



A WNS COMPANY

# RE-IMAGINE PROCUREMENT WITH THE NEXT GENERATION OPERATING MODEL

A WNS-Denali Perspective



**PROCUREMENT: SHIFTING FROM TACTICAL TO STRATEGIC**

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## EXECUTIVE SUMMARY

Procurement's charter gives it access to almost all functions of a business and, along with that reach, the ability to significantly influence a company's bottom line. Considering that the average company spends 40-70 percent of its revenue on purchases from third parties, procurement can drive 5-12 percent savings on expenditures under its influence. The potential impact is undeniable.

But procurement is no longer just an avenue to reduce expenses. Several factors, including supply chain instability, globalization, emerging technology and evolving trade policies, have elevated procurement's role within the corporate strategic framework. For example, today procurement is increasingly involved in risk mitigation, optimizing market expansions and mergers, and pushing efficiency through innovation. This is exactly why many organizations are seeking to optimize their procurement functions and are turning to procurement to deliver more and to act as a strategic business partner.

So how do companies best adapt to harness this potential? They need to shift their basic mindset from a reactive, tactical mode to a proactive, strategic one. This requires separating operational execution tasks from those that are strategic and relationship-based to better align high-value resources with business stakeholders.

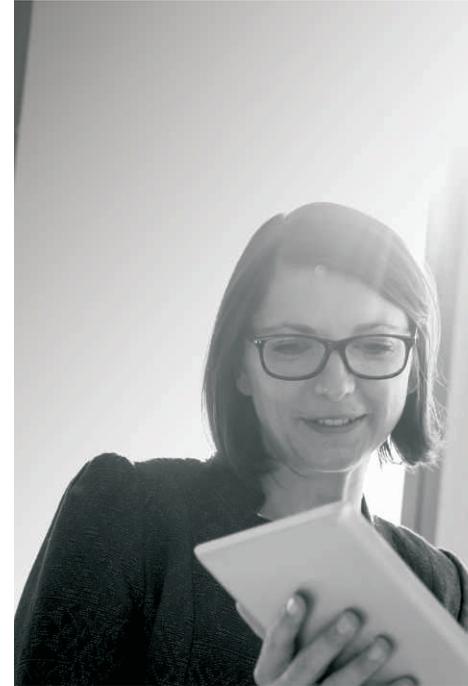
This kind of strategy-driven, category-based approach drives and integrates the end-to-end procurement lifecycle, building and applying category and industry knowledge to optimize spend. Enabled through best-in-class integrated technology and fueled by actionable insights from embedded analytics, this new approach allows procurement to step out of the back-office and into the forefront of the corporate hierarchy.

In this whitepaper, we explore the changing status and focus of procurement, and how companies can implement the changes necessary to re-orient towards a more agile, strategic operating model — no matter where they are starting from. From category management to sourcing, contracting, supplier management, and procure-to-pay processes, this paper discusses core elements that make up what we call the Next Generation Procurement Operating Model. We'll also look at the technology accelerators that are fueling the future of procurement, and how this new operating model is a critical enabler in realizing the value of these advanced technologies.

Denali, now a WNS company, began co-creating this model almost a decade ago with a large Fortune 50 client. After implementing a new operating model, the high-tech company was able to increase spend more than ten-fold and deliver over USD 500 Million in savings. This success demonstrates that the sourcing execution model can enable corporate procurement to go from a highly distributed, tactical environment with little stakeholder engagement and relatively little value in executives' eyes to a highly credible organization focused on maximizing effectiveness, efficiency and reach.

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## INTRODUCTION: THE EVOLUTION OF PROCUREMENT

We'll begin by examining how procurement has historically operated within an organization. The traditional model relegates procurement to a largely back-office function focused on tactical work such as responding to contract requests, running RFXs, and facilitating communications with suppliers. In this traditional model, procurement professionals are expected to perform multiple functions. They are asked to:

- Build relationships and sell procurement's value proposition to the organization

- Understand their categories and supply base, and develop strategies to effectively manage spend globally
- Write and execute RFXs
- Negotiate and monitor contracts
- Issue Purchase Orders (POs) and process supplier payments

All of these are different tasks requiring different skillsets — and time to execute. With all of these expectations, it's no wonder traditional procurement models tend to be reactive and transactional. There isn't a choice: the pressing need for a new supplier contract or tracking down a payment takes precedence over

strategic planning.

