CFO eBook

CONNECT PREDICTIVE PROCUREMENT TO THE BOTTOM LINE

Chapter 1: Predictive Procurement and You

"*The role of the manufacturing CFO in any enterprise with multiple plant locations has never been more exciting or more challenging.*"

- Edmund Zagorin, Arkestro CSO & Founder

As a Chief Financial Officer (CFO), you play a crucial role in ensuring your company's financial practices are effective and efficient. How you spend money on the procurement of goods and services to keep your business going is a key component. Ideally you should be working closely with your Chief Procurement Officer (CPO) and procurement team to review your procurement strategy, improve supplier relationships, and analyze your data analytics.

However, in today's rapidly evolving business landscape, it is likely that procurement isn't your only challenge to tackle. **By collaborating closely with numerous clients, Arkestro has identified three challenges currently encountered by CFOs in effectively delivering strategic value to their business teams:**

1. Attracting and retaining great people

2. Time spent pulling numbers to make data driven decisions

3. Lack of progress on digital transformation projects

Let's dive a little further into these core challenges and how Arkestro's Predictive Procurement can help.

Losing Your Most Valuable Asset: Your People

The first problem keeping you up at night is **attracting and retaining great people.** You might be wondering what will happen to your costs, operational performance, and operational efficiency (OE) numbers when some of your best people with institutional knowledge walk out the door or retire.

While you can't keep employees from retiring, you can employ several methods to keep your procurement team motivated, which include:

- Recognizing employee achievements
- Setting realistic goals
- Being transparent
- Offering learning and development opportunities
- Providing and asking for constructive feedback
- Empowering employees to do their best work with modern or innovative tools

Chief Wonder Officer at Wonder Services, Amanda Prochaska, offers this advice, "leaders should ask what they can do better and go ahead and do it. Put a system like Arkestro into place so they can work more effectively.

Take Back Control of Your Data

A commonality we see amongst our customers is that they are often sitting on mounds of data, but they don't have the **time to pull numbers and organize information to make data driven decisions.**

These short time frames can affect supply or fundamental business continuity and getting data out of multiple systems to uncover important insights can pose a serious challenge. According to EY's CPO Officer Survey, one of the top priorities for a CFO is to develop a procurement strategy. To do this, you need clean and accurate data to drive better decision making.

A Materials Procurement Manager at a leading design build contractor had this to say about Arkestro, "*we were able to clearly understand costs rather than waiting on emails and spreadsheets and manually compiling data – which was a big win for us.*"

Is Digital Transformation Keeping You from Delivering Strategic Business Values?

We spend a substantial amount of time pursuing the allocation of parts and managing paperwork. Procurement teams often deal with antiquated systems and processes, so it's no wonder that companies see a **lack of progress on digital transformation projects.** Yet, this hasn't deterred CFOs from recognizing the necessity of tech investment. In fact, Gartner reveals that "92% of CFOs indicated they plan to increase investment in technology." Though technology investments are increasing, data shows only 30% of technology projects succeed.

According to Ardent Partners, "*the existence of process automation tools does not mean they are utilized well or at all. Today, the average procurement department generally struggles to use its technology effectively.*"

Failing to optimize the use of technology is a failure for any department and demands immediate attention and corrective action from leadership. Add to it the stressors that implementing an ERP like SAP S/4HANA can take months to implement. Contrast that with Arkestro customer Koch Engineered Solutions (KES), who were able to go live within days of engaging with Arkestro.

The good news is that the balance of power is shifting back towards finance teams and the CFO has more opportunities than ever before.

The Solution? Predictive Procurement.

CFOs are partnering with procurement departments to get quick wins on the board through embedded systems like Arkestro's Predictive Procurement.

Our software is built with machine learning, game theory and behavioral science. Arkestro helps your team make their best buying decisions, faster, at scale, to deliver real time recommendations with a minimum of change management. Unlike other solutions, Arkestro stands out with its seamless implementation, swift realization of value, and tangible results.

