Integrated Business Services
Taking Procurement Shared Services to New Heights of High Performance

By Kris Timmermans, Christian Campagna, Kai Nowosel, Markus Hoppe and Robert E. Booth
Shared services has become a prominent operating model for business support services during the past two decades. Many large companies have implemented some form of shared services. The public sector is rapidly following their lead. Such widespread adoption is not surprising since the results delivered by shared services speak for themselves: efficiency and sustainably reduced costs.
Now that companies and organizations are en route to reaping benefits from the first generation of shared services, many are looking for enhanced returns that unlock more value, often by further leveraging shared services to a new threshold of impact where it can contribute to overall business strategy and help consolidate competitive advantage.

This next generation of the shared services business model is known as the integrated business services (IBS) model.

Procurement is particularly well positioned to contribute within this expanded model of IBS by actively driving business decisions in areas like innovation, R&D, and manufacturing. Being generally regarded as a back office operation, the full potential of Procurement to shape business decisions tends to be under-appreciated. In the context of IBS, however, it is situated to become much more impactful as a strategic partner within the enterprise.

Amplified Challenges Indicate a Need for Something New

Rising to this heightened organizational role means re-thinking traditional procurement operating models. New challenges associated with IBS will demand enhanced capabilities within Procurement. In order to maximize its organizational contribution, Procurement needs to address the following fundamental structural issues:

Insufficient Strategic Focus

Procurement often directs much of its capacity to transactional/tactical activities such as ad hoc sourcing/spot buying, and purchase order processing. By being so reactive, its ability to perform proactive category management activities is limited, despite the fact that these are the real drivers of savings and collaborative business partnering.

Difficulties Handling Tail-End Spend

Procurement is typically challenged in strategically managing total spend. Given its generally reactive mode and limitations in resources, the understandable risk is often to allow portions of the unmanaged spend at the ‘tail-end’ to become excessive. The on-going tasks of category managers are developing sourcing plans, identifying sources and engaging in negotiation. In addition, procurement for tail-end spend needs to provide services that handle ad-hoc requests and still generate appropriate savings.

Lack of Specialty Skills

Business critical activities destined to become increasingly important within IBS such as supplier performance management, procurement analytics, compliance and regulatory monitoring are typically not now being performed by procurement. The reasons for this are largely due to the lack of dedicated skills and capacity.

The Need to Attract and Retain Top Talent

What is the ‘something new’ that procurement most requires in order to seize emerging opportunities? The answer is ‘talent’. Indeed, talent is likely to be Procurement’s single most scarce resource in the next decade.

Non-Compliance with Supplier Agreements

Translating contracted savings into achieved bottom line savings currently constitutes a challenge for most companies. One reason for this is because business adherence to procurement policies is inadequately overseen and enforced. Assuring that procurement processes and technology are being adopted is another area of compliance that requires additional oversight.

Internal Efficiency and Productivity

Issues of efficiency and productivity within the procurement process itself need to be better addressed; particularly with respect to the high degree of non-value adding activities (e.g. PO processing), unclear procedures in handling specific requests and low purchasing self-service/automation ratios.

Evolution of Procurement Operating Models

Procurement organizations are moving towards a model of specialized front, middle and back office set-ups (see Figure 1). This approach is backed up by strong benefits cases. In this operating model, the Front Office (also called the Sourcing Hub) performs activities that are core to the company’s strategy, and drives the business value agenda in areas that are mostly category specific and require stakeholder proximity.

The Middle Office (also called Procurement Center) focuses on adding value in areas that are largely repetitive and can be replicated elsewhere. Its special role in this respect is to explore commonalities of tactical processes, using service requests to manage the execution as well as data and analytics enablers.

The Back Office (also called Transactional SSC) drives efficiencies through the performance of repetitive processes that are low interaction activities and mainly language and location neutral.

Evolution of Integrated Business Services

Organizations that have evolved beyond the back office, function-based services of earlier generations are defining an operating model called “Integrated Business Services” or “IBS”. IBS delivers value-add services end-to-end, addressing enterprise-wide business problems in a consistent, high quality, and cost competitive manner. In its expanding role as a strategic partner, IBS is increasingly able to identify, innovate, and implement new services and solutions that support enterprise growth at scale.
Figure 1 - Specialized Procurement Operating Model

