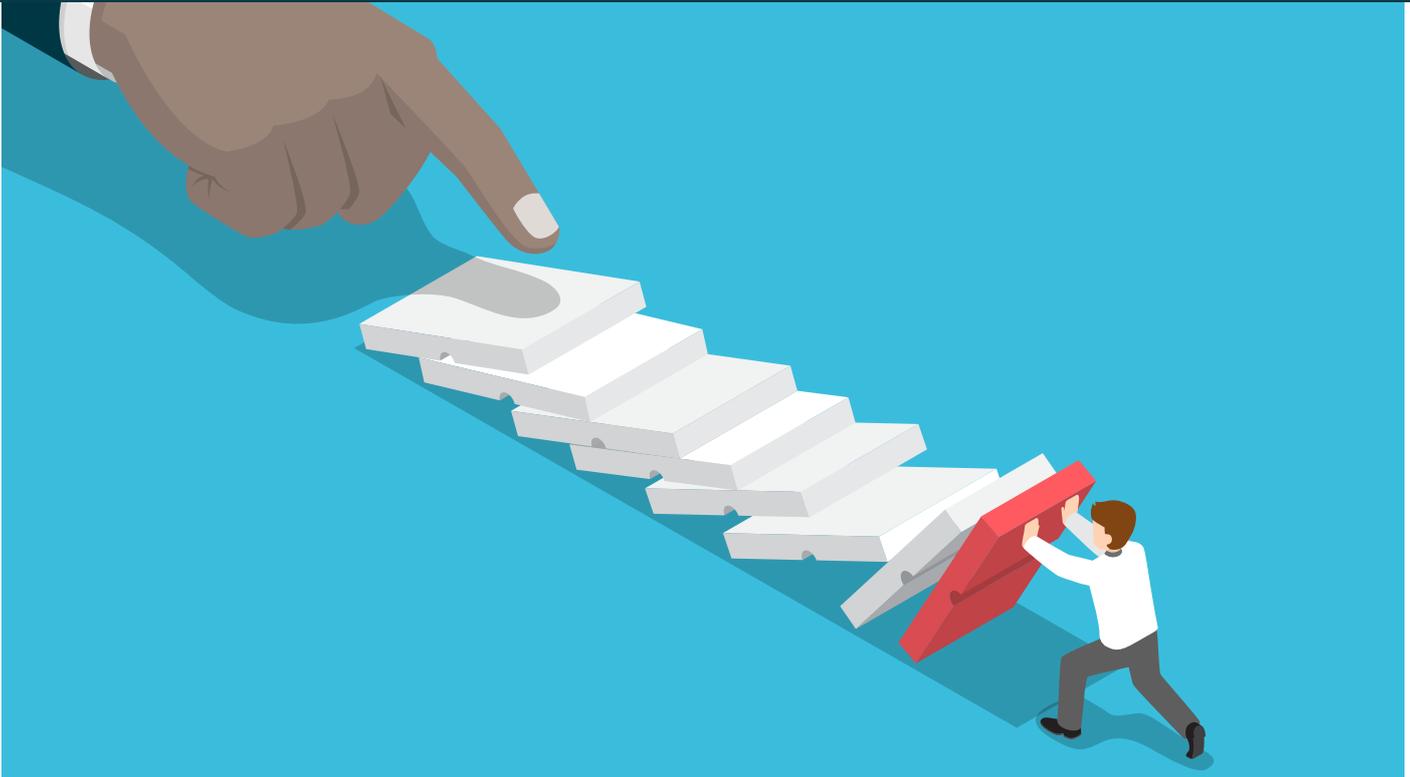


INTRODUCTION



“What has happened today that will decide the future?”

That is the question that Peter Drucker urged chief executives to ask themselves constantly. That advice, from the greatest management guru of the 20th century, is even more relevant today as procurement leaders recognise that digital technology will completely transform the way companies—and their function—go about their business. That journey to a future full of ‘known unknowns’, to use a term popularised in the US military, has already begun.

We don’t know when technological change will happen, where it will occur or the detail of how it will change corporate structures, cultures and processes. One of the ‘known knowns’ with which procurement and supply chain leaders are grappling is that they need to prepare for this revolution now, implementing the changes that will help them fulfil the enormous and complex, yet ultimately performance-enhancing, task of digital transformation.

