



What are Some Procurement Trends? How Does and Will Procurement Affect You? What is Happening and What Could Happen?

Where is procurement, outsourcing, sourcing, supply chain, and purchasing going? What is happening in the marketplace? What are companies thinking at the executive level and what type of actions are they taking?

First off, we will outline a few of our observations about what we are seeing firsthand. Secondly, we will include information from other procurement professionals and procurement firms about their experiences, what they forecast, and what they are seeing.

The summary will be left up to you and how you prepare as best as you can as technology changes at a rapid rate never seen before (AI, Amazon, ...), markets change (like what is happening with India and their education and business initiatives, growth, and finances), entire nations lose valuable credit ratings and borrowing ability while other nations change in financial power, natural disasters cause more risk to supply chain, and several other areas.

What are We Seeing Firsthand?

There are so many questions, marketplace changes, and unknown factors at this point. As we have witnessed many organizations this year (from small, mid-sized, to large), we have seen many things take place. Keep in mind that procurement is not just about goods and services, it is about information, about process flow, efficiencies, automation, simplicity, sourcing, vendor relationships, internal organizational communications, a founded and sustainable department and strategy, and human capital (yes, human beings being the most important ASSET in a company).

As you read and ponder just a few of our many first-hand experiences below the intent is not to be negative but to show the massive market need and some pain points. Many companies are in trouble and many more are on the edge of financial trouble. We have worked in hundreds of different industries and spend areas over many years in thousands of procurement projects. Our clients range from start-ups, small, medium, and large.

Some of the first-hand areas from small to large organizations have been:

- A \$8 billion global company has been placing all items for bid each year to realize cost savings. The company is exploring whether to outsource IT, Accounting/Finance, Payroll, Human Resources, Software and Hardware Development, because they have been in the red at more than \$100 million.



- As we have all seen in the last few years, school districts across the United States are not making budget and there have been a lot of cuts. We were able to help a small school district by saving them more than 10% for Maintenance, Repair, and Operations, best-in-class lighting pricing was validated, and uniforms and janitorial are next projects. Another school district with more than one hundred schools is looking to outsource their diesel, which could result in millions of dollars in savings.
- An \$8.7 billion company wants and needs help in their procurement department, because they only have six staff (including the VP of Procurement). Executive management is asking for quarterly miracles to reduce costs, yet they do not have the staff to properly conduct Request for Proposals for sustainable hard cost and soft cost reduction in dozens of areas.
- The first project for a national investment firm yielded 18% in cost reduction in office supplies with a sustainable toner solution. Several other projects are in the works because of the enormous potential that exists in many categories.
- Another \$1.5 billion company terminated their Procurement Officer who set up an automated infrastructure, saved \$10 millions of dollars of sustainable savings, increased efficiencies, and automated their entire procurement supply chain (the company was in double-digit percentage growth, but the stakeholders wanted more). We spoke with and within two months the company let the COO go. The company is now in financial trouble because they let their most brilliant management go who made the company who they were.
- The U.S. Federal Government is stepping up cutting budget dollars for programs. I learned of one social program where the agency cannot meet the entire month for more many locations and programs across the U.S. This agency, like several others, does not understand how to use procurement effectively to not only reduce cost but continue with sustainable measures. This one agency must produce tens of millions of dollars by cutting critical staff.
- We reduced payroll services by a little more than 50% and janitorial costs by 12% for a non-profit organization.
- A large food company let one of their C-Level people go about a year ago. He had been with this company for decades and built not only the sales network, production, but also worked in systemizing supply chain and sourcing (in the hundreds of millions of dollars). Another person in the company was transitioned to this position who did not have this skillset and was paid two-thirds less. What was the result? There was a loss of many staff and tens of millions of dollars in losses.
- Core competency is the key to success in any organization! This is what a company provides in goods and/or services to their clients – the area(s) they do best in. We have



been in discussion with a large media company where their core competency is news, information, and data to the public. Out of more than \$100 million under spend, three people are supposed to manage this, including the Director of Purchasing. As we reviewed their need, they wanted to outsource all their data and servers to the cloud. In other words, they did not want to manage their own servers, computers, network, and data going forward. Not a problem for us, yet to do something right, specified data is needed, and they could not get this data to us because they do not and will not put the resources into procurement.

