

# ProcureCon **EAST** INDIRECT

## 2020 Innovation Briefing



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## Overview

The role of the procurement professional right now is at a crossroads, however, it varies significantly based on the organization. While a handful of companies have had value-driven procurement teams in their organization for years (with transformation initiatives fully underway or having been completed), there seems to be a continued emergence of organizations wanting to ‘start-up’ or rekindle a professional procurement organization which typically see things in a more pragmatic fashion and is more focused on the ‘how’ rather than ‘wow’. There’s no denying it, procurement is changing. The only question is, how will your organization hold up?

In this brief, you’ll receive valuable insight into areas including delivering on innovation, disruptive technologies to address long standing procurement issues, the speed of sourcing, and much more so you can learn to ensure your long term sourcing success.

# Will CPOs Become The Chief Purpose Officer?

The title of Chief Procurement Officer is common among procurement leaders at many companies. As more organizations take into account the social impact of their overall mission, “procurement” could be replaced by a more profound sense of purpose through a commitment to sustainability.

To transition their culture to focus on their purpose, companies will be looking for partners and suppliers that share this mission. Procurement plays a leading role in this transformation to align the priorities in the supplier communities with their customers.

## What Is Sustainable Procurement?

ISO 20400 defines sustainable procurement as “procurement that has the most positive environmental, social and economic impacts possible over the entire life cycle.”

Research shows that corporate responsibility not only encompasses recognized sustainability objectives, but also delivers financial value. Corporate responsibility can take many forms, some of which are driven by national and international regulations, including reduction of greenhouse gas emissions, elimination of slave labor, reducing plastics use, water conservation, use of renewable energy sources, and others.

Through sustainable procurement, organizations positively impact the economic, social and environmental development of communities, countries and regions. Customers, suppliers and the broader community all benefit from embedding sustainability principles in the supply chain, according to the 2019 edition of **Building The Business Case For Sustainable Procurement In Australia.**

## Transitioning to Sustainable Procurement

Even small companies have procurement supply chains that literally circle the globe, so developing and enforcing standards can have a truly international impact. Because the relationship with the company’s vendors resides with procurement, establishing and enforcing benchmarks in the supply chain falls to this department.

Chief procurement officers may control **up to 80 percent of a company’s spend**, which means the office is in a commanding position to define and achieve sustainability targets. Also, on average, an organization spends about **80 percent of its budget, with only 6 percent of its supplier base.** Procurement officers have the leverage to engage their suppliers in embracing sustainable sourcing practices. They can have an impact far beyond the reach of their four walls through the supply chain and life cycle management of their products.

## Making The Business Case

While detractors may argue that sustainable procurement costs more, that doesn’t have to be the case. Sustainable procurement must be embedded into traditional procurement processes that ensure the supply chain delivers excellent value from items that are fit for the purpose for which they are purchased. One of the critical philosophies of sustainable procurement is taking into account the entire life cycle cost of the product, including social and environmental risks and benefits as well as initial purchase costs. **Research** shows that a cheaper product is often more expensive in the long-term when all costs and benefits are factored into the equation. Sustainable

procurement leaders improve their brand reputation, develop stronger and more reliable relationships with suppliers, and boost sales through innovative, sustainable products and services.

## Turning Procurement Into Purpose

Authentically engaging in sustainable procurement takes diligence and foresight. It shouldn't be about ticking boxes on a list; the goal should be to effect tangible change in the way business is done. For example, if a company detects goods produced by enslaved people in the supply chain, the easy response is to stop doing business with those suppliers. The responsible path and the most difficult is to tackle the issue. "What you do is mitigate the impact by creating standards that become the norm," said Padmini Ranganathan,

vice president of Products and Innovation at SAP in [Forbes.com](https://www.forbes.com). "Integrating supplier risk assessment into the procurement process enables companies to address business challenges and take action using reliable data."

