Championing Procurement Transformation in the C-Suite:

How Predictive Procurement Orchestration Accelerates Executive Alignment Around Your Digital Roadmap

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Spend Matters™

Mobilizing Your Executive Team for Digital Procurement Excellence

Today's procurement teams navigate challenging economic times. Companies face a litany of operational complexities which directly threaten key market channels and customer relationships. Supply scarcity and shortages persist alongside inventory gluts, inflation spikes coincide with contracting capital markets and ongoing trade disruptions have become the order of the day. These disruptions have become so ubiquitous that **Collins Dictionary decided that 2022's Word of the Year** should be "permacrisis," i.e., "An extended period of instability and insecurity, especially one resulting from a series of catastrophic events." However, as often happens in tough times, this unique situation creates massive opportunities for procurement organizations. As **McKinsey says in a recent article**: "Procurement organizations are uniquely positioned to catalyze cross-functional actions that promote efficiency and resilience in rapidly evolving market conditions."

> *"We are missing the simplest of chips that may only cost cents or dollars. That's holding us up from building a product that costs $75,000."*
> *— Ola Källenius, chairman of the board of management of Daimler, and head of Mercedes-Benz*

The current business climate has put the spotlight on procurement and supply chains because many supply disruptions impact a company's top line revenue and customer relationships and, consequently, its survival. The stakes are no longer about cost savings and incrementally improving operating margins but top line profitability and business continuity. All eyes are on the procurement and supply chain functions, as illustrated in a **recent article on CFO.com** that mentions that "nearly three-quarters of global finance executives (72%) said their organization 'experienced disruptions or delays because of supply chain challenges, pandemic-related impacts, or the effects of inflation' in the past year."

This awakening of C-Suites has changed how procurement leaders and their teams are perceived and, more importantly, opens long overdue conversations around digital approaches to managing supplier relationships, costs and overall operational performance. In the same article, CFO.com mentions that "in CFO's annual survey of finance chiefs, 30% said the procurement/supply chain function would get new tech solutions in the next 6 to 12 months."

This readiness for CFOs to allocate funding for the digitalization of procurement is in stark contrast with what procurement teams have experienced over the years and even as recently as 2021. Deloitte's 2021 CPO study, for example, shows that a lack of funding is the number three barrier to effectively implementing technology in procurement. While the new funding is certainly helpful, procurement teams now face the burning questions of what areas to prioritize, what kind of digital technology to select and how to champion this roadmap to the C-Suite.

A hint for the answer to these questions, which we will address more exhaustively in the next sections of this paper, can be found in the other two top three barriers that CPOs mention in Deloitte's study: poor quality of data and poor integration across applications. These are old problems that have never been solved by traditional, manual and incremental approaches, e.g., ones that rely on boosts in procurement headcount, either through hiring or outsourcing.

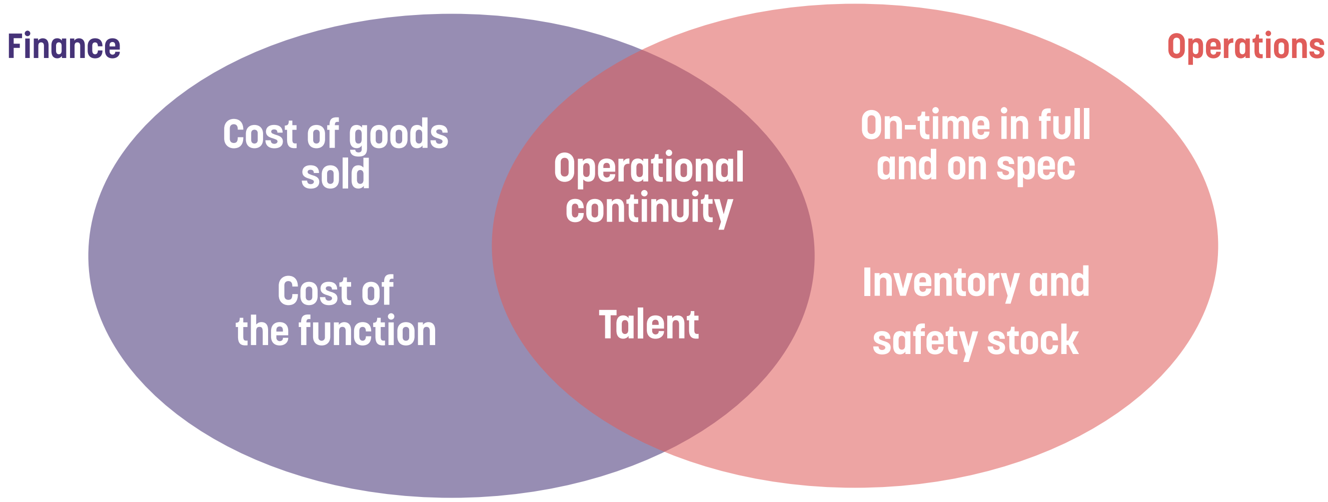
Surprisingly, the catalyst for C-Suite alignment between Finance and Operations around digital procurement lies in the resurgence of a topic unrelated to roadmapping: the procurement talent shortage. Or, more precisely, the scarcity of talent and the issue of scaling talented headcount where both soft skills and analytical talents are key. By tapping into the pervasiveness of this issue across procurement and supply chain teams, procurement leaders are uniquely able to align the often thorny relationship between Finance and Operations around digital technology.

