

Operational Strategy in Procurement

World Class procurement organizations are focusing on the globalization of service delivery across the portfolio of services

Driving Sustained Value

The profile of procurement organizations within the enterprise has grown significantly over the past 5 to 10 years as companies look for new ways to drive both top-line and bottom-line growth. As such, a renewed focus has been put on realizing the savings identified through sourcing initiatives. Finance has run the numbers and they're coming up short. On average companies leave more than 24% of savings on the table from the time of sourcing to procure and pay. Beyond the quick wins and low hanging fruit, organizations need to develop a comprehensive approach to drive sustained value through robust operational strategies in procurement.

Getting Started

Leading organizations are re-thinking Procurement's role in delivering value beyond just cost savings and compliance. Leaders in the market have recognized that traditional Procurement departments have to transform into Innovation Driven Procurement (IDP) groups. As such, Procurement has evolved in four key ways as a partner, differentiator, innovator and destination. In combination, these four factors build a foundation on which innovation driven procurement can flourish.

Defining Successful Outcomes: A flurry of activity will not necessarily result in the desired

business results and in fact may produce a negative effective instead. It is imperative that leadership define what success looks like and understand the business outcomes including the role of procurement as a partner, differentiator and innovator. Armed with this, these can be vetted and prioritized with business partners to craft a common set of business goals along with an overall timeline. Although straightforward, surprisingly few procurement organizations conduct such events on a periodic basis. These strategic plans go beyond a simple, "let's save 10% this year". Saving 10% may or may not be the answer and is most certainly not done in a sustainable fashion. Capgemini Consulting pairs its clients with procurement and industry specialist in our global ASE (accelerated solutions environment) centers. Within a 2-3 day event, we can jointly develop detailed operational strategies in procurement with focused and prioritized initiatives that drive savings over various time horizons in a sustainable way.

With a prioritized set of outcomes, we work closely with our clients to determine the *flight plan* necessary to transform procurement operations while infusing leading practices in process, policy, compliance, technology and organizational components (people). Developing an overall view of operational health through our assessment process provides a clear view of areas of opportunity.

Service-Led Procurement

Through the years, Procurement has vacillated across the spectrum of operating models – centralized, decentralized, shared services, center-led and others. Emphasis on form over function has led to a less responsive and more rigid operating structure. At its core, Procurement is a service organization.

Leading procurement organizations are focused on several key areas to drive growth and sustainable value generation.

- Transition to **service-led operating models** that focus on managing a tiered services portfolio with defined SLAs
- Increasing focus on shaping and refining the services portfolio with a robust fact base and **advanced analytics**
- Developing an **innovation engine** that drives *disruptive* initiatives that enable Procurement to make a step change in terms of capabilities and value generation
- Focusing on demand management, SRM and the **globalization of service delivery**
- Skill set development and retention of key associates – relationship management, advanced analytics, project management and **strategic thinking**

To support this development, world class organizations provide more than 2X the number

SRM and Innovation programs have moved up the CPO's agenda over the past three years

of training hours compared to their peer group – both internal and external training. These organizations apply this training and skill set development to drive industry-leading results in strategic sourcing, customer and function management while being content with strong performance in procurement operations.

At its core, Service-Led Procurement seeks to address shortcomings of other models through a re-alignment with the central premise of procurement itself. That is, it's a service organization. As such, it unifies the following:

- Services & capabilities portfolio
- Goal alignment across the value chain
- SLAs and actionable metrics
- Org & Operating model alignment

The unification of this structure brings flexibility and responsiveness to a function that can continue to grow as a key differentiator and innovator for the enterprise.