A sustainable procurement strategy must be based on collaboration so that all stakeholders are working toward the same goals. Companies that have succeeded credit an alignment between procurement and the company's core vision for being a leader not only in its market space but among all stakeholders. Sustainability leaders often focus on a vision such as environmental sustainability or reaching underserved communities. Procurement strategies must then embody that vision.

Is your organization ready to transition from procurement to purpose? Sustainable procurement trends and more will be the focus at **ProcureCon Indirect East 2020**, taking place at the Omni Orlando Resort at ChampionsGate in Orlando, Florida, in March.

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# Adopt Disruptive Technologies To Address Long-Standing Procurement Issues

To create a truly dynamic and advanced procurement function, it's critical to connect with the most innovative and disruptive technology trends. More so than the technology itself, procurement is looking for ways to practically deploy them to support existing business processes.

Technology is reshaping the “how” of procurement, as well as the “why.” Procurement leaders are already looking at ways to apply machine learning to spend analysis, for example. With technology, sourcing will be more predictive, while more transactions will be automated. Fortunately, many of these emerging disruptive technologies integrate easily with legacy systems, without the need for significant hardware and development investments.

What should procurement leaders be learning? A brief list includes smart contracts, artificial intelligence, predictive and prescriptive analytics, machine learning, chatbots, and robotic process automation. Disruptive technology could be just what your organization needs to address some long-standing issues in the procurement discipline.

## Long-Standing Procurement Issues

Traditional procurement is based on a zero-sum power dynamic between a company and its suppliers. The emphasis is on bargaining power rather than exploring the full value of the relationship for all parties.

This outdated way of thinking fails to engage insights about the different risks and opportunities that arise when working with suppliers of goods and services. If an

organization is only able to measure the procurement spend, then that's where its focus will lie. Long-term contributions from supplier innovation won't be appropriately valued, to the detriment of all parties involved.

Here's a look at the ways in which technology will disrupt procurement, now and in the future.

## Analytics

Big data has been a buzz word for several years, and it's finally permeating the world of procurement. The good news is that procurement is well-positioned to use data for reports, spend analysis, supplier assessments, and compliance checks.

Procurement organizations will be able to extract more value from the data harvested in the sourcing process. Buyers will collect and analyze suppliers' performance data, and compare it with current market pricing and risk assessments to better manage supplier contracts and relationships. Relationships can be built on overall value rather than the lowest prices. Data can also be used to manage freight transportation spend, from parcel shipping to bulk commodities.

Pattern recognition software and machine learning join forces to categorize unstructured spend, cost, contract, and supplier data, to reveal new insights. One of the most disruptive forces in analytics is the use of unstructured data. Instead of relying only on information from an ERP or spreadsheets, unstructured data analysis incorporates AP records, T&E systems, text files, emails, social media, and other sources. These signals can help monitor customer demand in real-time and manage risks due to weather and

other external forces such as global risks.

## Automation

Automation, augmented by artificial intelligence and machine learning, will allow many routine procurement tasks to operate without human intervention. The procurement team will focus on high-value, strategic efforts to support innovation and top-line growth.

AI will manage large volume orders and update inventory lists automatically. Procurement bots will be able to scale up to handle more aspects of the procurement process. Smart contracts and blockchain capabilities will be used to validate transactions and authorize automated payments.

Some aspects of corporate social responsibility compliance can be automated as well, such as monitoring required certifications and labeling.

## Collaboration

Disruptive technologies will provide the

capability for procurement to balance the desire for competitive pricing with the need to develop collaborative relationships that support innovative developments from suppliers. Technology will allow for deeper transparency and information sharing with suppliers, which goes against current procurement philosophies. With deeper relationships, suppliers will be more likely to invest in their own technology and development.