- Another large organization that works in the bakery space (multi-billion dollars) decided to source their baked goods outside of the U.S. because of the cost. Well, what they did not take into effect was quality, what the end client (like Wal-Mart and their Distributors) wanted. This company ended up terminating several people because of the monetary loss from this short-sighted decision to increase profit. A few years later, the company no longer exists! When all was said and done, THEY DID NOT LISTEN!
- On another note, there is the ever-increasing political situation of whose territory is what in the workplace. As less people must do more, we have found what is right for the company will not be agreed to by those who are not collaborators or with companies that do not have the team environment. One exceptionally large non-profit told us they were getting the best price through their contract, yet they had not conducted an entire office supply Request for Proposal process (more than 1,500 items and a budget of more than \$1,000,000 per year) in more than four years. We reviewed other areas and at a summarized glance, there is no doubt we could reduce their costs by more than \$10 million over two years without adding extra head count to their purchasing department (our clients look at us as support and benefit to them).
- Resources are a challenging area and will continue to be so as more than 40% of U.S. companies do not receive their goods and services as stated in their contract terms, meaning they are not delivering to their clients on time. With global catastrophes, tight credit terms, larger companies asking to pay their small to mid-sized suppliers Net 60 to Net 120 days, competition, and a host of other areas, having the right and founded vendor and supplier relationships is going to be critical to a company's success.
- A construction company is exploring procurement outsourcing for their fuel, tires, and office supplies. In this economic roller coaster, construction companies must have flexibility in their budgets to realize the commodity price point fluctuations (this causes uncertainty in the marketplace). ATS is in the process of helping this company lock in fuel rate pricing.
- Being that human capital is a part of procurement as well, it will be a necessity to have the right people in organizations who are: educated; understand and fit into the culture



(every company is different); willing to continually learn; able to understand communications via technology and face-to-face; able to use technology in the real world to enhance their work and the team's work; and team players. On the opposite spectrum, it will be vital for the employer to provide each person with a place of mutual respect, reward, socio-economic benefit, and trust.

- The old thought of not wanting to change must go! It is interesting how some of the prospective clients we meet share with us – “we want and need help.” Yet, when we outline some of the potential areas, outcomes, and how we can help with their sustainable bottom line (without letting people go), some are not willing to change. We met with one organization where we could save several jobs, yet they decided not to and now the entire organization is in jeopardy. On a positive note, another organization did go with changes – we saved many jobs!

How important is a Procurement Department?

As companies have scaled back procurement department staff, not only has cost reduction, cost avoidance, efficiencies, sustainable measures, and outcomes been hampered, but compliance and regulation has become more at risk, vendor relationship, strategic partnership, and management has become disorganized, and turnkey systems have been scaled back or completely done away with.

Procurement Department's, whether run by an organizations staff or outsourced, must be and play a significant role in ALL departments of any organization for greatest sustainable outcomes. Remember, procurement is information and knowledge, the activation of this information and knowledge that bring results, as well as the communications of the most asset – YOU and people in an organization.

There is an ever-widening gap and need for organizations to have more staff in their procurement department, a need for more thorough Request for Proposal processes and cost reductions that are sustainable, increased need for the right partners (vendors / suppliers), help with compliance and regulation, systems that allow for simplicity and initiative-taking procurement approaches, training, and so many other areas.

What are Others Saying?

What are others saying about the recent past, present, and future of procurement and the trends involved in procurement? Please take some time below and let the information soak in so that you can apply what relates to you and what does not.



The Next Procurement

A year back, Martin Putters did an excellent job explaining what would happen with procurement as he relates his thoughts like IBM does each year. Some things to give thought to as procurement continues to change with the change of the world.

We affirm several of the same areas (Supply Chain, Risk Management, P2P, Innovation Driven Procurement, Contract Management, SaaS...), from interaction with our global partners, clients, and team, such as risk management (supply chain interruption), listening to clients and partners for customized solutions (the voice of the customer), contract management without the management, and the need for PaaS for automated and turnkey technology solutions (procurement as a service).

Many global changes across technology, AI, marketplaces, raw materials, political, consumer demand, and many other areas driving constant change!

There is Nothing New Under the Sun – Technology Changes!

The thought of technology being THE answer has hurt a lot of organizations!

Before an organization embraces any type of technology solution, it is a necessity to implement and evaluate the changes and solutions in the trenches, with the people of the organization, and ensure the solution has been embraced and works before automating with technology. To bring a technology solution without solving the human process can bring disaster!

With this said, technology is impressive when brought in after the human process!

Over the short years, a few innovative people realized that it is far more efficient to bundle the efforts and establish a power station to meet the demand of multiple parties; this idea was met with a lot of skepticism. Too much risk! We see the same mechanism at work in the receipt of SaaS solutions. Instead of each organization setting up its own servers and systems, the required functionality is readily available via “plug and play” solutions. Due to an increase of successful examples of this concept, the initial restraint hurries off and organizations make their first serious forays into this domain. Not in the least because of the substantial savings that this model can bring to the table.