Why is this necessary? Fundamentally, it’s because geographic, demographic and technological revolutions are making the global marketplace fiercely competitive, shortening product life cycles, increasing choice (and undermining brand loyalty) and emphasising the need to reduce speed to market. Procurement leaders also understand that, as we have already seen in the IT business, first-mover advantage is much more important than it was even five years ago.

In this context, digital transformation is no longer a ‘nice-to-have’; it is the essential first step on a journey that may ultimately embrace some, most or all of the following: big data, robotic process automation, blockchain, AI, virtual and augmented reality and 3D printing. If this transformation is to deliver the expected return on investment, it is vital that procurement is at the heart of it. To make that happen, procurement and supply chain leaders must first confront some inconvenient truths.

TO COMPETE TOMORROW, WE HAVE TO ABANDON YESTERDAY

In essence, technology is giving chief procurement officers a once-in-a-working-lifetime opportunity to rethink and reinvent their function. The real challenge here is not just about what procurement can do more efficiently, it's also about what they are doing that they don't need to and what they should be doing that they're not. For example, they may consider whether outsourcing payroll would be beneficial, how procurement could become more agile and whether they are really harnessing the power of big data throughout the organisation.

Digital transformation is essentially a change-management project, albeit ultimately an all-pervasive one, and should start with a thorough and honest assessment of how the business and its procurement function currently work. Managers should then proceed to ask: what would our business—and procurement—look like if had been created in the digital age? With a thorough understanding of the business objectives, procurement is much better placed to align itself with those goals and define ambitious,

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but deliverable, targets that take the function out of its comfort zone. As part of this process, external expertise can help sense check internal debates and shed light on how other organisations are addressing this challenge.

Abandoning yesterday is not code for a sudden leap into the dark. Large multinational corporations will be managing intricate, complex and expensive supply chains that are primarily designed for mass production. Putting that at risk could endanger market share and revenues. So it is imperative that procurement takes the lead here, pro-actively making the highest level of management aware of the value it aims to create before it has been created. That process is essential if the CPO is to be seen as a strategic enabler, rather than just someone who got lucky.

Many metaphors have been used to capture the difficulty in turning around large organisations. Management theorist Rosabeth Moss Kanter probably got there first with her book *Teaching Giants To Dance* (1990). The clichéd advice—that it's about evolution, not revolution—certainly applies, but that is not sufficient reason to procrastinate, delay or stall digital transformation. Goals need to be set, momentum needs to be maintained and successes need to be shared. Failures also need to be embraced, studied and learned from.



IT'S NOT ALL ABOUT THE TECHNOLOGY



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Clear strategic goals will help to map out the impact of digital transformation.

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You can't digitally transform your business if nobody outside procurement believes you have the right solution. Winning over internal stakeholders—not something procurement and supply chain leaders have traditionally regarded as one of their strengths—is imperative if digital transformation is to succeed.

Success starts with clarity. Digital transformation sounds obvious—it's about using digital technology to transform the business, isn't it?—but different stakeholders will almost certainly have different priorities. That's why senior management, hopefully guided by the CPO, needs to define, agree and repeatedly communicate their strategic goals.

That will save senior managers from becoming embroiled in unnecessary internal wrangles during implementation, help to map out the impact of digital transformation on systems, processes, departments and hierarchies across the business,

and monitor success. It could also make it easier to develop, at this early stage, alternative strategies that might help achieve the same goal.

Clarity can boost the chance of success by keeping timescales realistic and ensuring that resources are commensurate with the objectives. Some leaders tend to underfund change-management initiatives, believing this will increase the ROI when, too often, it merely reduces the cost of failure.

Investment should not be a gamble where the company, in effect, bets the farm. Yet equally, it is vital to recognise that true digital transformation cannot be achieved by signing off on a project here and a project there. The ability to orchestrate the transformation across the business is essential if significant, sustainable jumps in performance are to be achieved. As Drucker liked to say, risk is a requirement for success, and if you're not taking risks, you're not aiming high enough.

IT'S NOT A "ONE AND DONE" THING

Digital transformation is a journey with no fixed destination for the business. You can't simply buy the technology, like you might have done with an old-school turnkey system, plug it in and then sit back.

Take blockchain, for example; new blockchain applications are being developed on a daily basis. Some companies are using it, others experimenting with it, and a few are ignoring it. The timescale for implementation will vary immensely according to the size of a company, the sector it operates in and, quite possibly, the country in which it is based. However, any digital-transformation programme has to be flexible enough to embrace what could prove to be a game-changing technology.

