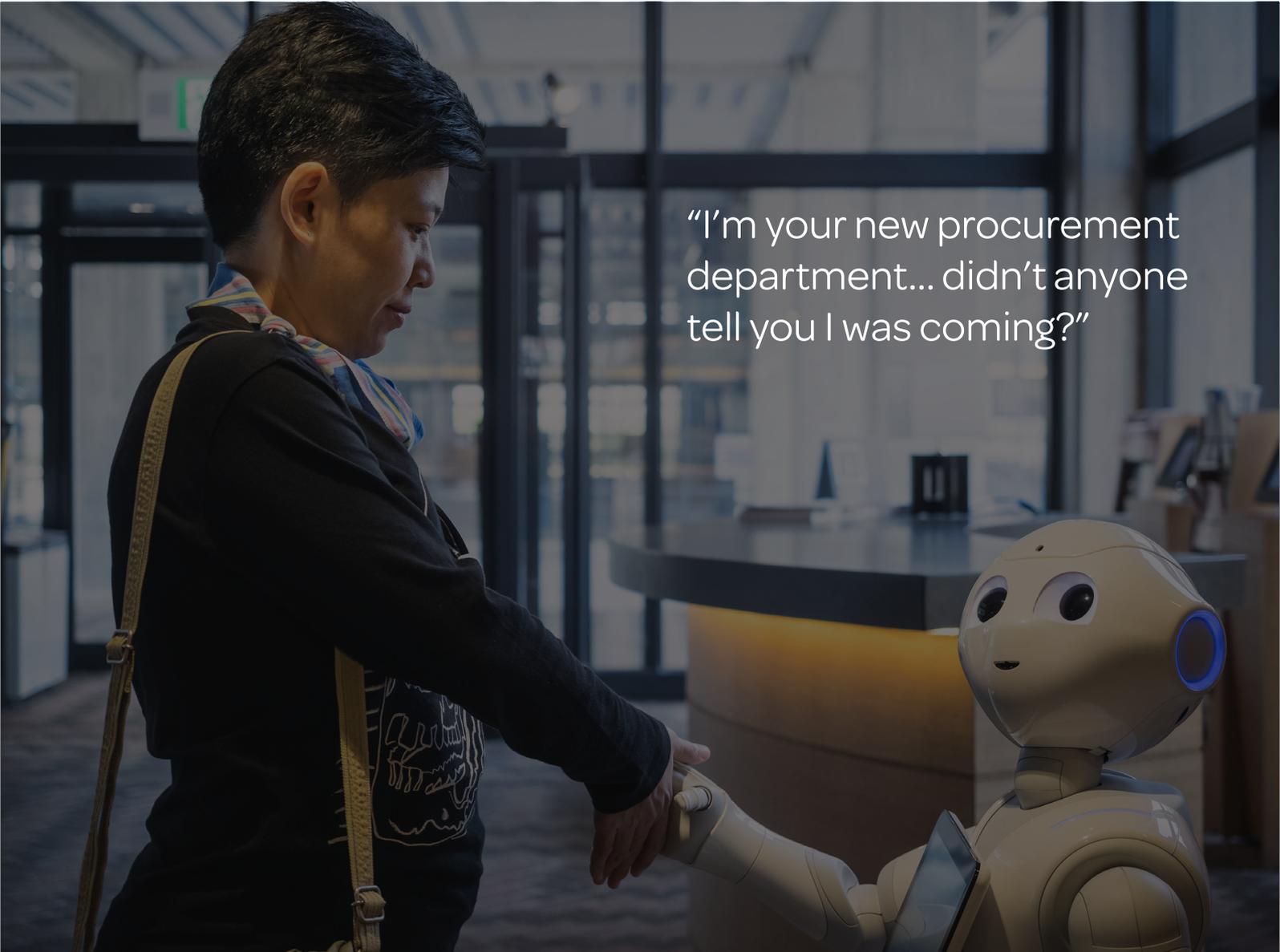


HOW TO BUY DIGITAL SUCCESS FOR PROCUREMENT



“I’m your new procurement department... didn’t anyone tell you I was coming?”