**Industrial & Non-Industrial Users**

<table>
<thead>
<tr>
<th>Local Procurement Representative (LPR)</th>
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<tbody>
<tr>
<td>Provide Sourcing Support</td>
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<tr>
<td>Execute Local Contract Implementation</td>
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<tr>
<td>Execute Local Spot Buys</td>
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<tr>
<td>Perform Customer Services (Helpdesk)</td>
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<tr>
<td>Perform Requisitions &amp; Fulfilment</td>
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</tbody>
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<tr>
<th>Sourcing &amp; Category Management</th>
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<tbody>
<tr>
<td><strong>Front Office</strong></td>
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<tr>
<td>• Management of global, regional, and local categories</td>
</tr>
<tr>
<td>• Capability development</td>
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<tr>
<td>• Risk Management</td>
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<tr>
<td>• Supplier Relationship Management</td>
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</tbody>
</table>

<table>
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<tr>
<th><strong>Middle Office</strong></th>
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<tbody>
<tr>
<td>• Sourcing Support</td>
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<tr>
<td>• Spot Buy Management</td>
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<tr>
<td>• Contract Enablement</td>
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<tr>
<td>• Supplier Enablement</td>
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<tr>
<td>• Market Intelligence &amp; Reporting</td>
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</tbody>
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<tr>
<th><strong>Transaction / Tactical Processes</strong></th>
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<tbody>
<tr>
<td><strong>Back Office</strong></td>
</tr>
<tr>
<td>• PO Processing</td>
</tr>
<tr>
<td>• Invoice Processing</td>
</tr>
<tr>
<td>• Supplier Helpdesk</td>
</tr>
<tr>
<td>• Some Master Data Management</td>
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</tbody>
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**Suppliers**
IBS emerged as the leading model of shared business services by evolving from earlier ‘stages’ of Discrete Shared Services, Multifunction Shared Service and Global Business Services (see Figure 2).

Convergence of Procurement Operating Models with Integrated Business Services

Procurement operating models can follow the same path from discrete to integrated services. By applying Integrated Business Services concepts to Procurement operating models, companies are well positioned to address today’s challenges (see Figure 3).

Procurement Operating Models Converging with Integrated Business Services Meet the Need

“Integrated” truly is the operative word to characterize IBS and the essence of what distinguishes it from other models of shared services. The convergence of IBS with procurement operating models correspondingly occurs by way of five basic integrations:

- Back, mid and front offices are integrated end-to-end.
- Functions and processes are integrated into client-meaningful services.
- Service delivery is integrated cross-enterprise to enable global strategies.
- Sourcing is integrated with strategic partners to gain optimal expertise.
- IBS strategy is integrated into the C-Suite agenda to achieve sustainability.

Regardless of sector or enterprise, IBS organizations share a number of common characteristics of incremental value, which also impact the setup of the procurement operating model:

**Strategic Elevation**

We believe that the foundation for High Performance Procurement is its close alignment with overall corporate strategy. Such alignment enables Procurement to factor in both short-term and long-term business objectives in rendering its services in a manner that ensures operating units will meet desired outcomes.

Correspondingly, Procurement’s footprint within an IBS organization must be defined to optimize this alignment. To this end, Procurement’s ‘charter’ must include involvement in critical decisions that pertain to a greater portion of third-party spend. Procurement’s participation in these decisions will result in a more holistic, consistent, and analytics-driven approach to spend management.

Similarly, Procurement must be included in innovation agenda decisions. Its input in the conversation should go well beyond traditional considerations of cost and working capital to address the broader needs of both internal and external stakeholders.

**Service Value Orientation**

In order to stay relevant and maintain its standing within the enterprise as a critical partner, the IBS organization must increasingly deliver value-add services. Central to IBS’ capacity to produce such added value is the innovation it is able to unleash in terms of cross-functionally integrating process, people and technology. One of Procurement’s contributions to the IBS value proposition is its capacity to deliver end-to-end services that go beyond conventional shared efficiency and cost improvement to produce the following benefits:

**Increased Sourcing Savings**

A Procurement team organized in a middle office setup and dedicated to spend management within the IBS organization can contribute significantly to increased savings. It accomplishes this by exercising three main levers.

- **Better Spend, Supplier, and Market Insights.** A dedicated Procurement team enabled with state of the art analytics technology can provide better counsel and insights to category managers on how to improve sourcing performance.
- **Increased Conversion into Bottom Line Savings.** Channeling managed spend through Procurement allows the procurement team to steer purchases toward expected contracts, preferred suppliers, catalogs and processes. A corollary benefit of ‘assisted buying’ services is to motivate business requesters to conform to compliance policies. It can also enable improved monitoring of noncompliance that can be more quickly rectified.
- **Improved Ad Hoc Sourcing and Buying Performance.** Procurement is better positioned to deliver improved spot buying results because of its continuous improvement operating model focusing on recurring patterns in one-time demand.

