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LETTER TO THE BOARD

Are boards still
undervaluing procurement?

Chief procurement officers are more than just cost-cutters, and can add substantial value if given the right talent and resources

Clare Gascoigne

Dear C-suite,

Sorry to bother you, I know you're all so much busier than me. It's me, the chief procurement officer; the one who buys the custard creams.

Just wanted a word about this procurement lark that I'm beaver-ing away at, while you all do much more important stuff like tweeting the latest thought leadership. It's just that I'm feeling a bit, well, ignored by you all.

No, finance director, I haven't come over all touchy-feely, though it would be good if you did; don't you know empathy is one of the key skills of the future, even in the finance function? I have more hard facts than you can shake a stick at, if you'll bear with me. Yes, that means you too, CEO.

I know procurement is hardly the bad boy of the C-suite, but let me tell you, that's about to change. Think Olivia Newton-John at the end of *Grease*; that's how much procurement is about to change. No less a person than Kai Nowosel, Accenture's procurement chief, agrees with me. "I want to break the mould of traditional procurement," he says. "Procurement is the tinder of innovation. I want to get into that model of being sexy instead of being a back-office function."

See? But I'm not feeling the love. I know some of you are a bit vague about what I do; let's face it, less than 10 per cent of global corporations have a board-level procurement director. So here's your starter for ten: how much of the value of a company's products or services is derived from its suppliers? Anyone? No? Almost two thirds, that's how much. Write it down in your notebooks; 65 per cent, according to CAPS Research for the Institute for Supply Management.

And here's another fun fact: world-class procurement organisations have 21 per cent lower labour costs, according to the Hackett Group. I heard that, marketing! Yes, of course I'm running a world-class procurement organisation. This company's costs would be a darn sight higher without me.

That means you'll miss me when I'm gone. No, public relations, it's a figure of speech, I'm not actually going. Here's an example of why procurement is important. The government has plans to name and



shame anyone breaching the slavery law. So I'm the one standing between you and those headlines about our products being made by vulnerable illegal immigrants living in sheds, because you used some dodgy temp agency. Do you want to finesse that kind of PR disaster? Thought not.

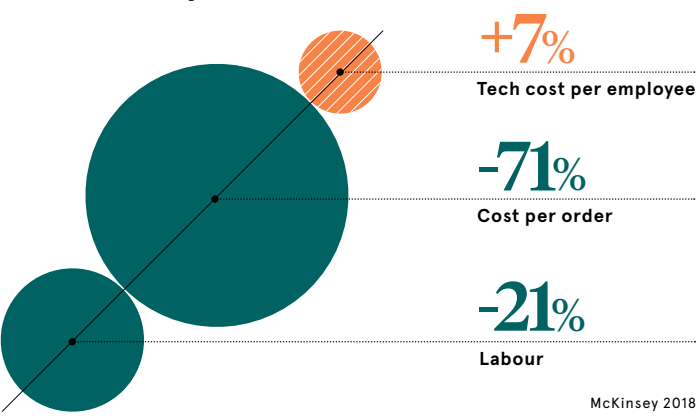
But I could do so, so much more if only you'd put a bit of welly behind me; everyone seems to be getting a piece of our digital transformation except me. Fewer than 10 per cent of companies have deployed

procurement solutions based on key technologies such as big data, the internet of things, serverless architecture or blockchain technology, according to Procurement Leaders (that's an intelligence and networking company just for people like me).

The thing is, digital is going to mean a bit of an upgrade in the old skills front. So there might be some work to do for you, HR. Egeman Tumturk, global sourcing director at Bugaboo, said digital "requires a huge change in talent and the

COST DIFFERENCES AT WORLD-CLASS
PROCUREMENT ORGANISATIONS

The Hackett Group uses metrics such as cost savings, return on investment, staff efficiency and technology to distinguish world-class procurement organisations and a benchmark; the following is the cost difference between procurement leaders and the average



McKinsey 2018

way we do our day-to-day activities, our jobs", when he was interviewed by Procurement Leaders for its *CPO Insights*. He called it "a revolution".

See, that's really what's happening here. We're not talking about a bit of an upgrade, a few new smartphones and fling in a bit of software while we think about it. This is properly transformational; it's not just about efficiency.

My job is about to morph from tactical biscuit-buying to strategic business innovation; that's what management consultants Bain & Company says, anyway. "Artificial intelligence and robotic process automation are automating manual tasks and freeing up time for more strategic activities," wrote Coleman Radell and David Schannon last autumn. "Digital technologies also provide a competitive edge by improving the speed and quality of procurement, reducing risk and enhancing innovation."

Let's face it, you need me to do this stuff, otherwise we'll be overtaken by our competitors, who are already using advanced analytics to get value out of their historical data. It's not really an option to leave me with an Excel spreadsheet and a glitter pen any longer.

Like me, Accenture's Mr Nowosel sees the procurement role moving away from simply control and compliance, and into a core business function. It's now about finding the right partners in the ecosystem, mitigating risk, protecting the brand and staying competitive. He says: "Getting competitive is more than having a great negotiated price. It is having the right solution for your customers at the right point."

Couldn't have put it better myself. We have a hyperconnected and increasingly transparent world out there and I'm the one with the bird's eye view of it. If you invest in me and provide me with the right tools and people, I can develop an agile ecosystem that learns from its mistakes, protects our corporate reputation, cultivates a sustainable supply chain, delivers real-time data insights and predictive analytics, and saves you money – worth more than a few chocolate Hobnobs I expect...

Best wishes,
Chief procurement officer ●

Procurement: new competitive advantage

Procurement must emerge from the shadows as a key business enabler

Procurement as we know it, is dead. Actually that's not entirely true. Much of what we do today is still very relevant if often a little cumbersome. However, a new breed of procurement is emerging as organisations seek to be faster, more innovative and, above all, more agile.

"Macro-economic conditions are tough," says Edward Winterschladen, managing director, Europe, for specialist procurement consulting firm Proxima. "It seems counter-intuitive to suggest that this could be a great time to invest and innovate. This is the blueprint for the agile organisation, thinking differently about suppliers, procurement and their role in driving competitive advantage."

Importance of suppliers

Simon Geale, Proxima vice president for client solutions, says: "For the average business, supplier expenditure accounts for approximately 80 per cent of revenue. Much of an organisation's ability to move fast and grow lands on how they work with their suppliers."

It wasn't always like this. Ten years ago, many organisations had not seen the need to focus on suppliers as a source of innovation or competitive edge. "Most organisations have now noted their dependency on suppliers, and the importance of understanding and managing external costs," says Mr Winterschladen. "But many procurement approaches are still fairly traditional."

Traditional procurement has seen rationalisation, long-term plans and a narrow focus on cost. This may need to change if we seek first-mover advantage and organisational agility. "At times, a simplified supply base can work against these goals, large suppliers can be slower and have more to lose than their smaller, hungry and more nimble counterparts," he says.

"Of course, it is not always that simple. There are a range of approaches and

we must adapt according to the circumstances. Modern procurement has to be smarter and more agile than in the past."

Mr Geale adds: "Knowledge is the new currency and knowing how to apply it is the new skill. The success of a procurement function will depend upon the knowledge they have and their ability to translate that into successful and fast delivery."

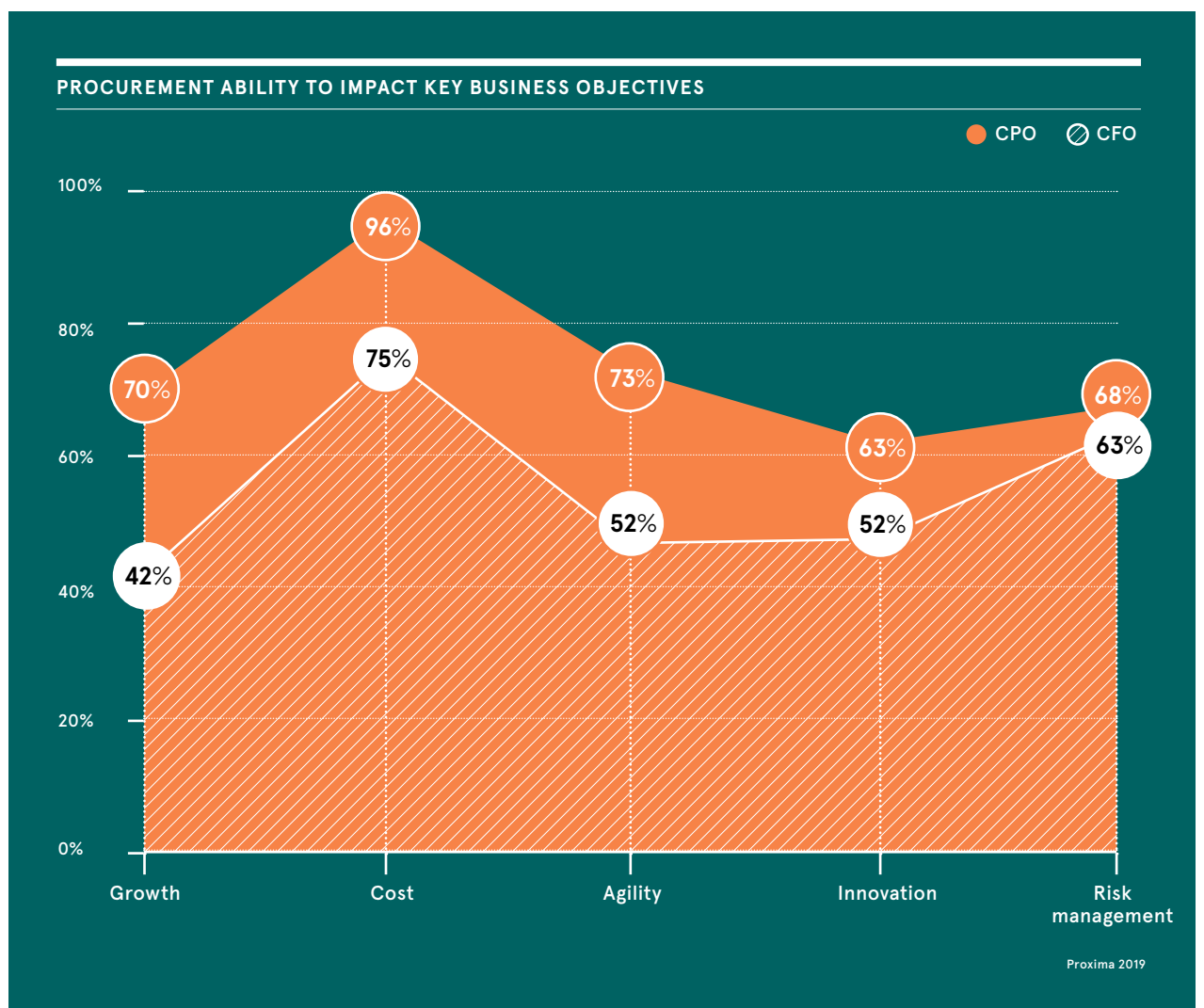
Changing face of procurement

Procurement touches most parts of an organisation; however, for many their sole interaction is the experience they have when they have a new or changing requirement. "There is so much more to it than that," says Mr Winterschladen. "This might explain why historically the function has struggled with its identity and successful transformation."

