



HOW PROCUREMENT BPM IS CHANGING THE GAME FOR MID-TIER ORGANISATIONS

Abstract

Over the last 15 years, procurement has evolved into a function that provides competitive advantage for many large organisations. Senior executives have seen strategic procurement teams deliver significant cost reductions, a high performing supplier base and reduce risk in their supply chain. In contrast, procurement in many mid-tier organisations (MTOs) is less mature and does not maximise its potential contribution to the overall business objectives.

In this whitepaper, read about the major challenges facing MTOs and explore a new option for these organisations to deliver an effective procurement function via Business Process Management (BPM). A procurement BPM operator brings in proven procurement processes, leading IT systems, category knowledge, and a flexible cost structure. Recent experience suggests MTOs can achieve 10-20% savings on addressable supplier spend through a procurement BPM arrangement. This model has helped establish procurement firmly on the agenda for many senior executives of MTOs looking to reduce cost, improve supplier performance, and lower risk.

MTO Challenges and Constraints

An MTO can be defined as an organisation with an expenditure in the range of \$50 Mn - \$500 Mn as well as with a procurement team of less than 10 people. Given the fragmentation of their supplier spend, combined with limited head office resources and investment, MTOs face a number of unique procurement challenges compared to large organisations, which include:



- Difficulty in recruiting and retaining experienced procurement staff due to a limited career path
- A broad and shallow supplier spend profile that requires access to specialist category knowledge to deliver an acceptable return on investment (ROI) for procurement
- Poorly defined strategic / operational procurement processes
- Limited access to supply market information and pricing benchmarks
- Insufficient capital or IT resources to implement critical procurement systems such as spend analytics, category management tools, and procure-to-pay (P2P) systems

Driving Value from Procurement BPM

A procurement BPM solution can address many of the challenges that are faced by MTOs in building a high performing procurement function, through enhanced efficiency and effectiveness. An experienced BPM provider brings

a proven procurement process that is delivered through a combination of onsite category managers, offsite subject matter experts, and potential offshore analytical resources. The combination of these capabilities allows organisations to

reduce procurement operating costs per \$ of spend under management (efficiency). In addition, leveraging BPM category expertise, supply market data, and leading IT systems can deliver greater benefits at an accelerated rate (effectiveness).

Efficiency Benefits from Procurement BPM



Proven and efficient processes

Although clients often focus on the more obvious operating cost benefits of BPM such as labour arbitrage, the major efficiency driver is the use of best practices. Labour arbitrage benefits diminish over time with rising wages, whereas continuous process improvement can deliver year-on-year operating cost reductions and deliver quicker benefits. For an MTO to develop a best practice process, build the related tools, and train their staff, can take up to 12 months for a simple process such as supplier performance management. Conversely, a BPM provider brings proven processes on day one, along with standard tools and trained staff - so they just need to tailor the process to the particular needs of the client.



Flexible resource structure

Due to the scale of their operations, a procurement BPM also provides enhanced flexibility by allowing clients to access a broad range of resource types and expertise over time. This allows the matching of task complexity with the appropriate resource level, experience, and cost. For example, an experienced procurement director could be utilised for a short period to set up the procurement operating model and a senior category manager to manage supplier relationships, while low cost offshore resources can undertake data analysis and reporting. Furthermore, a BPM model allows procurement resources to be quickly deployed for discrete periods of time to address urgent requirements such as major sourcing programs, supply market assessments, and reporting on supply performance management. This is particularly relevant for MTOs that find it difficult to recruit and retain experienced procurement professionals.



Global delivery model

In many cases, a BPM model also facilitates access to offshore resources, decreasing the operating costs per \$ of spend under management. Given the scale of the spend, it would be impractical for an MTO to establish an offshore procurement team, however many BPM providers have already established offshore centres with staff trained in standardised procurement processes. Offshoring administrative activities like spend analysis and reporting can not only reduce procurement operating costs, but also improve effectiveness, as staff can become experts in a process across multiple clients. For many MTOs, leveraging offshore resources can provide a sufficient ROI to implement end-to-end category management activities which would not be worthwhile through onshore teams.

Client Benefits



Certainty in project delivery and quicker benefit realisation



Scalable operating costs and broad expertise



Access low cost offshore resources for support activities

Effectiveness Benefits from Procurement BPM



Category experts

A procurement BPM model also allows clients to access specialist category expertise which is critical in driving sustainable cost reductions and supplier service improvements. For example, rather than hiring an experienced category manager for categories such as travel, marketing, and facilities management, these skills can be accessed where required through a BPM model on a part-time or project basis. This is particularly relevant for MTOs who often manage a large number of categories within a modest procurement budget. As it is impractical to hire experts for all procurement categories, most MTOs hire resources with general procurement or operational experience providing mixed results. However, a BPM provider facilitates access to category experts who have a deep understanding of the category value drivers, suppliers, and market dynamics as they are dedicated to managing this category for a range of clients.



Supply market data and IP

Leveraging supply market data across clients can also provide significant advantage for BPM providers. Given supplier contracts are typically only reviewed every two to three years, it is difficult for internal procurement functions of any size to build meaningful supply market information. Therefore, having access to current market data such as pricing benchmarks, emerging suppliers, or regulatory changes can be extremely valuable. This ensures that the procurement team is credible enough to deal with internal stakeholders by bringing in expert market knowledge, while also having an understanding of the key capabilities, which can speed up the tendering process. Alternatively, a market exercise could be avoided altogether by using credible pricing benchmarks to conduct a direct negotiation to bring savings forward.



Access to leading technology

Given the process and data intensive nature of procurement, IT systems are critical to sustaining procurement benefits over the long term. Spend analytics and contract management tools are vital in delivering effective sourcing programs and ongoing category management. In addition, eSourcing, supplier management, and P2P systems can significantly improve process times and internal compliance. However, these systems are expensive to purchase, difficult to implement, and require substantial user training to deliver sustained results. Therefore, MTOs are understandably reluctant to invest the capital or time to implement these systems. However, a service provider allows an MTO to access these systems as part of their operating model and annual fee structure. The implementation time and associated risks are also reduced as the systems are already in operation with other clients.

Client Benefits



Sustainable benefits, driven by continuous improvement



Negotiate lower supplier pricing and total cost



Proven IT solutions with no capital outlay

Conclusion

Through enhanced efficiency and effectiveness, procurement BPM provides a strong value proposition for many MTOs that want to enhance their procurement capability within a short timeframe. A procurement BPM model addresses

many of the constraints faced by MTOs in transforming their procurement function to a strategic business partner. The results achieved in improved cost, service, and risk outcomes are compelling. A procurement

BPM solution presents a real opportunity for organisations looking to rapidly improve their procurement capabilities and the value they can deliver to the overall business objectives.

Contact Us



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About Infosys Portland

Infosys Portland is a subsidiary of Infosys BPM Ltd., a part of Infosys Ltd. Its mission is to improve the efficiency and effectiveness of its clients' procurement and supply chain activities. We achieve this by providing thought leadership, specialist subject matter expertise, a global delivery model, and best-in-class technology solutions. By increasing the value delivered and improving the of procurement and supply chain operations, our clients are able to achieve more for less.



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