

Procurement Digitization: The need of the hour?





Cost savings remain important, but years of COVID uncertainty and supply chain disruptions have highlighted the need for procurement to go beyond supply risk mitigation strategies and embrace full end-to-end process and data visibility.

Many questions are asked and answered over and over as organizations strive for procurement digitization. Why was something bought? Who approved it? Was the budget consulted? Are supplier collaborations ensuring that materials are flowing in at the right time, at the right price, and with the expected level of risk?

Before 2020, procurement primarily focused on ensuring that buyers received products, materials, services, and supplies on time, in the right quantity and quality, and from the right supplier. Now the expectations of procurement have changed. Can they predict risk? Can they avoid risk? The answers lie in the data.

Being able to answer the business' questions requires robust data processes, including capture, analysis, and predictive capabilities (when possible).

In this paper, we will consider how perspectives on procurement digitization have changed, why investments in digital procurement platforms are investments in the company itself, and what additional opportunities may reveal themselves as the change journey continues.

Pressure to Maintain the Supply Chain

Modern supply chains are interconnected in a complex and tenuous way that defies the word 'chain.' While procurement and supply chain teams still have different responsibilities, supplier risk IS supply chain risk. These two teams need to collaborate to protect operational effectiveness.

The effort to measure and track risk must:

- Extend multiple tiers into the supply chain and reflect information and identifiers from material masters and bills of material (BOMs), and
- Recognize the impact of effective supplier management - from onboarding to transaction processing and through post-order performance.

The supplier onboarding process should not be rote and technical. It should serve as a first layer of risk assessment and mitigation, quickly gathering and evaluating multiple risk-associated parameters about that company. Documents and information must be collected to ensure that each supplier is not on government blacklists, involved in potentially detrimental legal activity, or experiencing financial exposure. It is critical for procurement to have an audit trail regarding when and why suppliers were onboarded so that it becomes part of the organizational memory.

During onboarding, procurement is likely making notes about the supplier. Those notes should be available to everyone in the company going forward. Digitization can assist with this by prompting procurement to gather their thoughts at key milestones and by serving as a central repository that is then accessible cross functionally. For instance, if procurement recognizes that a supplier is poor at communication, sourcing managers, buyers, requisitioners, and accounts payable all need that information before it leads to a larger problem.

In addition, third party databases can be used to enrich supplier profiles during the onboarding process and automatically update them on an ongoing basis. This includes risk data as well as ESG ratings pulled from sources worldwide.

Case Example:

A company has a supplier who provides them with a component that arrives already assembled. Unfortunately, that supplier is having challenges with their sources of parts and materials. Procurement wants to be sure the supplier is not taking undue risk to secure those parts and materials - trading quality for speed. Is the supplier buying from producers in elevated-risk countries? What if their producers go bankrupt?

Procurement may be able to take steps to ensure their suppliers have strong supply chains of their own. Supply chains have always been interconnected, but supply relationships are now being highlighted and relied upon such that having a platform capable of tracking end-to-end supply inputs - potentially even to the part or component level - becomes a competitive differentiator.

Changing Expectations of Digital Procurement

A few years ago, digital procurement initiatives were considered something of a status symbol, showcasing the forward-looking vision for the results procurement planned to deliver.

Now, however, expectations are very different. With the 'working from home' movement running in parallel to supply chain disruptions and bold public commitments about ESG policy, previous levels of visibility are no longer sufficient. Distributed buyers and budget holders need digital procurement to provide actionable data so they can act swiftly and with confidence, not so procurement can feel proud that they have the latest and greatest platform.

Digital platforms don't provide value through ownership, but rather through use. Being able to collaborate with suppliers online and managing the exchange of documents and invoices has tangible business value. Ideally, that actionability will extend to suppliers as well, especially the company's most strategic suppliers.

Case Example:

A company had always conducted supplier performance evaluations, but they were largely a formality. The audit team required a report, and so the evaluation was completed but no actions were ever taken. By automating the supplier evaluation process, manual input to the report was eliminated. Instead, buyers now have access to supplier performance trends which help them to take informed decision and eliminate risk.