While the traditional bidding processes may not go away, the relationships will be supplemented with enhanced engagement with key vendors. With collaboration networks, buyers and suppliers permit transparency into all elements of their common value chains. All parties will access supplier information in the cloud and use the data to measure, analyze, and manage supplier performance. Joint planning sessions will uncover process improvement opportunities, as well as identify and manage supplier risks.

If you'd like to prepare your procurement organizations to take advantage of disruptive technology, sign up for **ProcureCon Indirect East 2020**, taking place March 23-25 at the Omni Orlando Resort at ChampionsGate in Orlando, Florida.

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# Lead the way to IT cost optimization and business innovation

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# Innovative Supplier Relationships Provide Top Line Growth for Mature Programs

Your company's next great idea will likely come from outside its four walls. That's the idea behind supplier-enabled innovation. Procurement teams can deliver business value through partnerships with innovative suppliers which can make a significant impact on the bottom line. There are risks, of course, but SEI can offer bottom-line impact that demonstrates significant value to stakeholders.

Tapping the expertise of your suppliers is like expanding your R&D department. You can count on the expertise of your supplier base to develop new products or refine existing ones.

Supplier innovation empowers organizations to identify innovations and bring them to market faster. For example, Procter & Gamble developed a strategy that delivered almost 50% of the company's innovation and accounted for billions of dollars in sales. Over a 14-year period, the company shifted from 100% internal R&D to a 50-50 split that improved R&D productivity by 60% and contributed to 50% of the new products on the market, according to a [presentation for the Institute for Supply Chain Management](#).

The strategy required a radical mind shift from the "Not Invented Here" syndrome to embracing ideas from external resources. Here are three things you need to know about innovative supplier relationships.

## 1. What is Supplier Enabled Innovation?

SEI represents the mechanisms to identify and get innovations through third parties for value creation (ISM), according to the Institute for Supply Chain Management. That means companies should identify and develop a supply base with complementary capabilities

that will drive value through collaboration. The customer and supplier can develop a joint process to support more innovative products.

There are many real-world examples. In consumer industries such as fashion, the brands manage sales, marketing and brand-driven design while outsourcing manufacturing and distribution. The suppliers provide innovations in materials and processes to the brand.

Rather than searching for the low-cost supplier, companies can partner with a vendor to develop unique solutions that customers value. The procurement organization can shift to maximizing total value from suppliers rather than focusing on cost containment.

## 2. The Business Case for Supplier Enabled Innovation

Collaborating with suppliers can unlock additional value for companies that understand a significant portion of their value chain resides outside of their four walls.

Research shows that 55 to 65% of innovations are sourced externally, and 25 to 45% of revenues result from product innovations. However, less than 25% of all new products reach consumers (ISM). Partnerships are critical to developing a product pipeline at a level that's not sustainable for an organization to maintain on its own.

About half of recent sales growth in Europe was due to [innovations from suppliers](#) Mondelez International (formerly Kraft Foods) experienced. The company counts on ideas and contributions from suppliers for a competitive advantage.



Engaging with suppliers enables companies to drive continuous improvement in the value chain at a lower cost. Companies have found that internal R&D teams were engaging with suppliers directly to solve problems and develop product innovations. The procurement team can manage this process to transform supplier innovation from ad hoc activities to coordinated projects that benefit the entire organization.

### 3. Transitioning to Innovation Focused Procurement

Companies that pursue supplier-enabled innovation realize that it's increasingly difficult for one organization to research and develop the innovations necessary to meet customer expectations in regional and local markets. Procurement teams must transform their role from passive buying agents to proactive innovation sourcing agents. The procurement

team will direct the prioritization of projects with the suppliers so the suppliers are not overwhelmed with requests. The procurement team helps translate the business needs into terms that are meaningful for the suppliers.

To play a significant role in innovation, the procurement organization must transition from cost and risk reduction, to adding value farther up the supply chain. Often, procurement becomes involved only after specifications are set. Innovation-focused procurement organizations support business strategies by becoming involved in innovation projects from the beginning. The procurement organization can find sources of innovation and manage supplier involvement in a collaborative rather than an adversarial approach. The procurement organization will continue to own the interface between the company and its supplier base.