Predictive Procurement is about harnessing the power of the data around you to help you save time, reduce business risk, and decrease costs so you can find the right supplier at the right price, right now.

So what are you waiting for? Bring your business into the 21st century so that you can attract great talent, have your systems learn from decisions you make, and store all the details you need to conduct transactional cycles in one, easy to access platform.

Let Us Show You What Predictive Procurement Can Do

Welcome to the magic of Predictive Procurement! In this eBook, we will provide an overview of:

• Fundamental business challenges CFOs are being called on to solve

• Ways Predictive Procurement can address those challenges

• Specific customer wins from a variety of industries

• Practical takeaways

It is our hope that as a CFO, you can take back these learnings to your business and leadership in order to drive compelling outcomes during this time where cost balance is shifting back to finance.

Let's get started!

Chapter 2: Leveraging Predictive Models for Optimal Returns, Quick Wins, and Lasting Profit Growth

Predictive models help CFOs make informed, strategic purchasing decisions that increase time savings and cost savings — even amidst inflation and other global disruptors. In fact, many CFOs are embracing predictive models as a way to combat economic uncertainty. In a recent PWC report, 53% of CFOs said they plan to accelerate the adoption of digital technologies in 2024, and 47% say their top priority is building predictive models.

This comes on the heels of findings from Our World in Data which shows an exponential growth of catastrophic events (drought, floods, extreme temperature, wildfires, etc.), up from 200 to almost 500 each year. Former Johnson & Johnson CPO, Len Decandia, says the lesson here is clear, "*predictability equals resilience. While cost value remains crucial, we can't forget the importance of resilience.*"

Let's dive deeper to see how Arkestro's Predictive Insights and Predictive Execution help CFOs achieve high-impact, quick wins, and sustainable margin expansion. Then we'll highlight how AI and machine learning foster harmony between finance and procurement.

Navigating Procurement Challenges with Arkestro's Real-Time Predictive Insights

Every CFO aims to be more strategic across their spend, especially when managing multiple plant locations. Arkestro Predictive Insights empower you to do just that by identifying opportunities, creating strategies, and delivering value for the business faster than ever before. (The procurement manager for Bel Brands USA estimates that Arkestro reduces time spent on data analysis by 2-10 hours.)

Predictive Insights delivers personalized email recommendations straight to your inbox, giving you actionable insights in real time. You'll get details on anomalies in buying patterns, changing market trends or risks, and data-backed recommendations on how to proceed.

You'll also get easy-to-understand visuals that help you create a strategy and get those high-impact wins at a faster, more frequent rate. Arkestro's analytics breaks down your spend and PO volume over time, while built-in recommendations are categorized by organization, location, and more.

**Optimizing Procurement Strategy with Arkestro Predictive Execution**

At a time when inflation, uncertain changes in interest rates, and geopolitical tensions are on the rise, many CFOs find themselves pressed for time and resources.

The majority of CFOs (74%) expect talent and labor costs to increase "substantially" in 2024, and more than one-third (37%) say their company plans to reduce their real estate footprint. At the same time, 84% of CFOs say they plan to use automation and digital technologies to optimize time and talent.

Arkestro Predictive Execution solves the conundrum by freeing up your time to execute on procurement strategy. It allows you to take your next best step by creating a competitive context and automating ordinary processes like price and supplier validation. Meanwhile, anomaly detection resolves issues so you have more time to focus on what really matters.

