



THE FUTURE OF PROCUREMENT IS DIGITAL

By Wolfgang Schnellbächer and Daniel Weise

JUMPSTART TO DIGITAL PROCUREMENT: *Pushing the Value Envelope in a New Age*, by BCG's Wolfgang Schnellbächer and Daniel Weise, shows how digital transformation has the power to revolutionize the way procurement operates. Below are excerpts from the book's introduction.

Few CPOs doubt that digital will strongly affect their function; however, only a handful claim that they are happy with the digital advancements they have made so far. Indeed, the majority of CPOs struggle to find a digital vision—a clear strategy to communicate with their employees, internal business partners, and suppliers.

We need a new model, a revolutionary narrative of what procurement does on which to base our digital thinking. To put it more simply, if we want to make digital procurement with all its benefits real, we need to think differently.

The new thinking in procurement has to start with the value we create for our companies. In recent years, we have advanced from



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a function focusing purely on *savings* to a strategic partner that also secures access to critical *innovation* and the best *quality* from suppliers, ensures *sustainability* compliance throughout the supply chain and fast delivery *speed*, and limits the *risk* exposure in the supply market. Which of these six value dimensions is the most crucial varies from company to company, from procurement function to procurement function.

Each of these value dimensions is supported by enablers that make the procurement function work: the *organization*; the process landscape that covers the definition of strategy setup processes all the way through to payment proceedings; the *people* working in the function with their skills and motivation; the *performance management* setup; and, lastly, the *collaboration* with internal business partners and suppliers. CPOs need to choose which of these enablers best support their particular value dimensions.

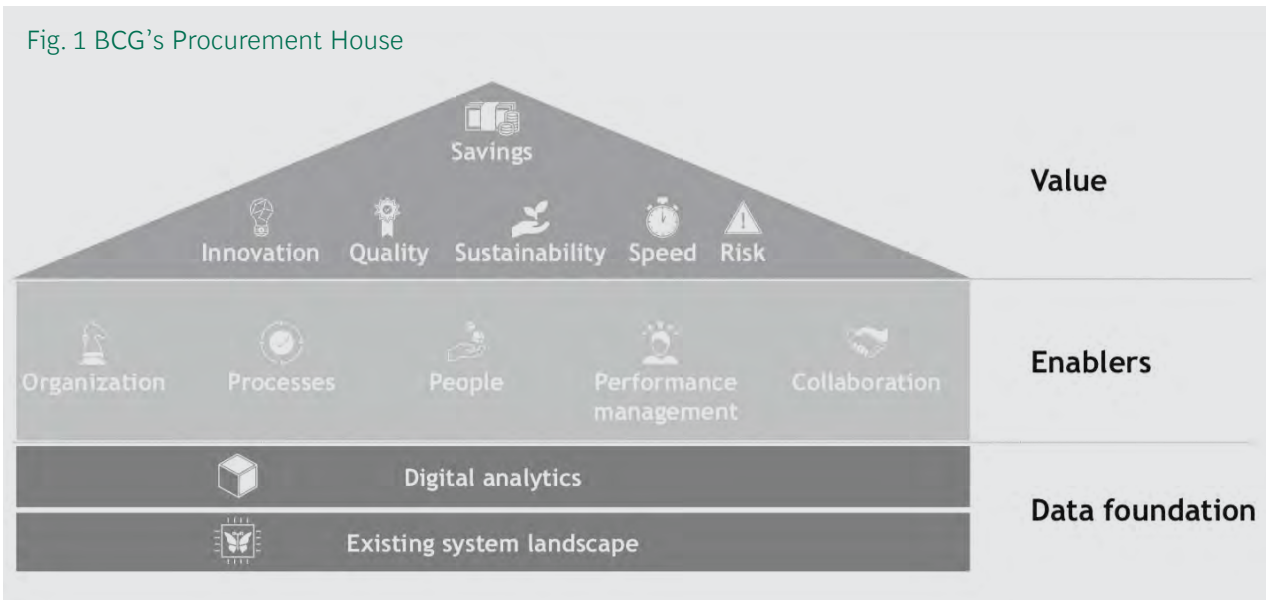
All procurement decisions should be founded on data and analytics, be it on the value or the enabler dimension. The digital analytics themselves need to be connected to the existing systems and databases and this is what lays the foundation for our Procurement House (see Fig. 1).

This Procurement House forms the basis for our digital discussions. Based on the

primary value we generate for our business, based on transparency in terms of the enablers that best support this value, we can choose the right tools and applications. If we want to concentrate on *savings*, we can choose between tail spend management solutions, automated bidding, or dynamic should-costing models, depending on which spend buckets seem to pack the most potential. A powerful example is an AI negotiation coach that learns over time, advising buyers of which negotiation approach to use in what situations, from traditional face-to-face setups to complex multistage auctions, from linear performance pricing (LPP) to collaborative cost-out conventions.

If it is primarily a question of *quality*, live reporting tools may be the method of choice. These apps are installed on the mobile devices of users on site and the users report in real time how they perceive the quality of delivery. The feedback is displayed on comprehensive dashboards visible to procurement, business partners, and suppliers alike. If *speed* is crucial to the business, the procurement team should be investing in robots that ensure fast transactions or chatbots that explain to users how to best fill purchase requisitions that can be quickly transformed into purchase orders. In terms of *innovation* for collaboration platforms with suppliers and to prevent *risk* or *sustainability* issues, buyers

Fig. 1 BCG's Procurement House



should leverage AI algorithms that tell buyers up front where the next incident is likely to happen, empowered by visibility into the whole supply chain.

Tools and applications can be linked to each of the enabler dimensions. For illustration purposes, let us take a look at two dimensions. In developing our digital capability in *people*, assessments can build tailored curriculums for each buyer and track their learning progress against these goals. In *performance management*, digital tools can much more easily extract the requisite data from various systems and add it to tailored dashboards containing the right KPIs for each role. Equally, each of the en-

abler dimensions needs to be set up in a manner that best supports the digital revolution. New roles, such as robotic maintenance engineers or AI programmers, need to be introduced to the *organization, processes* need to be more clearly described and, if necessary, adapted so they can be automated. *Collaboration* with suppliers and internal business partners needs to focus on digital innovation.

Based on this new concept and the strategic priorities/value dimensions, the list of digital tools and use cases takes on a clear structure. Equipped with this concept, we can now take a closer look at procurement's digital future.

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