If you'd like to learn more about supplier-enabled innovation strategies, the place to be is **ProcureCon Indirect East 2020**, taking place March 23-25 at the Omni Orlando Resort at ChampionsGate in Orlando, Florida.

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# Procurement Organizations Must Move Past Digitalization Roadblocks

Procurement leaders understand the urgency and importance of defining and executing their organization's digital transformation.

Top goals for digitalization projects include automating processes, improved data quality, cost savings, and improved compliance. A leading CPO Survey ([Deloitte 2019](#)) indicated that 68% of the respondents are improving and automating procurement processes with modern IT applications. However, the adoption of emerging technologies is low. Less than 15% of respondents leverage artificial intelligence, machine learning, 3D-printing, and other emerging technologies, according to the survey.

As the survey reports, some organizations are already applying these disruptive technologies to procurement and are fundamentally altering the impact of the function. Procurement departments are empowered to develop strategic sourcing, automate transactional procurement, and manage supplier relationships more proactively.

In the meantime, many more organizations are taking a wait-and-see approach before adopting emerging technologies.

Although procurement organizations face a number of internal and external roadblocks to a digital transformation – budget pressures, lack of data-driven insights, and a shortage of talent – procurement leaders understand the urgency and importance of digitalization, according to the survey.

To achieve the critical goals for digitalization, including process automation, better data quality, cost savings, and improved compliance, organizations must develop strategies to overcome those roadblocks and support the business case for digitization.

## Business Model Transformation

While many leading companies have transformed procurement to become an integral component of their enterprise strategy, many procurement groups struggle for influence within their companies. The primary reason is that they remain trapped by the paradigms of the past. Perhaps the most significant barrier facing digitization is the mindset that it can and should be accomplished.

Traditionally, procurement organizations have focused on metrics and performance indicators related to costs. Priorities are driven by supplier spend levels, driving decisions on where to focus limited supplier management resources.

The goal is to transform the procurement organization to think entrepreneurially.

“Procurement organizations continue to evolve from a clerical back-office function to a strategic business function that orchestrates supply networks, drives innovation and growth, aligns business operations with companies’ ethical and social values, and manages risk, even as markets and technologies continuously change,” according to a [2019 report](#) from the University of Mannheim Business School in Germany and SAP Ariba.

## Develop a Digital Strategy

As the marketplace embraces an array of digital procurement solutions, procurement leaders must determine a strategy that maximizes the value of investments they have already made.

Your digital procurement strategy must account for the current level of technological maturity. Most organizations have invested in core procurement technologies, such as eSourcing, eProcurement, spend analytics, and contract management, among others. These core systems typically require significant investment and system integration.

By contrast, many emerging technologies are built on the Software-as-a-Service (SaaS) model. SaaS solutions don't require complex preparation of data, systems or integration, and can often produce results in a short time frame. These digital procurement solutions connect many more physical and digital inputs, driving better decision making and efficiency. A digital procurement strategy delivers results through improved insights and strategy, leading to process excellence and greater organizational efficiency and effectiveness.

## Take an Agile Approach

It's difficult for a procurement organization to adopt the "fail fast, fail often" mantra of Silicon Valley. Still, your organization can take an agile approach by using emerging technologies.

These SaaS solutions are not resource nor capital-intensive, and results can be seen in a few weeks or months, not years. Organizations can start small, targeting one or two aspects to start the digital journey. The agile approach is built on short, iterative sprints. That means selecting and deploying a solution, gauging results, and deciding on the next step. If the solution does not meet your needs, try another one. Or, if it does work, then move on to the next target. Use the success to build momentum, and use challenges to engage the team to solve the next problem.

