

Is Yours a Procurement Organization of One?

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Consider this.

Booking.com is the world leader in online accommodation booking, handling more than 800,000 transactions daily in over 200 countries and 40 languages. Travelers need no purchase order or invoice to secure the best-priced rooms from among the more than 600,000 properties on its site. Instead, they make their choice directly, for no fee, and reserve and pay with just one click, via a digital platform¹.

The Booking.com digital business model has not only revolutionized the travel industry. It has also raised questions about the future of many other industries—and especially their procurement processes.

After all, in a digital world, where compliance can be coded into any system, why do we still need purchase orders? And when a digital signature can serve not only as confirmation, but also authorize the release of funds, why are invoices still necessary?

Within the next five to seven years, we expect digital platforms and technologies to have totally transformed the way most procurement organizations do business. Indeed, after decades of relative inertia, they are poised for radical change. Not only will they soon be operating at radically lower cost: Accenture research in consumer goods indicates that digitally enabled companies will be incurring procurement costs of just 0.22 percent against net revenue compared with 0.50 percent for their peers². They will also be driving more strategic value for the enterprises they serve.

And all because they will have leveraged digital to become what are, in effect, procurement organizations of one:

- "One" with the business as an embedded, strategic team
- "One" with an expanded ecosystem of suppliers
- "One" with re-imagined processes as digital evolves

Leading players are already beginning to envision such procurement organizations of one. Three key characteristics distinguish those visions:

Smaller organizations that pack a bigger punch

Leading procurement organizations foresee not only a more prominent strategic role for the CPO, but also a dramatically different organizational structure—a structure enabled by digital to make procurement "one" with the business.

Such leaders envision what Ericsson vice president for procurement André Le Lerre calls a "thin front line" of procurement professionals, working within the business and applying their procurement knowledge to address core business needs: helping R&D and product development reduce time to market, for example, or solving product or production problems³.

These professionals would connect back to a central procurement team significantly smaller than that typical today. With the help of app-based advanced technologies, this team would gain real-time visibility into demand, supply and pricing. It would handle business strategy, global demand and supply, policy, compliance, and global strategic supplier management; and in the most advanced cases, it would be more responsible for the rules—parameters and algorithms—that govern these central procurement components than for the people and processes that execute them.

Analytics are Key

Analytics are a key aspect of the underlying infrastructure of advanced technologies that the central procurement teams of the future will deploy. Accenture research shows that most companies are least likely to use analytics in procurement, relative to other functional areas: only 40 percent, versus 59 percent that use analytics in finance and 55 percent that deploy this capability in customer service⁴. But leading procurement organizations recognize the power of analytics to manage data dynamically, in real time—and they are starting to imagine how to leverage it.

Predictive "supply analytics" apps, for example, could not only collate masses of Big Data, and drive deep insights from it, but would also provide a standardized dashboard to help tackle specific problems. Internal customers could access goods and services from a Cloud-based "company mall" app, enabled by a mix of digital disruptors, which would open up access to a vastly wider range of products. In addition, "virtual category room" apps, powered by analytics and social media, could hold the aggregated real-time market data that would help drive more effective fulfillment.

An ecosystem of 3

Digital supply networks that boost competitiveness and fuel growth increasingly distinguish industry's high performers⁵. Moreover, 60 percent of companies are already investing in digital collaboration platforms to stimulate ideas, facilitate idea collection, and foster new partnerships and forms of collaboration⁶.

Procurement leaders, meanwhile, are leveraging digital platforms and technologies to extend their supply networks into an "ecosystem of 3": strategic, transactional and uncharted (new, or not yet known).

They are becoming, in effect, what Flextronics' CPO and CSCO Tom Linton calls a "virtually integrated enterprise,"⁷ and thus taking another step away from the vertically integrated enterprise of the past—shedding ownership of physical assets and processes in favor of a portfolio of external organizations, which operate these assets and processes for them.

Such strategic suppliers will have a huge impact on the company's ability to grow profitably. They will continue to play a major role in reducing waste and risk. But more importantly, they will also act as a key source of the innovation that can give the company a competitive edge. Flextronics, for example, operates product innovation centers featuring capabilities from its suite of strategic suppliers that enable the more than 100 start-ups with which the company works to realize their innovations faster and more effectively.

In the future, a "virtual supplier room" app, including a dashboard with key metrics, could provide a digital platform to ensure the right ideas are identified and nurtured with strategic suppliers. Such a tool could also contain a "sub-room" enabling uncharted suppliers to learn about the company's key issues, introduce themselves, and present their own solutions. And a "supplier network" app, linked to all other apps, could connect the company seamlessly right across its extended supply base.

Everything is questioned

Achieving digital's true potential necessitates the questioning of even the most fundamental of procurement processes—especially as one disruptive digital innovation in particular promises to transform those processes almost beyond recognition.

That innovation is the Industrial Internet of Things (IIoT), which combines sensor-driven computing, industrial analytics and intelligent machine applications into a single universe of connected products, processes and services.

Already, Accenture research shows that 32 per cent of C-suite executives recognize that this digital game changer will significantly improve supply-chain transparency, and boost the value of analytics⁸. But some leading players are more far-sighted still. They know not only that the IIoT can help their processes do the same things significantly better—but also, and more importantly, that it will help them re-evaluate and re-imagine those processes.

A process revolution

Imagine, for example, a seamless scenario, where embedded sensors are so commonplace that demand signals on 90 percent of regular purchases are sent directly to suppliers, without the involvement of the buying company or responsible employee.

These purchases would then arrive on site, where embedded sensors could auto-receipt them and tell the connected, IIoT-enabled system that delivery was either on time or late. The system could consult a digital contract with the supplier to determine the correct price based on on-time delivery—and then authorize transfer of the appropriate funds using digital currencies. No purchase order or invoice would need to be generated or approved. In short, the process itself would be revolutionized.

Even ad hoc and unexpected purchases could follow the same process. They might simply be triggered by the employee using the virtual company mall, with access to competitive rates and suppliers accessible based on login credentials, using coded compliance measures to enforce policy restrictions.

In time, the IIoT could enable even more radical process changes. By embedding parts with intelligent software that indicates the plant for which they are destined, and using sensors to guide those parts along the supply chain, they could, for example, find their own way to where they are needed—all without human intervention. The virtually integrated enterprise could also use the IIoT to reallocate the parts while in transit, should unforeseen developments require it.

The art of the possible

It's time to let digital platforms and technologies help you see the art of the possible in procurement. By leveraging them, you can drive a new vision and strategy. But where do you begin?

- Consider how radically digital will change the lay out of your procurement organization
- Identify the digital components that will enable the virtually integrated enterprise
- Challenge the status quo by reconstructing your source-to-pay process with digital in mind

And remember, digital platforms and technologies are no longer just enablers. They are creating an entirely new way of doing business. Leading procurement organizations are already imagining how they can be leveraged to create procurement organizations of one—totally in sync with the business, and recognized as critical contributors to competitiveness and growth. By preparing today, you can join them tomorrow.

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