

Rethink, Reflect, Reexamine: Strengthening Global Procurement Operating Models



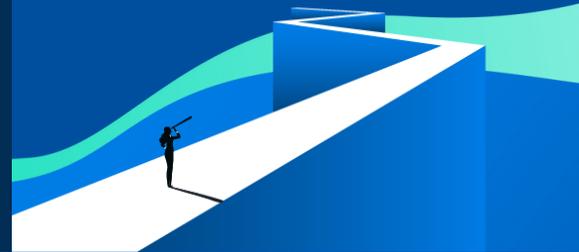
Agility in Motion

Procurement Operating Model Design



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AS THE BACKBONE OF AN ORGANIZATION'S PROCUREMENT FUNCTION, OPERATING MODELS DEFINE HOW RESOURCES ARE OPTIMIZED AND VALUE IS CREATED.

Every company has unique priorities on which procurement must align, including cost, speed, spend control, and even specific cultural expectations. There is no one-size-fits all model.

As procurement teams mature and organizations experience internal and external changes, operating models must be agile enough to flex accordingly. In this AOP Live-based whitepaper, Art of Procurement collaborated with ProcureAbility to explore different procurement operating models and their impact on value creation against the backdrop of constant change.

First, we examine how operating models can be used to drive change and explore the three most common models deployed. We will then discuss the merits of establishing a procurement Center of Excellence (CoE) for strengthening organizational agility.

Using an Operating Model to Drive Change

Procurement operating models are designed to support the strategic goals of a business by delivering value, agility, and spend control while ensuring speed to market and responsiveness to business needs, compliance, and risk reduction. An effective procurement operating model can drive positive change and create value for a company, directly impacting its bottom line. For example, in the automotive industry, where costs are a priority and pennies in per-unit cost savings can have a drastic bottom-line impact, an operating model focused on standardization and knowledge sharing would be most beneficial.

For procurement to be successful in identifying the right operating model, stakeholder engagement, buy-in, and support are key. Procurement should conduct stakeholder focus groups, surveys, annual interviews, and one-on-one conversations to understand their pain points and needs. By taking a customer-centric approach to building stakeholder relationships, procurement can tailor their operating model to ensure value is created for the organization.

Comparative Analysis of 3 Common Procurement Operating Models

The most common operating models are defined by how much responsibility falls within procurement's purview versus being distributed out into the business. Each of the three following models can vary by size, reporting alignment, and governance structure.

"White-glove service is what procurement should provide to its business stakeholders. First and foremost, procurement should focus on hearing and listening to the business."

Jake Taylor
 Senior Director of Advisory
 ProcureAbility

Centralized Procurement Operating Model

A classic 'command and control' structure, the centralized procurement operating model is managed by a procurement function that operates as a shared service center. In this model, sourcing projects, contracts, and purchases are facilitated by the same central procurement team, regardless of where a purchase originates.

This operating model is most commonly found in organizations that have experienced rapid growth and need to implement controls and policies around spend management, as well as organizations with a large or complex supplier base.

Pros

- Greater control and oversight
- Better spend and risk management
- More data availability

Cons

- Reduced speed and agility in response to market conditions
- Potential for low stakeholder engagement or buy-in
- Potential for missed opportunities in innovation and value creation

Decentralized Procurement Operating Model

The decentralized operating model distributes control into the business, with individual departments or business units managing a subset of their own procurement activities. Decision making and authority are dispersed throughout the organization rather than centralized into one procurement function, role, or department. This operating model is often employed in organizations that value entrepreneurialism and autonomy across business units or geographies, such as technology firms or non-profits.

"Center-led operating models have developed as the middle ground between procurement's effective speed, given the required controls, and ensuring risk is properly evaluated for the whole supply base."

Jake Taylor

Senior Director of Advisory, ProcureAbility

Pros

- Improved speed to market
- Greater stakeholder engagement
- More empowered business units

Cons

- Potential for fragmented spend and lack of control over supplier relationships and channel management
- Risk to corporate governance and compliance with procurement process
- Risk to data analysis processes and compliance

Center-led Procurement Operating Model

In the center-led operating model, the procurement organization maintains reporting responsibility for the procurement team and centralized ownership and control of policies and procedures, while the procurement resources are physically located alongside their business unit stakeholders or in a specific geographic area. This operating model optimizes the best aspects of both centralized and decentralized models and is particularly effective in organizations where procurement is seen as a strategic business partner with a seat at the leadership table.

