the first 3 to 6 months, then what you hope to have done after 18 months and so on. You'll need to be flexible to cope with changes but at least you'll be clear on where you're trying to get to and why. Corporate priorities may change but the core requirements will remain.
- 4 Dare to take smaller steps that make a high impact, for example using 'should-cost' tools (tools that build up the expected cost of goods through market intelligence) that can influence product costing and profitability discussions with suppliers. Small successes build momentum.
- 5 Be careful about investing in complex technology suites that may overwhelm people and contain functions you are never likely to make full use of. If you do go for that investment, consider whether you have the right skillset in your organisation to make it a success.
- 6 Use your data to your advantage and build a platform that enables reuse of knowledge to drive faster cycle times and better results. This can come in a variety of forms including benchmark prices, granular detail on cost drivers, and live total cost of ownership information. Don't just collect and analyse it, make sure you use it to take prompt action to address supplier risks and formulate strategies.



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5. THE SCIENCE OF PROCUREMENT

The 'art of procurement' is the past; the future is data-driven decision-making or the 'science of procurement'. Our survey shows procurement professionals are trying to make the shift towards becoming more scientific in how they take decisions, but many barriers still exist.

We believe that by employing the right tools and technology, paired with the correct people and processes, a complete digital transformation of procurement could make the function twice as effective. To understand how that type of improvement is possible, consider the following:

- 1 Since a considerable amount of time is sunk into sourcing information that should already be available to procurement, investing in making basic information, such as spend and contract details, accessible to the procurement team saves significant time.
- 2 A portion of time is lost running low-value or concurrent activities. By benchmarking initiatives from the outset and establishing a project management office to set the focus and a high tempo for these activities, further time can be saved.
- 3 Another slice of value disappears by taking a sub-optimal approach to deals. This may be because total cost of ownership information is lacking, competition has diminished, fewer suppliers have been engaged with, or not all drivers of the deal have been negotiated. Validating approaches with experts and employing technology to aid complex analysis enables greater savings.
- 4 Too much time is spent reinventing the wheel. Technology can ensure teams have access to the best internal and external practices and can access information on suppliers, prices and previous negotiations quickly and easily.
- 5 The biggest single percentage of lost value is often through the implementation and running of the contract. Technology can reverse this trend by automating savings tracking, and commercial and performance management.

PROCUREMENT PROFESSIONALS ARE TRYING TO MAKE THE SHIFT TOWARDS BECOMING MORE SCIENTIFIC IN HOW THEY TAKE DECISIONS, BUT MANY BARRIERS STILL EXIST.



TIME TO EMBRACE DIGITALISATION

Digitalisation is one of the biggest trends currently impacting procurement. **Ian McNally** speaks to **Malcolm Harrison**, new Group CEO of CIPS, on what it means for both the industry and the professional body in terms of supporting this transformation journey.

Digital technologies are changing the way consumers and businesses operate – and the procurement function is no exception. The proliferation and accessibility of data has the potential to drive better decision-making and deliver greater value.

These are the views of Malcolm Harrison, recently appointed group CEO of CIPS. He believes the best in the profession will readily embrace new data-driven ways of working but warns that data alone will not make procurement more effective.

"Digitalisation is going to change the needs of the procurement function. In particular, it will affect skills requirements, the content of training and how it is delivered. There is a challenge to all of us – including CIPS – to help people transition to these new ways of working. We have a duty to equip our members with the skills they need to work more confidently with new technologies."

The big picture

When it comes to those trends shaping procurement globally, Harrison has an eye on the bigger picture. "It's important that when you talk about procurement you think as much about the environment in which procurement operates," he says.

He points to greater governance, ethics and transparency, the elimination of modern slavery and General Data Protection Regulation (GDPR) as key issues that are changing our working environments.

Our survey shows that ensuring the business is compliant with standards and regulations is among the top strategic priorities for the procurement function. But as Harrison rightly adds, many of these issues aren't limited to procurement. "We have a role to play but so do other departments. HR will also talk to you about modern slavery and GDPR. Procurement is part of the system – it isn't the system."

Another major trend that Harrison highlights is the advent of new technologies. He, along with our survey

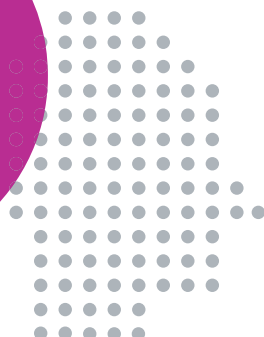
participants, sees AI being one of the technologies set to have the greatest impact on the procurement function over the next five years, with one of the major benefits of technology generally being to allow more data-driven decision-making.