Risk-minded companies see the clear connection between supplier performance and their own performance. Some organizations are even working to automate their supplier risk evaluation process, with triggers that generate reminders for buyers to submit ratings.

To meet the need of the hour, digital procurement must be action-oriented to a fault and accessible to the entire business, positioning procurement as the results-driven organization it is capable of being.

Budgets for Procurement Digitization

Despite the need for and the advantages associated with investing in digital procurement, it is just one potential investment of many in a company. In fact, an increasing number of organizations now have Chief Digital Officers (CDOs) who are responsible for all digital initiatives happening worldwide.

The establishment of this role reflects a changed understanding of the business case associated with digital investments.

- Old view: What financial ROI will our company receive if we make this investment in digital procurement?
- New view: How will investments in digital procurement improve our decision-making skill and speed? How will not making those investments hold us back?



The sharpest, quickest, and most effective way to manage costs is to have a comprehensive view of what the company is spending money on and to arrest any leakage as soon as possible - ideally before it happens. Procurement can negotiate and optimize costs, find alternate suppliers, and competitively bid out categories, but if budget leakage persists the measurable impact will be dampened.

Budget tracking and budget management are critical. Again, automation can play a key role in this, serving as a gatekeeper rather than relying upon humans to say, 'Don't release this PO because we're over budget.'

Procurement digitization moves the organization towards multiple goals.

The first goal is to increase the efficiency of the negotiation processes by implementing simple tools like e-sourcing. These capabilities provide hard savings through efficient negotiation, contract compliance, or guided buying.

The second goal is to gain efficiency over the requirement initiation process, which covers purchase requisition through either purchase order or contract signature. Speeding this process up keeps the operation moving and improves the user experience as well.

Once the end-to-end process is under control, procurement can work towards the third goal of supporting non-procurement stakeholders. For instance, AP automation can increase the efficiency of payment processing and help the company take advantage of early payment discounts.

CPOs may be concerned about having to spend large sums of money to take their whole process digital, but if they strategically plan their approach and prioritize their most acute pain points the savings generated can be reinvested into other parts of the procurement process.



This approach has significant potential in terms of its ability to change the perception of what type of budget is required for procurement digitization because procurement is the only area of the business that delivers hard savings.

Pushing the Envelope Beyond Efficiency

Once procurement has embraced automation for the sake of governance and efficiency, other opportunities emerge. Big data and AI open the door to next level performance and competitive advantage for companies that make it to that point.

Possible 'next level' initiatives and programs include:

- Pattern recognition that anticipates demand and corrals maverick spending
- Real time analytics that provide data of sufficient quality to earn decision-maker confidence
- Governance tools that cleanse data to improve analysis in line with the organization's maturity and digital footprint

For all the exciting benefits associated with digital procurement, it is important to keep the human element in mind. None of these advancements can be achieved if procurement does not actively manage this adjustment.

A company can implement the best practices possible, but the culture needs to be considered in the transition from old to new. Technology is changing at a pace that many humans are not able to keep up with comfortably, making adoption a persistent challenge - and the same is true for suppliers. Given the fact that change is likely to continue, and its pace will only accelerate, procurement's change management skills will need to be as strong as their digital literacy.

Conclusion

Savings will always be important, but true success must be supported by active investments in risk management and digital capabilities. The disruptions we have observed over the last few years will not necessarily repeat, but uncertainty is always around the corner.

If procurement wants to have the data required to answer the business' questions with confidence and at speed, now is the time to start preparing for future digital performance. Doing so breaks procurement free from the race to catch up with organizational expectations and allows them to start setting high bars of their own.

About Consus Global

Consus Global is a leading procurement and supply chain solutions provider. With a presence in 25 countries and offices in 8 locations, Consus Global has been collaborating with its customers to lead strategy and procurement transformations, digital source-to-pay implementations, spend analytics solutions, and procurement operations.

Consus Global was awarded the World's Best Procurement Consultancy Project award by the World Procurement Leaders Congress in 2022 and is a finalist for the award in 2023.

About Art of Procurement

Art of Procurement was founded in 2015 to empower professionals at all levels to align procurement performance with corporate objectives. For more information, visit www.artofprocurement.com, follow the AOP company page on [LinkedIn](#) or follow us on [Twitter](#).