

# PERSPECTIVE

## The New Paradigm in Procurement Driving Efficiency and Effectiveness With the Right Mix



– Paul Millett and Shubhra Agrawal

### Abstract

Procurement functions are at different states of maturity and effectiveness across organizations and often, within organizations. For some Chief Procurement Officer (CPOs), the challenge is to establish a strong foundation for process, policy, and delivery, while for many others it is driving efficiencies in the function to continuously deliver results. For most, if not all – irrespective of where they are on the procurement journey – there is a continual pressure to deliver and sustain value year-on-year with limited resources and budget.

As companies in the pursuit of consistent and sustainable high performance make new demands, a new operating model is fast emerging – one that forges partnerships to complement internal resources and capabilities. Infosys explores the issues with the traditional in-house procurement function and identifies five areas where the new analytics-based, value-focused operating model can deliver a wider range of benefits.

## A growing mandate

Businesses today have a two-pronged mandate for their procurement functions – deliver substantial year-on-year value, in other words, 'be effective' and do so with the best overall return on investment (ROI), i.e., 'be efficient'. For the more mature functions, this means delivering ongoing value on external spend (3 to 7%<sup>(1)</sup> year-on-year) and with an acceptable ROI (4 to 11<sup>(1)</sup> times their cost as a function). Beside cost savings, the procurement function must ensure they deliver the 'softer' value from their supply base – quality, safety, security of supply, risk management, and continuous improvement. Furthermore, leading procurement functions are increasingly getting involved in enhancing the revenue side of the P&L, leveraging the

supply market to help drive product (or service) range enhancement, open new channels to market, or drive volume uplifts.

Over time, the chief procurement officer (CPO)'s mandate has widened across the organizations' spend base to include complex spend categories – marketing, legal, engineering and technical services, capital expenditure (CAPEX), maintenance repairs and operations (MRO), IT&T, property, and facilities maintenance – that were traditionally the responsibility of technical or functional specialists. To identify and deliver value year-on-year from the external spend base, procurement teams must explore and leverage all available value drivers

beyond pure price (i.e. focus on total cost and value through category and demand management, process improvement, and supply chain optimization). This expansion of procurement's role throws up new challenges for the individuals and organizations, especially when both are not well prepared for the change.

So how can procurement meet these challenges? Essentially, this requires having the right combination of people, processes, and technology to deliver consistent and sustainable high performance. Sounds simple, but how can this be done?

<sup>(1)</sup>Source : Hackett Book of Numbers 2011



## Get the right procurement operating model

Globally, procurement operating models are evolving to meet growing needs. Consequently, a clearly defined operating model that covers the entire procurement function from procurement strategy to transactional buying and all the enabling activities to support end-to-end procure-to-payment process is needed. Such an operating model should clarify procurement's role and all the required capability areas essential for success – including governance, mandate, operating principles, key processes, targets, key roles, and responsibilities. Specifically, the procurement team needs:

- Clarity on its role across all external spend categories, business units or divisions, and geographies
- Clarity on its role within and functional interactions across the key end-to-end business processes including source-to-contract, contract-to-purchase, and purchase-to-payment
- Value delivery targets by category portfolio and across the range of value drivers including sourcing, category management, and demand management

For the model to deliver, the team needs to be armed with the skills, tools, data, market knowledge, analytics, and reporting capabilities – requirements that are increasingly hard to fulfill with in-house teams. Therefore, CPOs are increasingly turning towards adopting a hybrid model that leverages external partners to provide some or all of the following:

- **Deep category expertise** in niche or commoditised spend areas, allowing internal resources to focus on supporting the core business, for example, managing spend categories that drive competitive advantage
- **Augmentation services** to bolster internal teams with resources, tools and processes that can be 'plugged in' to drive and deliver strategic sourcing, category management, contract management, supplier panel management, and analytical support, as needed
- **Operational procurement services** to drive effectiveness and efficiency from the transactional engine room of the procurement function including PR / PO conversion, tactical sourcing to drive value, compliance from the 'tail', master data and catalogue management to keep on top of the vendors, materials, etc., and ongoing spend analytics and reporting
- **Best-of-breed tools and technology**, either stand-alone hosted software or 'as-a-service' enabled by expert support resources that target agreed outcomes and service levels
- **Capability development** for the team through a mix of formal and 'on-the-job' training
- **Consulting services** to help define the right model and the most expedient way to get there, then forge a partnership to deliver the new model, and drive value delivery to make the transition self-funding



## Well thought-out partnerships – The way ahead

In the present market scenario, attracting and retaining experienced and skilled procurement professionals is a huge challenge. Naturally, many CPOs globally have begun leveraging specialist procurement partners to bolster their internal teams' capabilities and capacity in select areas. This allows them to focus on spend categories or business processes that are deemed to be core or market differentiators for their organizations while partnering with outsourcing service providers for non-core categories. Clearly, partnerships are the way ahead, especially in the following five areas:

**1. Benchmarking targets:** Collaborating with the right professional services firm or BPO partner can help rapidly and impartially identify areas of improvement through the following:

- A capability benchmarking assessment to identify and prioritize functional performance gaps and areas for improvement
- A value assessment across the full external spend base from which to plan and prioritize resource efforts to maximize value delivery and manage risk across the organization's entire spend base

These two assessments help identify an end-to-end value delivery and functional improvement program that will ensure that the function is focused on doing the right things well.