But increasingly, businesses look to procurement to deliver accelerated and broader value. Value is no longer simply equated to cost savings. It is holistic, encompassing risk mitigation strategies, supplier innovation, demand management, global perspectives, sustainability, and more. Adding to the complexity, stakeholder networks within organizations are more fluid than ever, and external markets are increasingly global and changing at a rapid pace. As value goals become diversified and the pace of change quickens, procurement must consider how to optimally deliver on its charter since the



traditional model is unequipped to respond to these changing demands. It's impossible for procurement to take on a more proactive, strategic planning role without fundamentally changing how it is organized.

The logical question: what must the Next Generation Procurement Operating Model do to ensure it reaches its potential to deliver and maximize the value it can bring to an organization?

First, it must enable the procurement function to more proactively and closely align with business priorities and requirements. Only through strong business alignment and

collaboration can procurement teams anticipate and optimally react to current and future opportunities. A contract brought to a procurement team just before signing can only be influenced in a limited way. In contrast, a deeply established stakeholder relationship can open the door to countless opportunities to influence the category through long-range planning, innovation and prioritized activities that support larger business objectives.

Second, a next generation model needs to lead from a strategic, category-level point of view. Reacting to urgent, short-term needs will not drive an enhanced

definition of delivered value. Careful vision casting, long-term objectives and category-level prioritization are critical to success. To achieve the promised value of this new model, what is established at the planning level must flow through all of the other elements of procurement. Closing the feedback loop, the knowledge and insights gained at all stages of the procurement process should flow back into future planning processes and inform the plan for the next refresh of opportunities and priorities.

Third, the operating model should be structured to allow the necessary internal and external



relationship-building and planning to occur uninterrupted. That's why it's key to identify teams and / or alternative operational support frameworks to manage the operational, tactical execution tasks and separate teams to drive the relationship-based, strategic side of the equation. Managing the strategic elements of procurement is a full-time job and requires the appropriate

bandwidth to execute it properly.

With all of that to negotiate, the transition to a Next Generation Procurement Operating Model must be, by necessity, a journey. It can't happen overnight and it shouldn't happen without intention. It requires a clear vision about where an organization wants to go and the fortitude to address challenges head-on

through continual change management and communication. Stakeholder collaboration is essential, as is transforming the organization's thinking from a project-by-project or transaction-by-transaction level to one that begins with a comprehensive, business-aligned category-level plan.

## AGILITY, RESPONSIVENESS AND VALUE

As business pressures continue to elevate procurement’s strategic importance within organizations, traditional procurement organizational models fail to provide the agility and responsiveness required to meet these new demands. That’s where the Next Generation Procurement Operating Model comes in. Considering the broader context, an operating model makes something work. There are operating models for laptops and other operating models for smartphones. They don’t actually

perform the work, but they provide a platform for the programs that do. Following along that analogy, the traditional procurement operating model is in serious need of an update — it must transform if it is to deliver maximum value.

Becoming more agile and responsive requires disentangling the day-to-day tactical work from the strategic responsibilities of category managers. This not only increases system efficiencies, it allows category managers the necessary time to engage with their business stakeholders — both internal and external — as well to ensure procurement

activities are actively aligned with larger business objectives.

Establishing dedicated execution-focused teams for sourcing, contracting and procure-to-pay functions — guided by overarching strategic goals identified by category managers — allows for greater responsiveness and agility in responding to requests. Switching to this model requires that procurement executives have a clear vision as they transition legacy processes towards a more category management-led approach.