**Improved Efficiency**

The overall efficiency of the procurement function can be improved by standardizing tactical and transactional activities, turning those activities into a service and assigning them to specialized teams equipped with work instructions. Added efficiencies from this approach include freeing category managers from responsibility for tactical transactional activities; avoiding redundant activities through central execution; availability and utilization of automation through standardized global processes and streamlined internal customer interaction by following global service level agreements.

While these service values already could be largely achieved by transforming the procurement operating model into a Front-/Middle- and Back Office setup, the following value contribution only can be explored by procurement operating model converging with Integrated Business Services.
Figure 2 – Emergence of Integrated Business Services

- Classic back office scale functions delivered at lower cost
- Align on client service expectations with SLAs and joint responsibilities
- From BU silos to functional silos still creates non-standard processes
- Added skill functions and cross-functional synergies enhance the business case
- Increase client centrity through cross-functional priority management
- Increased leverage achieved through a common service delivery framework
- Greater end-to-end process control and delivery of middle office as well as back office services
- Evolve partnership through demand planning and global business strategy support
- Greater agility through end-to-end process ownership and fewer delivery partners
- Increased cross-functional integration to deliver greater business value
- Full front-to-back office integration places client experience at the center
- Maximum agility through location agnostic integrated services and partners
- IBS is C-suite led and has end-to-end decision rights over budget and all resources

Figure 3 – Considerations for Procurement

1. Discrete Shared Services
   - Procurement back office activities are integrated into Finance Shared services
     - End to end P2P process
     - After the fact POs (back office, no proc, value add)
     - Invoice issue handling
     - Supplier issue handling (payments)

2. Multi-Function Shared Services
   - Make
     - Regional procurement middle offices are co-located with shared services location
     - Make and Buy
     - Procurement centers, service management (ticketing handling logic and processing by buying channel are designed end to end)

3. Global Business Services
   - The co-location evolves to procurement middle office becoming one pillar of the GBS
   - Preconditions:
     - Special tactical (non transactional) nature of procurement is considered
     - Procurement leadership needs to stay involved in the PC management
     - Special attention given to grey zone between front and middle office
     - In leveraging BUY Partner, the RPC network evolves to global hub and spoke
     - P2P global process owner

4. Integrated Business Services
   - The front office also integrates into IBS
   - Services are redesigned around employees – business operations – suppliers.
Improved Risk Management
Risk Management expertise residing within IBS can enable Procurement to include considerations of risk anticipation, risk monitoring, and risk mitigation in its activities. Market risks, such as price volatility, can be addressed. Risk management insights centrally gathered and accessible, including those derived from the utilization of external data sources, can be effectively included in procurement considerations.

Value driven by improved risk management includes:

- Continuous monitoring of all relevant dimensions of risk instead of only those dimensions evaluated at the initiative of category managers.
- Quicker risk mitigation through clearly defined and centrally coordinated action plans.

Improved Supply Chain Integration
Procurement is able to draw on Supply Chain Services, its partner within the cross-functional architecture of IBS. Armed with this expertise, Procurement is able to factor sophisticated demand/supply forecasting into its activities.

Client Centricity
The end-to-end integration and cross-functional organization of IBS effectively puts the customer at its center. Correspondingly, the customer experience becomes superior as the complexity of doing business with the IBS organization is simplified through a single point of access. The promise of IBS from the client’s standpoint is this ease in resolving business issues through one-stop shopping.

Accompanying client centricity is the IBS’ commitment to continuously improving service excellence. Using regularly updated benchmark data, industry leading practices, and repeatable frameworks, an IBS organization can provide increased value to customers and it can comprehensively communicates to the C level the impact of their results. Procurement’s contributions to IBS continuous improvement measures are typically driven by:

Improved Spend Management
Daily involvement in spot buys can provide tactical procurement specialists with a comprehensive picture of the overall spend profile. Their insights and guidance can continuously refine the rules that define which portions of spend are to be covered through category management, spot buying, or consciously unmanaged spend.

Improved Spot Buying Efficiency
Monitoring recurring demand patterns driven by similar requests can enable the procurement team to identify opportunities for the creation of procurement content (e.g. catalogues). These electronic catalogues enable transactions that were previously reactive spot buys to be converted into self-service requests. With Procurement no longer actively involved in such buys, overall tactical effort can be reduced.

Improved Contract Compliance
By mapping on-going requests against existing supplier agreements, the Procurement team can readily identify and respond to non-compliance incidents. Insights acquired from recurring cases across the enterprise’s collective business units, countries, and categories can be centrally archived and accessible to decision makers, providing the basis for reviewing and changing management practices.