In Harrison's view, businesses will set themselves apart based on how they use data and maximise its value. "The more accurate, more consistent, more timely data you have, typically means the better decisions you take."

But with procurement professionals confused by the current technology provider landscape and unsure of which digital solutions can add value to their organisations it's not surprising that there are question marks over what a successful outcome might look like.

In Harrison's opinion, it's too early to say what digital maturity looks like. "Digitalisation is like innovation – everyone knows it's the right thing to do but how does it actually land? How do you define success? The risk is that as soon as you define it you're out of date because technology has moved on. We need to be careful not to make promises about what digitalisation can do before working out what it is."

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Status quo

This hasn't prevented procurement functions from adopting technology, he says. There are many examples of where it is being used to speed up the procurement process and provide greater transparency – in both the private and public sectors.

Our survey results show that the largest expected benefit from new technologies will be faster, higher and more sustainable savings to the business.

Harrison points to e-auctions as an early form of digitalisation intended to speed up the negotiation process and increase competitive tension among suppliers to create bigger savings. "That's one example that has been around for a long time, but even back then the thinking was the same: 'How can I use data in a more competitive and transparent way to produce better outcomes?'"

"The difference today is that we're more in tune with technology. We use it in our everyday lives so it's inevitable that it should also form a part of modern business. As a profession, we need to embrace it."

Challenges

Having the right mix of skills in a team is vital to the digitalisation agenda, as people can be either a barrier or enabler to the successful application of technology. Yet nearly three-quarters of our survey respondents view lack of talent as the greatest barrier to realising the power of machines.

"Nobody likes change and people feel comfortable doing a job they do well," says Harrison. "Along comes a new way of working and if they don't have the skills, if they don't have that analytical approach, if they aren't tech-focused, then they aren't going to embrace this change immediately. That challenges all of us to help people make the transition."

Harrison also recognises that digital transformation is a journey. "Digital technologies themselves are developing. You don't buy something and think you are buying the finished solution. You recognise that it's going to evolve, and you have to continue to invest as it advances."

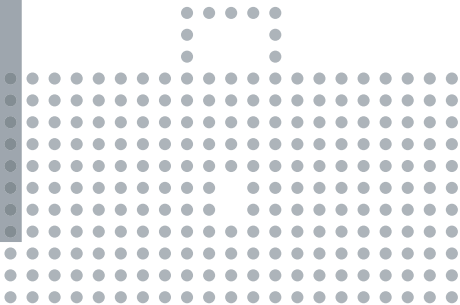


But none of these obstacles are insurmountable, he says, as long as procurement professionals are open to the different ways of operating that digitalisation will bring.

CIPS has a crucial role to play in ensuring procurement professionals do the best they can to adapt to market trends. This includes embracing new technologies. And for Harrison, his new role provides a chance to follow the legacy of CIPS' late CEO, David Noble, in achieving this.

"If I look at CIPS in 2018 compared to 1993 it's come a very long way," says Harrison. "Much of this is down to David who took the reins in 2009. Continuing this journey, in an increasingly digitalised environment, is one of my main motivations for taking the job."

MALCOLM HARRISON: CAREER HIGHLIGHTS	
2018	Group CEO, CIPS
2015-2018	Crown Commercial Service, Senior Commercial Adviser and Chief Executive Officer
2010-2014	Rexam, Group Director, plastic packaging and Group Operations Director
2006-2009	Nestlé, Chief Procurement Officer
2000-2005	Anheuser-Busch InBev, Vice President, global procurement
1999-2000	Britvic Soft Drinks, Operations Director
1999	Bass plc, HR Operations Director
1993-1999	Bass Brewers, Purchasing Director and regional Managing Director
1982-1993	Mars, sales, operations, procurement and logistics roles



ABOUT EFFICIO

Efficio is the world's largest procurement consultancy, operating across the globe from its ten offices in EMEA and North America.

We help organisations reduce costs, develop and implement their digital procurement strategies, and upskill their procurement teams so that they can realise higher savings, faster and more sustainably – delivering greater value to the business over the longer term.

Our key differentiator is eFlow, a proprietary procurement technology and knowledge platform built and deployed by practitioners.

eFlow automates data insight generation, supports savings delivery, facilitates strong supplier partnerships and manages supply chain risk by enabling our clients to leverage a wealth of procurement intelligence and best practice on demand. This data and knowledge has been accumulated by our consultants over 18 years and through billions of dollars of addressed spend.

We aim to make procurement functions twice as effective, enabling them to deliver more with their own teams and become high-value generating functions for their businesses.

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