HOW TO BUY DIGITAL SUCCESS FOR PROCUREMENT

Tuesday 28th November 2017

Six steps to successful digital buying. Read the summary by award winning author and CEO of Positive, Jonathan O'Brien, from his recent presentation at the Silf Supply Chain Outlook 2017 event. This Insight Whitepaper provides an essential guide for CPOs trying to figure out what is needed to embrace the digital revolution...when it gets going!

This month I had the privilege of being asked to speak at the Silf Supply Chain Outlook 2017 event in Stockholm. I spoke on the topical subject of 'how CPOs can buy digital success for procurement.' I have to confess that I don't feel much of an expert on this subject, and in fact I am often left somewhat confused around all the different digital offerings and promises from the plethora of new entrants into this space. I can also openly say that I am unsure of what digital procurement might one day mean, and so I opened my presentation by owning up to my shortcomings with the audience. I then committed to sharing what I do know, and how I think CPOs need to be approaching digital in order to be successful.

We are all on the 'digital bus' to a destination unknown! This is not a choice, but a fact of life. A staggering 90% of the world's data today was created in the last two years (IBM, 2017), and companies like Google and Facebook now know more about us and our habits than we perhaps know about ourselves. Telemetry from modern cars that connect to the internet and collect information about how and where we drive, helps manufacturers improve future models and perhaps sell us additional insurance. The introduction of the Internet of Things means our doctor will know whether or not we have taken our medication.

Individually these factors are quite exciting and point to a better future, but if you start joining the dots, the potential might have more sinister implications. Add to this the fact that governments are behind on figuring out how to regulate all of this, and we have reason to be a bit cautious.

Furthermore, there is a whole other world of emerging

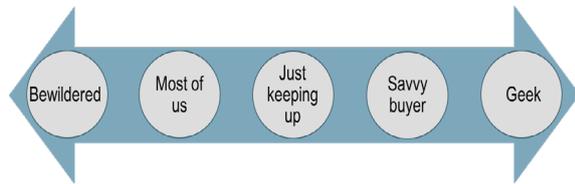
automation and artificial intelligence. Telemarketing robots that are good enough to fool prospects into believing they are talking to a real person, and computers that can learn. Crazy? Not really - such robots exist today and our smartphones are already learning our speech patterns to allow us to accurately type using our voice, learning our movements and also our habits.

So how does procurement and the supply chain exist in this future world? Let us begin by imagining we have a 'procurement magic button' - a single button we can press on any device, anywhere, and at any time, to get a real-time visualization of all spend information for our supply base. We could access everything there is to know about a supplier, or gain real-time market insight, such as a complete picture of the performance of current procurement or supply chain projects, and how they are delivering benefits, or collecting data on customer demand. Such a button would clearly be a great asset, but sadly no such thing exists today. In fact, access to quality information in procurement and supply chains is quite lacking.

Aberdeen Group (2014) suggest that within the small group of global companies that we might regard as best-in-class, only 40% claim to have access to a 'single source of truth' for supplier information. In fact, digital in procurement is looking quite unhealthy today. Incredibly around 30% of organizations have not invested in eSourcing tools (Hackett Group, 2014), 55% of organizations have no plans to adopt some of the most common digital technologies available today (CEB, 2017), and only 22% have a long term strategy (Gartner, 2017). When asked to vote, only 13% of the audience at Silf Supply Chain Outlook 2017, an assembled group of leaders within procurement and supply chain functions, stated they were clear what the future digital journey looked like for their procurement function.

There is I think, a commonly held misconception that we should all be surfing the crest of the digital wave, and if we are not living in this space we are falling behind professionally. Perhaps so, but I do think there is a vast spread of the degree to which we, as professionals, are 'digital ready'. At one end of the spectrum there

are those who feel bewildered by what is happening, watching as the 'digital bus' heads off into the future. At the other end are the geeks who are knowledgeable on all of this, and are leading the way. Somewhere in the middle is where most of us sit, but still far from being a savvy buyer of digital technology.



