4 STEPS TO CREATING A CUTTING-EDGE DIGITAL PROCUREMENT FUNCTION

Introduction

There is a saying that generals often end up fighting the current war with the weapons of the last. When it came to mitigating the economic damage from the COVID-19 pandemic, procurement was on the front line. But many organisations found themselves dealing with the unprecedented new challenges with the tools of a previous generation.

The closing of borders, disruption of transport routes and patterns of lockdowns affecting key suppliers meant the situation on the ground was changing faster than at any time in living memory.

All this meant procurement needed a game-changer. The pandemic underlined the value of real-time data and agility and the need to diversify supply chain networks by modernising core processes with digital technology.

Though the pandemic prompted many organisations to rethink existing strategies, it only intensified their commitment to digitisation. A McKinsey global survey of executives in late 2020 found that the pandemic had stimulated companies to accelerate the digitisation of their customer and supply-chain interactions by three to four years.

Nearly half (48%) of UK CEOs said the pandemic had "sharply accelerated digitisation of operations, putting us years in advance of where we expected to be" and 74% of business leaders report that the digitisation of their operations and creation of a next-generation operating model, had accelerated by a matter of months – up from 50% in August 2020.

When it comes to digitisation, many organisations are uncertain where to start, but here we bring you four steps which will facilitate the move towards cutting-edge supply chains.

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Create visibility by unifying data, process and decision-making across the supply chain

As the effects of the pandemic added a new element of unpredictability to supply chains, the need for rapid actionable information to help decision-making and risk assessment intensified. Respondents to Kenco's 2020 State of Supply Chain Innovation survey ranked supply chain visibility as their highest priority as they steered their organisations towards a post-COVID recovery.

Before the pandemic, executives surveyed as part of KPMG and JDA software's joint survey of supply chain executives found that supply chain visibility continued to be the biggest investment area.

And supply chain managers continue to see technology as the means to achieve this visibility. Gartner Vice President of Research, Bart De Muynck, told the Wall Street Journal last year: "Visibility technology… has become a necessity amid pandemic-driven lockdowns, demand spikes and supply disruptions."

To achieve this visibility, executives told the survey they planned to deploy or test cognitive analytics (82%), AI/ML (62%) or digital "control tower" (55%) technology over the next 24 months.

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> Vice President of Research, Gartner

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> ## "When operating on such a large scale, even the smallest savings in areas like the supply chain can be worth millions."

Johannes Holtbruegge
Senior Manager Digital Transformation, Henkel

German chemical and consumer goods company Henkel was finding it lacked visibility across silos due to the use of "simplistic reporting and analytics tools". That was when a supplier recommended Tableau.

Johannes Holtbruegge, Senior Manager Digital Transformation at Henkel Laundry & Home Care, said: "Like so many multinational organisations today, effective data reporting and analytics are critical to Henkel.

"When operating on such a large scale, even the smallest savings in areas like the supply chain can be worth millions. The more accurate we can be with our data, the more likely we are to identify where such savings can be made."

Uniting all the company's data in one source under Tableau, where everyone was able access it, contributed to $4m of savings in 2019 alone, says Holtbruegge. "We've also been able to reduce energy consumption across our Laundry & Home Care global supply chain by 20% and improve the efficiency of our factories by over 10% since 2013," he added.

An unexpected by-product of this visibility was that Henkel's factories around the world could see each other's energy usage and power data in Tableau, creating healthy competition between them over who could be the most energy-efficient.

Henkel's journey to digitalise its supply chain contributed to it being named an Advanced 4th Industrial Revolution Lighthouse by the World Economic Forum (WEF).
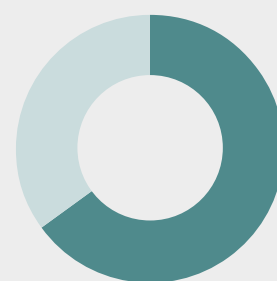
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Enable collaborative symbiotic relationships across the supply chain

Companies which responded to the COVID-19 downturn by trying to squeeze their suppliers for price cuts increasingly found themselves gaining the wrong kind of press attention. But cutting-edge organisations are increasingly recognising that supply chain collaboration is a more sustainable long-term strategy than squeezing supplier costs.