Frank Battino, Holman's Director of Procurement & Logistics Services said, "*Arkestro has helped us streamline the purchasing and bidding process, improving the quality of our supplier network and eliminating the need for ad hoc contracts.*"

Predictive Execution helps keep suppliers engaged by letting them know where they stand in a sourcing event. When they aren't near the top, Arkestro offers instant, dynamic feedback so the supplier knows what they need to do to get ahead. Quote by email has been a game changer for companies like Dover Chemical, who claim it is "*key to happy supplier relationships.*"

Supplier Science

Process Science

Negotiation Science
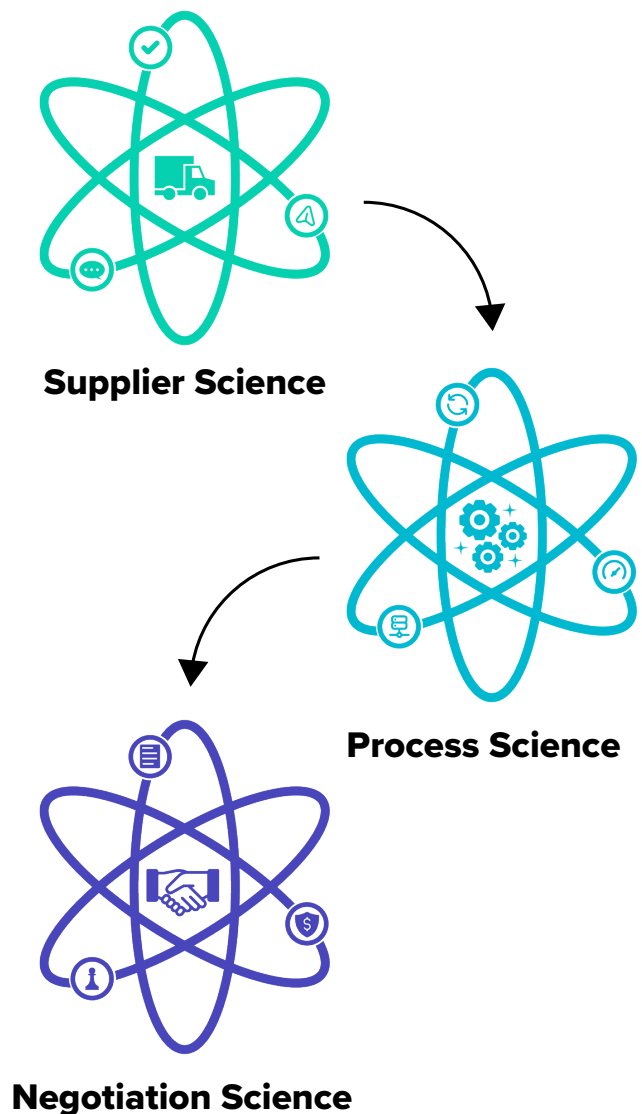
Navigating Financial Transformation with Machine Learning

Arkestro applies machine learning and internal and external data to your sourcing event before it even begins. This insight reveals which suppliers should be included, what price you should pay, and how to get the results you want, faster. It also increases visibility and profitability, which harmonizes the dissonance that often arises between finance and procurement.

According to Marko Horvat, VP of research at Gartner Finance, financial transformation is a top priority for CFOs in 2024. Unsurprisingly, they're leaning on digital tools like Arkestro's Predictive Procurement to achieve that transformation.

"*Many CFOs see the incorporation of digital technology as a key route to improving profitability in volatile times*," said Horvat in a recent Gartner survey. "*They are so commonly involved in these areas, not just because they think they are hard to achieve and need close monitoring, but also because their success or failure will be critical to how a business performs in the coming years.*"

"If you think about the state of the world from a statement of record or digital standpoint, CFOs have had a generation to work with general ledger OS, ownership build systems, ERPs, things like that,"

Likewise, Arkestro founder and Chief Strategy Officer Edmund Zagorin emphasized that CFOs are a vital partner to procurement.

"*If you think about the state of the world from a statement of record or digital standpoint, CFOs have had a generation to work with general ledger OS, ownership build systems, ERPs, things like that,*" said Zagorin. "*In that way, CFOs can be a digital partner to procurement, whereas supply chain is almost always behind the curve from the standpoint of digital tools. The CFO is vital for helping necessitate and facilitate the adoption of those tools.*"

Chapter 3: Navigating the Shift from Traditional to Predictive Procurement

The global procurement market was valued at $6.15 billion in 2023, and that number is expected to grow by 11.1% from 2024 to 2030. More firms are relying on predictive procurement to carry out sourcing tasks and simultaneously track company payments and purchases. As a result, digital procurement is playing an increasingly important role in finance.

