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Agile in Procurement

Operate with a start-up mindset

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Summary

Having landed in the new normal–a more volatile economy and more fragile supply chains–procurement organisations are looking for ways to evolve and meet their targets. In order to thrive, a new approach to organising and managing work in an adaptable manner is crucial. Is your organisation agile enough to adapt? In this article we look at how to adapt in order to be successful.

Introduction – the world is changing

As the world changes more rapidly, procurement organisations need to rethink how they deliver value.

In recent years supply and demand have been disrupted increasingly. Technology has changed demand and the consumer behaviour and environmental and political factors have made supply more volatile.

On the demand side, customer expectations are greater than ever, requiring higher standards for quality, speed and services, and provoking big shifts towards consumer-centric operating models. On the supply side, changing political backdrops and policies such as trade restrictions have created unforeseen risks in strategic sourcing and product cost and availability.

Covid-19, a Black Swan, has been changing business priorities, furthering the disruption and highlighting the trade-off between resilience and agility on one side, and process efficiency on the other.

We see opportunities to generate value from reskilling and repurposing the procurement function. Establishing an agile procurement organisation will enable businesses to increase the leverage from technology and innovation and adopt a start-up mindset in the execution of projects, all while tapping into the diversity of skills across the organisation's ranks.

Procurement organisations need to rethink how they deliver value by adopting more flexible ways of working and designing a delivery model that is more responsive to change and fast-paced environments. Procurement needs to classify its current activities and processes, looking at which areas require more efficiency and which ones would benefit from greater agility. It should then equip teams with the skills and culture that fosters speed, creativity and continuous learning opportunities. Transformation of the delivery model will enable value generation by fostering new opportunities and building the capabilities to respond rapidly to exogenous and endogenous changes.

Procurement requirements are evolving

Traditionally procurement organisations have been structured in a strategic, operational and transactional delivery model, as portrayed in Figure 1.

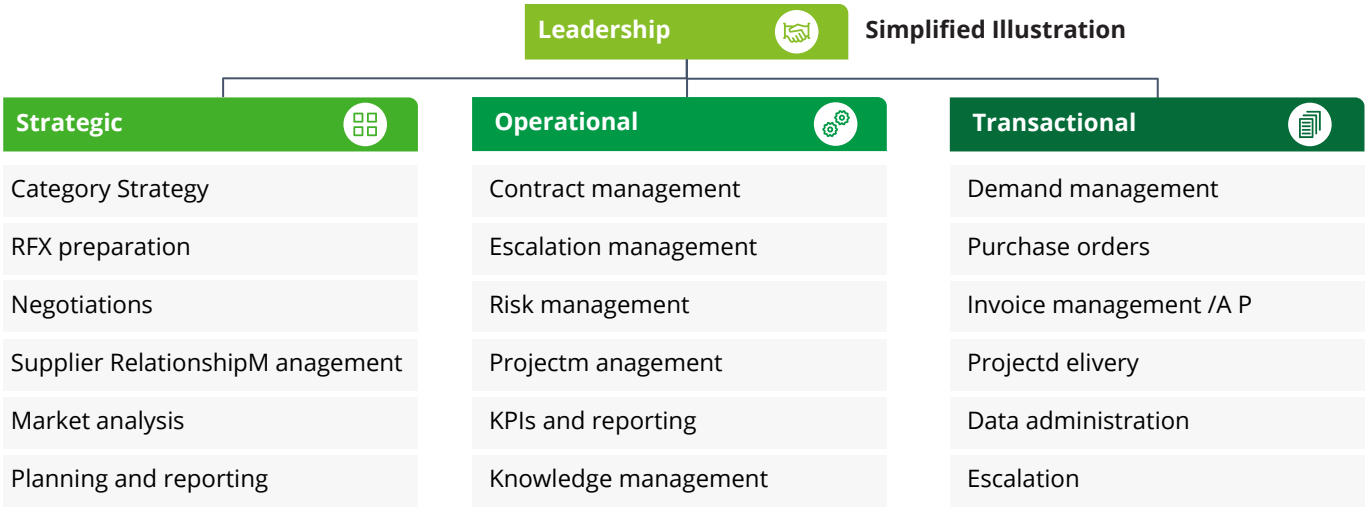


Figure 1: Conventional Procurement Delivery Model (Illustrative)

Figure 2: Downsides of traditional procurement structures

Over time, the function has evolved from a service provider to a strategic business partner, generating value beyond transactional activities and the reduction of cost. This shift has permitted deeper understanding of suppliers, customers and the product bought, and has ultimately led to streamlined strategic and transactional processes, designed for efficiency. When a procurement operating model is designed for efficiency our experience has been that it comes at the cost of resilience. This has meant that changes, internal or external, led to suboptimal output (e.g., organization efficiency, supply shortages, deteriorating supplier relationships).