One McKinsey survey of more than 100 large organisations in multiple sectors, found that companies that regularly collaborated with suppliers saw higher growth, lower operating costs, and greater profitability than their competitors.

While, 65% of procurement practitioners canvassed by the Oxford Economics report The Future of Procurement, Making Collaboration Pay Off say procurement at their company is becoming more collaborative with suppliers.

Since 2005, when it launched a major transformation programme, Procter & Gamble has stated that it expects more than half of its innovation to come from outside its own R&D efforts. Last year, US energy company Hess Corporation found itself operating in a market where oil was selling for $30 a barrel and its own costs were $70. Its initial reaction was to seek supply chain price cuts.

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But that caused too much tension with suppliers and was at odds with Hess's strategy of remaining a customer of choice for vendors. Instead, Hess, which had 4,400 different suppliers at that time, began to look at ways of integrating data across the supply chain.

> **"We started to understand that because suppliers didn't have visibility into our data there was a lot of inefficiencies in processes as well as overall inventory and management of fleet activities."**
>
> **Nigel Bell,** Senior Manager, Digital & Operational Excellence, Hess

"Because we're not vertically integrated it's critically important for us to work in that integrated manner across the supply base," said Nigel Bell, Senior Manager, Digital & Operational Excellence at Hess.

Studies throughout the company found most employees were spending 30% to 40% of their day simply trying to find data. At the same time the company also carried out a time-tracking study with suppliers which found that suppliers were spending 600 hours trying to find information to support holding "a meeting of substance".

The company developed Hess 360, a collaboration and visibility platform on Salesforce's Lightning Platform, that integrates multiple systems, helping to reduce inefficiency through interconnected workflows.

Hess saw that in order to start generating insights it also needed supplier data. Bell said that first the company consolidated the supply base, then tried to democratise and share data and "get suppliers to think in the same manner".

"We had to get them to understand that there was trust and commitment in this relationship," Bell said. "We started to understand that because suppliers didn't have visibility into our data there was a lot of inefficiencies in processes as well as overall inventory and management of fleet activities."

It became obvious that for suppliers, a sufficient part of their cost to serve Hess as a customer was part of that inefficiency.

As a result of having this conversation and democratising data with one supplier, Premier Pipe – a subsidiary of Sumitomo Corporation, Hess was able to unlock operational efficiencies through the extended value chain, saving $3m in costs.

"If you think of all of your other suppliers across your value chain, the power of collaboration is pretty impressive," said Bell.

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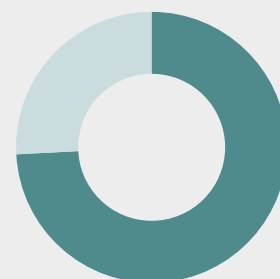# Drive out non-value add activities through automation

The pandemic has sharply increased focus on the benefits of automation within the supply chain, given the importance of achieving cost savings. Even before, 74% of CPOs responded to a 2019 Deloitte study citing cost savings as the primary driver for performance measurement.

Automation can help significantly when it comes to the procurement process, which has historically been paper-intensive and time-consuming.

In a series of surveys of US CFOs conducted by PwC last year, rapidly rising numbers of respondents said they planned to leverage automation to improve the speed and accuracy of decision-making within their supply chains. And retail and consumer products supply chain and operations executives canvassed last year by IBM and the National Retail Federation (NRF) said they believed automation could boost revenue growth by 10% each year.

UK pharmaceutical McKesson company dispenses more than 150m prescription items every year at its LloydsPharmacy outlets. When the pandemic struck it had already implemented its digital transformation process, which had included the launch of three new B2B procurement portals based on Mulesoft.

Ranjit Gill, IT Director, McKesson UK, said: "We used to distribute printed catalogues, which meant product listings were already out of date even before pharmacists placed an order.

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> ## "We've integrated the portal with our warehouse systems, which means product availability can be adjusted in real-time."
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"We've integrated the portal with our warehouse systems, which means product availability can be adjusted in real-time. Pharmacists can also view their purchase history, auto-fill their baskets, and take advantage of special deals."

Gill said that the average weekly order on the site now takes just two minutes instead of 20, which frees up pharmacists to spend more time with customers.