In the age of cloud computing, technology is evolving so rapidly that companies need to build

the internal capability to understand emerging technologies and how they might—or might not—improve corporate performance. The two functions that should have a pivotal role to play in building that capability are procurement and IT.

The old mindset, where companies invest in technology at set periods, will no longer suffice. This is not always an easy case to make—internal competition for resources is always intense—but it's worth noting that Amazon is estimated to have spent \$22.6bn on R&D in 2018—slightly more than the GDP of Iceland. Technologies can protect and create value. For senior management to conclude that what they already have is sufficient is a bit like deciding that the company is efficient enough. To return to Drucker's point, something happens every day that will influence a company's future—whether the chief executive recognises it or not.

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EVERYTHING LOOKS LIKE FAILURE IN THE MIDDLE



It's called Kanter's Law, after Rosabeth Moss Kanter, who once observed: "Everyone loves inspiring beginnings and happy endings, it's just the miserable middle that requires hard work." There is, as she rightly observed, a point in the middle of every change-management project where even the true believers begin to have doubts and internal resistance to change mounts. The more innovative the change is, the more likely the project is to encounter objections from those who can't—or won't—see the benefits of abandoning the tried and trusted ways. The inevitable temptation is to stop and chase another rainbow and, when that project stalls, the rainbow after that.

Yet often, all that is required to salvage an initiative—and turn failure into success—is to make a few appropriate adjustments. Seeking external advice may help to resolve the deadlock and identify a way forward. A disinterested third party, accepted by all sides as having no particular agenda, can help change the conversation.

It may be necessary to reflect on exactly what has changed since that initial vision of the digital transformation was articulated and agreed, whether genuine progress has been achieved, where the roadblocks are—and how they can be avoided in future.

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Seeking external advice may help resolve the deadlock and identify a way forward. A disinterested third party can help change the conversation.

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YOUR GREATEST EXTERNAL COMPETITOR IS JEFF BEZOS

The more complex a company's procurement processes are, the more incentive there is for other stakeholders to buy their everyday supplies on Amazon. Even if staff resist the temptation to do that, their expectations are still being defined and influenced—sometimes almost subliminally—by their experience of shopping online.

Cumbersome technologies and bureaucratic systems will undermine procurement's reputation inside the business, reinforcing the tired old negative stereotypes about the function primarily existing to prevent things happening, rather than enabling them.

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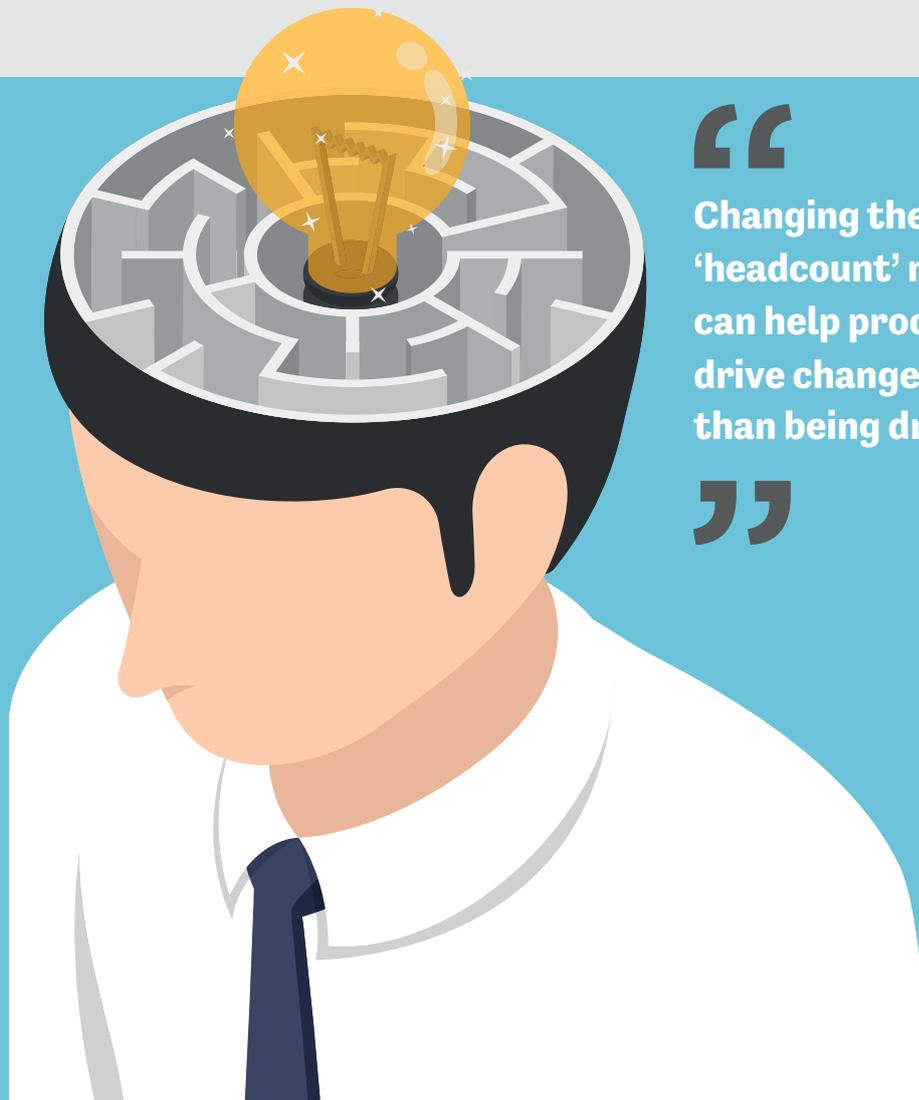
The benchmarks for ease of use, agility and flexibility are now the apps we use on our smartphone.

