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The Benefits of a Virtual Procurement Center of Excellence for Complex Direct Procurement:

Distributed MDM, Value Chain Analytics, and Supplier Enablement

In our last paper on Value Based Sourcing we discussed Value Based Sourcing in Complex Direct Supply Chains and how a major source of value was category management, which, when done right, enabled cost transparency, up-front risk analysis, compliance, quality and performance analysis, and project-based procurement. We indicated that a key requirement of success for value based sourcing was a platform designed for complex direct procurement, and outlined some key capabilities, but stopped short of elaborating on precisely what such a platform would enable.

In this paper we are going to elaborate on the benefits of a complex direct procurement platform which, when properly implemented, provides the foundation for a virtual procurement center of excellence, which is the next phase of Procurement evolution for leading Procurement organizations which have evolved from decentralized models through centralized and center-led models but which need another evolutionary transformation to excel in today's increasingly sophisticated global supply chains.

Unlike prior generation platforms, modern direct procurement platforms for complex procurement enable virtual procurement centres of excellence by way of virtual project management, distributed master data management, value chain analytics, and supplier enablement.

The Evolution of the Procurement Center of Excellence

Before Procurement became a topic of consideration at the C-Suite table, most Procurement organizations were decentralized. In this classic Procurement model, each business, functional, or geographic unit was responsible for its own purchases. This had a number of advantages, especially in the pre-internet era when it took time to get documents and data from one office to another half-way around the world and the production lines had to keep moving. This model, which empowered business units with autonomy and control, allowed for quick sourcing and even quicker issue resolution and allowed the organization to take advantage of expertise in its local markets. However, it also had disadvantages. It did not allow full corporate spend (with a supplier) to be leveraged or business unit objectives to be aligned with the objectives of the organization as a whole. There was little information sharing between divisions, even less best practice sharing, and supply costs and performance were uneven across the enterprise.

In an effort to improve the Procurement situation, as many organizations embarked upon their Procurement journey, the first step they took was to migrate to a centralized model where all procurement was routed through a single, central organization. This allowed spend to be merged and leveraged, best practices to be standardized and institutionalized, and overall operational efficiency to be increased as each purchase only needs to be made once. However, for all the benefits it brought, the centralized model had its disadvantages. The extensive knowledge of the individuals in the local supply markets was lost, and this often resulted in sub-optimal buys for many regions. Maverick buying increased when geographically dispersed site managers did not agree with centrally mandated decisions. Costs increased for goods and services not well suited for centralized buying, such as snow removal, and temporary unskilled labor. And reaction times to unexpected changes in local supply or demand suffered.

The leading organizations quickly recognized that while centralized procurement was good, and generally better than decentralized procurement, there were still opportunities for improvement and migrated to center-led procurement. In center-led procurement, a Procurement Center of Excellence focused on supply chain strategies, strategic categories, best practices, and knowledge sharing and left individual buys and tactical execution to the individual business units in an effort to get the best of both worlds.

These center-led units built cross-functional teams that represented all of the key divisions and business units, allowed for the creation of flexible supply chain processes and commodity strategies through collaboration, and that fully leveraged strategic category spend across the enterprise. It seemed that the organization had the best of both worlds, and many organizations that employed this model evolved to be leading Procurement organizations, often recognized in the Hackett Group Top 8%. But is this as good as it gets?

The Virtual Procurement Center of Excellence Complex Procurement Platform

In our last paper, we noted that a modern platform for complex (direct) procurement had a number of requirements including, but not limited to:

- Complex Bill-of-Materials (BoM) and Category Support,
- Detailed Cost Models,
- Physical Supply Chain Modeling,
- Quality and Performance Tracking,
- Collaboration Tools, and
- Project Management Workflows.

We also indicated that this was just the beginning. For such a platform to be used as the foundation for the virtual Procurement Center of Excellence required by an organization trying to achieve Supply Chain Mastery, it also requires support for

- distributed master data management,
- value chain analytics, and
- supplier enablement.

This is because in today's hyper-connected world, no platform exists in a vacuum, leading organizations win on value and not costs, and supplier enablement is the leading value driver most Procurement organizations have at their disposal. And a platform that provides this support can truly catapult an organization to the next level of performance, as we will explain in the remainder of this paper.