When I talk about digital to CPOs, it seems many are trying really hard to figure out what they need to be doing to embrace it. However, it is clear that putting this into practice may not be as easy as it might seem. What might you tell the CEO who has just asked you how procurement will contribute to the firm's future digital strategy? Easy to answer if you know where you are going, however the current response from procurement might be around having to fix legacy platforms, or address current gaps. Then there is a consideration for what to do about the lack of adoption of the digital tools that may already be in place. It seems that buying a digital solution has been quite easy, but getting people to use it much harder.

As a provider in this space I know only too well how hard this can be. Often, I wind up in a discussion with a CPO about a subscription renewal to one of our digital Category Management and Supplier Relationship Management (SRM) platforms, where the ongoing need is questioned if adoption has been lacking. There is a common expectation that a digital platform will not only provide a specific solution, but will transform the entire way the organization works, especially where there is no encouragement or push from the senior team. And then, even if we figure all of this out, we still need to know what to buy and from whom! So how can we move forward, and how can procurement and supply chain not only board the digital bus, but take the wheel? Below I have outlined a six-step approach that we can all take to help us with this.

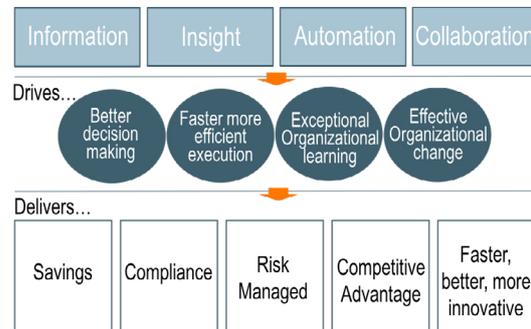


STEP 1 - DEFINE THE VALUE WE NEED

Our first step is to define the value we need and want from digital. It seems this is not something that has been given much thought. Instead companies have opted to buy a digital solution, rather than something that will provide specific value. We must begin, of course,

with what the organization is setting out to achieve. We must ask ourselves, "what are our organizational goals and how should procurement contribute to realizing them?" We will be familiar already with objectives to deliver savings, ensure spend compliance, and manage risk. These firmly remain a 'reason for being' in many procurement and supply chain functions, yet increasingly, they are also indicators of an outdated view of procurement; one that is still stuck in the world of transactional buying. More strategic objectives for procurement are centred around how the function will help the organization deliver competitive advantage, or how the supply base is connected to enable it to be faster, better and more innovative.

Whatever our objectives, they must define the value that we need to achieve through digital, and outline exactly how a digital implementation might help to realize these. Digital, if well implemented, brings better information, greater insight, automation, and more collaboration. These in turn help with better decision making, faster and more efficient execution and the ability to achieve exceptional organizational learning (rather than knowledge resting with individuals), whilst helping to drive effective organizational change. Together, these factors help us to realize our overall procurement and supply chain objectives, and adds value to the organization.



This all seems quite straight forward so far. So, if we now overlay this thinking with some of the emerging concepts and themes that we find on the digital bus such as, but not limited to, 'the cloud,' 'big data,' 'data visualization,' 'predictive analytics,' 'artificial intelligence,' 'robotics,' and 'machine learning', then we might easily find ourselves slipping back into the bewildered category. What is standing in our way here? Simply, old thinking. We are too busy concerning ourselves with fixing legacy systems, filling gaps, or buying bolt-ons to current systems. Perhaps our view of digital is to digitalize current processes; taking something that works manually and moving it online – a step forward perhaps but only a small step. Perhaps the digital that we are buying is misaligned to how people actually work. All in all, current digital buying lacks much in the way of future state thinking, and perhaps the most prominent issue is that today we are buying 'islands of technology.'