Pharmaceutical and biopharmaceutical global supply chain solutions provider PCI Pharma Services saw clinical trial activity increase dramatically in 2020 in response to the COVID-19 pandemic. This meant PCI had to onboard twice as many clients as normal during the first wave of the crisis.

"We saw a big increase in demand around the discovery and development of new COVID-19 tests, therapies and vaccines," said Tim Roberts, Vice President for Global Sales for Clinical Services at PCI.

An app built around Salesforce helped PCI create clinical trial proposals for clients in 30 minutes instead of five days. Yet, the procurement team managing PCI's vendor relationships and contracts required equal visibility.

"Our supply chain is incredibly complex and important – especially when it comes to biologics, such as insulin pens and flu vaccines," said Roberts. "We need to ensure timely and reliable access to the right components to deliver high-quality therapies for patients."

As PCI manufactures more than 1,000 molecules per year it needed to simplify vendor engagement. As a result it built a partner community on Community Cloud which provided suppliers with automated updates on their bids, as well as insights into why they were selected – or not – for different contracts.

"With Community Cloud, we can make faster and smarter procurement choices, which helps to safeguard supply chain efficiency and business continuity," said Al Moss, PCI's Vice President of Global Strategic Sourcing and Supply Chain. "We can now invite twice as many vendors to respond to a tender, which gives us more choice and makes it easier to compare proposals and prices."

Automation solutions do not need to be time-consuming to put into place. At the start of the pandemic Schaeffler Group, a manufacturer of precision bearings for the automotive and aerospace industries, found its supply chains were suffering from COVID-related factory and warehouse closures. As many of its supply chains stretch across the globe and incorporate some form of just-in-time delivery, these massive disruptions imposed a domino effect.

Schaeffler's business intelligence team were hard-pressed to predict where the effects would strike next and how bad they would be. The solution was to create a dashboard through Tableau which combined data on the spread and location of COVID-19 with their own supply chain data.

By automating the process and combining both sets of data, Schaeffler could anticipate potential factory closures and disruptions – and mitigate risk. Most usefully the team was able to get the dashboard up and running quickly to predict where the pandemic would next strike its operations.

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Optimise inventory and working capital through collaborative sales and operations

The COVID-19 pandemic has vastly increased pressure on companies to shift more products through more channels in less time. Increasingly specific customer demands sit alongside the imperatives to minimise cost and maximise service delivery.

Sales and operations planning (S&OP) has been talked about since the 1980s, but now many organisations are taking a closer look and trying to refine their planning to enable greater responsiveness and efficiency in their supply chains.

Defined by CIPS as "a multi-department planning process based on factors including expected levels of demand and supply", Heineken, for example, turned to S&OP when it decided it needed to make a step change in how it organised demand and supply.

The company was facing challenges including the rise of craft brewers. Javier Gomes, program manager S&OP Core at Heineken, said the company embarked on a project to cut inventory and costs and boost revenues. Its initial targets were to cut inventory by 10-15%, obsolescence costs by 10-30%, logistics costs by around 1% and increase revenue by 0.25-1%.

Research by Supply Chain Insights shows that S&OP software, also known as 'advanced planning software' provides a return on investment (ROI) in just seven months.

A survey by APQC found three-fourths of companies expect to increase their investments in S&OP. When it comes to crossing the functional domain, US contract manufacturer Flextronics faced a considerable challenge.

Dealing on a yearly basis with around 1.2m parts; 20,000 suppliers; more than 1,000 customers, each with their own supply chains; across 120 manufacturing sites, the numbers were head-spinning. The answer was to create the Flex Pulse Center which acts as a control tower-type 24x7 distributed decision-making system, integrating supply chain, social media and news media feeds.