With the sprint methodology, procurement leaders establish a vision and priorities and ensure rapid adoption to deliver value. The procurement organization can develop a culture of innovation and continuous improvement to drive substantial measurable impact for the enterprise.

If you'd like to learn how leading procurement organizations have overcome barriers to digitization, don't miss **ProcureCon Indirect East 2020**, taking place March 23-25 at the Omni Orlando Resort at ChampionsGate in Orlando, Florida.

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# Find New Ways To Address Procurement Talent Management

Given the tight labor market, procurement teams are challenged to find the best candidates to fulfill their talent needs.

Larger corporate organizations typically rely on traditional talent development practices; however, the most effective organizations also adopt innovative approaches to build procurement skills for the future. For some industries, it can mean moving procurement talent to lower-cost locales or tapping talent with a background in finance, operations, or information technology. For example, JP Morgan moved its procurement team from New York City to Plano, Texas, as part of the relocation of back-office staff. The company hopes to attract talent that prefers to live in a lower-cost region of the country.

Keep in mind that companies compete not only for customers, but also for A-level talent that can help drive innovation and investment. For organizations in technology, life sciences, financial services, and others, the procurement department is increasingly responsible for developing innovations in partnership with the supplier base. The procurement department must be able to engage suppliers in a mutually beneficial relationship rather than focusing on cost-containment alone. A new approach to procurement may require a new approach to talent.

## Develop a Talent Strategy

The first step to improving your procurement talent management is to identify a strategy as well as the skill sets and experience that will best guide you to meet those goals. Are you looking for closer alignment between procurement and finance, R&D, or operations? Is your organization planning to adopt more digital tools? Will you be focusing on supplier-enabled innovation, so you need staff that speaks the language of the suppliers' industries?

Answering these questions will help you get an idea of the skills and experience the new procurement organization will require.

It's no secret that procurement operations are going digital as the function moves from delivering cost savings to providing a strategic edge to the organization. However, the **Deloitte CPO Survey (2018)** revealed that procurement leaders were reluctant to deploy new technologies like AI, robotic process automation, and blockchain day-to-day activities. According to the survey, 51% of the procurement leaders believed their teams lacked sufficient capabilities to implement a digital procurement strategy.

That's why procurement leaders are focusing on finding the right talent while also shaping existing resources through training and skill development programs to engage professionals with the skills to succeed in a digital world. However, what have been called "soft skills" are also a vital part of the mix: strong relationship building, facilitation, and moderation skills.

## Improve Existing Talent

Before you begin a recruiting drive, re-examine the existing talent within your organization. There may be talented negotiators and project managers working elsewhere in the organization that could contribute to your strategy. There may be people already in the department that could leave innovation efforts with suppliers to develop a new and productive pipeline.

Behavioral and skills assessments can help identify the strengths of individuals so you can determine how best to utilize them for procurement. Behavioral skills can be more important than technical acumen because self-awareness and personal interaction can be more important than subject matter expertise in developing supplier relationships.

Training and mentoring programs can help existing employees gain insights and experience. More engaging, rewarding work also improved retention for top talent.



## Attract New Talent

To attract the highest level of talent, your procurement organization must be prepared to offer continual development and advancement opportunities. The old days of hiring new graduates and giving them a week of orientation and then relying on informal mentorships and on-the-job training won't cut it anymore. Companies must realize the relationship starts with the recruiting process through onboarding, orientation, and the initial few months on the job. These are critical time frames where the employee is assessing the employer as much as the other way around.

The most talented individuals will be attracted by a forward-thinking strategy that will engage with the latest technology. The opportunity to re-shape a department and bring it into the digital age could be very attractive to those with leadership potential. Emerging leaders will also be intrigued by development opportunities, including mentors and inter-departmental exposure.

If you'd like to learn how leading procurement organizations are managing talent for the future, sign up for **ProcureCon Indirect East 2020**, taking place March 23-25 at the Omni Orlando Resort at ChampionsGate in Orlando, Florida.

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