End-to-end Governance
IBS, by virtue of its end-to-end integration, typically owns responsibility for providing services. This ownership extends to strategic decisions about how to deliver optimal services at competitive cost. Additionally, IBS manages provider roles, responsibilities, metrics, targets and compliance to insure alignment. The results of this end-to-end governance model can be streamlined services, reduced duplication, and the avoidance of inconsistencies.

In order to effectively exercise its share of added responsibility within the IBS organization, Procurement must re-think aspects of its current approach, processes, and internal relationships.

Moving from a Functional to End-to-end Process Set-up
Operationally, the collaboration with Finance can produce increased efficiency from seamless processing of transactions as well as avoidance of redundant activities. By enabling Procurement and Finance to develop common classifications that jointly track demand and spend, ongoing visibility can become sufficiently powerful to increase the managed spend. Contract compliance is another benefit in this model, with policies that can be monitored and enforced jointly by both Procurement and Finance.

Sharing Common Capabilities with other Functions
Since some back and middle office activities are performed similarly in different functions, several key processes lend themselves to cross-functional service provision within the IBS architecture itself. Bundling these services allows costs (and benefits) to be spread across the organization, thus making a business case for investing in teams of specialists with adequate resources.

A service that should be shared is predictive analytics, which most functions rely heavily on for insights to support decision-making. Procurement would benefit from analytics about market price trends and developments, as well as risk scenario modeling.

Master data and the cleansing of data need to be harmonized across functions to improve process efficiency and quality outcomes. Consequently, governance and maintenance of master data is another service that needs to reside with a central team located in IBS. Procurement would benefit from the arrangement through higher quality data on suppliers and materials.
Supplier interaction is an activity that can be most advantageously performed by a central team. The various functions are typically contacted separately by each of the suppliers with whom they deal. Because multiple functions often deal with the same supplier, a more efficient procedure would channel day-to-day supplier interaction to a sole team within IBS, which would then route supplies appropriately throughout the enterprise. For Procurement, this team would service such areas as purchase order follow up, payment term communication, and invoice exception management.

**Global Agility**

The complexity and urgency of demands on service organizations will likely continue to grow as they take on customer-sensitive activities. This makes delivery of service at a regional and local level imperative. At the same time, the use of low-cost locations or outsourcing providers in a variety of different countries can equally be expected to grow. In order to maintain agility amidst vast global expansion, the service delivery model of IBS organizations as they mature will likely be multi-tiered in order to simultaneously reap the benefits of standardization with the cost-effectiveness of local talent.

One tier of the architecture will be global or enterprise-wide hubs performing routine, procedure-driven activities formerly conducted in regional shared service centers. Procurement activities at this level will be both transactional such as order processing and operational reporting, as well as tactical such as sourcing support, and market/spend analysis.

Regional business service centers (RSBC), the next tier, can leverage services standardized at the global hub drawing on the strength of local talent pools. Procurement typically moves tactical activities that require proximity to the business or suppliers—such as spot buying, supplier enablement, supplier follow-up—to regional business centers. To sustain on-going optimization of the regional business centers, over time as these activities become standardized they will migrate to the global hub.

Local business service centers (LBSC) can deploy professionals to maintain close contact with customers and acquire intimate knowledge about the market. In the case of Procurement, local purchasing representatives play the important role of providing a contact channel to local sources of demand and supply in local markets. As these employees migrate to other parts of IBS, they not only carry with them this background but also help to ensure continuity to business and supplier relationships. Having people on the ground locally for some time and then migrating to the central organization is itself a value-add that facilitates a smooth transition to the IBS model.

**Conclusion**

Companies are evolving their procurement operating models into a setup of front, middle, and back office organizations supported by a local tiered approach. This structure is well suited to address typical procurement challenges and is already driving significant benefits.

At the same time, many companies are on a more extensive journey from multi-functional shared services to Global Business Services and then to Integrated Business Services. Arriving at the IBS destination affords an opportunity for synergies that can help procurement drive different, incremental benefits like:

- End to end governance and enterprise wide process efficiencies through standardization.
- Improved agility in facilitating interaction with internal customers and suppliers.
- Leverage of cross functional risk management, analytics and supply chain integration.

Procurement executives should embrace this evolving model and align it with their procurement vision.

As mounting competitive pressures make it imperative that enterprises unlock more value from their organizational assets, is your company establishing the foundations necessary to enable the Procurement function to fully add value?
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