Distributed Master Data Management

Many leading analyst firms and Procurement thinkers will emphasize the importance of Master Data Management (MDM) and many vendors will claim to provide this solution. But Master Data Management is much more than just getting everything into the primary ERP or a single data warehouse, normalizing and centralizing supplier and product data, or building the spend taxonomy for spend analysis. It's about making sure that data only gets entered once, regardless of what systems use or require that data; that systems are synced with up-to-date data in real-time, not at week, month, quarter, or year-end; and that data is in a format that can be analyzed by the analytics tools in the organization's sourcing and (spend) analytics platforms.

MDM vendors regularly talk about the golden record and how it is critical for good spend and supplier analysis and reporting. The golden record, defined as the single, correct, instance of all enterprise data that a user can turn to when they want to ensure they have the correct, up-to-date, information on an entity, is the "single version of the truth" that all organizations desire. But the golden record is not just for reporting, it's for management, measurement, and meliorism.

Good data provides a solid foundation for ongoing measurement - of current spend, of delivery times, of defect rates and quality, and overall supplier performance. Without good data, an organization can easily exceed budgets, experience increased (and unnecessary) stock-outs, and not notice that supplier performance is slipping until it is too late. With this data the organization can better manage its efforts and performance. This allows the organization to take a melioristic world-view that the organization tends to perform better with effort, enabled by good data.

But since not all management happens in the sourcing platform, and since the sourcing platform does not have all the data it needs, any master data management solution must be sure to push out the relevant data to the organization's ERP, supplier management systems, and payment systems at the end of a task or process and verify that the data was updated accurately. Similarly, it must be able to extract and receive the relevant data from these systems as well as third party data feeds, regardless of where the systems are located in the organization and what organizational unit uses them. And, it must allow the master data to live in the system that is most appropriate for the master data. The product data should live in the catalog system. The supplier records in the SXM (Supplier Information / Performance / Relationship Management) platform. The enterprise product bill of materials in the ERP. The purchase orders and invoices in the e-Procurement system. And so on. There should be no need to force all master data into one system - master data should live where it is most at home.

Value Chain Analytics

Most Procurement organizations focus on spend analytics, because a good spend analysis solution can identify 11%+ savings, which, in terms of ROI, is a value that has only been exceeded by (strategic sourcing) decision optimization when we consider first generation modular best-of-breed sourcing solutions which always focused on a single process or capability. But, like optimization, for most organizations, spend analysis will only take cost out of a category once because once the fat has been identified, and trimmed, from the margins, the organization has to look elsewhere for additional savings.

Saving 10% or more across the board on (strategically sourced) spend is nothing to sneeze at, and represents considerable savings for the average organization, but an organization needs to save money year after year. The real savings come from identifying opportunities for savings (and value generation) beyond just trimming the fat out of supplier margins. For example, a lot of money is lost on stock outs, returned inventory, or unnecessary delays.

A value chain analytics solution will allow an organization to analyze, and optimize, inventory levels to prevent revenue loss and customer dissatisfaction. A value chain analytics solution will allow an organization to analyze defect and return rates, identify especially problematic products or suppliers, and take action. A value chain analytics solution will allow an organization to analyze source-to-sink (customer) order fulfillment times, determine those that are slow, above industry average, or flush with opportunity for improvement, which increases customer satisfaction, decreases inventory cost, and improves overall efficiency. Value chain analytics, unlike spend analytics, can identify any spend or performance bottleneck hidden in the data and allow the organization to take appropriate action.

Supplier Enablement

Distributed master data management is valuable, and value chain analytics are even more valuable, but supplier enablement is among the most valuable contributions a modern sourcing and procurement platform can make. Optimization can only find the lowest cost option among those presented and analytics can only identify unnecessary fat in margins or overpayments due to lack of (market) intelligence. Neither can identify new savings opportunities that could come from more economical order sizes, new transportation (and packaging) options, or alternative product manufacturing or formulation options. That can only come from human ingenuity and innovation. And as good as (you think) your people are, only so much innovation is going to come from within your organization.