Co-sourcing Aids L’Oreal Indirect Procurement

Dan Berthiaume provided some useful information about partnering with L’Oreal a few years ago to help them with their procurement outsourcing, supply chain, and purchasing, so that



L'Oréal could continue forward to focus on their core competency. Many companies will continue to follow this methodology and strategic plan in the years to come as the global economy and demands on business require this.

Global HBC brand L'Oreal has been employing a collaborative outsourcing model known as “co-sourcing” to reduce costs and increase efficiencies of its indirect procurement activities in France, Germany, Italy, Spain, and the UK. Laszlo Koos, corporate indirect purchasing director of L'Oreal, detailed the indirect procurement program's evolution, current state and future direction during a session at the recent North American Shared Services & Outsourcing Week hosted by SSON in Orlando.

Operational Size, Scope Present Unique Challenges

The size and scope of L'Oreal's operations present some unique challenges to effective management of its indirect source-to-pay process. L'Oreal consists of twenty-three brands across 130 countries with 66,600 employees and generates close to \$27 billion USD in annual revenues. The company had about one billion consumers a few years ago, with a continued intent to grow their base.

Indirect Purchase Process Proves Chaotic

L'Oréal started investigating outsourcing and consulting options for a few years back, to help get a handle on the indirect procurement source to pay process, with a focus on the sourcing, rather than transactional, end of the chain. At that time, purchasing reported to the operations department, with three distinct categories of indirect purchasing representing the largest and most diverse portion of L'Oreal's total purchasing activities.

'Co-Sourcing' To The Rescue

L'Oreal engaged advisory services to find an outside solution to help streamline the indirect procurement source-to-pay process in the markets of France, UK, Germany, Spain, and Italy. The company examined the two main models of external collaboration, consulting, and outsourcing.

L'Oréal developed the hybrid consulting-outsourcing model known as “co-sourcing.” Koos described some of co-sourcing's benefits. “There's no staff to hire, no employees to transfer, no upfront payment,” said Koos. “We pay on a gain share of measured savings. It has increased the deployment speed of indirect purchasing.” The co-sourcing model went live ten years ago. (Berthiaume, Dan)



More organizations have followed and are engaging core partnerships for greater outcomes in many core business areas!

E-procurement Trends in the Global Marketplace

Following the e-procurement trends over the past 20+ years highlights some successes but some challenges too. There is no doubt that the Internet is drastically changing the way purchasing is done globally. It has grown and evolved into a complex marketplace with many players offering a variety of e-procurement and business-to-business services.

E-procurement is a catch-all term incorporating many aspects of electronically assisted buying. It can include services such as hosting databases, catalogue management, managing tenders and auctions on behalf of clients through a completely outsourced procurement service. One example, it eliminates tedious manual work associated with preparing and submitting large tenders using customized software.

E-procurement Trends in the Private Sector

Externally hosted e-procurement services are clearly part of a growing trend. Some specialize by industry sector, like those serving the oil and gas, pharmaceutical and mining industries, all of which have embraced e-procurement more than some other sectors.

Some e-procurement service companies provide a full range of supply network services to support global procurement transactions.

Another e-procurement trend is where large corporations elect to manage their e-procurement in-house. Successful implementations of e-procurement are considered as one of the measures of a world-class purchasing organization. To do this they need to install enterprise-wide software to manage the database and transactions but the big investment in time and money sometimes means that there is not a compelling business case.

E-procurement Trends in the Government Sector

Some governments in mature economies are adopting e-procurement more extensively as it provides structure, audit trails and transparency of transactions. However, governments in emerging markets are often unaware of the benefits that e-procurement can provide. World Bank research has also found some reluctance by governments in adopting a system that is so fully transparent.



Certain basic requirements need to be fulfilled before an e-procurement system can achieve maximum potential in government. These are recommendations by the World Bank which include expanding ICT services, guaranteeing a secure online environment, development of standards and processes, and most importantly, for purchasers to be trained.

E-procurement Trends in Non-Government Organizations (NGOs)

Potentially, the development aid and emergency support sector of the economy can benefit from using electronic procurement services. Savings of up to 10% and more have been achieved on price and there is some evidence available showing savings in processing time. E-procurement allows aid-funded buyers to compare prices quickly and easily, to review specifications and delivery dates from suppliers worldwide.