A model developed by Proxima views procurement evolution as a series of sequential steps: transactions, sourcing, category management, business partnering, knowledge partners and collaboration.

"We looked at a number of organisations and found that this was a common path. In moving forward, the chief procurement officer (CPO) was both responding to a weakness - fixing something - and seizing an opportunity - innovating or growing the function. For example, business partnering evolved because procurement had built category management teams that weren't talking to the business; now that those conversations are happening, procurement needs to have something interesting to say," Mr Winterschladen explains.

Mr Geale adds: "As we evolve, a clear distinction starts to emerge between the technology, skills and capabilities needed. The more developed the function, the more it relies on knowledge and soft skills to succeed. And so a successful CPO will be looking at a broad range of capabilities."



We must help organisations improve using our knowledge of markets to inspire and challenge our customers

Avoiding digital paralysis

Some are convinced digital will be a catalyst. Yet for many CPOs, digital is creating a state of paralysis, rather than acting as a call to action. "There is a lot of hype," says Mr Winterschladen. "We are starting to see how technology will transform much of what we do in procurement, but for many this will be over the next decade, rather than the next couple of years."

"Most past innovations have focused on process and control, which is aligned to the early stages of functional evolution. I'd expect the more game-changing developments to be looking at data and knowledge, and how we quickly assimilate information and make rapid decisions. The procurement function and the procurement person of the future will be empowered by and not wholly replaced by digital."

Procurement may find itself taking an "app store" approach with numerous specialist solutions appearing within a more open architecture. "This

is an important time for the legacy tech providers needing to respond to niche solutions coming to market that do exactly what they need to do and at a lower price point," says Mr Geale.

Challenging stakeholder perceptions

Digital and transformation are not just happening to procurement, of course. "We must help organisations improve using our knowledge of markets to inspire and challenge our customers," he says. "They should be looking to procurement to understand how suppliers can reshape their thinking."

Despite the power of procurement to drive change, it would appear chief financial officers (CFOs) are not convinced of the value of the procurement function. Recent research for Proxima shows that only around half of CFOs believe procurement really impacted growth, agility or innovation.

Around 60 per cent of functions report into finance. So this is pretty disappointing for a function that is trying to move away from savings as the key measure," says Mr Winterschladen.

Capability challenge

Suppliers are critical to the future of business. Procurement must be a key business enabler, but a range of capabilities and knowledge are needed to shine. This highlights another challenge. Demand for talent and experience is now outstripping supply, companies are therefore looking at longer term strategies to up skill their existing

teams, or in the short to medium term turning to external specialists for capacity and capability.

This is where Proxima can help. The firm, set up 25 years ago, works with some of the world's largest companies across many sectors. They employ a new breed of consultant: procurement practitioners from industry, experts in markets, who know how to identify where value can be generated quickly and how to effect change.

"Analysis and sharp suits are not enough, you need experience, stories and empathy to effect change," says Mr Geale. "You also need the type of current and relevant knowledge that a firm such as Proxima brings. The days of being able to keep all that in-house are gone."

There are businesses out there that are already enjoying the spoils of this experienced, immersed and accelerated approach to procurement. In the future more will follow.



Ed Winterschladen
Managing director, Europe



Simon Geale
Vice president, client solutions

Proxima is a world leading specialist procurement consulting company helping organisations to enable better business performance through procurement. For further information please visit proximagroup.com

Proxima
Procurement is our business

ARTIFICIAL INTELLIGENCE

After a slow start, AI is starting to make its mark

Procurement has traditionally lagged behind when it comes to technology, but does artificial intelligence offer an opportunity for things to change?

Mark Frary

Artificial intelligence (AI) is going to make business better, at least that is what the solutions providers would have us believe. Businesses will be more agile, more efficient and, importantly, more profitable. Yet it still feels procurement is behind the curve when it comes to AI adoption, despite those that have implemented things, such as machine-learning and AI-driven data analysis, seeing the benefits.

Simon Geale, vice president of client solutions at transformation procurement services provider Proxima, says: "It is early days. On the procurement side of things, we are seduced by the hype over practicality. Most of what we are seeing is either aggregating data or speeding up a process, so far."

That is not to say that businesses are shunning AI. A recent survey by McKinsey found 47 per cent of companies have embedded at least one AI function in their business processes, up from 20 per cent in 2017.

McKinsey's research showed that while most companies were adopting AI in areas such as service

operations, marketing and product development, a significant number have started to use the technology in managing their supply chains.

Some sectors, such as retail, are adopting the technology far more rapidly in supply chain management than others.

It may be time for those businesses on the long tail of adoption to speed things up. Of those that have adopted AI in supply chain management, McKinsey reports 76 per cent have seen moderate or significant benefits.

So how are companies using AI? A survey by RELX Group late last year shows a focus on using AI and machine-learning principally to increase efficiencies or worker productivity (51 per cent), to inform future business decisions (41 per cent) and to streamline processes (39 per cent).

There are those in procurement who believe AI will destroy their jobs. Yet not all are convinced of this nightmare scenario.

Trudy Salandiak of the Chartered Institute of Procurement & Supply says: "Unlike many professionals, we think procurement will be future-proofed from being completely taken over by technology due to the human interaction and relationship management required."

"What it will do is provide much more visibility over supply chains to manage risk and seek out opportunities for innovation. It will also take away the process back-office side of the role to allow procurement teams to focus on more strategic areas."

Ms Salandiak sees a role for AI in quicker and more accurate fraud detection, intelligent invoice matching and categorising vendors to rank their strategic importance in the supply chain.

AI chatbots have started to be used to help businesses articulate their needs with procurement, instead of completing lengthy requests on enterprise resource planning (ERP) systems. This echoes the voice

experience consumers get through the likes of Amazon Alexa and Google Assistant.

Turkish telecoms company Turkcell has implemented a procurement chatbot, which learns continuously and simulates interactive procurement professionals' conversations with business partners and vendors by using key pre-calculated user phrases and auditory or text-based signals. The chatbot interfaces with the company's ERP system and it has enabled procurement professionals to cut out non-value-added activities and allocate their time to more strategic topics.

Meanwhile, Ireland's Moyee Coffee has been working on a project in Ethiopia where farmers, roasters and consumers can access data as beans are moved from farm to cup. Consumers are able to use QR codes on the back of coffee packs to see where the beans have been sourced and how much the farmers have been paid, bringing unprecedented transparency to the supply chain. The project uses Bext360's Bext-to-Brew platform with AI, blockchain and internet of things technology.

As consumers demand more authenticity and transparency, this trend is likely to continue.

The forecast value of AI to the global economy is being recognised by the World Economic Forum (WEF). In September, the WEF's Centre for the Fourth Industrial Revolution

“AI will provide much more visibility over supply chains to manage risk and seek out opportunities for innovation

unveiled a plan to develop the first AI procurement policy.

The work is being done in conjunction with the UK government's Department for Digital, Culture, Media and Sport. A pilot starts in July and it is hoped it will be rolled out in December. This will include high-level guidelines as well as an explanatory workbook for procurement professionals. A further eight countries have expressed interest in extending the pilot globally.

The reason for putting together a policy now is that "regulation tends to be too slow", says Kay Firth-Butterfield, WEF's head of AI.

"From the procurement perspective, it's drawing a line in the sand, saying this is how we expect AI to be produced in our country and we will not accept AI products that do not meet these criteria.

It is agile governance," says Ms Firth-Butterfield.

The technology will also allow public sector employees to do more strategic work. "In government, there are back-office gains to be had to free up civil servants to do more," she says, adding that work on AI procurement in the public sector is expected to transfer to the private sector.