**2. Bolstering your strategic capabilities:** At the strategic level (i.e., category strategy, source to contract, and ongoing category management), building a team with a mix of seasoned procurement professionals having strategic thinking abilities, robust procurement process experience, specialist category expertise and market knowledge, and solid project management, facilitation, and change management abilities is essential. External partners can assist with:

- Deep category expertise (SMEs) to develop and implement category strategies through to completely taking over category management activities and delivering against year-on-year targeted outcomes
- Augmentation services to bolster the internal team on an ad hoc or project

basis or in areas that require adherence to strict timelines and often where there is the need for a step change in process or performance

- Capability development to improve the team's skills and abilities to drive change and deliver across the end-to-end value chain
- Consulting services to assist with the upfront operating model design, right through to specific outcome-based value delivery programs

**3. Deriving value from tactical activities:** For tactical activities such as contract to purchase, tactical sourcing, and ongoing supplier and panel management, the procurement function is often under-resourced. As a result, these activities suffer and leave value that can be unlocked with an effective and efficient delivery model. External partners can assist by providing:

- Contract and supplier performance management services
- Supplier panel management services to maintain competitiveness and appropriateness of services supplier panels, facilitate the ongoing bidding and buying processes, and where appropriate bring 'best of breed' tools and resources 'as a service'
- Tactical sourcing (or spot buy) services to bring due process, governance, and compliance to the ad hoc spend whilst delivering commercial value through the sourcing process. Over time, this process will reduce the supplier 'tail' through consolidation into existing contracts or leveraging supplier panels
- Catalogue management to establish

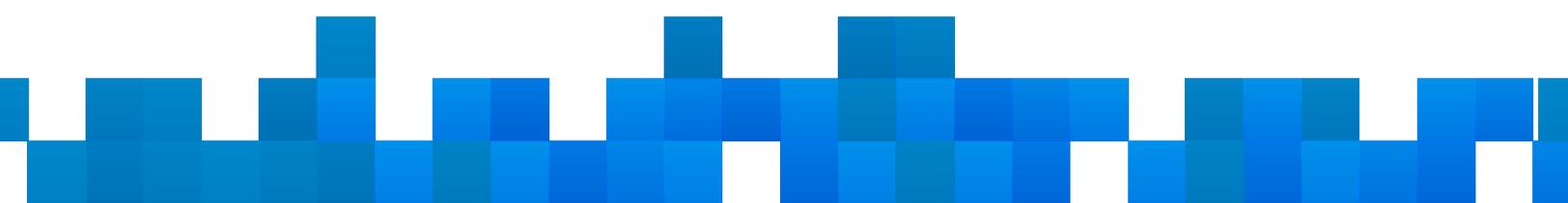
and maintain product (or services) catalogues to enable the business to efficiently transact against pre-established supplier arrangements

**4. Ensuring compliance:** There is a constant challenge to drive compliance in processes and policies while meeting required service levels efficiently. This challenge varies considerably depending upon the degree of process standardization and / or centralization across the organization, the degree to which the supplier base has been rationalized, and the state of the master data. External partners can assist with operational procurement services combining highly efficient processes, best of breed tools and technologies with a lower cost resource mix consisting of onshore and offshore resources and covering:

- PR to PO conversion services
- Master data management
- Invoice validation
- Accounts payable services

**5. Robust analytics and reporting:** For the procurement team to be most effective, there is the need for robust data analytics and reporting, which requires high caliber analytical specialists that CPOs often struggle to recruit and retain. BPO partners can assist with specialist resources to perform:

- Spend cube analytics and reporting
- Specific category dashboards – tailored to track category performance and compliance
- Benefits tracking and reporting
- Ad hoc analytical support





## Make sure to balance onshore and offshore resources

For more than a decade, the BPO industry has successfully managed many of the transactional and operational business processes. These often being the first to be sent offshore to drive labour arbitrage efficiencies due to their resource-heavy nature.