Savings vs. Performance:
The Age-Old Debate Between Finance and Operations Has Been Transformed By Inflation and Cost Uncertainty

Traditionally, Finance and Operations have sparred over procurement's priorities, creating the sensation of moving goal-posts and ever-changing success metrics. In the old world, Finance prioritized driving cost savings and Operations prioritized driving supplier performance (even if higher performance led to higher costs). During the pandemic and ensuing supply chain crisis, Operations executives (whether led by COOs or CSCOs) were willing to pay significantly higher prices to ensure continuity of supply and lock in scarce allocation from preferred suppliers. Finance perceives these rising supplier costs as an ongoing challenge to their operating models, including their ability to keep or expand market share to their customers. To illustrate the scale of this challenge, PwC found that over 62% of businesses have or will pass along higher costs to their own customers in the form of higher prices.

Thus, making the case for digital procurement technology cannot rely solely on cost savings (which could alienate Operations) or supplier performance (which could alienate Finance). So what do Finance and Operations both agree on? That procurement teams cannot attract and retain the talent needed to create value and maintain operational continuity. Between The Great Resignation and a wave of retirements, it has arguably never been harder to hire a talented and qualified category manager. In such an environment, procurement leaders can create alignment between Finance and Operations around technology that observes and monitors sourcing and purchasing decisions, provides real-time insights into which decisions are driving impact and recommends optimal procurement decisions to new team members. By using a business case format that spotlights the imperative of capturing and scaling optimal decisions, procurement leaders can unite Finance and Operations around a bedrock strategic imperative: a digital procurement transformation that isn't dependent upon scarce and expensive talent. To be clear, this business case should not be based around headcount reduction. Instead, it should be written as a force-multiplier of the Return on Investment (ROI) of each existing and future procurement team member, spotlighting how digital procurement technology that is not dependent on manual inputs makes each team member more impactful and more valuable.

WHAT'S KEEPING YOUR C-SUITE AWAKE AT NIGHT



The Rise of Embedded Platforms:
The Surprising Reason Predictive Procurement Orchestration Accelerates Executive Alignment Between Finance and Operations

The current business climate has dramatically increased the readiness for organizations to allocate more budget to the implementation of procurement technology and created an unprecedented alignment between Finance and Operations. However, it is vital for organizations to understand and build a ROI model by supplementing manual procurement technology that relies upon highly skilled and highly scarce talent with embedded platforms that provide real-time recommendations. This is because ROI is a central element that drives technology adoption decisions. More importantly, it allows C-Suites to avoid repeating the mistakes many organizations have made regarding their digital procurement transformation roadmaps.

> *"Insanity is doing the same thing over and over and expecting different results." - Albert Einstein*

ROI for procurement technology revolves around three value elements — the three pillars of best-in-class teams: sustainability, effectiveness and efficiency. These are teams who are continuously delivering value (sustainable) to other departments/stakeholders (effective) while requiring minimum energy (efficient). These three elements can be used by C-Suites to measure, manage and improve the impact of their procurement strategy.