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When procurement is considering what the business would look like if it had been 'born digital', the benchmarks for ease of use, agility and flexibility are not other turnkey systems but the apps we use on our smartphone.



YOUR GREATEST COMPETITOR IS THE CFO



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Changing the old ‘headcount’ mindset can help procurement drive change, rather than being driven by it.

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How much does your head office cost? Whatever the size of your company—and whatever sector or country you operate in—the answer will invariably be: too much. Cutting central services to the bone looks like an easy, morale-boosting win for CEOs and CFOs as they seek to impress external stakeholders and that may encourage finance chiefs to support systems that promise to automate procurement (Ambitious, empire-expanding CIOs will almost certainly be urging them to pursue that option).

The best way to prevent this is for CPOs to show that their function is a strategic part of the

business which, through cost-cutting, lateral thinking and smart use of technology can enhance competitive advantage. A strong opening gambit may be to start with procurement itself.

Traditionally, many CPOs, like other heads of department, have regarded headcount as an index of their influence. Changing that mindset can help procurement drive change, rather than being driven by it. They can then make a more persuasive case that they can implement cost reductions and efficiencies elsewhere that will free up investment for areas that are key value drivers for the business, such as customer experience.

YOU NEED TO BUILD A SUSTAINABLE ECO-SYSTEM

No company is an island. It's not quite what John Donne said in his most famous poem but it certainly applies in the 21st century where technology is transcending market boundaries, encouraging disruptive innovation and enabling closer, more innovative, collaboration with suppliers, partners and, in some cases, even competitors.

If you want to sell goods online in China, for example, you will almost certainly have to work with Alibaba, which e-Marketer estimates accounts for 58.2% of retail e-commerce sales. If data is the fuel that powers your business—and if it isn't now, it soon will be—you may be able to compete with the likes of Google to hire the best data scientists or you may choose, certainly initially, to partner with external expertise.

There are many other tasks—from auditing your supply chain to identifying the presence of forced labour to sharpening your social media strategy and tracking how cost-effective the business really is, compared to its peers—when senior managers might do best to turn to specialists for guidance even if, ultimately, the power of decision-making remains in their hands.

The secret of successful digital transformation is not to stop. As Drucker observed, if you don't stay constantly ahead of the competition you're just giving them a chance to catch up and or beat you.



Senior managers might do best to turn to specialists for guidance even if the power remains in their hands.





Expense Reduction Analysts

Expense Reduction Analysts specialises in helping organisations to derive additional value from their immediate suppliers in a range of overhead cost areas, with the overall aim of improving service while reducing costs. Our specialists work alongside finance, procurement and operations teams to help them derive additional value from the supply chain. They bring to bear our spending power and a lifetime of experience gained during senior careers in their areas of expertise. This results in a service that helps your teams improve processes, save money and derive added benefits from suppliers.

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