The past several years have seen a massive disruption in physical office vs. remote working arrangements, with the 'new norm' yet to be officially defined. Teaming is currently trending towards a more virtual environment where procurement colleagues are no longer constrained to living and working in the same location. This arrangement allows organizations to find the right skill sets with as much flexibility as possible, leading to smaller and more agile procurement organizations. In a center-led virtual model, intake processes remain centralized while the process experts doing the work increasingly operate in a virtual environment.

Pros

- Better understanding of, and responsiveness to, the stakeholder's or region's specific needs
- Improved speed to market compared to the centralized model
- More efficiencies for organizations with multiple purchasing teams

Cons

- Can be complex to manage as it requires strong governance and cross-functional communication
- Potential for loss of control over supplier relationships
- Challenge to demonstrate procurement's value to stakeholders or business units

Establishing a Procurement Center of Excellence

A CoE is a centralized team within a procurement organization that develops and implements best practices and strategies for procurement that may be conducted with the help of non-procurement colleagues. The CoE helps teams and business units achieve their goals by providing guidance and support in areas such as data reporting and analytics, supplier management, marketing intelligence, category management, and process improvement.

CoEs are increasingly important in helping procurement groups of any size or maturity level leverage technology and centralize data to drive efficiency, cost savings, value creation, and better decision-making.

A CoE can exist efficiently in any of the operating models previously outlined, if the function itself is centrally managed with clear processes, owners, and a widely accessible knowledge warehouse. Centralization is critical to efficient operations.

The 4 Pillars of a Center of Excellence

ProcureAbility recommends a four-pronged approach for empowering and sustaining a successful CoE, which includes:

- 1 SME Network:** Build a network of subject matter experts with deep category expertise to assist in creating a CoE. For example, IT specialists like data scientists, AI engineers, or intelligence and data analysts can help transform large amounts of data into actionable insights at scale for the CoE.
- 2 Market Intelligence:** Access, manage, and distribute subscription-based and ad-hoc market intelligence for smarter decision-making, improved speed to market, regulatory compliance, and reduced external supply disruption.
- 3 Procurement Toolkit:** Develop a common set of tools and support resources, ranging from category-specific SOWs and RFX packages to contract models and KPIs.
- 4 Data Insights:** Deliver data-driven decisions supported with analytics and data visualization tools while harnessing the power of advanced cognitive computing technologies to improve efficiencies.

"Procurement's primary mission is to meet the needs of its business stakeholders. Second is effectively extracting value from suppliers. Meeting both objectives in concert is how procurement ensures achievement of operating goals."

Jake Taylor
Senior Director of Advisory
ProcureAbility

"Procurement may have great metrics but are they insightful? Do they lead to change? The responsibility for centralized reporting and communication lies with the Center of Excellence, and to support this level of activity, they need more data scientists, AI engineers, and intelligence around what to do with the data."

Jake Taylor | Senior Director of Advisory, ProcureAbility

Conclusion

Elevating the stakeholder experience, leveraging top-down support, and understanding how to pivot and adapt in periods of growth or change are key components of any effective procurement operating model.

Choosing the *right* operating model for the business is a nuanced and strategic decision that should consider multiple factors, goals, challenges, and even the company's culture.

Every firm's procurement operating model will be unique to their business.

Procurement should be agile and tailored to the specific priorities and needs of the organization, objectives such as cost control, speed, compliance, or other areas of focus. As procurement teams mature and companies experience internal and external changes, their operating model must be flexible and adaptable enough to react to these conditions and continue to create consistent, strategic value over time for the business.

[About ProcureAbility](#)

ProcureAbility is the leading provider of procurement services, offering advisory, managed services, digital, staffing, and recruiting solutions. For more than 25 years, we have focused exclusively on helping clients elevate their procurement function.

We combine leading-edge methodologies, analytics, market intelligence, and industry benchmarks with our uniquely flexible and customizable service delivery model. The Fortune 1000 trusts ProcureAbility to transform their procurement operations, drive growth, and reimagine what's possible.

Let ProcureAbility help you reimagine your procurement capabilities.