Sustainable Procurement: Surprising Trends Emerge in New Economic Times

Many organizations' sustainability efforts have been through a period of change and adaptation. In procurement, sustainable procurement many times takes a back seat for the short-term as many organizations focus on ways to stay afloat and weather economic changes and challenges.

Risk Management

As time continues in procurement, sustainability efforts have not only proven its core part of business through the last years of economic times and continue to look even more attractive as organizations try actively to shed and manage risk; an attribute that's core to sustainability and corporate social responsibility (CSR). Sustainable procurement has continued with its leading role in resource waste reduction and renewable sourcing initiatives in all their forms which has the valuable benefit of slashing costs and more importantly, also giving organizations more direct control of future costs.

Everybody knows that if you know the cost of XYZ commodity 5-10 years ahead you've predicted your long-term cost basis - that's just one example of a competitive advantage concept gaining more prominence in the sustainable procurement crucible. In this article, we've identified two major sustainable procurement trends that we think are not only of interest but also useful for you and your organization while you plan to endure and flourish no matter the volatile economic setting ahead.

Green Business

Green business and procurement are an important part of procurement practices, yet in the overall practices, it can be difficult to manage with overall best value.



An example "green blind spot" summarized as follows: The sewer-sized pipe in your remote manufacturing operations has been overlooked and gallons of toxic waste pours out into a stream used by other people and animals as drinking water, an unfortunate fact overlooked in a process that over-emphasized the big picture as the only thing that's mattered.

This is an example of a "sustainability blind spot" where good intentions miss a critical issue that could destroy all reputational benefits of the other sustainability efforts combined. This trend continues as organizations continue to develop sustainability programs, reviewing overall costs, benefits, and best value, when reviewing overall resources in supporting a comprehensive sustainability approach.

Length and Complexity of Global Supply Chains

Another continuing trend has to do with the length and complexity of global supply chains and an opportunity to reap large cost savings by considering another important dimension in supply chain decision-making.

Supply chains do not react well to surprises!

Most organizations inherently know that unanticipated events reduce confidence and invariably lead to increases in an organization's costs. Companies who manage their supply chains well are highly aware of this danger and treat sustainability objectives using similar risk management strategies avoiding this possibility of higher costs.

The long-term approach allows suppliers to understand what the company will value in the future and enables them to innovate around these themes.

Some organizations are continuing to use sustainable procurement as a strategic contributor in planning for future profits. They recognize that the time-tested business adage that "if you fail to plan, you plan to fail" still rings true specifically in sustainability efforts.

Impact: Other Nations!

The impact of nations, new alliances, and political impact continues to change the entire procurement landscape and how procurement is engaged!

Many continue to say that volatility in these new economic times is here to stay, and sustainability is growing as one of the important tools for countering these unpredictable



forces. More, sustainability is being viewed a little less about saving the world and more about outwitting your competitors, stealing market share, and making more profits.

Procurement Excellence

Cost and innovation pressure are often reflected in procurement. Companies are forced to set up procurement organizations or to align their procurement practices towards the growing demands. We help companies to ensure that procurement is optimized successfully.

Challenges and Trends

Cost and innovation pressure are continuing to rise across industries. This pressure is often reflected in procurement, which must reduce costs while at the same time providing innovative products. Companies are being forced to align their procurement practices toward this growing demand.

Right Response

Procurement professionals and teams must find the right response to each of these trends. To ensure that procurement is optimized successfully, companies with a good strategic setup consider three factors:

- First, procurement and other areas should pull together and strive for the same targets.
- Second, steps taken must also ensure that costs are reduced in a lasting manner.
- Finally, actions must be fully implemented, and their success monitored. (Roland Berger)

Future Trends

No one can predict the future with one-hundred percent accuracy, but we can look at the present and the past to see that not only has knowledge increased, but also risk. We have also seen that our global economy is more real than many would like to acknowledge.

All we must do is look at the scaling of economies, increase competition, resource lack, poor partner, supplier/vendor, and sourcing management, the cut back of management and procurement departments, credit tightening, cash flow, and a host of other areas.

What do We Believe Will Happen in Procurement?

Procurement will play a more substantial role in cost cutting, sourcing, information, partner and supplier/vendor management, compliance, regulation, and sustainability. There will be many more firms engaged in procurement outsourcing in the years to come because there is no extra labor added (in most cases because of the performance-based model) and the incredible market demand and need will continue to grow as it has done for the last 27 years!



The best thing organizations can do is partner with those who customize, listen, provide solutions pertinent to their need, are available on an as need basis, and the long-term relational business.

What are You Doing to Drive Procurement Excellence?

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