Figure 1: Procurement’s End-to-End Value Process

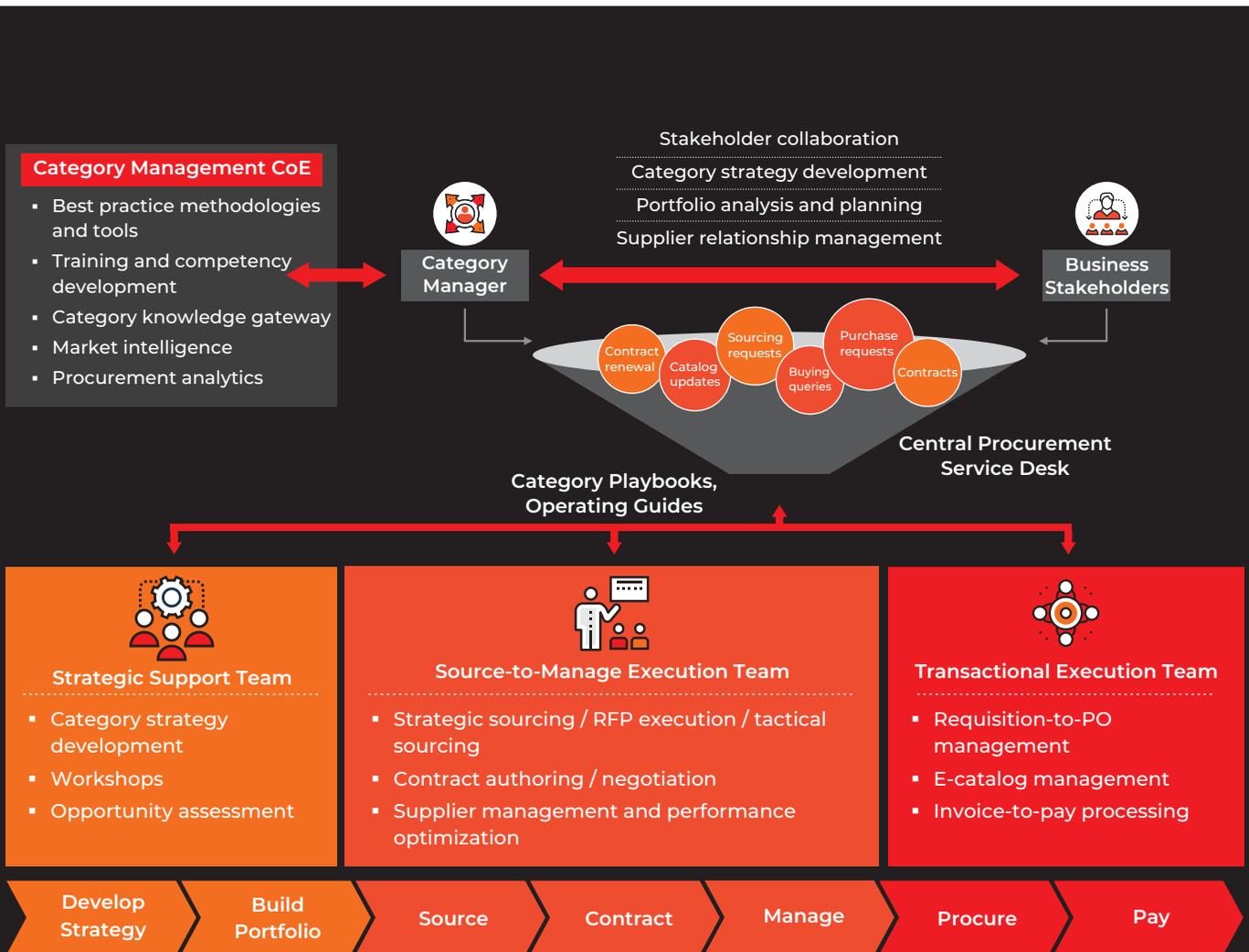


The Next Generation Procurement Operating Model is an end-to-end, integrated model. It begins with a strategy-driven, category-based approach. It is optimized when the category plan informs all of the subsequent procurement

activities across sourcing, contracting, supplier management and individual transactions — and when the insights from those procurement activities feed back into the category plan. A closer look at the

operational elements of the Next Generation Procurement Operating Model offers further insights on adopting a more strategic approach to procurement.