You only have so much manpower, and they only have so much time to work on product or performance improvements. Most of the time, they are working at full capacity just keeping up with their primary jobs and dealing with the issues of the day. The innovation they can offer is often limited to what they can come up with after hours on their own time when they have a few hours here and there (because they are a dedicated employee who wants to make things better), and that is only going to accomplish so much. And while any individual supplier is going to be in the same situation, collectively your suppliers have 100 (or 1000 or more) times the workforce you do, and even if all of their employees' time for innovation is limited, there is a much better chance that one of your suppliers' employees will come up with the ground-breaking innovation you need to revolutionize a product or supply chain than one of your employees. It's simple math.

That's why you not only want good supplier relationships which, for strategic suppliers, have them see you as one of their customers of choice, but why you want to enable them to perform better and more efficiently, so that their personnel have more time, and incentive, to come up with ideas to help your organization live long and prosper. Any improvement that reduces dependence on a rare earth mineral that costs \$2,000 an

ounce, on production technology that requires ultra pure water (which can cost \$100 a liter) to manufacture, or on large manual labor forces is more significant than just taking 10% off the top-line.

And a virtual procurement centre of excellence, which centralizes supplier master data management, gives a complete view into a 360-degree scorecard, provides a centralized platform for communication and collaboration, and that provides a foundation for simple distributed supplier onboarding, which enables suppliers in ways previously unimaginable - giving them the tools they need to be more productive, which gives them the time they need to be more innovative (on your behalf).

Key Features of a Virtual Procurement CoE Platform

Optimized for Distributed Data Management, Value Chain Analytics, and Supplier Enablement

As indicated in this paper, the value that can be extracted from a platform that enables a virtual procurement center of excellence is significant, and goes well beyond what traditional sourcing and procurement suites have delivered. Such a platform should have, at the foundation, the capabilities described in our last paper on Value Based Sourcing in Complex Direct Supply Chains, namely:

- Complex BoM & Category Support
- Detailed Cost Models
- Physical Supply Chain Modeling
- Quality and Performance Tracking
- Collaboration Tools
- Project Management Workflows

However, this is just the foundation. A good Virtual Procurement CoE for Direct Procurement should also have:

- **Killer RFx & Survey Capability with Cost Model & BoM Integration**
which will allow the team to collect the data they need from suppliers, each other, and third parties against cost models, bill of materials, NPD, and innovation projects
- **Supplier Portal enhanced with collaboration, CA, and 360 scorecards**
which will allow the team to communicate with suppliers, collaborate on development and innovation projects, manage issues under a corrective action framework, and allow suppliers to see and respond to their scorecards and score the buying organization on the buying organization's performance in the supplier's eyes
- **XML, EDI, and WebEDI for SMI (Supply Market Intelligence) and DAE (Document Approval Exchange)**
to allow for web-based data exchange with other internal systems, external supplier systems, and third party systems

- **NPD Project Management and Supplier Development Management**
which will allow the team to define, plan, and manage all aspects of supplier development and new product development with the engineering team and the supplier team
- **Deep Analytics across BoM, Cost Models, POs, and Invoices**
which will allow the team to extract meaningful intelligence on their products, spend, overhead, and return and take appropriate actions to increase efficiency, effectiveness, and sustainability

Summary

The Virtual Procurement Center of Excellence is not only the natural evolution of Procurement best practice, but is the revolution that Procurement organizations everywhere are waiting for. It will allow an organization to apply centralized, center-led, and decentralized sourcing strategies simultaneously, always picking the right strategy for the situation at hand. Moreover, it will allow the appropriate experts, no matter where they are located, to come together to build the right cross-functional team for each sourcing event and ensure that the best talent and process is applied to each and every category.

This team, enabled by a tool that allows the sourcing team to get supplier and supply market intelligence in real time, compare that to past spend and project trends, and identify the key category drivers, will be able to efficiently and effectively evaluate the value (and sustainability) of each offer. No longer will a buyer be locked in to last-minute sourcing from the one or two suppliers that the organization is comfortable with.

Moreover, the buying team will be able to quantify the expected cost, performance, and value that each existing and potential supplier is bringing and could bring to the organization and make an award decision on hard numbers that can be justified to the entire organization.

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