Islands of technology provide solutions to isolated needs or problems, but without integration, or limited ability to share data sources, the current digital landscape has severe limitations. Add to this the challenges of driving adoption, and we are very far behind. Purchase-to-Pay (P2P), eSourcing tools, market insight platforms, contract management tools, Category Management, SRM, spend analytics, logistics and supply chain systems, and supply side risk management (Spend Matters, 2017), are all systems, tools or platforms that make up the current digital landscape.

Many leading organizations have adopted several or all of these, yet all are individual islands of technology. It doesn't stop there, the same is happening for the rest of the organization with common digital tools that the entire organization is using. This includes tools for file and knowledge sharing, internal social media tools, knowledge capture systems, digital learning and development, company risk management, project management and collaboration/virtual meeting tools. Again, these are all islands! However, if that is the extent of what the market place is offering today, then what more might we do? It is clear that despite the hype, the market place for digital in procurement has some way to go to truly offer a magic procurement button. It is also clear that there are many organizations out there, who have spotted this already and are working on the digital tools of the future. So, should we just wait for these to emerge? No! Instead we need to have a clear view of what our digital future might need to be.

2 - BUILD A DIGITAL PROCUREMENT STRATEGY

Keeping in mind, the value we know that we need from digital, our second step is to build a digital procurement strategy. Audience voting at Supply Chain Outlook suggested that only 14% felt they had a robust digital procurement strategy and were working towards realizing it! This is clearly something procurement and supply chain teams are only beginning to grasp, yet having a digital procurement strategy helps provide us with the roadmap for the future. Ideally responding to, and supporting, a wider organizational digital strategy, the digital procurement strategy should contain both a near term strategy and plan, and the same for the long term. As we have seen, the short term is probably quite easy, perhaps centred around how we can realize better procurement outcomes through adoption of new technology. Here is where we might be looking at the immediate issues, for example fixing P2P issues, implementing the 2nd generation of eSourcing tools with self-authoring, new Category Management workflow or a new market information portal. This is all straightforward enough, yet it is the future view that is more difficult. This future view that is the most important because it is essential that our near-term decisions and actions are aligned with and support a more long-term journey. So how do we do this? In fact, it is easier than you might think – we need to imagine the future!

In 1962 a new TV series by Gene Roddenberry, set out to capture the imagination of the American public, with a show set in space and into the future, aboard the USS Enterprise. What Roddenberry did, quite remarkably, was to imagine the future. Looking back on YouTube, some of the early Star Trek episodes seem quite dated, but at the time they were one of many things that had unwittingly set the direction for real life innovation. For example, in 1962 Roddenberry imagined the idea that people could have wireless communicators, in particular small devices they could hold in their hands, allowing them to see and converse with another person somewhere else, far away. They could even walk around doing this. What a crazy idea! It certainly was back then.

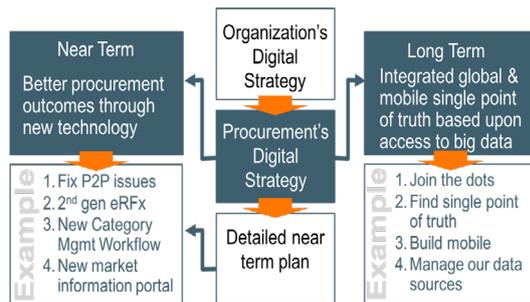
In procurement and supply chain functions, effective digital buying starts by having a view of what our future digital world could be. We shouldn't wait for someone to present this to us, or we will be drawn into someone else's vision and agenda. We need to do this for ourselves, and it really isn't that difficult. It is simply a matter of getting the right people into a room, and imagining all the things that would be really great for us in the future, framed with one simple question: "If we could do anything..."