Here, we'll take a look at the difference between traditional procurement and predictive procurement, then discuss the benefits of predictive procurement for finance operations. Finally, we'll share how Predictive Procurement can help CFOs rapidly achieve corporate goals.

Traditional Procurement vs. Predictive Procurement

Traditional procurement is a manual, reactive process based on immediate needs and past data. In contrast, predictive procurement is a proactive approach that leverages AI and machine learning to anticipate future needs and market conditions.

That's not to say that traditional procurement hasn't made advancements in the past couple of decades. This Spend Matters' report discusses how digital technology has penetrated the procurement industry and it is now ubiquitous. "*While this transformation has dramatically increased executive visibility for procurement activities, the total workload for most procurement professionals has grown, not shrunk. For many companies, the workload has become a costly problem that is rapidly getting worse,*"— something as CFO you want to avoid.

A 2023 ResearchGate study found that traditional procurement often decreases profitability and increases economic instability, often because of supply-related threats, lack of marketplace regulation, and other challenges. On the other hand, predictive procurement increases agility and stability by offering real-time insights for improved efficiency and strategic decision-making.

With its seamless user experience, always-on analysis and data, and delegated actions-by-default it is clear to see why Predictive Procurement is the latest evolution of digital procurement that can lessen the workload and increase cost savings for your procurement team.

Transforming Finance Operations with Predictive Procurement: Top Benefits for CFOs

When applied to finance operations, predictive procurement helps to drive process automation, enhance decision-making, and improve risk management. According to McKinsey & Company, CFOs see capability building across the organization and advanced technologies such as automation and real-time reporting as the most valuable areas to address.

Here are four top benefits of predictive procurement for CFOs:

- **Real-Time Insights:** Predictive procurement provides real-time data for proactive decision-making, facilitating optimal resource allocation and cost management.

- **Process Automation:** AI streamlines financial operations, minimizing manual errors and boosting operational efficiency.

- **Enhanced Predictability:** Machine learning improves predictive accuracy by learning from patterns and irregularities in financial data, aiding in robust financial planning.

- **Risk Mitigation:** Advanced forecasting helps in identifying potential risks, enabling effective mitigation strategies, and ensuring financial stability.

A recent Deloitte whitepaper stated that predictive procurement also enhances the value of legacy systems, requires minimal investment, has low requirements for integration, and offers ROI for years to come.
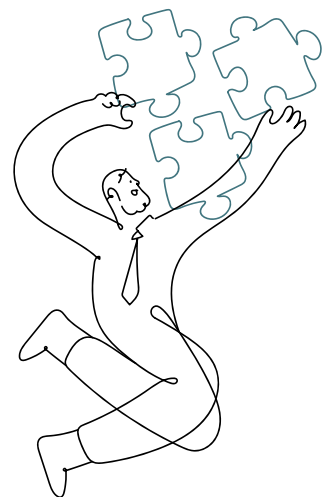
How Predictive Procurement Can Help CFOs Rapidly Achieve Corporate Goals

Arkestro's Impact on CFO Strategies Successful CFOs optimize costs, increase revenue and growth, and streamline operations to increase efficiency. Here's a look into how Arkestro helps CFOs rapidly achieve these corporate goals — without increasing headcount.
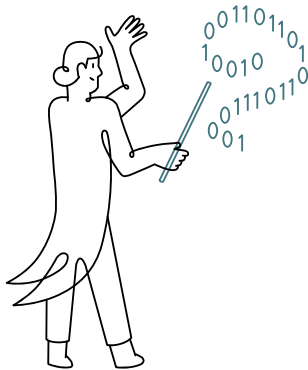
Cost Optimization