John Wrenn, Flex Vice President for Information Technology, Enterprise Applications, said Flex Pulse was initially designed to offer visibility across all the supply chains to the factories and then provide information on how the inventory was being consumed in production. Within a short amount of time, the platform was able to cut several days of inventory that freed up $200m in working capital for other uses.
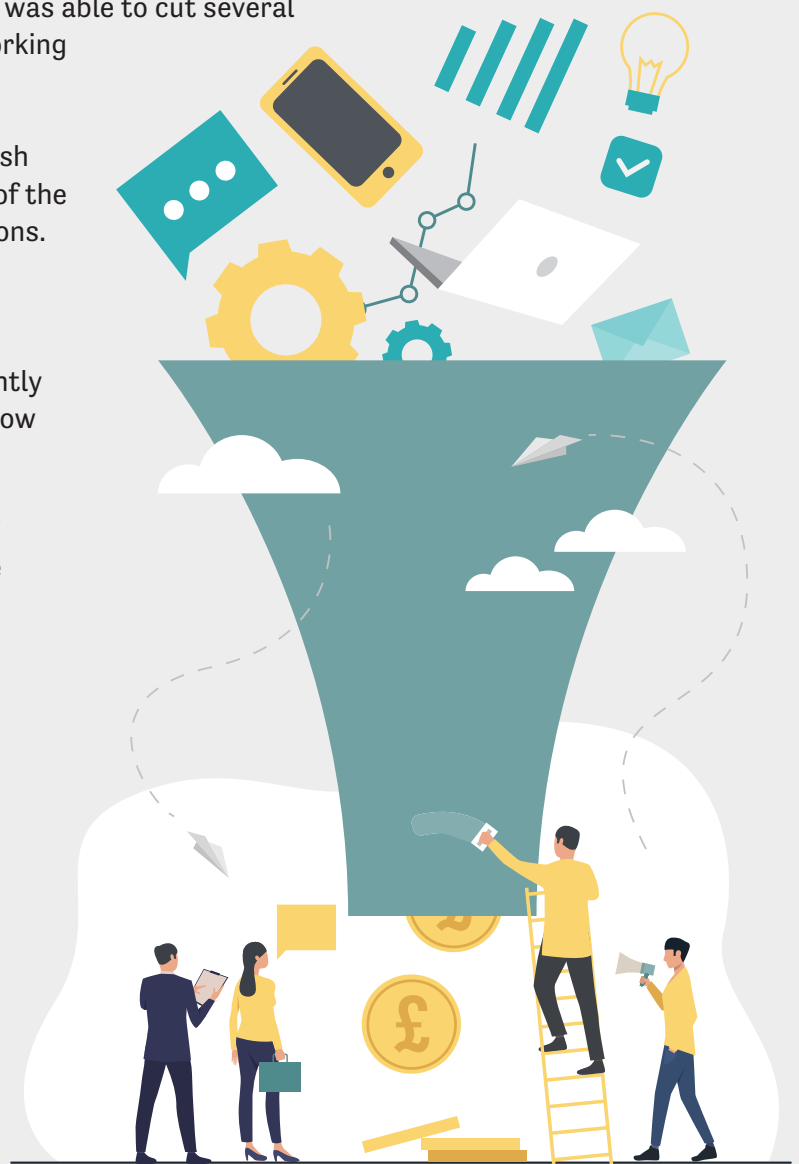
As quicker inventory turnaround freed up cash flow which could be invested in other parts of the business, the platform spread across functions.

"Flex Pulse also has given our commodity management teams better insights into inventory trends – where inventory is currently sourced, where it needs to be sourced and how to group sourcing," said Wrenn.

"We have key suppliers that service many of our customers, and Flex Pulse solutions give us better insights and leverage when we negotiate sourcing with those suppliers. This combination provides us with a competitive advantage in the marketplace.

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Executive summary

While procurement may have faced multiple challenges as a result of COVID-19, the pandemic has also given the function a chance to show it can shine. By gaining visibility and transparency of the supply chain the function can mitigate the risks of an uncertain world.

Technology is increasingly enabling collaborative relationships across the supply chain, helping procurement react flexibly to the challenges of today's business environment. And automation is helping the function move away from its transactional past and gain widespread recognition as a strategic business partner.

Meanwhile cross-functional collaboration with sales and operations is underlining procurement's effectiveness, helping it optimise inventory and maximise access to working capital.

In an April report EY analysts Edmund Wong and Glenn Steinberg said: "We're not suggesting transforming supply chains is easy: it's an arduous and individualised journey where success is contingent upon the commitment of employees, as well as its affiliated partners and suppliers." But they added that "companies that move early with intent will gain sustained competitive advantage for years to come".

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> **Edmund Wong and Glenn Steinberg**, Analysts, EY

About Salesforce

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