But change is inevitable and comes in myriad ways. We mentioned how technology is evolving fast, disrupting the supply and demand cycles. At times of high supply risks and demand uncertainty, processes that currently take months – sourcing, switching suppliers, building stock – will need to be adapted to take no more than days or, at most, weeks. Other processes, such as sourcing innovation and forming new business partnerships, can be implemented quickly in response to change and can provide your company with a competitive edge.

At the same time, new demands and shifting focus areas are also bringing change to procurement capabilities. Sustainability (ESG - Environmental, Social and Governance), diversity, supplier/supply resilience, innovation, risk avoidance, supplier illumination, and the overall contribution to revenue growth are moving up the priority list of Chief Procurement Officers (CPOs). Upskilling the procurement organisation and equipping the team with the right culture, tools and methodologies to achieve rapid and adaptable decision-making has become vital.

In our experience working on strategic procurement transformations we often see the following challenges that need addressing:

1. Inflexible organisations

Procurement organisations require a diverse set of skills and capabilities, ranging from relationship management to understanding industry trends, analysing data and negotiating. Now, given the effects of the Covid-19 pandemic, we believe the conventional setup of a procurement organisation limits the diversity of the team's skill set. Beyond that, we find that a diversity of experience within our clients' procurement organisation enables them to leverage more effective solutions during their projects. We believe that by allowing room for adaptability in the scope of work, each company can unlock higher levels of collaboration and knowledge sharing and thereby achieve improved team performance.

2. Slow process throughput and lack of responsiveness

Covid-19 took the world by surprise. Visibility became a priority as multi-tier supply side bottlenecks had to be addressed. An effective response from Procurement became crucial to supply security and supply chain planning. As a result, procurement control towers are building momentum in the market. But numerous organisations are yet to adopt the latest technology and processes.

In addition, procurement processes are set up for efficiency, not adaptability. Organisations can no longer afford to undergo strategic sourcing that takes months. Similarly, sourcing innovation, collecting and verifying evolving customer requirements, and qualifying then switching suppliers consumes a large portion of a procurement professional's time when undertaken using traditional processes.

3. Diminishing value generation

Traditional organisations deliver bottom-line improvement by focusing internally on processes and products and externally on partnerships and negotiations. As procurement organisations grow in maturity, meeting tight year-on-year cost targets becomes ever more challenging without compromising service and quality.

Value beyond the conventional lies in how well you address your business requirements and customer demand. The key to success lies in how the requirements are assessed and understood, and how your deployed team prioritises outcomes.

4. Lack of focus

Given how environmental awareness and consumer behaviours are changing, it is imperative for businesses to develop a strong focus on sustainability, efficiency and zero waste. Investors have picked up on this trend and are increasingly incorporating non-financial factors as part of their company analysis process to identify risks and growth opportunities.

Procurement should be a strategic value driver in this area, bringing innovative suppliers and business ideas to the Board. However, a focus on short-term gains and cost reduction rather than value creation means the bigger picture is often lacking.

The future is agile: gearing up your organisation

One way to address those identified challenges is to establish more flexible ways of working and a more agile organisation model within the procurement function. An agile procurement organisation is capable of leveraging the diverse skills within its ranks, is customer-centric at its core and is both resilient to changing demands and able to evolve quickly. Becoming agile means a procurement delivery model that fosters speed, flexibility, creativity and a cross-functional collaborative way of working.