Imagine future agile supply chains with big data sets around customer market behaviour, combined using predictive analytics, and real-time data on what is happening in the external environment (e.g. world/local events, political, environmental, sociological, technological, and economic factors), enabling us to predict customer demand. Combine this with similar big data around the supply base, and around commodity pricing and intelligence, all processed with predictive analytics, and we can begin to understand the dynamics of supply chain ability, speed to supply and model price. Add machine learning to this mix, and it is possible to automate the entire P2P process based upon what is happening in the world and the supply base, and create a dynamic system capable of sourcing exactly what is needed, at the right time, to buy it at the best price.

For another example, imagine being able to know everything about a given supplier in real time, made possible by accessing big data sets around the market, supplier and external environment, and then combining these with internal performance and spend data, and future needs, to visualize the current situation with the supplier and ensure prompt intervention. We could take a similar approach to access a current all-encompassing view around a specific category and how well we are sourcing it. Here we would add predictive analytics and artificial intelligence to combine certain data sources, and create a real-time dynamic category strategy.

We could keep going. The point here is by starting with the 'if we could do anything' question, it is possible to visualize the sort of digital future that would be useful to us. With these visions in mind, we are then able to develop a digital procurement and supply chain strategy encompassing a near-term plan that can facilitate immediate system acquisition, help to fill the gaps, fix or

abandon legacy systems, and drive global collaboration and long-term direction of travel. Whilst our future view may be unclear in terms of specific solutions, we should define the specific outcomes that we are seeking digital to provide. This might include 'joining the dots' so that technology is integrated, and not individual islands, creating a global and mobile single point of truth, having a solid strategy to manage and protect our valuable data, and to comply with future regulations.



3 – DEFINE OUR REQUIREMENTS

As procurement and supply chain practitioners know, the key to effective procurement is defining a detailed set of business requirements for what we are setting out to source. This should then be defined by engaging the wider business, and gaining an understanding of and challenging the organizational needs and wants. The same applies when we set out to buy digital, however, for many of the digital tools companies have purchased, this step seems to have been missed in favour of buying solutions filled with hope and promise. This is perhaps because we are only just beginning to understand our requirements, meaning companies have tried to jump on the digital bus as best they can.

Defining our requirements is key to matching what we will buy against our new digital strategy. This is difficult because, whilst we have a vision for the future, we don't know exactly what we might want to buy in the long term. Therefore, requirements tend to be short term, but by defining these we begin to give clarity to where we are heading. When developing requirements consider factors such as:

- Make vs. buy, or off the shelf vs. bespoke.
- Locked-in and committed, or ability to exit.
- Where data will be housed, and our ownership and future access to it.
- Arrangements for protection of our data, and compliance with relevant in-country legislation.
- Management information needed.
- How we will visualize things.
- Device and mobile compatibility.
- Integration of solutions to future digital strategy.
- How the team will use this, and specific user interface requirements.

- Requirements and objectives for future innovation, and how any given solution must develop over time in line with our strategy.

4 – EXPLORE THE LANDSCAPE

Touring around a digital procurement conference can be a bit like riding the ghost train at the fair with all sorts of new, and sometimes disturbing, things appearing as you go around! Throughout the year we attend a number of procurement and technology conferences around the world, to promote our services and meet the decision makers in this space. Each time I am astounded by the number of apparent new entrant technology companies that attend. As a provider in the procurement space, I make it my job to go around and see what they are offering. New companies founded with private equity money, new entrepreneurial enterprises, already successful companies entering the market place - each offers a digital something and, despite my best efforts, I find it hard to understand exactly what many of them do, or how the solutions might actually be implemented. Only 15% of the audience at the recent Sif conference felt that "the market place for digital procurement is easy to understand." This result was quite a relief as it confirmed that others were struggling to understand this market place also – it isn't just me!

However, to buy digital effectively, we need to understand the landscape. Today that landscape is immature, and despite what many suppliers will tell you there is no magic button. Whilst there are many good ideas out there, few would resonate with a good future digital strategy that seeks integration and single points of truth. In fact, based upon my somewhat limited understanding of some of the solutions that exist, I would even suggest that many of the solutions are simply unworkable – technically clever ideas, that would simply fail to gain any adoption in most of today's organizations.