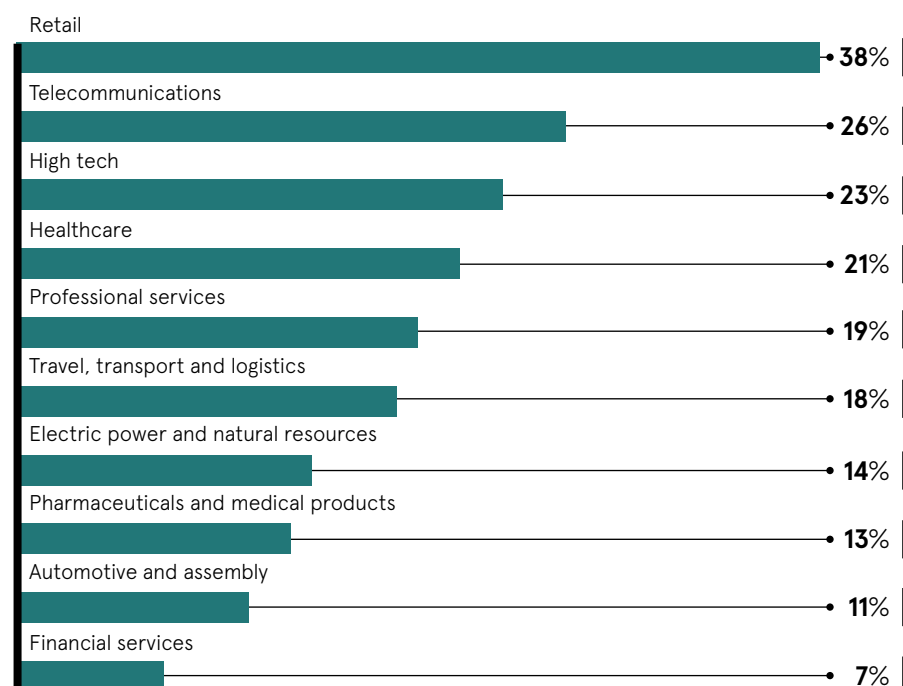
"Governments want their citizens to be at forefront of developing and using this tech, and benefiting from the economic gains," says Ms Firth-Butterfield. "Governments' significant buying power can drive private sector adoption of these standards, even for products that are sold beyond government."

The 53 per cent of companies that have not started implementing AI may like to start thinking about it now. ●

ARTIFICIAL INTELLIGENCE UPTAKE IN SUPPLY CHAIN MANAGEMENT

Percentage of companies in the following sectors that have adopted AI

McKinsey 2018



BREXIT

Four ways Brexit has rattled CPOs

With Brexit headlines continuing to dominate the daily news, what have been the biggest lessons for procurement leaders on how to approach geopolitical risk?

Michelle Perry

As cross-party Brexit talks collapsed, stockpiling reached its highest level since records began in the 1950s. A final decision on Brexit looks like it has, yet again, been thrust into the distance. But by now chief procurement officers (CPOs), those charged with ensuring businesses have enough raw materials and goods, have learnt to live beyond politicians' promises.

Procurement teams have begun to view geopolitical risk as an unwanted yet permanent factor. It's no longer just the prospect of Brexit that has procurement officers grappling with greater risk in their jobs. Any emerging geopolitical risk poses potential obstacles for global supply chains, which over the past few decades have become tightly interwoven.



Uncertainty is certain

Procurement chiefs have learnt quickly that they cannot count on politicians. But they can control the steady flow of goods and materials to their organisations by risk-mapping and establishing alternatives.

Dairy Crest, a manufacturer of British food brands, approved additional suppliers, extra sources of material and alternatives by identifying pinch points in the supply chain, ensuring greater flexibility.

CPO Chris Thomson reviewed the stock management processes in terms of ingredients and packaging, factory planning processes and customer order to stock processes. All these processes had been in place

for many years and were effective, but Brexit made it necessary to revisit all systems and processes.

"It's been quite an interesting experience to have a serious situation like this to open your eyes again and to challenge some of the existing business processes," he says.

He is not alone in his approach. Neil Butters, head of procurement at Inprova Group, says: "Before you think big, think small. I'd been trying to understand geopolitical risk and Brexit and other areas, and trying to work out how that impacted my organisation. What I ultimately decided to do was to take a fresh view of my organisation and the risk factors, and map them out."

Ditch the silos

POs have become more rounded business people as a result of Brexit. They have had to work more intensively with other teams within their organisations, and have had to explain what they are doing to the board to ensure the business can keep functioning and fulfilling customers' orders.

Like many companies, Dairy Crest set up a cross-functional leadership group focused on medium to long-term Brexit planning. In addition, the company established a standalone cross-functional group focused solely on preparing for Brexit Day. They based their business planning on a hard Brexit, the worst-case scenario for many businesses.

"We really focused our efforts on planning for the worst case and knowing that if it didn't turn out to be the reality, we would be in a sensible position," says Dairy Crest's Mr Thomson.



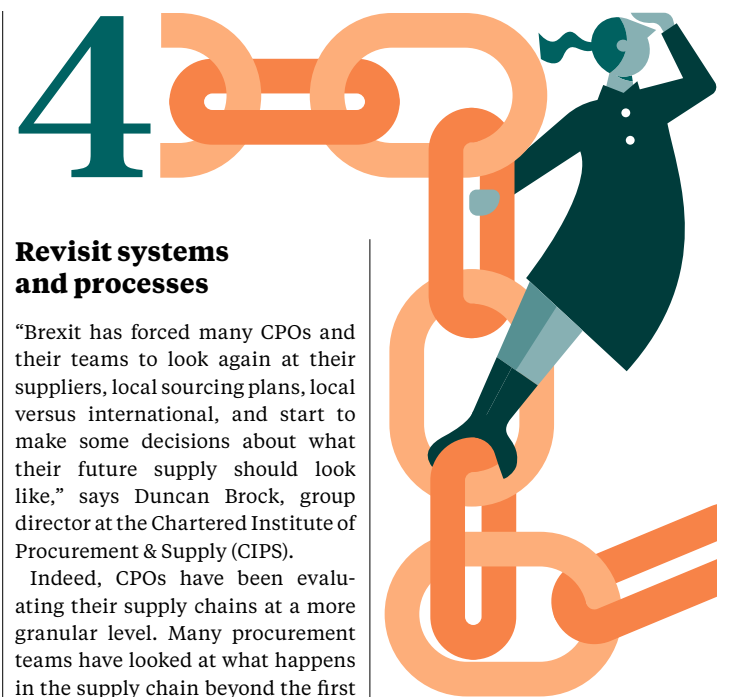
Stockpiling can't solve everything

Filling up warehouses with raw materials and medicines is a short-term solution. Stockpiling is an option for some, but many do not have the facilities to store surplus stock and those with perishable goods simply won't be able to.

Longer-term stockpiling won't fix the challenges companies face over trading with EU customers and suppliers. Moreover, the additional costs of paying for the stock and then paying for warehousing that stock can be crippling, particularly for smaller businesses with fewer resources.

Earlier this year, door and window manufacturer Origin began stockpiling aluminium extrusion from its supplier based in northern Spain in preparation for Brexit and disruption at the border. In total, the company stockpiled around £750,000-worth of materials, which is not an insignificant amount of money to add to your inventory. And then Brexit Day never came.

"Beyond the things you can't control, you're just trying to stay as flexible as you possibly can. We bought more material to make sure we could see ourselves through some very short-term disruption at the border," says Origin's Mr Ginger.



Revisit systems and processes

"Brexit has forced many CPOs and their teams to look again at their suppliers, local sourcing plans, local versus international, and start to make some decisions about what their future supply should look like," says Duncan Brock, group director at the Chartered Institute of Procurement & Supply (CIPS).

Indeed, CPOs have been evaluating their supply chains at a more granular level. Many procurement teams have looked at what happens in the supply chain beyond the first contact with their own company. The view is if they can understand the risks posed at that distance, then they will be able to manage them before there is a direct impact on their business.

"We haven't fundamentally changed our sourcing approach. What we have done is put a lot more emphasis on our category management in our processes, and a lot more emphasis on how far up the supply chain we understand what's going on," says Dairy Crest's Mr Thomson.

Localisation might help some businesses, but switching to UK suppliers doesn't always solve the problem. Establishing new suppliers has its own challenges and is rarely a seamless process, particularly if you are sourcing a strategic supplier.

According to research by CIPS, almost a quarter of companies it surveyed were looking for alternative non-European Union suppliers. But the study also showed that half of British companies would struggle to find the suppliers and skills they need in the UK if they were forced to bring parts of their supply chain back home post-Brexit.

"Anybody who approaches their suppliers in business as purely a transactional thing misses the opportunity to work special situations and to work closely together to manage whatever it is thrown at us. We treat our suppliers really as part of the business," says Neil Ginger, chief executive of Origin, a UK manufacturer of aluminium doors and windows. ●



Services procurement: it's about value, not just price

Insufficient visibility of services providers is risky and lowers return on investment, but spending wisely has become easier than ever

Organisations are increasingly looking beyond their direct employees for new technology skills and expertise in business transformation. Some 42 per cent of workforce spending is on the external workforce, which comprises contingent workers such as contractors, freelancers and temporary staff, and services providers such as marketing agencies, consultancies and law firms. That's according to new research by SAP Fieldglass, which provides software that enables companies to optimise the use of their external workforce.

Nearly two thirds of companies (63 per cent) see the external workforce as an important way of boosting organisational agility while, for a similar number (61 per cent), it's a way of increasing speed to market.

However, the research found that despite the growing importance of these services providers, too many organisations are not managing them effectively, and are wasting money and exposing themselves to serious risk as a result. On the other hand, those who understand the importance of services procurement are reaping the rewards.

"We wanted to identify the true business impact of services providers, since they are now involved in

everything from marketing to IT and accounts to customer service," says Molly Spatara, global vice president, brand experience, SAP Ariba and SAP Fieldglass. "There were various pockets of research around services procurement, but our aim was to get a more complete picture, looking across industries and talking both to the C-suite and to senior managers who have practical experience of managing services providers, which we call an invisible workforce."

The findings of the study, *Services Procurement Insights 2019: The Big Reveal*, which was conducted in collaboration with Oxford Economics, paint a worrying picture. While spending on services is huge, less than half of research participants said they were highly informed about the basics of services providers, such as contract terms (48 per cent), where they worked (44 per cent) and who was doing the work (44 per cent). Even fewer said they had clear insight into how those projects actually go and only a quarter (27 per cent) were highly informed about progress against milestones or deliverables.

"These are basic questions, but if you can't answer them then how do you really know what's going on in your organisation?" asks Sara Sullivan, vice president, presales, SAP Fieldglass.

How technology can help

Most mid-size and large organisations use human resources systems to manage their employees and many have robust procurement solutions to manage the financial aspects of services provider engagements, such as contracts, purchase orders and invoicing. However, many lack suitable technology to manage services providers at an operational level.