Predictive Procurement solutions deliver information efficiently using machine learning, game theory and data science, which produces deep insights and better outcomes. When a supplier responds with a price that isn't optimal, Arkestro immediately provides a counteroffer. It also gives suppliers instant feedback so they provide the most competitive price.
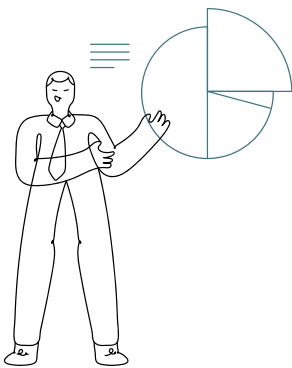
Revenue & Growth (Without Increasing Headcount)

Arkestro helps CFOs expand reach and influence on spend by driving efficiency across procurement. By identifying patterns that reduce time spent on tactical activities, procurement teams can increase the percentage of spend under their management without increasing staffing.
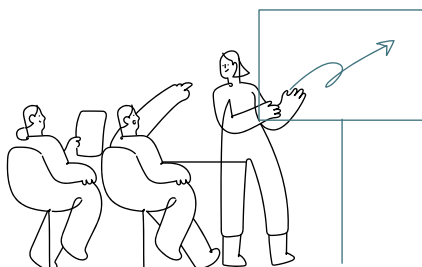
Operations

Machine learning improves procurement processes on a continuous basis, reducing friction with suppliers and speeding up the negotiation cycle by 2 to 5 times. This allows teams to focus on more strategic work and amplifies procurement's influence across the organization — no tactical intervention required.

Chapter 4: Revolutionizing Industry Standards with Predictive Procurement

From automotive and construction to food and beverage and chemical solutions, CFOs across all industries can leverage predictive procurement to reach corporate goals, maximize procurement's effectiveness, and improve efficiency.

In this section, we'll share the many ways CFOs are driving procurement and innovation with Arkestro.

Revving Up Efficiency: Automotive

Predictive procurement is the ideal match for automotive supply chains — particularly those with multiple plants or making the switch to electric, connected, and autonomous vehicles.

As automotive supply chains becomes increasingly complex, brands are losing power over suppliers — a shift that could lead to 14% higher procurement costs. Fortunately, Arkestro helps purchasing teams stay efficient and focused on value-add activities, such as relationship-building and strategic negotiations.

Arkestro customer, Holman, an international automotive distribution and manufacturing company, transformed their equipment purchasing with an immediate 7% savings in 1 day. They were also able to reduce their portfolio from 40 contracted suppliers to 5 strategic partners.

In an industry where part shortages can happen at any moment and delaying the assembly of cars can be costly, Predictive Procurement can help you find the best price for car components without having to collect endless quotes from your suppliers.
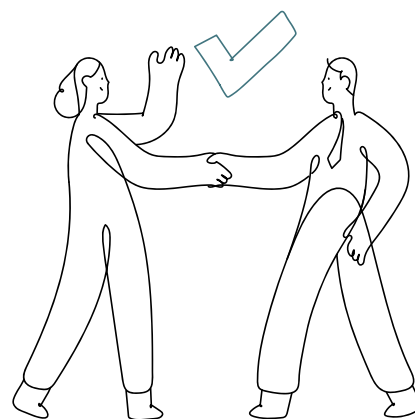
Savoring Success: Food and Beverage

When the multinational cheese company Bel Brands wanted to build meaningful partnerships with suppliers all over the world, they turned to Arkestro for Predictive Procurement. As a result, Bel Brands saved 10% and increased sourcing velocity by 25%. "In the procurement world, time is of the essence," said the VP of Strategic Sourcing at Bel Brands.

"Arkestro has really helped to kickstart our digital transformation journey by giving us our time back through leveraging data and AI. These innovations make us faster, and the faster we get, the more we can accomplish, and the more successful we can be."

