

Of special interest to
Chief procurement officers

5 Insights for executives

It's time to think differently about procurement

Consider outsourcing

"I need to deliver more savings, but I'm under-resourced and I'm not getting the data I need from my systems," complained a chief procurement officer (CPO) from a high tech company. "I want to play a more strategic role within the organization, but every day I find myself reacting to another unexpected situation. I just can't seem to get ahead of things."

According to a recent survey EY took part in, a number of CPOs find themselves in similar circumstances. Of the 267 CPOs and other procurement executives Ardent Partners contacted, 65% cite finding more savings as their top pressure, 48% cite talent constraints as their top challenge, and 30% feel that they are viewed within the organization as reactive.¹

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Moreover, 34% of procurement executives indicate that the challenges they face in aligning processes and systems are a barrier to success.² This is hardly surprising given that only 8% of respondents say that their spend analysis programs are fully automated and within a single system, and only 13% can say that their sourcing processes are fully automated within a single system.³

Without standardized systems and processes, procurement organizations struggle with both category management and the ability to effect and implement change through procurement operations. As well, in a manual process environment, sourcing remains reactive and tactical. However, without sufficient resources, or resources with the right skills, procurement cannot initiate improvements that would drive the value its stakeholders expect.

¹ Ardent Partners, CPO Rising 2012: Keeping Score, 7 December 2012.

² Ibid.

³ Ibid.



To become the strategic advisors they want to be and to earn the respect of their stakeholders, CPOs need to think differently. The world is moving too quickly to stand still, and the old ways of problem-solving won't work. Rather than taking a step-by-step approach – adopt new technology, then fix the processes, then determine resource requirements – CPOs need to take a more holistic approach.

For many CPOs, now is the time to consider strategically outsourcing some elements of the procurement function.

CPOs are under constant pressure to deliver year-over-year savings. But there is a limit to the savings they can achieve without expanding their reach.

1

What's the issue?

In a volatile economic environment, organizations continue to cut costs across the organization. Procurement is no exception. CPOs are under constant pressure to deliver year-over-year savings. But there is a limit to the savings they can achieve without expanding their reach or engaging other internal stakeholders. To effectively drive more spend under management, procurement teams need to ensure they have the right skills, expertise and capacity to meet stakeholder expectations.

As CPOs across industry sectors rethink their approach to procurement, its time to consider business process outsourcing (BPO). Done correctly, it can drive two to three times more savings to the organization's bottom line. Of equal importance, it can free up internal resources to focus on more strategic opportunities and more effectively meet the needs of operations.

Gartner predicts that the global procurement BPO market will grow 6.2% in 2013.

2

Why now?

Although outsourcing has been common for years among many back-office functions (think IT), only in the last two or three years have service provider offerings reached a level of maturity that makes procurement outsourcing more attractive. In fact, Gartner predicts that the global procurement BPO market will grow 6.2% in 2013, with a five-year compound annual growth rate of 5.3% globally.⁴

With limited resources, constant pressure to deliver savings, and reactive positioning that restricts improvements that would drive value and improve procurement's standing within the organization, there is no better time for CPOs to consider BPO.

⁴ Gartner, Forecast Analysis: Business Process Outsourcing, 2011-2016, 4Q 12 update, January 2013.

3

How does it affect you?

Many procurement functions have been woefully under-resourced and inadequately invested in for years. At the same time, the organization has been demanding that procurement produce more bottom-line savings.

CPOs are getting everything they can from the resources they have, but they need more. Additionally, as the pace of business continues to accelerate and their needs evolve, CPOs find that they don't have the right competencies to manage procurement activities in-house.

BPO enables CPOs to get the right mix of resource skills, flexibility and scalability to proactively address organizational needs and deliver the savings that the organization demands. Moreover, in-house resources that are displaced as a result of the outsourcing are often redeployed to roles that offer more strategic value to the organization.



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What's the fix?

It's important to note BPO may not be right for every organization. For those that do consider outsourcing, there are five steps organizations can take to make it a success:

1. **Know the culture.** Before considering BPO, CPOs need to consider their organization's appetite for outsourcing. It is important to have executive BPO support and stakeholder engagement from the beginning. It's also important to establish an effective governance model that helps to minimize obstacles and risks at the appropriate levels of the organizations while building an effective partnership. As well, procurement needs to appreciate that change is hard. A robust change management program that establishes open lines of communication from the outset of the outsourcing decision-making process will help to minimize resistance.
2. **Define the right scope.** CPOs need to have a detailed understanding of their current operating model, a vision for where they want to get to and an idea of which route they want to take. In particular, CPOs will want to determine which outsourcing opportunities best fit their organization's business goals and culture. An outsourcing strategy that has not been fully reviewed can result in procurement functions pursuing the wrong objectives and taking the wrong approach.
3. **Build a business case.** A business case should outline the costs and benefits, a plan for transition, and metrics for measuring performance once the outsourcing handoff is complete. CPOs will also want to set baselines for cost and performance to avoid "surprises" along the way.
4. **Select the right service provider.** CPOs need to ensure that service providers offer the right qualifications and service levels and the right cultural fit for the organization. Vendor selection should focus on developing a mutually beneficial relationship, building a partnership focus and appropriate flexibility into the contract and having an exit strategy.
5. **Fix and shift.** To ensure a smooth transition and minimize issues once outsourcing is complete, procurement should consider the current state of its organization, as well as the technologies and processes that should be fixed prior to moving them to a third party. Identifying these issues early and creating a road map to fix them will be critical to achieving transformation expectations, aligning transition resources and projects, and designing the retained organization. Companies that "lift and shift" their existing problems often find they never get fixed and the service provider cannot meet the expectations for the outsourcing and the additional, unexpected costs.

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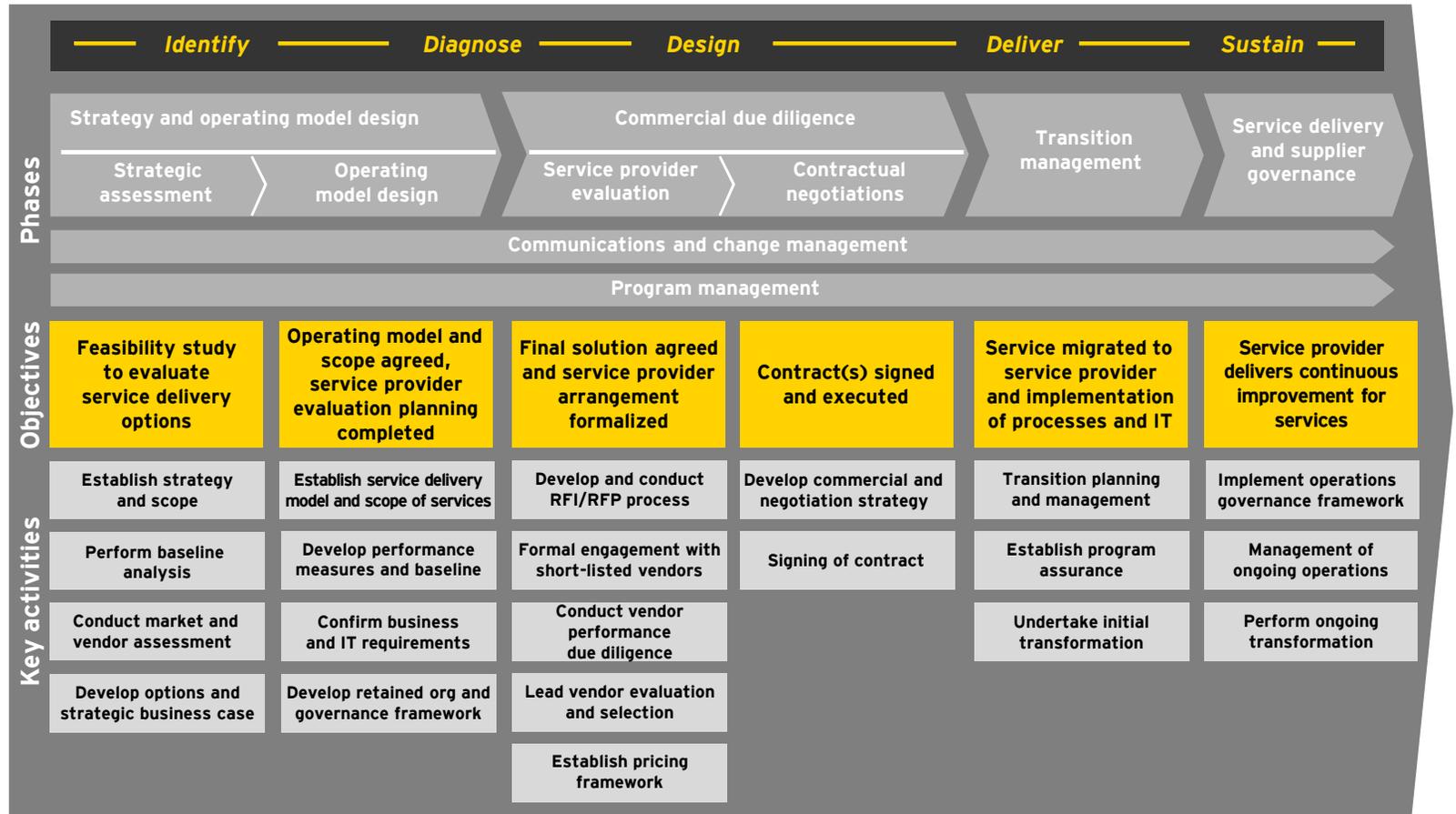
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What's the bottom line?