Traditionally, the focus of the digitalization of procurement was to increase efficiency and sometimes — more as a by-product than by design — effectiveness. However, as we have mentioned in our previous whitepapers on Predictive Procurement Orchestration (PPO), such an approach had unintended consequences on user adoption that have proven very costly:

- **Interface proliferation:** The lack of "plug and play" interoperability between the interfaces of applications hampers their user experience.
- **Poor data quality:** Increasingly fragmented landscapes and the reliance on self-service data entry by low-motivation users lower procurement data quality.
- **Reliance on scarce and expensive talent:** Complex systems require a tremendous amount of specialized knowledge from the team who use these technologies in daily procurement activities. Digital procurement has often made teams *more* reliant on scarce and expensive talent, not less.

And, to make things even worse, these unintended consequences hindered agility, thus planting the seed for many of the issues that organizations currently face. As CAPS Research mentions:

"Companies that undergo organization structure changes as part of an enterprise-wide initiative or market-driven decision face a huge endeavor, but data indicates these changes don't happen frequently. For the last three years, an average of **74% of companies say they've operated under their current org structure for five or more years.**"

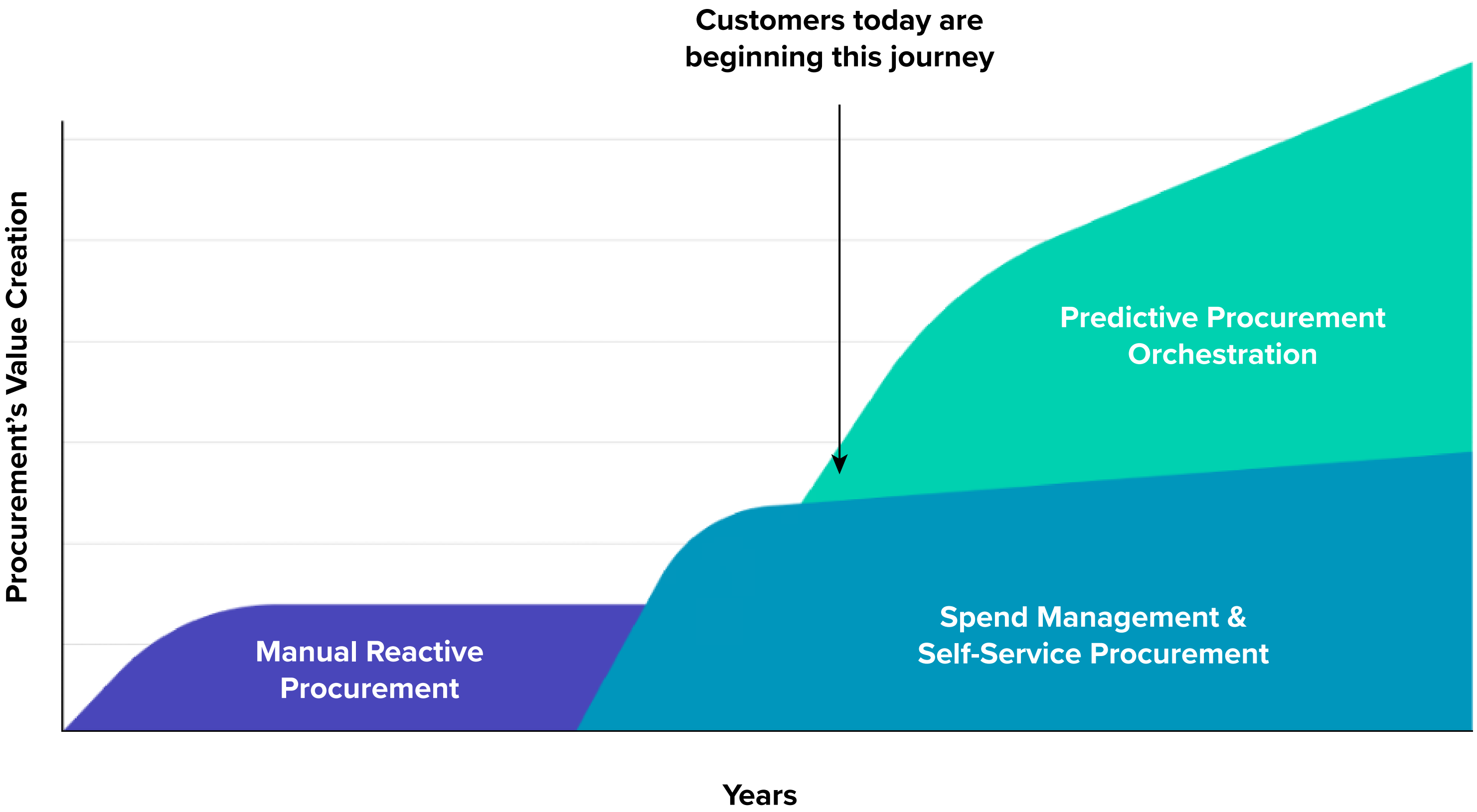
It is easy to understand why we arrived at such a situation that one can describe as "organizational sclerosis." It is due to the flawed approach inherent to traditional process-based technology implementations, which intend to maximize organization-wide favorable outcomes in a scalable and repeatable way while still heavily relying on the presence of individual talent.