Since 73% of food brands in the U.S. say supply chain losses were "higher or much higher than expected" in the last two years, Bel Brands is certainly getting a leg up against the competition.

It's no surprise that the Food and Beverage industry has a unique set of challenges. From inventory shortages to difficulty holding product – costs can easily add up. That's why procurement teams turn to Arkestro to ensure they can find suppliers with all the items in their BOM stock and can guarantee they show up on time in full.

Building Better Bids: Construction

In an industry like construction, where you are working on major developments, high rises, hotels and more, sourcing setbacks can delay construction projects, causing frustration.

Arkestro worked closely with a leading design build contractor to help alleviate some of the stressors they were facing with suppliers – giving them a competitive advantage on project bids. The Materials Procurement Manager stated, "Arkestro allowed us to adapt faster to be able to launch bids. We are purchasing materials before we sign on the dotted line for construction projects. It helps us predict costs and make sure we don't experience cost escalations - definitely a winning brag for our procurement team!"

Predictive Procurement can help your procurement team tackle project delays, quality control, sustainability initiatives, and risk management. The best part? It can reduce OpEx costs by 35% and reduce processing time by 98%!

Powering Financial Success: Energy

The energy sector has undergone a massive transformation since the pandemic. Prior to COVID-19, oil and gas companies felt they had more freedom in pricing and supply chain management. They believed that people would always need their products and they would always be profitable, no matter the circumstances. The pandemic shifted that mindset, highlighting the need to create best practices and shift to a more sustainable industry standard.

Procurement has come to the forefront as a way for these companies to be more efficient, profitable, and eco-friendly. In an industry with complex local requirements and regulations, procurement allows the energy sector to more easily centralize and consolidate supply chains. Although it's already second nature for big oil companies to optimize cost savings, procurement helps to maximize efficiency without increasing headcount.

"The primary focus is operational efficiencies," said Andrew Blum, energy procurement expert and former head of procurement for ExxonMobil. "Companies like Shell, Chevron, and BP are all asking their suppliers, 'How can you help me do more with the same team that I have?'"

The Perfect Reaction: Chemical Solutions

Since raw materials account for anywhere from 50% to 70% of sales revenue for chemical companies, Dover Chemical Corporation needed to get the best prices possible — and quickly.

In their fast-paced industry, they didn't have time for manual tasks like data entry, so they reached out to Arkestro for help improving procurement savings and processes.

They seamlessly and effortlessly integrated Arkestro with their Microsoft Dynamics AX ERP in 2021. Now, the company sees **10% year-over-year savings and 95% of all spend goes through Arkestro.**

"*You have to be open-minded and accept the latest technology*," said Steve Toloday, CFO and VP of Administration at Dover. "*If you don't at least take a look at it, you're probably selling yourself short — because there are some solutions out there.*"

Patti DeVault, a buyer at Dover Chemical who utilizes the Arkestro platform every day stated, "*We are saving time by not having to do any data entry. All we have to do is push it through our system to create a PO. A huge time saver especially with 15 line item PO's. This gives us time for other opportunities and other ways to use Arkestro.*"