Figure 2: Next Generation Operating Model Structure



## STRATEGIC CATEGORY MANAGEMENT

Category management is at the heart of the Next Generation Procurement Operating Model. Category managers, actively engaged with business stakeholders to understand their strategic objectives, must prepare themselves to be proactive partners in procurement. Initially, category managers may need to invite themselves to the table, but, as relationships build and positive results are returned, goodwill and trust will begin to deepen. Armed with strategic insights gleaned from these ongoing relationships, supplemented by market analysis and other data analytics, category managers create a procurement playbook that aims to optimize value across the spectrum of category spend.

True strategic procurement is a full-time job and requires allocation of dedicated resources with the proper skillsets. At first, it may seem counter-intuitive to assign team members solely dedicated to planning and setting strategic priorities when the goal is to save money. But when category management is a sustained focus, the delivered value includes savings in the 20-70 percent range, enhanced risk mitigation, increased spend under management and stronger alignment with the greater business goals.

## CATEGORY MANAGEMENT CENTER OF EXCELLENCE

Establishing a Category Management Center of Excellence (CoE) supports the development of strong, strategic category managers. Bolstering them with best-in-class support — including methodologies, tools and templates — allows them to better drive efficiency and consistency in their stakeholder engagements. A CoE can include both formal training and informal coaching to further hone category manager skillsets where needed. Combined with deep category knowledge, market intelligence and spend analytics, CoEs help category managers drive the next level of their category strategy maturity and tap additional areas of business value.

## CENTRAL PROCUREMENT SERVICES DESK

Managing the influx and flow of procurement requests and inquiries is vital to the success of the Next Generation Procurement Operating Model. Making the process easier to access and navigate helps encourage more spend under management, leading to improved outcomes and value for the organization.

The simpler and faster it is to tap into procurement expertise, the more likely stakeholders will be to

consistently reach out. Implementing a centralized automated procurement desk to triage stakeholder inquiries helps streamline routine requests and better route more complex inquiries to category or supplier specialists. This ensures that the right level of effort is expended, reducing procurement waste. Tackling this area is often a good first step as it frees up resources to focus on building relationships and crafting a strategic procurement playbook aligned with corporate objectives.

This channel orchestrates the triage and flow of the appropriate activities to various specialist teams such as:

- **Strategic Support Team:** Members provide targeted support to accelerate category strategy development, including market research, spend analysis, category plan development, stakeholder workshops and portfolio development. They may also get involved in end-to-end development of category plans and management of less strategic categories
- **Source-to-Manage Execution Team:** This team is responsible for operational execution of sourcing projects and Request for Proposal (RFP) execution, contract authoring and negotiation, and supplier management execution activities such as performance

monitoring and scorecards. Category playbooks and operating guides, developed by category managers and the strategic support team, drive consistency and efficiency while ensuring close alignment with the established category strategies to maximize value

- **Transactional Execution Team:** The transactional execution team manages the traditional procurement back-office functions such as requisition to PO management, e-catalog management and invoice-to-pay processing

These operational elements form an integrated end-to-end model that works to identify and drive strategic opportunities, execute effectively and efficiently, and deliver value.

## TECHNOLOGY ACCELERATORS FUELING FUTURE PROCUREMENT

Digitization within procurement has been evolving since e-sourcing first appeared and paper-based RFPs were abandoned for the convenience of running bids on a digital platform. In this increasingly digitized procurement arena, transactional services are more automated and sourcing functions more predictive, enabling category managers to focus on proactive, strategic planning.

Fueling these improvements are powerful technology-based tools that help procurement professionals automate routine processes, and integrate and analyze large swaths of disparate datasets to develop a master strategic playbook that informs the entire procurement loop.

Many of these emerging solutions are relatively simple and inexpensive to implement, and can deliver value quickly. Some also offer an easy overlay to existing legacy systems. In addition to Artificial Intelligence (AI), Robotic Process Automation (RPA) and advanced data analytics, blockchain technology holds promise for the future of supply chain management. While in its infancy, blockchain opens up the possibility of a more transparent system. It allows for the greater control and traceability necessary for many industries as they strive to comply with ever-changing regulations.