Exploring the landscape and getting to grips with it takes some determined research to be able to understand everything about the market place. You might recognize that you already do this within procurement, to understand market places and to support sourcing projects as part of Category Management or SRM. It is exactly that same skill and approach we now need to apply to the digital landscape, defining who is in this space, what they offer, what fits with our current requirements, what fits with our future direction, and how these tools integrate now and into the future. We should also think about the possible game changers such as, what are the future disruptive ideas, where are the building blocks for my future strategy, who seems to be ahead of the game, and with whom could we potentially collaborate?

Fortunately, help is at hand as digital is very much the topic of the moment right now, and there are numerous published research papers from thought leaders in this space, offering insights into the world of digital. Many of these are available for free and some are very good,

so you can be assured that essential reading is readily available to help you.

5 – INVEST AND IMPLEMENT

The fifth step is concerned with a managed approach to the investment and implementation of new digital solutions. Thus far, this seems to be the one area organizations have simply not considered to the degree necessary, and possibly why there are so many digital white elephants littering the procurement world. Digital solutions will probably fail if they are just introduced and bolted on to the function along with the expectation that it will become a magnet for teams around the world to suddenly change their established ways of working, in favour of this. Notwithstanding the blip of initial curiosity, it is likely the very opposite of this will happen as people will find ways to resist anything that threatens what is safe and known.

After the Silf conference I was privileged to attend the Silf and Accenture Årets Supply Chain Professional awards, with the focus on excellence in using digital to transform supply chain management. The award was won this year by Wolfgang Laures, EVP Supply Chain at Perstorp. In his acceptance speech Wolfgang talked about the digitization projects he has been a part of, and ended by saying that it is not all about digital, but rather about people and how people work together to do something new. This stuck in my mind as it is precisely this that lies at the heart of implementing any new digital procurement or supply chain solution.

There is another ‘people’ dimension to consider here, and that is how people will use and interact with modern digital tools. The ability to make a ‘digital leap’ varies widely amongst procurement and supply chain practitioners, with a strong correlation between natural adoption and which generation they are from. The thing is that digital needs to connect with how people think and use things. Despite my love of technology, I also pride myself as being a deliberate dinosaur for some things. One of those is my vast vinyl collection, and my turntable which I love. Most of my collection is in storage now, but before digital music, I would know every single album I owned, and could locate it on the shelf from the colours on the album spine.

Today, most of my listening is on a digital device, where I can carry in my pocket my entire collection of music. This is a fantastic benefit, but for me it came with a trade-off. I am no longer able to easily scan my collection in the way I did before. I can search or scroll through a list or series of album covers which helps, but it’s not as easy as the physical albums on a shelf. Worse, today I might hear something I like by a new artist, buy it, forget about it, then sometime later try to find it again, by this time having forgotten the name of the new artist, rendering it lost in my collection until I can remember or happen stumble across it. The point here is that digital demands a shift in thinking and new ways to do the things we are familiar with. Multiply this across all the different stakeholders within an organization and

there is some transition to manage. Therefore, when we implement digital there are a number of things we need to prepare for which include:

- **Plan** – A detailed and managed plan to implement the new technology.
- **People** – Digital isn’t something we can do in the margins, it needs people dedicated to make it happen. Ideally, if we are serious about digital, then we need someone who has a role to make it happen, and perhaps even a team to support them. The concept of a ‘digital procurement manager’ reporting to a CPO is not one we are familiar with, but possibly the key to making this happen.
- **Budget** – Digital needs resources and budget to be impactful, both for acquisition, and to consider and plan future requirements. A case must be made for this, and sufficient budget made available to secure an impact, otherwise it simply will not work.
- **Ease of use** – Consider the user interface and experience, and how digital can be implemented to be most effective.
- **Training** – Digital providers have often been quite lacking when it comes to training provision. Yet effective, measured and experiential training is essential to good implementation and must be provided for.
- **Embedded in workflow** – If digital operates as if being bolted-on, the chances of success will be less than if the digital solution is fully embedded within workflow and within the activities of users and practitioners. Working to ensure that new solutions are designed and implemented to be an integral part of what people do is essential, and being prepared to change the workflow if it makes good sense to do so.
- **Change management** – Implementing digital requires well managed change management with visible executive support, active participation from those affected, good communication, and working to create a ‘felt need’ for the transition.