Sophisticated vendor management solutions, or

VMS, make it much easier for organisations to manage services providers effectively. For example, the best-in-class solutions help companies track quality of work, monitor progress against milestones and/or deliverables, manage access to systems and confidential company information, and verify that the people doing the work have up-to-date certifications and training.

We wanted to identify the true business impact of services providers, since they are now involved in everything from marketing to IT and accounts to customer service – and organisations spend huge amounts on these services

Many organisations looking to improve management of their external workforce start with contingent labour.

"When we asked the chief human resources officer of one client about the size of their contingent workforce they said, 'We're not sure, but we think it's about 6,000 people'. After we'd deployed SAP Fieldglass, we were able to tell them that, in fact, it was over 17,000. That's 11,000 more people working for them than they knew about. That's a lot of cost and risk that wasn't on their radar. And they haven't even begun to address their services providers," says Ms Sullivan.

The company discovered that around 600 of this mystery 11,000 were sitting in a research and development facility on the other side of the world. "The key here is that many organisations manage a service by tracking it as a purchase order, but very often they pay the invoice while failing to monitor the people who

are supposed to be delivering the service," she says.

Ms Sullivan points to another case involving a financial services company and one of their IT contractors. "A particular project ended and the purchase order was closed, but they forgot to deactivate the contractors' access. An unintended consequence was that their company was exposed to unnecessary and avoidable risk."

But "illuminating your invisible workforce," as Ms Sullivan describes it, goes beyond managing security risks and driving down costs. "People are more concerned about getting a return on investment," she says. "They also care more about the quality of the talent. One told me, 'If I'm looking for a consulting firm to develop a digital strategy to reposition the business, it's really about the quality of their work, not just how much I'm going to pay for them. Cost is fourth or fifth on the list of priorities'."

A small but growing number of companies, which SAP Fieldglass calls "pacesetters", now regard their chief procurement officer as a chief value officer. "These chief value officers are taking a more considered, strategic approach to engaging and managing services providers," explains Ms Spatara.

Representing approximately 11 per cent of respondents to the SAP Fieldglass survey, pacesetters have a much more rigorous approach to managing and extracting value from their services providers than other organisations do. Specifically, they have greater visibility of services providers, and they find it easier to track aspects such as quality of work

42%

of workforce spend is on the external workforce

Only 27%

of executives are highly informed about services providers' progress against milestones and/or deliverables

and digital security. In addition, their external workforce helps them compete in a digital world and acts as a vital source of digital skills.

"Another thing that struck us from the research is that these organisations are collaborating at a much higher level; they're rising above the silos," says Ms Spatara. "They're exploiting the high-quality data they have to improve collaboration between departments. As a result, they're more agile, faster to market and less exposed to risk. There's a great opportunity now for other organisations to learn from them."

To read the full study, please visit fieldglass.com/services-procurement-insights-2019

SAP Fieldglass



PROCUREMENT TALENT

Procurement is increasingly more than just a cost-cutting operation, adding more strategic value to a business, and the individuals that make up the function are fast becoming its greatest asset. But the current talent picture causes concern...

LACK OF TALENT IS A TOP BARRIER TO PROCUREMENT TEAMS IMPLEMENTING AND BENEFITTING FROM NEW TECHNOLOGIES

Top implementation challenges

01



02



03



INVESTMENT IN UPSKILLING OR TRAINING PROCUREMENT TALENT REMAINS LOW

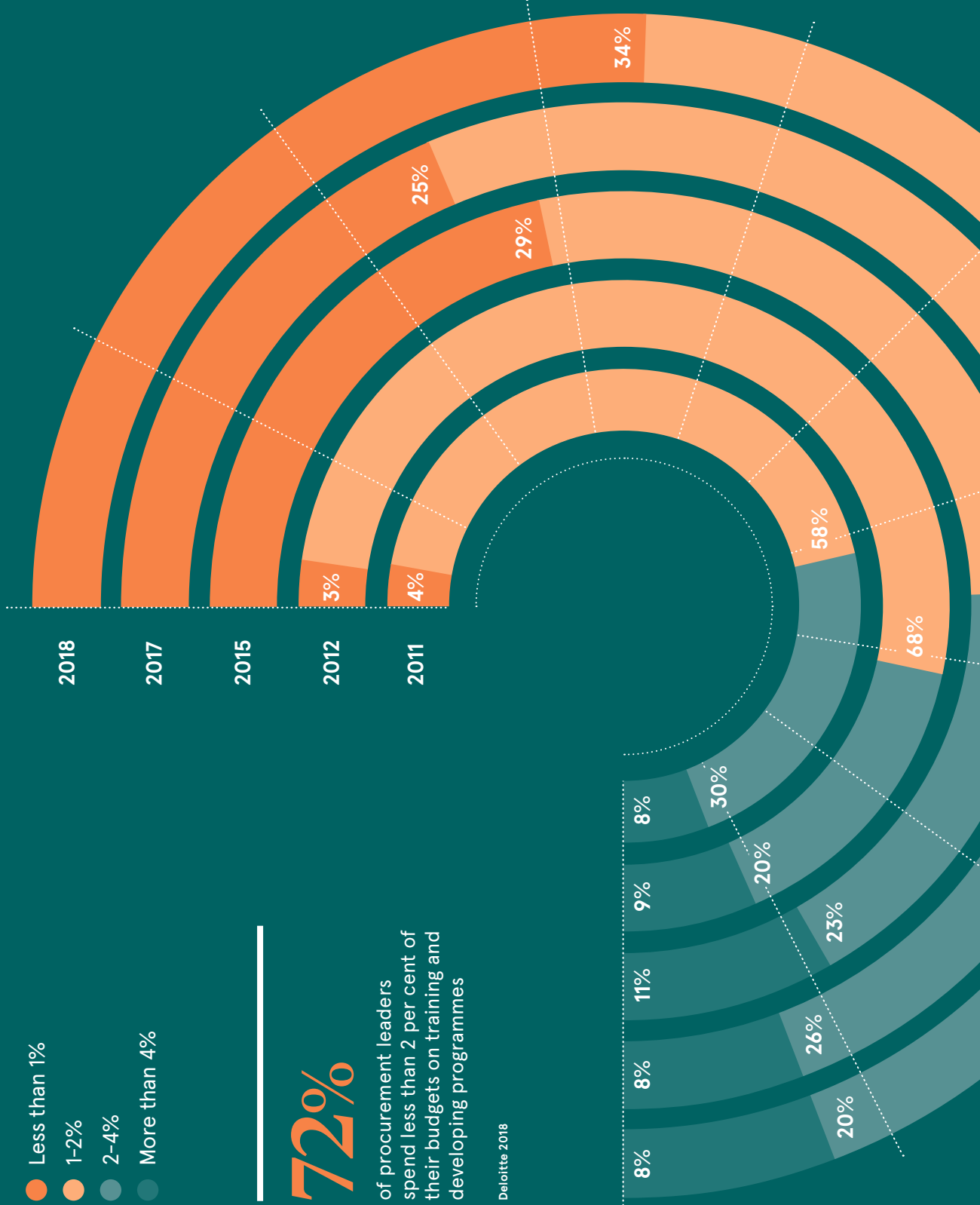
Percentage spend on training procurement

- Less than 1%
- 1-2%
- 2-4%
- More than 4%

72%

of procurement leaders spend less than 2 per cent of their budgets on training and developing programmes