“One of the most important things that sourcing and procurement teams can bring to the table to gain the attention and the buy-in of decision-makers is information.”— Harvard Business Review



Shifting a procurement organization from tactical to strategic is a necessary first step in preparing the team for future evolution / digitalization. All of these automation technologies and evolving cognitive capabilities rely on the foundation that the Next Generation Procurement Operating Model provides to realize maximum value. Obviously, it is not optimal to automate negative and disjointed processes, so evaluating needs and determining the best process to enact is exactly where technology providers will start when deploying a Peer-to-Peer (P2P) platform or an RPA solution.

In addition, it's critical to have an overarching vision and strategy to optimize the role that organizations want a specific technology solution to play. A strategic category management approach, driven and aligned across the procurement lifecycle, provides that vision for an organization's technology initiatives.

## REAL-WORLD IMPLEMENTATION AND SUCCESS

When re-organizing the procurement function of an organization to be more agile, responsive and value-oriented, it's important to recognize there is no solution that's right for every

company, and there is no magic technology solution that will perfectly integrate processes.

This is precisely why it's vital to assemble the right team both internally and externally to lead, manage, and drive the organizational change required: executive sponsorship, vision alignment among core team members and collaborative external partners with a shared objective.

Many organizations choose to leverage third-party support and expertise to augment existing capabilities, allowing their teams to focus on strategic activities while they optimize supporting processes.

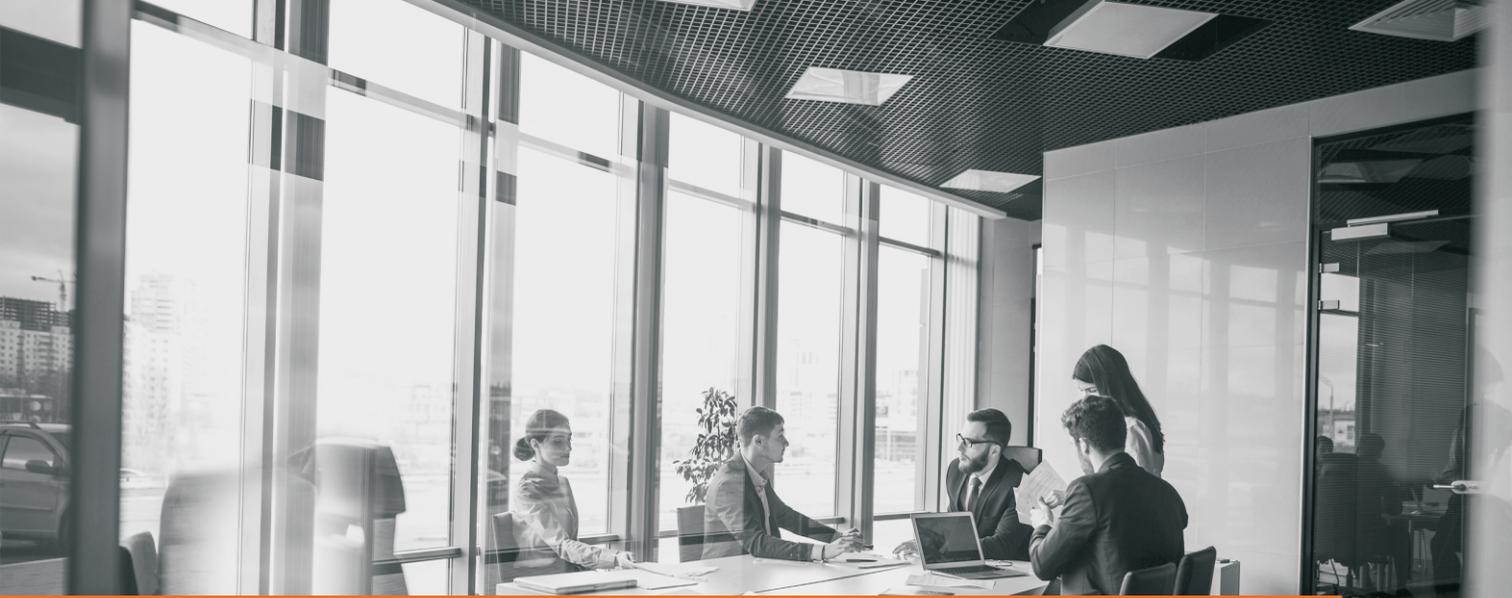
When engaging with a third party, co-creation and flexibility are key, and the ability to start small and grow at the right pace for an organization's unique challenges is paramount. A true partner invested in the client's success will spend the time to understand the corporate culture and evaluate the unique strengths, challenges and market conditions that have an impact on the client before charting a path forward.

