

# New Technologies Boost Procurement's Potential

***By leveraging the capabilities of today's technologies, supply management leaders can enhance the value they deliver to their organizations.***

**By Marc Hochman**



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As supply management executives are well aware, CEOs are looking for more than just cost savings from the procurement organization. They expect procurement to work with and identify suppliers that

will bring advanced technologies to their company to facilitate innovation and differentiate the company in the marketplace. Supply management is increasingly being asked to deliver value and make top-line growth contributions to the organization. These new technologies will have a significant impact on how companies do business—and if properly employed will raise the procurement organization to a new level of strategic significance within the corporation.

In the last 36 months four major studies on procurement practices have been released: The A.T. Kearney Assessment of Excellence in Procurement; two Aberdeen Procurement studies; and a 2005 CAPS Research study on outsourcing. All of these studies have shown that leading companies are employing more technology and have higher adoption rates than follower companies. Additionally, the studies reveal a huge gap between the leaders and average performers in the adoption of collaboration technologies.

Reverse auctions offer one example. These solutions provide a highly effective method of negotiating with suppliers and are yielding significant results with relatively low risk of failure. Some organizations are known for their pervasive use of auctions. GlaxoSmithKline, for example, runs over 3,000 eRFPs and 1,500 auctions a year, encompassing everything from strategic materials to individual limo

rides to the airport. The average company, by comparison, is running 50 to 75 auction events per year. There is significant room for improvement in the adoption rates of these tools.

Procurement executives need to be ready to capture the full potential of collaboration technologies. These technologies will accelerate offshoring of both internal and external resources and are a critical enabler in the execution of low-cost country sourcing strategies. By leveraging collaboration technologies, CPOs will contribute more value to their organizations and will have the ability to demonstrate greater organizational leadership.

## **A Focus on Functionality**

Emerging technology solutions are leveraging improved analytics, broader data integration, and collaboration. These new applications include such functionality as user-defined work flows; integrated data management across functions and applications; role-based access for internal and external users; issue, project, and process stakeholder workspaces; and user-defined dashboards and analytics. The key element of these tools is “user-defined”—that is, they have advanced to the point where procurement professionals can set up their workspaces without having to rely on an IT person or programmer.

The linkage of these collaboration tools to product lifecycle management (PLM) is critical. These tools were initially developed for the auto industry to facilitate communication between design and engineering groups. And, in fact, the industry has solved many of the complex problems critical to collaboration with their PLM tools.

Toyota leads the auto industry in profitability and time-to-market because they are the leader in design

commonality and parts re-use. Their collaboration tools play a critical role in achieving these goals. Toyota suppliers, using these collaboration tools, actively share and collaborate with the automaker.

The collaboration functionality developed for the auto industry is driving much of the functionality for similar tools being built for other industries. P&G, for example, uses the same tools as GM to facilitate its brand management and product development processes—from idea generation through production. The tools offer data integration capabilities to help manage product formulations, packaging design and artwork, and labeling regulations. Using the tools, P&G has reduced its new product launch time by 50 percent and has an almost error-free process for producing artwork and labels.

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Collaboration tools can also have a significant impact on a company's top and bottom-line. As an example, consider how these tools could be used to make a small change in a shampoo bottle. Traditionally, a corporate packaging engineer would set up a meeting and possibly travel to meet with several suppliers—bottler, closure manufacturer, and cap maker—to discuss and review the impact of the change. With collaboration tools, the desired changes can be made faster and travel costs are eliminated.

Collaboration tools also facilitate the documentation and tracing of intellectual property ownership, allowing companies to better maintain control of their intellectual property. This is particularly important when working with low-cost country suppliers.

For procurement executives, the information provided by the collaboration tools will play a critical role in improving the effectiveness and efficiency of sourcing initiatives. The data from such tools will help them understand their spend by part number, specification, and supplier. Further, the level of specification information provided will make discussions with suppliers much more productive. These tools also allow engineering and supply management to work more closely together.

### **Promising New Solutions**

Expressive bidding is another new sourcing approach that can make procurement organizations more productive. Expressive bidding allows the supplier to respond to a RFP while also com-

municating the optimal supply points that will allow them to deliver the most competitive total cost. This communication lets the supplier address issues that the purchaser may not have addressed in the RFP.

Expressive bidding can be combined with collaborative optimization technology to perform award-constraint modeling. This enables the buying organization to more clearly understand the economic trade-offs associated with the following types of constraints: (1) minimum and maximum numbers of suppliers that are to be awarded the business; (2) requirements that the incumbent supplier must get a specified percentage of the business; and (3) limitations on the percentage of business a new supplier can be awarded.

Collaborative optimization allows the buyer to see the difference between a constrained approach that limits costs savings and an unconstrained award scenario that maximizes total savings. While the savings shown under the latter approach may be more theoretical than actual, collaborative optimization ensures that the buyer understands the impact of self-imposed constraints on the final award decision.

The upcoming release of Microsoft Office 2007 will significantly enhance the collaboration potential for most users. New functionality has been added to the software package that includes the capability to build templates, workflows, reports, dashboards that can extract and exchange data feeds to and from ERP systems, and sites posted for data collection such as RFX. The application will provide for user-designed roles and will bring user-defined collaboration to the desktop at low cost. The enterprise version includes a product called Microsoft Groove. This tool will allow the average user to easily develop his or her own collaboration workspace, removing all boundaries from collaboration.

Microsoft Groove will facilitate the widespread use of collaboration workspaces. For example, it will facilitate the enrollment of suppliers to use these tools and participate in collaboration efforts with the companies they supply. With Groove, procurement organizations will be able to set up workspaces, name the members to the site, decide on user-defined access rules, post content to the site, and then e-mail the workspace to other users.

These new procurement technologies will be “disruptive” and will fundamentally change how organizations work and communicate. Procurement executives must move quickly to learn about these technologies and implement them if they want to deliver true value to their organizations and make sure that they remain competitive in the global marketplace.