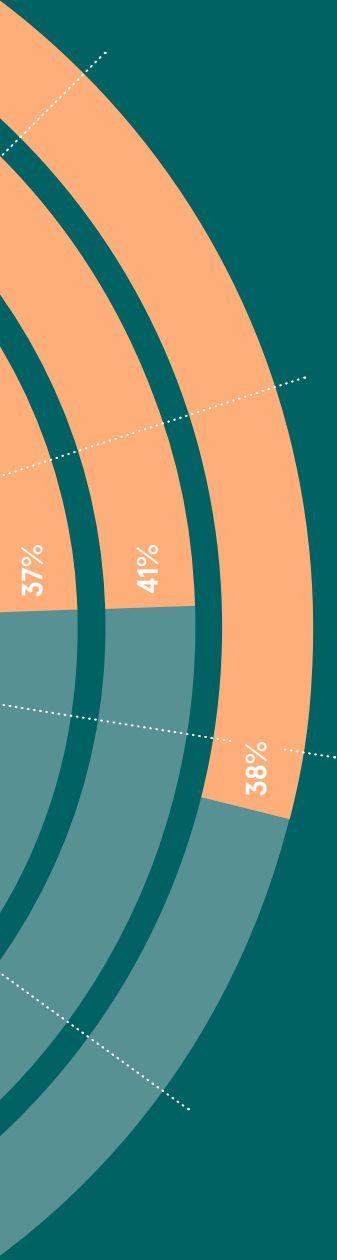
Deloitte 2018



16% of procurement leaders only are focusing on developing digital skills

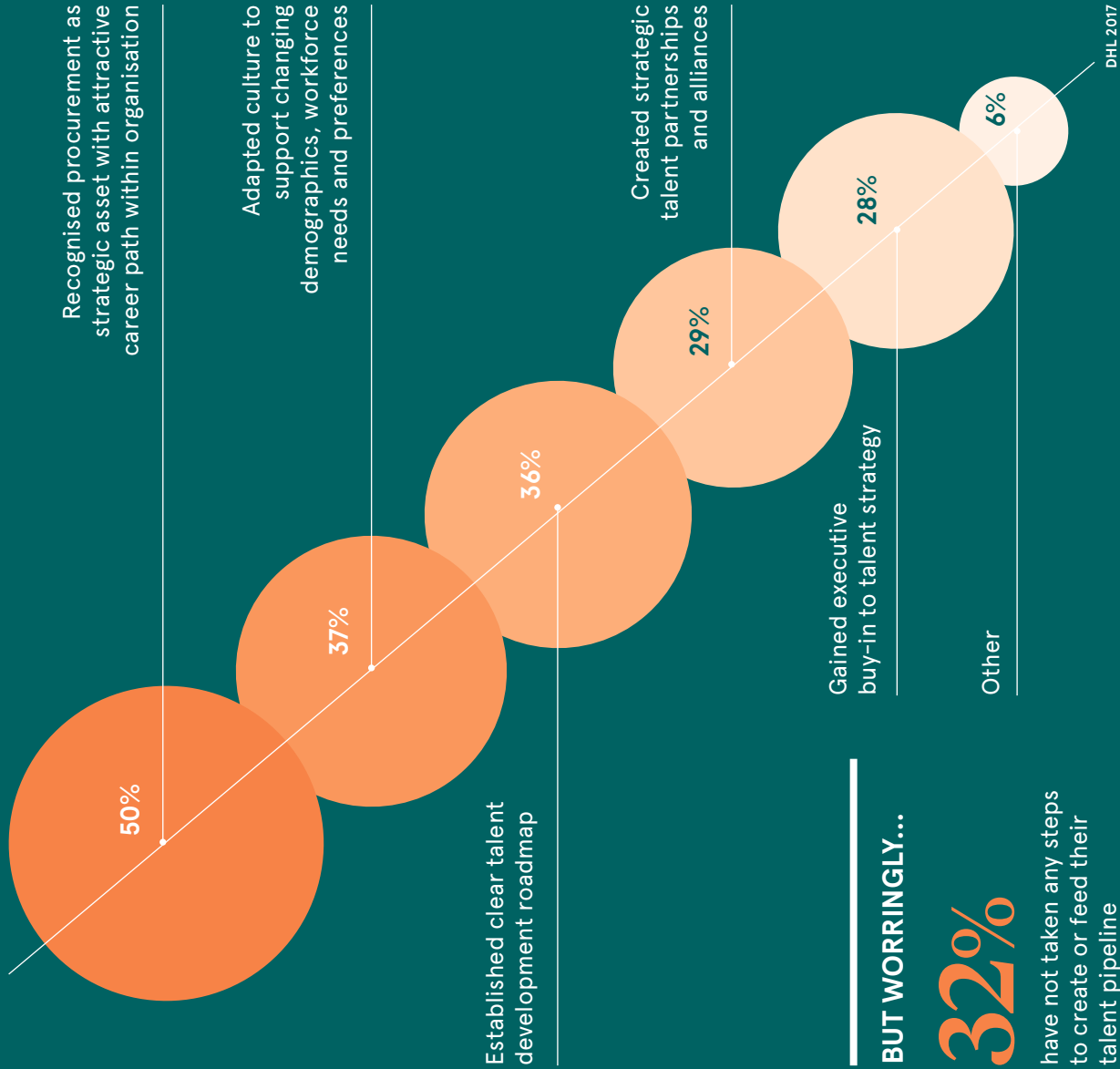
Deloitte 2018

Deloitte 2018



HOW COMPANIES ARE NURTURING A TALENT PIPELINE

Percentage of companies taking the following steps to create or feed talent pipeline



DHL 2017

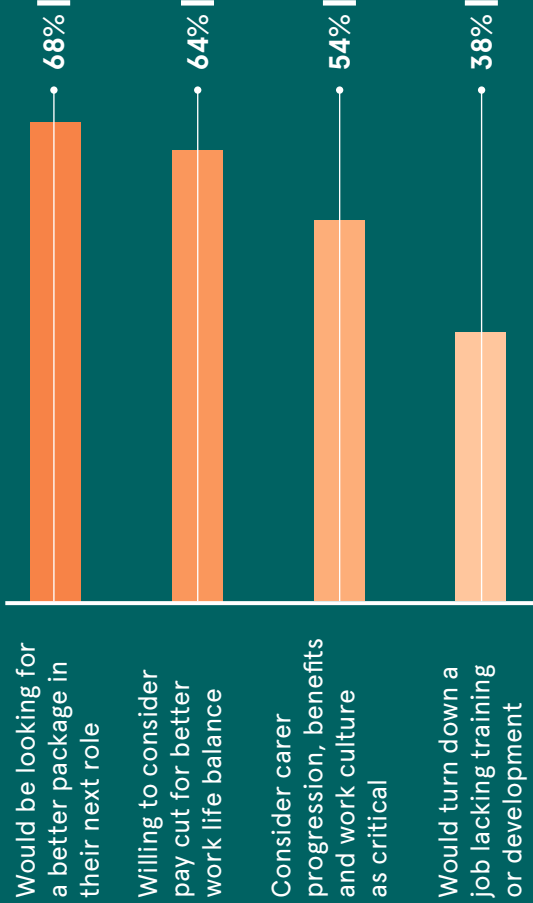
BUT WORRINGLY...

32%

have not taken any steps to create or feed their talent pipeline

UNDERSTANDING WHAT MOTIVATES CANDIDATES IS KEY TO TALENT ATTRACTION AND RETENTION...

Key considerations for procurement professionals



Hays 2017

TO ADDRESS THE TALENT PROBLEM, ORGANISATIONS MUST PRIORITISE AND PLAN FOR TALENT



DHL 2017

DHL 2017

INNOVATION

Adding value through supplier-enabled innovation

Businesses are tapping into the expertise of their supplier network to bring new products to market faster and streamline their processes

Duncan Jefferies

Where do new ideas come from? For many organisations, the answer is research and development. But imagine if the R&D department included not only your own people, but those from hundreds or even thousands of your suppliers too.

This is the promise of supplier-enabled innovation (SEI), which enables companies to tap into the expertise of their supplier network to develop new products and services or refine existing ones.

It's not exactly a new idea, but according to David Rae, head of the Supplier-Enabled Innovation Center, it is an underutilised one. "If you have thousands of suppliers and a portion of them have R&D divisions focused on your sector, then you'd be mad not to tap into that resource," he says.

Companies that combine their innovation efforts with those of their suppliers typically bring products to market faster, giving them a competitive advantage. The inevitable risks and costs of developing new products or services are also spread among a wide network of stakeholders. And due to their specific expertise, suppliers are often able to suggest product improvements that are unlikely to occur to internal teams.

It makes sense to partner with companies specialising in a particular area, says Omer Abdullah, co-founder and managing director of The Smart Cube, which provides procurement, analytics and research expertise. He uses the example of a packaging supplier to illustrate the point. "They're the ones who have a vested interest in knowing what the latest packaging types are, what the latest packaging sizes are and what are consumers demanding," he explains.

That's certainly true in the case of Bayer, which works closely with suppliers such as Schott to find the best packaging for specific drugs. By

collaborating early in the ampoule or vial selection process, with Schott contributing its expertise in how certain active ingredients interact with different types of containers, new medication can be brought to market in a quick and safe manner.

The procurement team are ideally placed to drive the innovation partnerships behind SEI, acting as the link between internal R&D, sales and marketing teams, and suppliers. Johnson & Johnson, for example, has focused on turning procurement into a team of "innovation scouts", seeking out suppliers who understand emerging trends and plan their business accordingly.

This is one of the vital elements of SEI: if you can't find innovative suppliers to work with, then the whole concept quickly falls apart. If you're interested in using SEI to improve your R&D function, for example, "you need to take into account things like what percentage of their [the supplier's] revenue they are putting towards R&D, their strategic goals and where they're actually headed as a company", says Mr Rae.

It can be tempting to focus on the current supply chain when selecting SEI partners, but this may not offer the kind of cutting-edge innovation that will really expand internal capabilities, says Simon McGuire, health systems leader for Philips UK and Ireland. "I believe a good procurement team will ensure any supplier activity is initiated with clear alignment and agreement on capability gaps and unmet customer needs, together with an ability to secure the required technology and skillsets from the marketplace," he says.

An awareness of market trends and shifts, competitor moves and the company's own patent pipeline is also a key part of an informed view of what suppliers might be able to offer. "For me the most essential element of a good supplier

partnership that will deliver is the strong alignment of goals and visions, with clear definitions, responsibilities and objectives from the start," says Mr McGuire.

Online platforms are a relatively common way of communicating innovation challenges to supplier networks. Philips, for example, has an open innovation portal called SPICE, which allows suppliers, companies and individual inventors to collaborate to both view Philips innovation challenges and suggest ideas of their own. But the success of these platforms depends upon suppliers receiving relevant, timely feedback on their ideas and transparency around the development of any proposals.

Indeed, the trust at the heart of any good partnership flows both ways. "Surprisingly, suppliers do not always take their innovation first to their largest or even their most profitable, highest-margin customers," says Clive R. Heal, a procurement innovation expert who leads Voicinn, a group of global innovation keynote speakers, and founded and led the Roche



“If you have thousands of suppliers and some have R&D divisions in your sector, you'd be mad not to tap into that resource

Innovation Center of Excellence. "They target customers with whom they have the closest relationships and see the best longer-term growth opportunities."

Both companies should also be clear about who will own the intellectual property (IP) for any new products or services before embarking on a partnership. For instance, would a licensing approach, with the company granted exclusive rights to use

a particular technology or service for an agreed period, work best? Or is a joint IP model the better option? Many innovation partnerships fail to clear this hurdle due to competing interests, Mr Heal points out.