As the velocity of business accelerates and with economic volatility expected to continue for the foreseeable future, the pressure organizations place on their procurement functions to produce year-over-year savings will continue to rise.

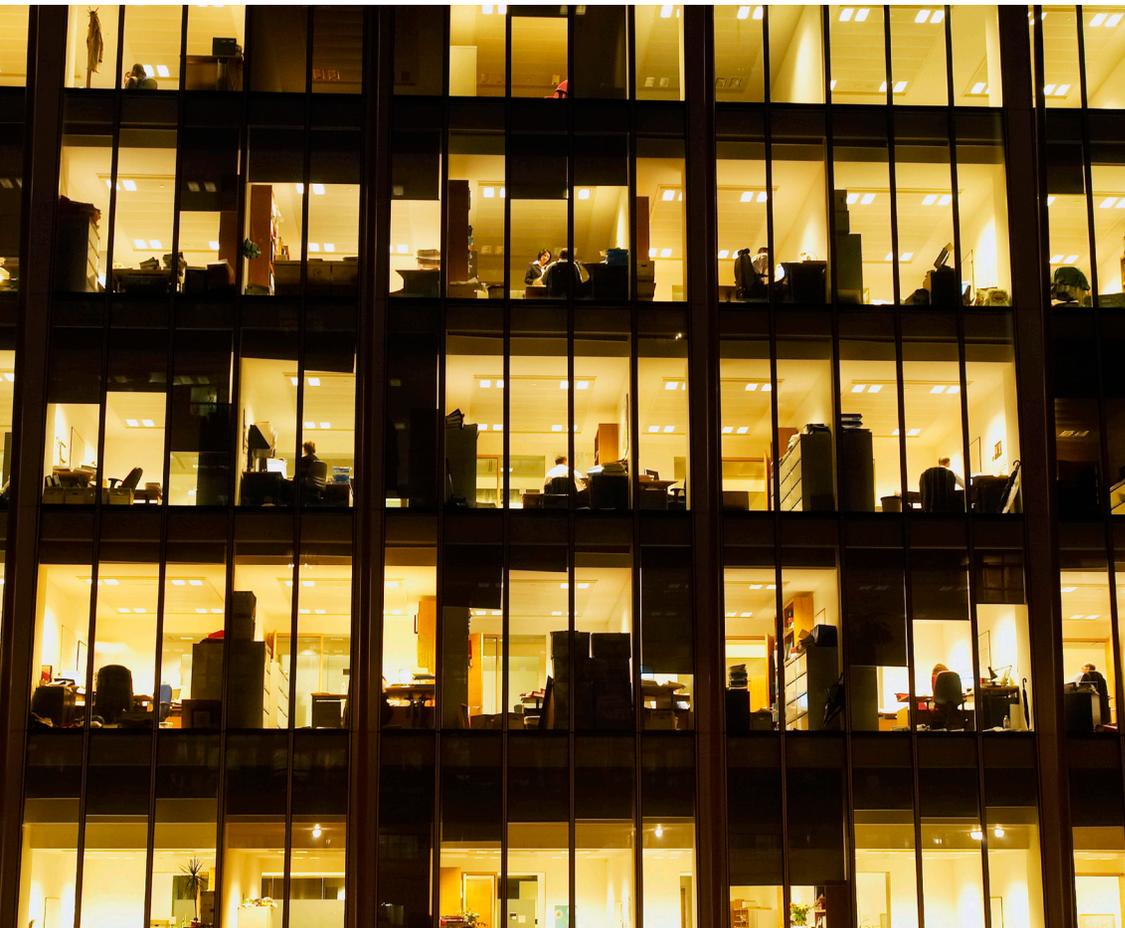
Insufficient resources, manual processes and disconnected systems leave many CPOs in a reactive state with few options for improvement. To drive the value the organization demands and become the strategic players CPOs want to be, now is the time to consider BPO.

The EY approach to outsourcing



When executed correctly, BPO can be transformative.

Want to learn more?



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SCORE No. BT0340
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