Reducing manual tasks and increasing time savings is a huge win in the chemical industry. When you are dealing with a variety of components or ingredients for production, it is helpful that Arkestro allows you to have more time to work closely with your suppliers and solidify those relationships.
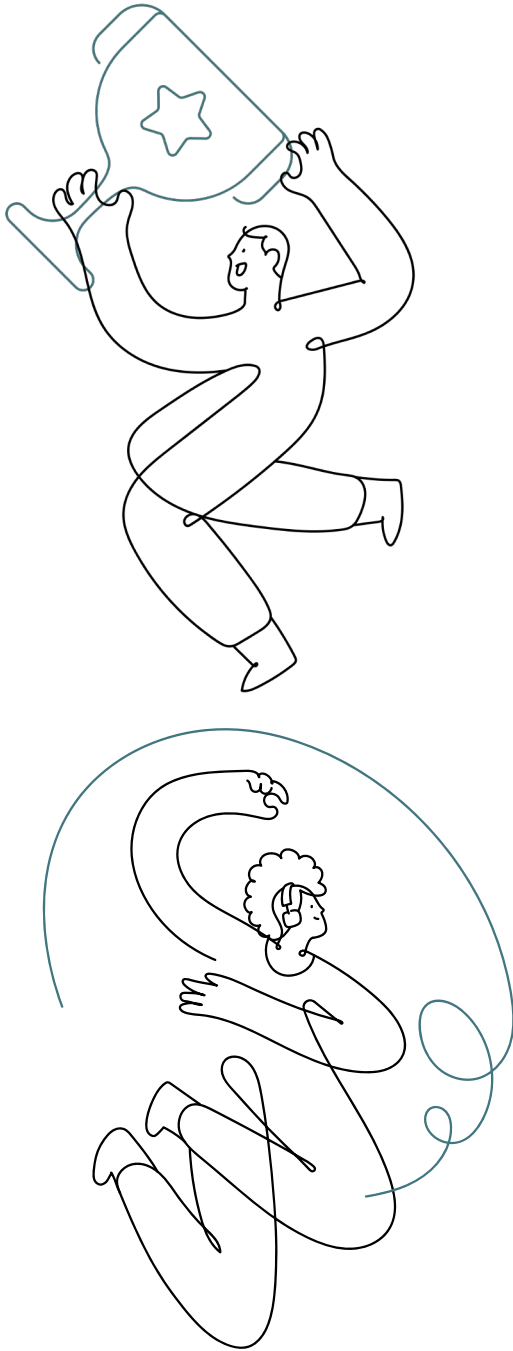
Chapter 5: Practical Predictive Procurement Takeaways

We hope this eBook has provided you with an abundance of practical takeaways. First we learned that predictive models offer a new paradigm for business. The value of predictive

- Strengthen the operational and tactical execution of finance activities like planning,procurement, and overseeing costs for production and delivery

- Partner with procurement in a more strategic manner to not just drive margin improvements but to predict them

- Initiate operational efficiencies with cost savings and reductions before they are even delivered

- Enable headcount to be allocated towards functions that are value creating versus tactical or operational

Next we learned about the advances and breakthroughs in artificial intelligence and machine learning. These technologies have created massive opportunities for CFOs in manufacturing companies with multiple plant locations to take control as a strategic player in not only managing costs but expanding margins.

Digital projects that once took months and years are now taking days or weeks. These projects can now be embedded in existing systems so they don't require lengthy consulting engagements, so you can see increased business savings quickly.

Finally, we took a deep dive in several industries where Predictive Procurement is making a tangible impact. You saw firsthand how Arkestro has helped businesses like yours achieve significant cost savings, reduce manual tasks, and streamline their procurement processes.

Arkestro is the Transformative Tool for Financial Leadership

Companies are striving to right the ship after years of inflation, taking price increases from suppliers, and bottlenecks in logistic supply chains. This frequently puts finance and CFOs on the receiving end of cost increases.

Arkestro utilizes predictive models that document and learn your best buying decisions to speed up your processes, allowing you to tackle all categories of spend. **As a CFO, it can also help by:**

- Impacting key numbers and business metrics linked to margin expansion

- Improving supplier relationships

- Allowing you to buy items earlier in the process

- Responding to last second logistics issues

If that doesn't convince you, Arkestro also has a running 13% average cost savings for our clients, over spend that was run through Predictive Procurement.

We hope this eBook and the power of Predictive Procurement has enabled you to become a strategic player who partners with other business functions and helps you to deliver predictable, repeatable expansion of EBITA to your board.

We encourage you to continue the conversation by requesting a custom demo or to take a self-guided tour through our product videos. After all, the balance of power is shifting so that platforms, like Arkestro, can provide you with an incredible leverage point to get back in the driver seat and control your business outcomes.