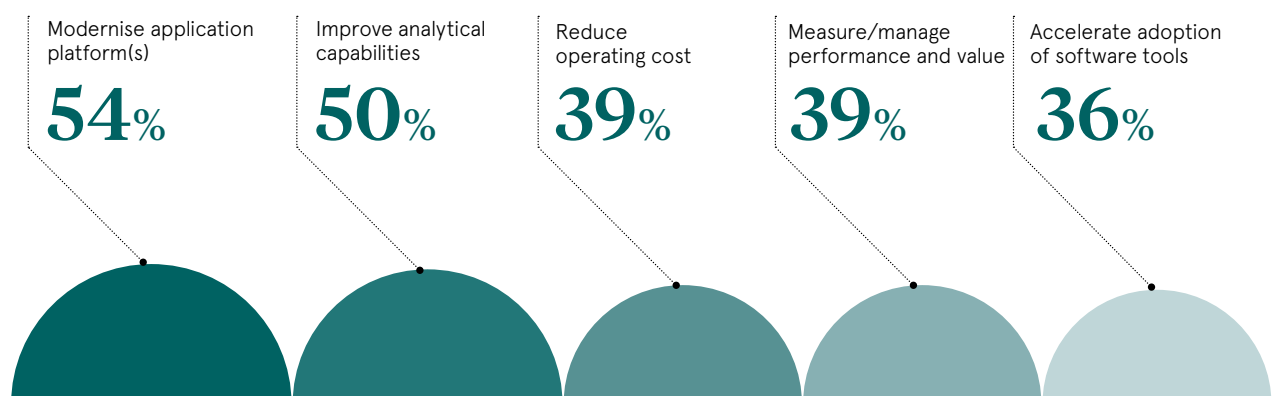
Regardless of which ownership approach is agreed, successful SEI initiatives nearly always follow a long-term approach to innovation, focusing on mutual benefits for both customer and supplier. In other words, a true partnership that runs counter to the "not invented here" syndrome still found in many businesses.

"Overcoming this is difficult," says Mr Rae. "But with the disruption now happening – the platform business models cropping up, the growth in startups, the fact that innovation is taking place everywhere and not just in R&D labs – companies will have to change, otherwise they're going to get disrupted too." ●

TOP FIVE FOCUS AREAS OF PROCUREMENT TRANSFORMATION IN 2019

Percentage of procurement organisations with major improvement programme planned or ongoing

The Hackett Group 2019



OPINION

‘If done well, procurement will evolve from a position of controller to one of value architect’

There’s no doubt that procurement enjoys a privileged position in a company’s value chain. Sitting between a network of thousands of suppliers and the business, it has clear visibility of customer need, company strategy and the capabilities that exist in the supply base.

From such a position, advanced procurement functions, and the chief procurement officers (CPOs) that lead them, can make a significant and lasting impact on the success of their companies, but only by focusing on the real value and innovation that suppliers can bring and how this can support the organisation’s ultimate value proposition.

To do so, procurement must drive change in three broad areas. Firstly, CPOs must address the procurement operating model so it is better aligned with company strategy and end-customer value. Historically, procurement has segmented third-party spend into categories, from raw materials to office furniture to semiconductors and so on, with the ultimate goal of leveraging scale to reduce price, while also managing risk and quality.

Smart chief executives, however, will be far more interested in how suppliers can enhance the product portfolio to maximise the company’s competitive position in the market. Aligning the supply base around that portfolio will enable supplier innovations to feed more successfully into that goal and ensure collaboration with suppliers is more productive and more focused on value creation.

Of course, this isn’t feasible for every last drop of third-party spending so CPOs must differentiate between core and non-core spend, so 100 per cent of the procurement function’s energy can be applied to those suppliers that really matter.

Secondly, for this to be feasible, CPOs must ensure procurement is a frictionless experience for those in the business who buy as part of their role. Every effort should be made to automate through digital technologies and platforms, so the actual buying process is seamless and efficient.

Robust governance and a sophisticated suite of digital technologies that have been designed with the end-user in mind must underpin such an environment. And the ultimate goal must be to reduce the time and resource spent on non-core products and services, without sacrificing low cost, impacting quality or introducing risk.

This laser-guided focus on execution must be a cross-functional effort, so the

right specifications are secured and any savings go straight to the bottom line and are locked into the profit and loss.

Thirdly, the very fundamentals of supply markets continue to evolve. It’s clear an increasing volume of the world’s innovation is being developed outside the walls of large corporates and big, traditional suppliers, with smaller, niche companies and start-ups working on new technologies and approaches that regularly disrupt traditional, incumbent markets.

Further, these non-traditional players work differently, are more agile, less process led, more open to collaboration and come with large amounts of risk. But despite this, corporates cannot afford to close their doors to the innovation taking place within them.

CPOs must develop the capability to engage with these outliers and engineer how the intellectual property they produce can be introduced into their organisation’s value chain, whether through traditional onboarding as suppliers, technology licensing, collaboration with other suppliers in the network or myriad other potential approaches.

In essence, CPOs must build and exploit supply networks, or ecosystems, capturing value during the collaboration that takes place between third parties at all points in the value chain.

None of this is straightforward and few organisations are even close to making it a reality. To be successful, it demands the support of a visionary chief executive who understands the dynamics at play in the supply base and beyond, as well as a procurement team full of intellectually curious, entrepreneurial and collaborative personalities.

But if done well, procurement will evolve from a position of controller to one of value architect, and one of the most critical functions in any modern corporation able to positively impact revenue, sustainability and profit targets. ●



David Rae
Director of innovation and insights
Procurement Leaders

Rise of Oracle and SAP third-party support

Balancing tight budgets at the same time as adopting innovative solutions that enable businesses to thrive is a central aim of procurement professionals

One way to innovate is to migrate on-premise enterprise software to the cloud. However, software-as-a-service solutions to replace highly functional, heavily customised on-premise applications are not ready. Third-party software support allows companies to retain their on-premise enterprise software, improve service quality and save money that can accelerate innovation.

Although a number of leading software vendors are ending the life of primary software versions, they will not have a fully functioning cloud-based replacement for seven to ten years. The third-party Oracle and SAP support market provides a bridge for companies that want to keep what they have until cloud offerings mature.

“Large enterprises, even those which have historically been slow to consider third-party Oracle and SAP support, are now engaging with us,” says Kurt Moydell, senior vice president of global sales and marketing at Spinnaker Support, a leading global provider of Oracle and SAP third-party support and managed services.

According to research firm Gartner, the third-party Oracle and SAP market is on track to reach \$8 billion by the end of 2022, an annual growth rate of 26 per cent. As the third-party support model has matured and it has become clear high-quality services can be delivered at an often significantly reduced price, a diverse range of businesses are now considering the advantages of this model.

Mr Moydell believes the central benefits of the third-party support model are clear. “At the simplest level, it’s superior support for a fraction of the cost. The financial benefit is obvious and it’s meaningful,” he says. Companies can take advantage of the third-party model by redirecting the cost-savings into innovation initiatives to improve their business position.

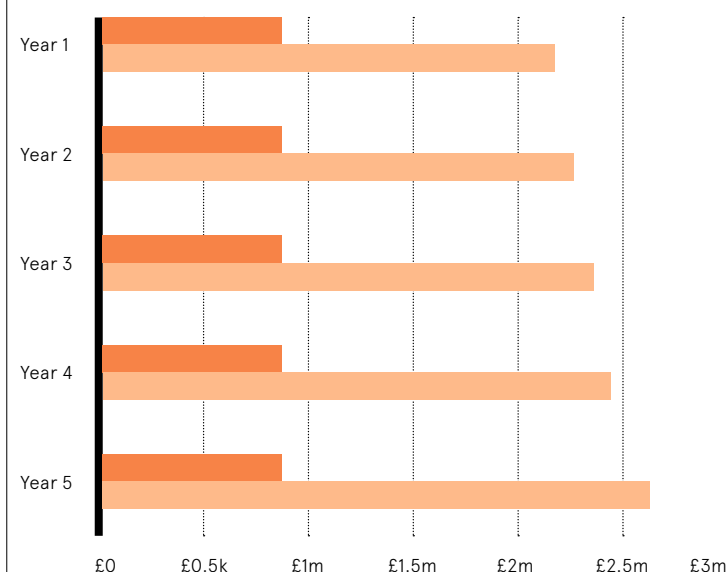


We have the expertise and experience in navigating challenges, and in answering the hard questions

FIVE-YEAR TOTAL COST OF OWNERSHIP COMPARISON

Spinnaker Support v publisher support

● Annual maintenance spend Spinnaker Support
● Annual maintenance spend Oracle or SAP



Cancer Research UK, a Spinnaker Support customer since 2017, says: “We continuously seek innovative ways to keep our costs down to free up more funding for research projects that will discover ways to prevent, diagnose and treat cancer. The transition to Spinnaker Support results in high-quality service at a substantially lower price point.”

Companies that switch to Spinnaker Support report an average saving of 62 per cent over Oracle and SAP maintenance fees. Beyond these top-line savings, firms can also gain extra cost-reductions from avoiding unnecessary version upgrades. But an often overlooked benefit from third-party services is the ability to redirect employees’ time to future projects, rather than having to self-maintain the systems in place.

Spinnaker Support works closely with procurement professionals who are interested in the third-party support model and advises them to engage all stakeholders early in the due diligence and evaluation process.

“We have the expertise and experience in navigating challenges, and in answering the hard questions. From my perspective, it’s never about convincing, but rather educating and proving the third-party support model delivers on its promise,” says Mr Moydell.

Over the past decade, Spinnaker Support has helped thousands of companies evaluate third-party support by undertaking a comprehensive assessment of what exactly the firm’s support needs are and then makes sure there’s an alignment with the services provided by Spinnaker Support. More than 1,100 customers have signed up with Spinnaker Support since its inception.

“We assess historical support cases, validating licences and actual utilisation of the software, both now and in the future. We use this and other parameters as a baseline to estimate what the ongoing maintenance needs will be and determine the most appropriate fee structure,” says Mr Moydell.

Spinnaker Support’s consultative approach, from the first conversation to the last, is what sets it apart. From the founding of the company in 2008, the goal has been to provide support that is personalised, responsive, comprehensive and flexible.

**For more information please visit
spinnakersupport.com
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Beth Pilgrim, Aoise
Keogan-Nooshabadi
and Verena Wimmer,
co-founders of
Supply Change



Supply Change

PUBLIC SECTOR

How public sector procurement can have social value

With public sector organisations becoming increasingly aware that their procurement decisions have an impact on local communities, some are rethinking how they award contracts

Joe McGrath

Both private and public sector entities are becoming more interested in how their organisations impact society. Whether it's in contributing to the community or managing the impact on the environment, organisations recognise they can change their local communities through who they pick to deliver goods or services.