Our Approach

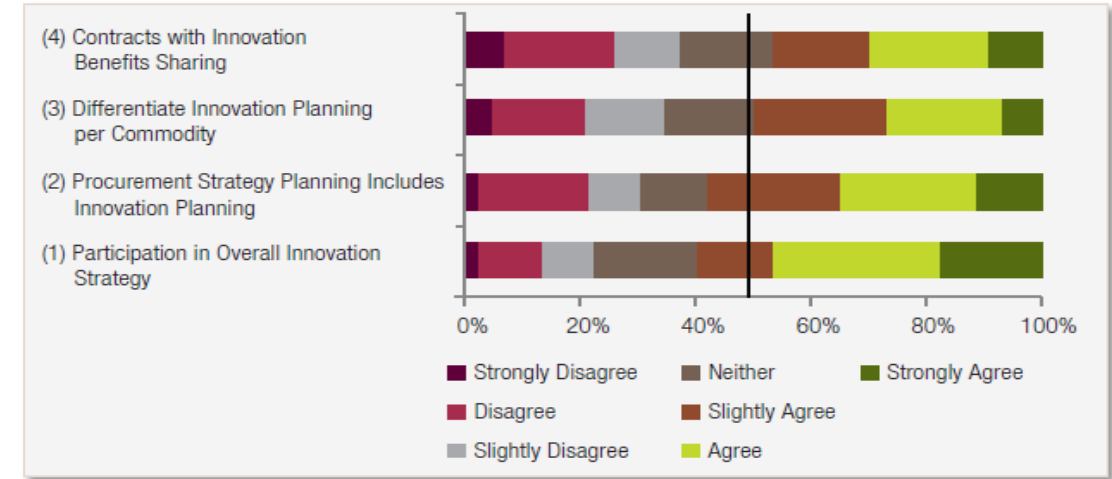
Across the portfolio of services provided by Procurement – sourcing, contract lifecycle management, P2P and others – we recognize that not all work is equal. That is, the level of effort and business impact of work varies as does the complexity of the work with the major services.

As such, Capgemini Consulting developed Complexity Matrix to understand the dimensions that impact the resources (e.g., people, process, technology) needed to execute specific Procurement services. These dimensions can be used to characterize or develop natural grouping of work. It can also help align and balance the workload of the various teams including BPO partners. Ultimately, it is an integral component in establishing, managing and refining SLAs (i.e., service levels aligned to service tiers) for both internal and external stakeholder groups.

Strategic Sourcing: Capgemini Consulting offers a tailored approach to providing strategic sourcing services to its clients. This high-to-low touch model can range from providing a small consulting team to run a sourcing engagement from spend analysis through contract negotiations OR providing key market and commodity research & analysis through our *knowledge packs*.

managed over its lifecycle. This step in the source-to-pay process is critical.

Leading organizations have over 72% of their spend under management formalized in electronic contracts that are searchable and actively managed. This includes templates, clause libraries, terms, alternate language and playbooks by spend sub-category as needed.



Source: Capgemini Consulting CPO Survey 2012-2013.

We maintain a variety of knowledge packs for hundreds of commodities – goods and services in regional and local markets around the world. These can be tailored to suit client specifications and are offered as one-time buys or subscription based service. As part of this portion of the assessment, we would create a strategic sourcing opportunity heat map that could be leveraged to drive a prioritized set of sourcing events across a variety of spend categories.

Establishing and maintaining robust contract lifecycle management processes is an integral part of delivering sustainable value.

Capgemini Consulting has developed robust tools and methodologies that streamline and focus the contracts group to deliver value in key areas that drive maximum success. As such, our clients are able to convert more identified savings to realized savings throughout the source-to-pay process.

Contract Management: Savings have been identified through the sourcing process, business has been awarded and now it's time to capture these terms – price, pay, supplier, and others – in a formal contract that is searchable and can be

Procurement Excellence: There are so many components to procurement excellence that are often overlooked as key factors in driving realized savings. That's one of the reasons why Capgemini Consulting developed Procurement



Compliance management programs can reduce savings leakage from S2C and P2P operations by 50%

360°. This approach leverages years of global client engagements across a variety of industries that yielded a specific methodology and approach that focused on five essential areas.

- Procurement services
- Spend channel optimization
- Compliance management
- Electronic payables
- Supplier segmentation & development

Procurement services represents the capabilities of the procurement organization to deliver on requisition and PO processing, spot buys, content & data management (e.g., catalogues), training & support and 3rd party services management (e.g., BPO providers for invoice management and reconciliation).

Spend channel optimization focuses on understanding the most efficient means (cost to serve) by which to procure goods & services – catalogue, PO, p-card, T&E and others. Determining the most optimal channel enables the procurement organization to work efficiently and minimize processing costs while ensuring spend compliance and service levels. By way of example, it costs nearly 7 times more to process an expense report than it does a p-card transaction for goods purchased in the field.