6 – EXPERIMENT AND BE BOLD

We can’t know the future, and can only begin to contemplate specific directions of travel, therefore we can’t have all the answers now. The future of digital procurement and supply chain is shaped not only by the providers and future providers in this space, but by clever thinking. We should not wait for this to happen but be right in there amongst it.

The greatest breakthroughs and changes in history have not happened through a single eureka moment of inspiration, rather by lots of thinking, experimentation, risk taking, and by not being defeated. It is true that history tells of eureka moments, but most of them happen at the point when the seed of an idea was born; when someone interested in finding a future solution contemplated doing something in a way it had not been done before. Innovation can happen when something is developed that did not exist before, however the

vast majority of innovation occurs when two ideas are combined to form a new way of doing something.

We must be the future innovators of digital procurement. This doesn't mean that we all start writing digital code, but rather we begin to think about and combine the things that we have now, are emerging, or that we could create. The smartphone, tablet and world of 'apps' has transformed our world today, yet the original innovation was a platform, online resources and a device. That innovation pales into insignificance when put against the vast number of new innovations that have emerged, where innovators have found new ways of using this platform to improve our everyday lives.

It is here that I could refer back to the clichéd example of how Thomas Edison and Joseph Swan took 500 attempts to invent the electric light bulb, and enabled the world to move from candles to electric light at the flick of a switch, but that is old news and old technology. Instead, I will conclude by turning to a new chapter in the story of light and in particular Nick Holonyak who, in 1962, invented the world's first LED (Light Emitting Diode), a device with no parts that wear out but emits a steady stream of red light. Unremarkable at first, but it meant that electrical appliances could not have a small red LED to indicate they were on. A green LED followed some time afterwards providing some variety to electrical appliances, but little else.

However, things would change in 1994 when three Japanese scientists, Professors Isamu Akasaki, Hiroshi Amano and Shuji Nakamura, invented the World's first blue LED. More than just another power indicator colour, it provided the ability to combine all three colours to make white light, and like never before, from only a tiny chip and using 4% of the power of incandescent lighting. So significant was this later invention, that the three were awarded the Nobel Prize for Physics in 2014.

Today LED lighting forms the basis for the pixels in our smart phone, the latest generation of TVs and computer screens, next generation domestic, automotive, industrial and stage lighting and that is just the beginning. In fact, LED lighting is the latest and exciting chapter in the story of light, and one that underpins the entire digital revolution and the screens on which we visualize data. I've chosen this story because when I watched the interviews with Holonyak on YouTube, one thing he said that really stuck in my mind, was "we worked on the things that didn't exist, so we made them exist." This is an important lesson for the CPOs of today's procurement functions, and digital success comes from doing just this.

In the world of procurement and supply chain we should be ready to experiment and be bold, to take some risks

and try new things. What data could we access that will help make better decisions? Can we get one island of technology to start talking to another? What would happen if we hired a programmer to start working on new tools, or how can our current procurement tools serve us better? And so on. If we experiment and be bold, we might perhaps be able to find new ways to move towards realizing our digital strategy, and that magic procurement button might just become a reality.

Jonathan O'Brien is the CEO of Positive Purchasing Ltd who work with organizations around the world to help make Category Management, Supplier Relationship Management and Negotiation an effective business contributor.



An invited presentation based on the content of this Insight was first delivered at Sif Supply Chain Outlook 2017 in Stockholm.

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