This evaluation step is a crucial one. Companies that rush to implement in the hope of reaping immediate cost savings may later regret it as ineffective processes get baked into the overall structure, resulting in less than

optimal outcomes. In the same vein, program evolution is just as important — as an organization grows and responds to changing needs, its model will continue to adjust. Partnering with a flexible provider will allow organizations to iterate and optimize over time.

After implementing an updated, integrated model within his organization, Microsoft's Chief Procurement Officer (CPO) cited these benefits: "Because we outsourced transactional work and were able to apply internal staff to focus on bigger deals and to form more strategic relationships with senior business leaders, we transformed the cost structure of the company in a more meaningful way than simply bidding for the next project."

— HFS Research



“A CPO’s largest challenges are internal client relationship management and having the right amount of skilled talent available to service the demand that a well-integrated procurement-business relationship can drive... Regardless of what state your organization’s procurement transformation is in, HFS Research believes that leveraging external expertise is critical to delivering superior results.”

— Phil Fersht, Founder and CEO, HFS Research

## CASE STUDY

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# NEXT GENERATION OPERATING MODEL FOR A GLOBAL DATA TECHNOLOGY CLIENT

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Five years ago, a large high-tech data storage company was at a crossroad. The organization realized that its strategic needs were not being met due to the large volumes of reactive tactical work: 3,000 individual active buyers across the organization, 40 operating units, 5,000 suppliers,

20,000 POs, 6,000 help desk queries, 3,000 contract negotiations and 1,000 sourcing events annually. This resulted in fragmented decision-making, decentralized global operations across 130 countries, no programmatic approach to spend management, lack of a consistent

process framework and limited established compliance to procurement strategies.

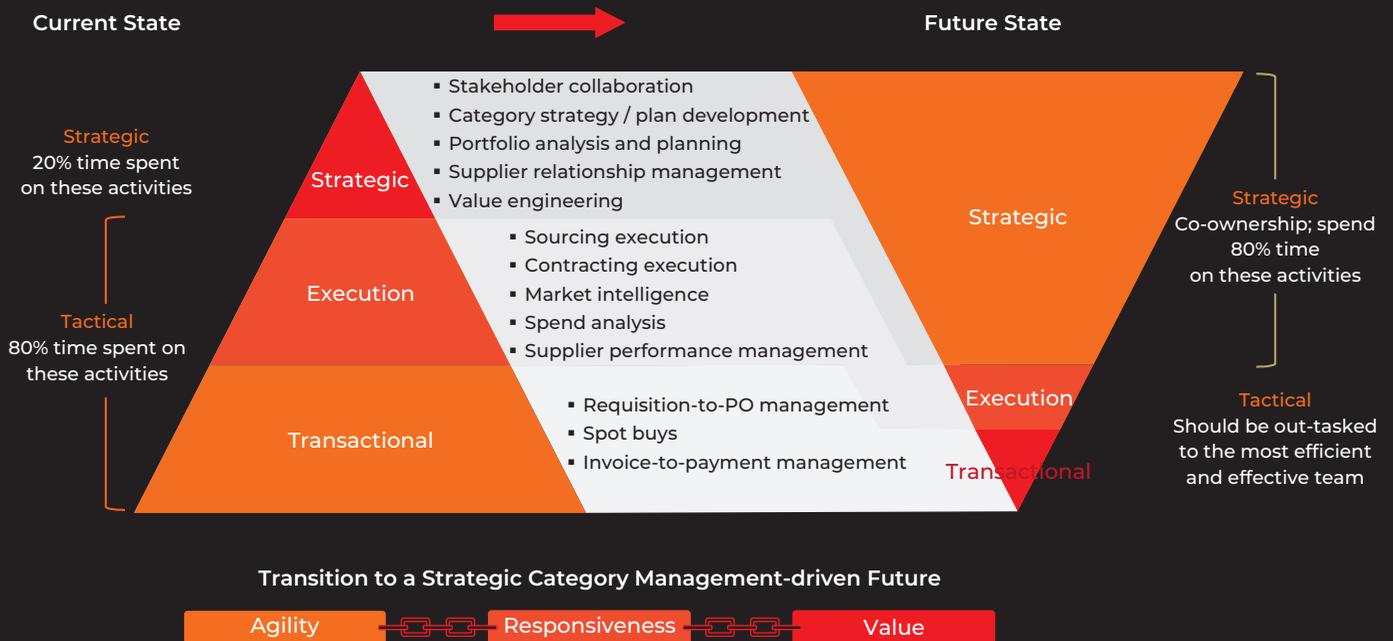
The leadership team agreed on a fundamental objective: upend the current state and implement a new operating model to increase compliance, drive strategic