In contrast to a digital approach which increases the dependence on manual configuration and manual data inputs, PPO offers a fundamentally unique approach to digital procurement transformation via its three key form factors:

- **Embedded:** Unlike traditional technology, PPO does not require that teams learn a new user interface, thus removing mass user adoption as a dependency to ROI value creation.
- **Amplified:** PPO amplifies the benefits of existing systems and processes by serving up real-time recommendations to the right person at the right moment in time. This enables organizations to influence more spend faster, driving improved costs and workflow.
- **Holistic:** Rather than always optimizing for the lowest price, PPO's self-learning model reflects an organization's intentions and preferences across a huge number of activities (Purchase Orders, Contract Awards, etc.) for all spend types, including direct materials.

The key distinction is breaking the dependency on user adoption for value creation. That is why Predictive Procurement accelerates and amplifies the impact of existing Spend Management, Procure-to-Pay and Self-Service intake portals without requiring additional user adoption.

Procurement Productivity Curve



Spend Under Prediction is a Key Performance Indicator (KPI) that can massively accelerate your digital procurement journey

Predictive Procurement Orchestration in Action: Case Studies on Real-Time Recommendations

On a macro level, PPO drives effectiveness, efficiency and sustainability by driving better prices alongside faster approvals, all by aligning more spend with preferred suppliers. By identifying preferred suppliers and embedding preferred outcomes and instant feedback in any process, PPO can ensure repeatable price improvement for its buyers. Faster purchasing and sourcing cycles especially matter in the current business climate because bottlenecks from approvals or incorrect requisition data entry can block the effectiveness of any procurement operation. The most important aspect of implementing PPO is enabling the operational performance of your procurement team to become dependent on the quality of your best people's best decisions, rather than on the number of hours available to your team to take action or complete daily tasks. It is truly a paradigm shift from measuring procurement productivity based on business impact rather than solely the amount of time or number of business cycles applied to a spend category.

The first case study that we want to mention illustrates the symbiotic relationships between the different elements in PPO's accelerated time-to-value and ROI. Westfall Technik, a leading plastics manufacturer, was leaving a large amount of money on the table because it had not revisited its resin sourcing, a critical key category for them, in over six years. The reason? Limited bandwidth on the procurement team and a laser focus on delivering for Westfall's customers, a focus that often meant paying more to a small group of trusted suppliers with a track record of excellent performance. To be successful, Westfall would need to leverage PPO to create a true win-win: better pricing for Westfall and a larger, more attractive commercial opportunity for Westfall's preferred suppliers. This win-win is textbook strategic sourcing.

Negotiations for this direct spend category are extremely complex. Moreover, the category manager with the key knowledge of the market did not have the bandwidth to conduct an event using traditional software, which depends upon manual data inputs and configuration. But the amount of effort intrinsic to any negotiation was not the only problem. The team could not find the paperwork from the last time they sourced and needed to consider demand across 19 unique subsidiaries which had been acquired by a private equity firm over the past four years. This was a showstopper when considering the capacity of the only person who could perform the tasks.