As CPOs seek solutions to drive effectiveness across the full spend base,

they are looking for innovative ways to resource these activities. The answer is increasingly being found through the assistance of BPO partners with offshore capabilities in providing these knowledge-based services at substantially lower cost. As the procurement BPO market matures, availability of these knowledge-based services is increasing, thus providing an

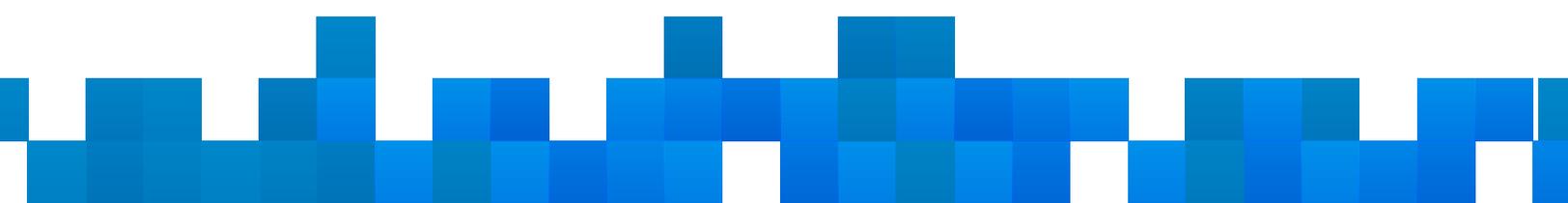
opportunity to CPOs to drive value in spend areas they previously could not get their hands on! When done well this is enabling both increased year-on-year value delivery at equal or lower overall cost. Hence increasing procurement's contribution as a key function within the business with demonstrable improvements in ROI.

## A case study – How Infosys BPO helped a leading mining company

Infosys BPO sourcing and procurement (S&P) practice has proven experience in catalyzing change and delivering measurable results across the sourcing and procurement value chain. Here is one such example where Infosys BPO brought to the table a credible value proposition that catalyzed a change in the way the client managed procurement – spend, categories, governance, and analytics.

The client has been a leading mining and metals company in business for more than 130 years. They faced a multitude of challenges – from hiring woes due to unprecedented growth in the commodities sector to low integration level of acquired entities, low adoption of spend management, decentralized operations and non-standardized processes, and a diverse technology landscape. In a bid to streamline its procurement function, the company began looking for a partner to support many of its transactional procurement processes that utilized the company's legacy ERP platform. In 2008, the company engaged Infosys BPO. What began as a market research engagement to understand the procurement outsourcing market evolved into a long-term partnership to manage, optimize, and enrich several S&P processes. Over a period of nearly five years, we have delivered benefits such as:

- Insourcing, ROI of 1:12 delivered across the categories managed
- 12-15% cost reduction with category management of MRO against an annual average target of 4%
- Savings of US\$1.1 million with compliance to contract management
- Savings of US\$10.3 million through minor process improvements globally
- Reduced blocked payments from US\$27 million to US\$8 million over a period of 20 months (reduced by more than 99%)
- Handled 350K PO lines and 1.2 million invoices per annum globally
- Standardized and harmonized processes resulting in increased customer satisfaction
- Increased catalogue spend and compliance to contract spend
- Freed up 30% of category manager's time
- Surpassed internal / external quality measures benchmarks





## Conclusion

Procurement outsourcing can therefore bring impressive returns on investment – increases in organizational efficiency, effectiveness and productivity, build stronger and more strategic relationships with suppliers, and usher in substantial savings – provided, the right operating model with the right mix of resources, in-house versus outsourced, and onshore versus offshore are used.

## About the Authors



### Paul Millett

Paul Millett is a Director of Portland Group and heads Portland's NSW team in developing, selling, then delivering consulting and BPO services and solutions to clients across all industry sectors. Portland Group, a wholly owned subsidiary of Infosys BPO, is a market leader in providing specialized supply chain and procurement professional services leveraging deep local expertise with offshore delivery capabilities enabled with leading technology solutions.

Paul has over 17 years of experience with the FMCG industry and in supply chain consulting roles across global blue chip organizations, including Mars Europe, Accenture UK, WCI Group UK, AT Kearney, and Portland Group.

Paul has developed supply chain and procurement strategies and delivered sustainable solutions in grocery retail, FMCG, financial services, building materials, construction, telecom, distribution, aerospace, healthcare, government, refining, steel and mining industries.



### Shubhra Agrawal

Shubhra Agrawal is a Consultant (solution design) at Infosys BPO's sourcing and procurement practice. She has more than 14 years of experience in supply chain management. Previously, Shubhra worked with the Indian armed forces helping them maximize value by building a strong supply chain management network, including sourcing and procurement for the armed forces. Currently providing consulting services to Fortune 500 companies, she is helping them transform their sourcing and procurement business processes.

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## About Infosys

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Infosys BPO, the business process outsourcing subsidiary of Infosys, provides integrated end-to-end outsourcing and delivers transformational benefits to clients through cost reduction initiatives, ongoing productivity improvements and process reengineering.



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