Traditionally, it had been assumed that choosing a supplier that added social value may mean compromising for a sub-standard quality product or service, but views are slowly starting to change.

"They recognise the benefits of working with social enterprises, but are ruled by the need to mitigate risk and deliver efficient and economic services," says Beth Pilgrim, co-founder of Supply Change.

"Often companies will just go to suppliers they know. What we are trying to explain to the public sector is that adding social value into your

supply chain doesn't have to be difficult or require extra work."

Ms Pilgrim established Supply Change in 2018 with colleagues Aoise Keogan-Nooshabadi and Verena Wimmer after the trio conducted a series of research studies on the public sector procurement process. They found that while public sector bodies were keen to award contracts to social enterprises, they struggled to do so.

"One of the key themes that came out of our research was that social enterprises struggle to navigate public sector procurement processes," Ms Pilgrim says. "The existing portals are not really tailored towards them, so they don't get good visibility."

In 2013, the UK government's Social Value Act came into force, obligating public sector bodies to look at the social and environmental benefits of awarding a contract to a supplier, as well as the economic ones.

Heralded as a game-changer by the then-government, the Act has

nudged public bodies to look more closely at the attributes of companies bidding to win work.

Despite this, some experts say that the legislation doesn't go far enough, with a company's social and environmental points score only accounting for a very small percentage of the overall total, and the outcome weighted towards other factors such as quality and cost.

"A number of leading authorities have recognised this and increased the social value element of their contracts," says Ed Cross, executive director at procurement advisory group Odesma.

Mr Cross says that upping consideration of social value attributes could be good news for smaller businesses competing for contracts, but adds that the public sector still has some way to go.

"There seems to be a lack of trust in smaller enterprises, particularly social enterprises, from the public sector," he explains.

"Part of this is down to the false assumption that social enterprises working with volunteers or part-time employees aren't as reliable as larger organisations with full-time, paid employees."

Mr Cross's sentiments are shared by many, who feel that smaller enterprises can often face a real battle just to get an initial foot in the door.

"One of the biggest challenges smaller businesses face when it comes to gaining access to contracts that offer social benefits is



One of the biggest challenges smaller businesses face is the tick-box process of tenders for contracts, as well as how public sector guidelines are inflexible

the tick-box process of tenders for contracts, as well as how public sector guidelines are inflexible,” says Craig Knowles, marketing manager at procurement software group Market Dojo.

“The tick-box approach often means small businesses that might not fit specific criteria are left at the door before they’ve even been given the chance to prove themselves.

“There needs to be a change in attitude on taking “risks” on small business as many, often wrongly, believe they don’t have resources to work through big tenders when in reality this couldn’t be further from the truth.”

Despite widespread concerns that social enterprises and small and medium-sized enterprises (SMEs) are still missing out on contacts from the public sector, there is evidence of innovation.

Supply Change’s Ms Pilgrim says initiatives at some local authorities show how awarding contracts to smaller, local businesses can be transformative for the local community. She cites Preston in Lancashire as an example.

In 2013, the council brought in external consultants to evaluate whether it would be possible to redirect some of its annual contract-award budget to local businesses which had clear social impact objectives. Since doing so it has stimulated the local economy,

putting money into local firms and increasing employment.

“We have seen how that can be a real success story,” says Ms Pilgrim. “Preston has a strategy of spending money within their local economy to build up SMEs, social enterprises and the voluntary sector as much as possible. It has resulted in a turnaround in the local economy.”

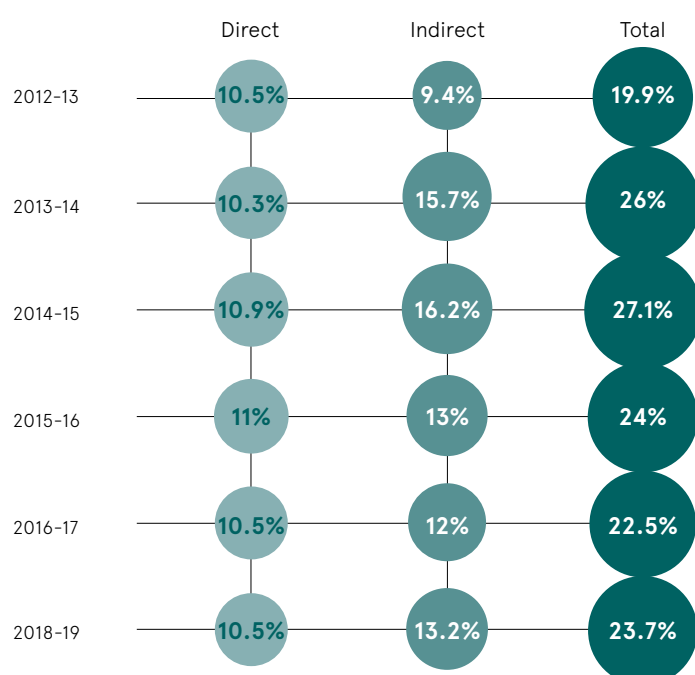
Similar projects are now underway across the UK, with Manchester City Council and Birmingham City Council among the larger authorities to consider how they can alter their approaches.

For SMEs and social enterprises looking to get a piece of the action, Malcolm Harrison, group chief executive of the Chartered Institute of Procurement & Supply, says small firms should play to their strengths.

“SMEs and social enterprises need to work hard to showcase the flexibility, innovation and financial rigour they can provide,” he says.

“To help SMEs, government should do more. Simpler language, less jargon and the chance for an open dialogue all help SMEs to compete with large companies. SMEs can themselves take charge and become more visible to potential contractors, and websites such as Contracts Finder and Compete For can be a great way of finding opportunities.” ●

SME SHARE OF CENTRAL GOVERNMENT PROCUREMENT SPENDING



2022 total target

33%

Cabinet Office/House of Commons Library 2018

Commercial feature



Big data opportunity in benchmarking

Increasingly, companies are embracing the transformative power of big data solutions to unlock valuable insights into their operations and ensure they don’t fall behind forward-thinking competitors

For the procurement function, new ways to analyse extremely large data sets bring new dimensions to performance management.

“Procurement performance measurements that look at factors like how much has been saved on the budget on a year-to-year basis have always been around,” says Sammeli Sammalkorpi, co-founder of Sievo, a global leader in procurement analytics.

“These internal-facing metrics are useful, but they fail to address the fundamental question for procurement functions: are we creating a competitive advantage and helping the wider company to compete in the market?”

Traditional procurement measurement solutions have relied on third-party benchmarking that typically use interview data to establish benchmarks, which often means benchmarks are out of date and too high to be actionable. In contrast, big data tools are able to provide a radical level of transparency on how firms are performing against their peers, based on realised transactional spend data.

Big data-driven benchmarking can be based on millions and millions of anonymised transactions, totalling more than \$1 trillion-worth of spending data. This enables companies to tailor the benchmark to fit their industry closely and ensure the results are as relevant as possible.

For example, the chief procurement officer of a food manufacturer can compare their business against other firms in the same region, with the same kind of characteristics. They can drill down to comparisons of spending as a percentage of revenue or per employee across key categories, such as logistics, marketing or packaging.

“Not only can they get the big picture,

which is very helpful, but they can also read down to the details and see performance in a number of different internal categories, so it will be easy to understand both the areas where procurement is doing well, as well as pockets that need attention,” says Mr Sammalkorpi.

209m+
real transactions utilised
in peer comparisons

\$1trn
total procurement spend
benchmarked by Sievo

A central part of the big data opportunity in benchmarking is the transition from backward-looking descriptive analytics to forward-looking prescriptive analytics. The rise of advanced analytics technologies is enabling firms to process data in real time to unlock actionable insights, allowing companies to move away from focusing on weekly or monthly procurement measurement cycles and automatically update predictions.

The large amounts of data now available to be processed by big data tools allows for the creation of different scenarios to understand what will happen in an uncertain business environment. You don’t have to just consider one potential scenario, while it is important for businesses to test different scenarios to prepare for a variety of outcomes.

Firms that don’t leverage their data will be at a clear disadvantage over those embracing procurement analytics solutions. By partnering with an experienced leader in procurement analytics, such as Sievo, businesses can turn procurement data into increased profits.

“Data is the new oil. Therefore, for a company to stay competitive, they need to be able to exploit the data assets they have. There’s three steps in this process. First of all, you need to be able to acquire the data. Secondly, you need to be able to process the data and thirdly, you need to take action on the findings,” says Mr Sammalkorpi.

Sievo have developed a powerful procurement benchmarking solution based on real procurement spending and big data, which offers unrivalled insight into procurement statistics. By working closely with your internal data sources and connecting to valuable external data sources, Sievo opens up a new level of procurement measurement.

“We anonymise and categorise to give meaningful comparisons across different peer groups or industries and apply our artificial intelligence-based analytics to make sense out of all your data and to give recommendations,” says Mr Sammalkorpi.

“Big data is giving procurement ways to benchmark performance in far more detail against peers or industries, shifting the conversation from ‘how much have we paid?’ to ‘how much should we be paying?’” he concludes.

For further information please visit sievo.com

Sievo



Barcroft Media / Getty Images

ETHICAL PROCUREMENT

Human rights falter in grey areas of procurement policy

Workers are often the victims when there are gaps in legal procurement and ethical procurement, but businesses nowadays have a lot to lose as the lines between profit and social conscience are no longer so easily defined

Jim McClelland

Back in 2010, rotten Apple stories started flashing up on smartphones everywhere. Forget tales of environmental unsustainability, these concerned social injustice: poor pay, unhealthy conditions and worryingly low levels of worker welfare. Then came the shocking news of staff suicides.