initiatives, deliver more savings and influence more spend through better stakeholder relationships. The team engaged Denali, now a WNS company, to centralize the entire source-to-

procure process and provide execution support. The team implemented a category management-driven model and scaled the program over three years, growing, iterating and

adjusting to the needs of the business. The global rollout was a deliberate effort with multiple adjustments along the way.

**Figure 3: Transition to a Strategic Future**



The global team successfully flipped the old model and today the technology company's category management team spends less than 20 percent of its time on tactical procurement. Globally, the team now has over

90 percent spend under management; 98 percent contracts executed without legal review; over USD 400 Million sourced with 9 percent savings, and indirect procurement preferred supplier usage more

than doubled from 30 percent to over 70 percent. The team continues to optimize the model's operational framework, and improve effectiveness and efficiency.





## CONCLUSION

There has never been a more exciting time to be in procurement. The potential value that it can deliver to businesses ensures an ever-changing set of challenges to tackle through smart, strategic implementation of streamlined and automated processes, enhanced technology and innovative thinking. As bottom line savings are realized and strategic benefits are more widely felt, organizations will continue to recognize the tremendous business value procurement professionals contribute, making procurement an exciting, rewarding career destination.

For procurement to shift to a more agile and value-driven operating model, organizations will need to:

- Focus on value generation as opposed to driving savings in a vacuum
- Separate strategy from execution to allow more time for value generating activities
- Manage spend at the micro and macro levels through a top-down category management approach
- Institute the right framework to capture, organize and reuse organizational knowledge
- Drive responsiveness and agility through a service-oriented support model

The case study illustrates that the Next Generation Procurement Operating Model is not just organizational theory. Many corporations and organizations are already implementing the model — and reaping the benefits. They are on the cutting-edge of procurement, setting themselves up to enable future disruptive strategies — and serving as an example of what is possible if a company is willing to be a leader.

## REFERENCES

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## ABOUT DENALI - A WNS COMPANY

Denali, a global sourcing and procurement solutions provider, is now a WNS (Business Process Management leader) company. WNS-Denali supports Global 1000 companies by offering an array of best-in-class procurement solutions, including Category Management, Analytics, Strategic Sourcing and RFx Management, Supply Market Insights, Contracting, Supplier Management and Procure-to-Pay. With a team of more than 2,600 Source-to-Pay specialists worldwide, we have helped our clients manage more than USD 75 Billion across the Source-to-Pay value chain for direct and indirect categories. For more information, you can visit us at [www.denaliusa.com](http://www.denaliusa.com). You can also contact us directly at 844.633.6254.

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