This is why Westfall Technik decided to collaborate with Arkestro and use PPO to execute on its category sourcing strategy. The global sourcing event, including a Request for Information (RFI) to longlist suppliers and a Request for Proposals to shortlist was designed with all cost and value elements required to make a holistic award decision based on Total Cost of Ownership. Westfall used Arkestro to predict and recommend a target price that accounted for all of the cost dimensions of the desired demand for each supplier. This recommendation delivered additional savings with cost reduction ranging from additional 2-4.3% and identified new opportunities around minimum order quantities in a much faster and repeatable way than the manual process the company had been using. Not only that, Westfall Technik is now able to run the same process annually with no effort needed, and the dynamic adaptations undertaken in response to the Arkestro simulation persistently monitor the spend category.

Regarding talent management, PPO can do more than capture knowledge from a single individual. It can do it on a much broader scale. Consider, for example, Bel Materne, a global food producer that has complex upstream and downstream supply chains. The company runs a sourcing process to collect and compare quotes with conditional constraints to optimize its logistics spend across all of its lanes twice a year. This is an arduous process that, among other things, requires a vast amount of effort (two weeks per lane on average) to analyze quotes and ensure that awards are optimal.

To dramatically improve its process, Bel Materne turned to Arkestro's PPO solution to orchestrate a sourcing event involving 18 suppliers. Beyond being able to issue the event in one day, Arkestro also helped Bel Materne analyze all current and past quotes in a dynamic regression model and then flip that model into a target price recommendation for every supplier and every logistics lane. In addition to ingesting market and benchmark data to predict and recommend prices to participating suppliers, Arkestro's PPO helped the Bel Materne team tap into the tribal knowledge of the whole organization to determine which logistics providers were historically preferred for which lanes. The result enabled the Bel Materne procurement team to deliver 16.7% savings when Bel Materne's stakeholders were expecting none. And, just like for Westfall Technik, the ROI also included process improvements and operational efficiencies; cycle times shrank from 13 to 5 days.

Conclusion: The Permacrisis Aligns C-Suites Around Predictive Procurement Orchestration as a Digital Accelerator

Unprecedented times call for new answers, not just incremental changes. This is why the mobilization of C-Suites to future-proof their supply chain is an opportunity that procurement organizations should not miss. Predictive Procurement Orchestration is the answer that eliminates traditional trade-offs by being simultaneously efficient, effective and sustainable:

- **Holistic Recommendations — Predictable Savings on Preferred Outcomes:** PPO continuously watches multiple internal and external parameters rather than relying on busy and chronically over-subscribed individuals to trigger a procurement activity.
- **Tribal Knowledge Base — Historical Learning From Your Best People:** PPO continuously learns from the best purchasing and sourcing decisions of your smartest category leaders, deriving and recommending the optimal supplier and price selections.
- **Predictive, Not Reactive — Continuous Learning Based On Acceptance Rate:** PPO makes real-time recommendations and observes the final outcomes. By keeping procurement in the driver's seat to make the final decision, PPO enables the recommendation model to get smarter based on dynamic changes in the supply base.

While the "cost savings" business case for ROI and the "operational efficiency" business case for ROI often create apparent tension between Finance and Operations, the imperative for operational continuity enables C-Suites to find common ground when it comes to augmenting and enabling scarce and expensive procurement talent. That is why leading procurement organizations are focused on building a business case for digital technology based on a force-multiplier on the value creation per procurement headcount: showing the value of the procurement organization while also showcasing how a procurement team enabled by digital technology is more valuable than one that must contend with silos and poor data quality.

This is what Predictive Procurement Orchestration is all about. It is an embedded platform that enables Finance and Operations to come together around accelerating the value from digital procurement roadmaps by leveraging their most precious resource: their best people's best decisions. By de-linking "user adoption" as a dependency for business case success, PPO enables organizations whose teams are overwhelmed by apps and process changes to deliver a sustainable, continuous improvement capability that accelerates the benefits of Spend Management initiatives, as well as utilization of existing Procure-to-Pay and ERP systems.