Attention focused on a prime link in the Apple supply chain: a vast 1.4-square-mile megafactory complex owned and run by Foxconn Technology Group, a Taiwanese multinational contract-manufacturing company, specialising in electronics.

Dubbed 'Foxconn City', the mini metropolis housed almost half a million workers on a giant industrial park in Shenzhen, China.

Fast forward to 2019 and Apple is still sourcing from Foxconn, across various sites. The roll-call of Foxconn manufacturing, present and past, still reads like a who's who of the tech world, and includes other monster brands such as Google, Huawei, Microsoft and Sony, to name but a few.

So, given that Apple was soon to become the first public company on the planet worth \$1 trillion, how did it get embroiled in such a dubious ethical sourcing saga in the first place, plus seemingly fail to crisis-manage its public relations effectively when the story broke?

The simple, grim fact is that Apple and the tech community are by no means alone in this. The recent history of procurement by global consumer brands is littered with the reputational detritus of bad ethics and selective legality.

Fast fashion, in particular, has struggled to keep its name out of incriminating headlines, with ethical procurement issues ranging

from ongoing stories around 'dirty' cotton, through 'cry for help' labels sewn into high street clothes, to the tragic Rana Plaza factory collapse in 2013, where 1,134 lost their lives.

Sourcing scandals also continue to flood out of food and agriculture. Ethical issues served up for public consumption range from TV exposés of supermarket chicken suppliers tampering with 'kill dates', to the abuse of water rights by industrial-scale avocado farmers in Chile.

Across all sectors and societies, employment remains the most mapped, but least navigable, legal and ethical intersection.

Figures from the International Labour Organization (ILO), released

most recently in 2017, revealed that more than 40 million people worldwide were in modern slavery in 2016, including around 25 million in forced labour. Of those in forced labour, some 16 million were being exploited in the private sector. Furthermore, there were more than 152 million estimated victims of child labour, almost half of whom were aged between 5 and 11.

Ethical procurement is essentially a people business, affecting lives and livelihoods, for good or ill, says group director at the Chartered Institute of Procurement & Supply (CIPS), Cath Hill.

"Applying rigorous ethical standards to your supply chain is not just about compliance or completing necessary paperwork, but implementing good governance and preventing exploitation of human beings across the globe for the sake of profit," she says.

In international waters, though, standardisation is a slippery fish.

If not a definitive and demonstrable difference, often at least, there exists a commercial and cultural tension between the norms of legal and ethical procurement. Discrepancies abound in a grey area between the two disciplines and, if unchecked and unpoliced, carve out a policy gap where human rights fall down.

Legal standards can lag behind best practice, especially in relation to global companies with complex supply chains, explains Martin Buttle, strategic lead for general merchandise at the Ethical Trading Initiative (ETI).

"A company that meets local labour laws in one country could still breach international minimum standards. The UN Guiding Principles on Business and Human Rights make it clear that businesses have a responsibility to respect human rights even in countries where national law is weak, or poorly enforced," he says.

Based on ILO conventions, the internationally recognised ETI Base Code of labour standards has been designed to tackle exactly this kind of cross-border inconsistency and jumble of jurisdictions, representing a commitment to ensure all workers are free from exploitation and discrimination, paid a living wage and enjoy conditions of safety, security and equity.

Stepping out of the moral maze for a moment, there are also many bottom-line business-case benefits to be gained by adopting such an ethical approach, suggests Mr Buttle: "It can maintain the supply

“

Good governance prevents the exploitation of human beings for the sake of profit

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Brands should understand how their actions impact on their suppliers' ability to uphold labour rights

of goods, increase productivity and quality, and enhance a company's reputation with its customer base, which is increasingly expected by consumers."

However, it is often the pressure of competitive marketplaces and overly aggressive procurement practices or pricing policies that result in damaging knock-on effects, he says.

"Brands should understand how their actions impact on their suppliers' ability to uphold labour rights. For example, a company with poor purchasing practices, such as unrealistic deadlines or unit prices, can cause challenges for its suppliers, leading to increased risk of poor wages and excessive working hours. This is particularly the case if a supplier feels forced to accept orders below the cost of production to win contracts."

All too often, there is little communication and accountability, says Alex Saric, smart procurement expert at Ivalua: "Cost is the

GLOBAL MODERN SLAVERY IN NUMBERS

From the most recent report on modern slavery by the International Labour Organization

40m

people are victims of modern slavery, including 25 million in forced labour and 15 million in forced marriage

5.4

victims of modern slavery for every thousand adults in the world

71%

victims of modern slavery are women and girls

25%

of victims of modern slavery are children

International Labour Organization 2017

only discussion point and data isn't shared effectively, while risk and CSR assessments can be a 'tick-box' exercise, meaning transparency initiatives end up half-baked."

Weaknesses notwithstanding, big brands can still set a positive agenda for supplier behaviour, beyond compliance. "If suppliers see that being responsible is more likely to win them a contract, ethical practices change from a minimum requirement to a valuable key differentiator. They must operate sustainably, or face losing out to more ethical competitors," Mr Saric says.

While any ethical shift is relatively slow and undoubtedly late, legislative momentum is only pushing in one direction and businesses would do well to watch this space closely, suggests Lee Rubin, counsel and global sourcing expert at international law firm Pillsbury Winthrop Shaw Pittman.

"When it comes to lawmaking, legal and ethical considerations are merging, typified by the Modern Slavery Act. While not all sections of the Act are directly applicable to business, the provision around 'transparency in supply chains' impacts the largest brands and companies."

Serious money is also flowing more towards the good and the green, adds Mr Buttle: "Many investors understand that poor human rights practices in the supply chain can put their investment at risk. With a growing interest in social impact, we are starting to see the investment community influencing business decisions."

All in all, this collective chorus calling for ethical procurement is simply becoming too important to ignore, says Ms Hill: "It is not only the right thing to do, but also the lines between profit and social conscience are no longer so easily defined. News travels fast and bad news travels at lightning speed."

The heat is most definitely on, says Shaun McCarthy, director at leaders in sustainable procurement Action Sustainability: "These days the court of public opinion is an unforgiving place and brands need to be aware they are playing with fire when it comes to ethical procurement."

Ultimately, therefore, brands that muddy transparency, frustrate traceability and neglect communications get burned, concludes retail expert and consumer champion Martin Newman: "Consumers will shop with their feet and their mouse. If you pay this lip service or they think you're being disingenuous, they will not only not buy now, they'll never come back; and they'll tell all their friends and family about it." ●

Commercial feature



Transforming procurement: A case study

Datacentre business Equinix has replaced manual, time-consuming procurement processes with a much more automated set-up and a pre-approved marketplace of product suppliers is central to the change

For many organisations, working with a long tail of smaller suppliers is time consuming and inefficient. Keeping on top of such a wide array of business relationships is near impossible. In addition, lack of data limits opportunities to negotiate better deals with preferred suppliers.

Given what Equinix does – helping businesses get the most out of digital solutions – it was important for the company to become best in class in all its internal operations. It pulled together a digital vision for procurement leadership, beginning by shifting focus from transactional purchase management towards the lifecycle value of end-to-end source-to-pay (S2P). The fresh approach went live in May for its Europe, Middle East and Africa operations, ahead of a mirrored change this year in its America and Asia-Pacific locations.

"Even though we used one P2P system globally, we had very decentralised procurement, so we've completely changed how we manage it," explains Chris Ayscough, director of regional procurement at Equinix. "We were not getting the benefits we needed."

The company implemented a Coupa S2P platform covering all external goods and services, and a new marketplace from Mercateo, giving it access to approved suppliers of millions of goods, from stationery and computing accessories right through to industrial consumable products.

The move to the new marketplace is vastly improving its efficiency in simultaneously working with myriad suppliers representing small to mid-sized activity.

And as many of Equinix's clients have strict regulatory requirements, having a large marketplace of pre-approved suppliers helps limit risk exposure and compliance tasks.

"We've changed our entire S2P, so it's not simply making transactions; instead we look upstream at how we



Using the Mercateo marketplace gives us much more control of the tail end of suppliers, representing 50 per cent of supplier base

40%

cost savings to be had upon moving to a digital process

1hr

labour saved per user per day

create value and manage suppliers. This means having a strategic capability with a user-friendly, end-to-end automated process across sourcing, contracting, procurement and payment," says Mr Ayscough.

Equinix is targeting the automation of 70 per cent of its procurement back-end procedures, with ordering, approval, purchase order, invoice acceptance and payment made digital and automatic in most cases, with a full audit trail of each step. This is particularly easy for the suppliers within Mercateo, as they already fully integrate with its platform and ways of working.

Until recently, Equinix's steps had been much more manual. Using the new marketplace, rather than sourcing multiple low-value quotes, the company's staff can find relevant products, and recommendations on price, delivery cost and timing, and they can place orders based on their business priorities.

"Using the Mercateo marketplace gives us much more control of the tail end of suppliers, representing 50 per cent of supplier base," says Mr Ayscough. "The portal has a simple feel; intuitive so that anyone can use it. This frees up time for our category managers so they can focus on strategic suppliers."

By starting from scratch with a holistic view, Equinix has avoided a common pitfall of introducing different systems and trying to link them together. And having gone live with the new systems in Europe, the Middle East and Africa, any new lessons learnt from early adoption will inform changes before switching on the technology in the Americas and Asia-Pacific later this year.

Equinix is aiming for global standardisation and, by taking an international approach from the start, 95 per cent of its processes will be the same in every country of operation. "We've focused on ensuring that our change management team goes right across our business functions and regions, so that each area's needs are served," Mr Ayscough concludes.

To find out more about transforming procurement with an efficient and accessible supplier marketplace please visit mercateo.co.uk



Mercateo HTWK study 2017



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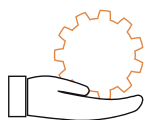
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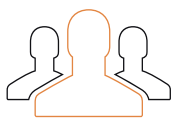
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