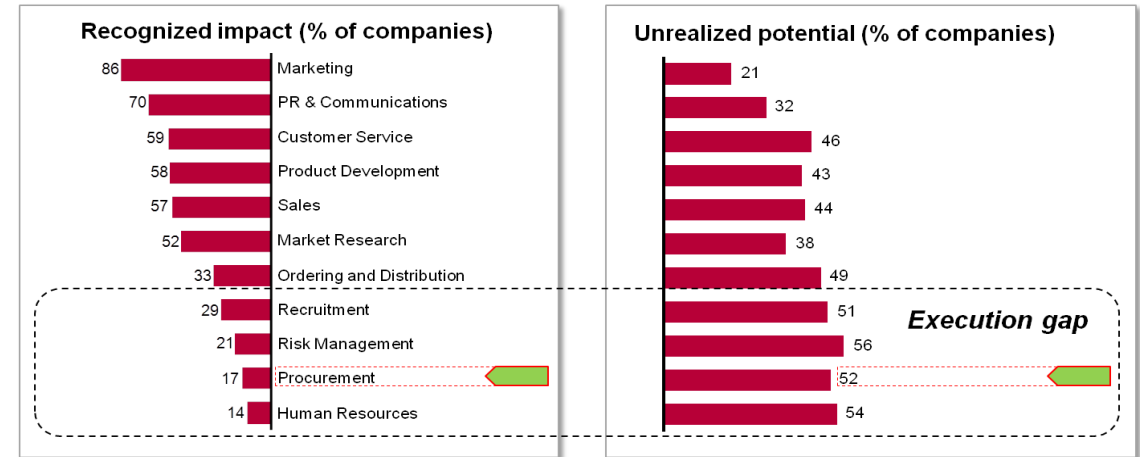
Compliance management is the glue that binds source-to-pay operations and functions as a differentiator not an auditor. The focus of this activity is to identify opportunities for the business. For example, on a quarterly basis, the sourcing team sits down with various spend champions such as the Marketing director. In this review, the compliance scorecard is discussed. It highlights areas where non-preferred vendors were used, expedited services were needed and price and/or pay terms were waived. The “cost” of this represents an opportunity for the Marketing director to understand the root cause of these behaviors in his/her organization. Most

importantly, it represents an opportunity to recapture that value through partnership with procurement.

Electronic payables is an area of growth for all companies large and small. It represents a simplification of the payables process, increases visibility to spend and drives significant cost savings through efficient payables management.

base – both existing and potential suppliers. Furthermore, it establishes a set of metrics that are aligned with various supplier strata including innovation metrics for the top tier (supply partners). A strategy to drive sustainable savings must include all aspects of the value chain and that includes suppliers.

Digital Transformation: A part of any robust,



Source: Capgemini Analysis, E-Consultancy. "The Impact of Digital Beyond Sales and Marketing", 2010

Capgemini Consulting’s ePayables program can be leveraged in conjunction with a broader procurement transformation or as a standalone opportunity. Through a rapid assessment, we can determine the size of the opportunity, existing vendors in your supply base that are ePayables enabled and the implementation timeline necessary to achieve savings.

Supplier segmentation & development is an area like master data that is consistently underserved and undervalued in terms of delivering sustainable savings. The focus here goes beyond just preferred and non-preferred suppliers. It determines an appropriate set of criterion by which to evaluate the entire supply

holistic approach to transform source-to-pay operations should include a digital strategy - technology roadmap, process enablers, data management and reporting & analytics. The role of cloud software/services (SaaS) in source-to-pay operations is growing significantly. CIOs are targeting two key areas for cloud – customer facing applications and back-office operations. Capgemini Consulting has worked closely with clients to develop its technology advisory service that provides real-world digital transformation strategies that we have deployed globally across industries.

Organizational Alignment: The strategic roles within the procurement organization are



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thought leader in Procurement
Operational Strategy*

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transforming as well and should be part of the overall transformation program. Aligning the operating and organizational model is an integral part of making it all work seamlessly. Customer relationship management, project management, innovation development, advanced business analytics and others are just a few examples of skill sets in demand for procurement organizations of the future.

The final component to operational strategy is change management. This element guides the pace of change and the success of the program.

Our Differentiators

At Capgemini Consulting, we understand that people are our greatest differentiator. We have consistently delivered superior results to our clients because our global procurement transformation group is comprised of experience and knowledgeable practitioners who know how to provide key insights to problems and unlock previously untapped value in the organization.

- Global practice with thousands of practitioners in over 40 countries possessing both deep industry and consulting experience
- Billions of spend under management each year
- Accelerators and value drivers, such as pricing benchmarks and over 100 category knowledge packs for sourcing excellence
- On average 14.7% realized savings in various spend categories
- Weekly publications of procurement thought leadership across industries

Find out more about Capgemini Consulting's approach to Operational Strategy and begin your journey today.

Learn More

Capgemini Consulting offers existing and potential clients the opportunity to discuss these and other projects designed to deliver sustained value.

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