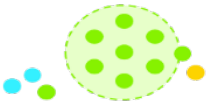
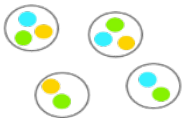
Agility has become a prominent topic in recent years. But increased agility is not a goal in itself; it is a means to achieve a certain business outcome. In the end, the value added from agility in your business transformation is that it strengthens the organisation's position and increases its readiness to address unforeseen risks, such as supply chain disruptions, and deal with evolving demands, such as those from ESG.

Non-strategic and transactional activities should on the other hand progress towards process standardisation, digital automation and machine learning as well as third party outsourcing, decreasing the demands on your organisation. While traditionally this involved Purchase-to-Pay (P2P) activities, it now also includes Source-to-Contract (S2C) tools that have achieved maturity.

The challenge that emerges is to identify all the activities that your procurement organisation currently performs and assess the current level of maturity and nature of the activity (e.g., strategic vs. transactional, efficiency vs. agility). This determines where higher efficiency and reduced effort are required, and where agile, progressive and iterative development can create and add value. The following table helps to illustrate the different factors to consider.

Procurement Services: from Efficiency to Agility

Efficiency → **Agility**

	Functional services	Resource pools	Cross-capability teams
			
Designed for	High-efficiency, goal-specific execution; operational tasks	Moderate agility, project-specific execution	High adaptability, mission-specific execution; entrepreneurial tasks
Description	Dedicated and often centralised teams, where work is standardised, becomes transactional, and transitions from team to team with well-defined interfaces; potential for automation	Highly specialised procurement professionals that temporarily collaborate with other teams to add knowledge-based value, where work is fluid due to ad-hoc demand	Dedicated and often decentralised teams that are collaborative, multi-disciplinary, and co-located with autonomous decision-making ability
In Practice	Traditional shared support functions (e.g.: PR/PO, Accounts Payable, Administration)	Category managers who provide insights across the product group	A cross-functional procurement project delivery team, delivering value to a mission faster, enabled by agile approaches (e.g.: Scrum, SAFe)

The design of a procurement organisation with an increased level of agility will be different for each firm and will be specific to the existing teams and their objectives. Team-based design focuses less on who people work for and more on who people work with, as well as the underlying mission. Teams are diverse, often cross-functional, connected by specific missions to serve a customer, product or organisational outcome and have clearly defined agile cultures, mindsets and behaviours. Working in this way leverages the power of a diverse set of capabilities to achieve successful outcomes, asking different questions and approaching problem solving from different perspectives.

Designing the organisation of the future

Solving today's complex procurement challenges can seem formidable. Moving to a more agile organisation does not stop at delivering customer-focused solutions or operational excellence; it is rather a step towards improving your organisation's chances of discovering innovative solutions by purposefully creating a dynamic relationship between all procurement members and their stakeholders. Below are considerations to kick-start your journey:

Review roles and adapt ways of working according to the type of work:

- Re-evaluate strategic, tactical and operational types of work from an efficiency vs. agility standpoint. Create agile roles and ways of working for complicated and complex types of work. Work on optimizing for efficiency in clear/simple types of work
- Assess team capabilities versus evolving requirements, bridging the gap by defining and deploying new skills and tapping into your organisation's ranks based on project needs.
- Incorporate agile ways of working into procurement and encourage iterative and incremental solutions delivery. Outsource efficiency-requiring roles, notably when proximity to customers is not a factor.

Enable value from dormant potential:

- Establish a quicker stakeholder feedback loop, enabling you to sense and adhere to changing needs, while ensuring supply market knowledge is suitably refreshed to enable an adequate response to change
- Identify value added beyond the conventional, focusing on what

has the biggest impact on you, your customer, your team, your organisation and your society

- Transform individual-based goals to collective goals. In this way rewards become based on team performance.

Set up your organisation for success:

- Break down siloes and form cross-functional teams, cutting through organisational boundaries to leverage talent and focus on adding value
- Assess emerging procurement capabilities and upskill your organisation in preparation for your future requirements, enabling agile ways of working and a flexible mindset
- Provide training, experienced coaching and sufficient time for your new agile teams. Teams will require a certain time to "un-learn" and learn new ways of working
- Encourage the development of T-shaped talent within your organisation: deep subject matter expertise in a given topic, and a distributed set of skills across the board
- Support resilience and a culture where failure is seen as a learning opportunity.

Conclusion

The mandate for procurement to adapt has never been clearer, and agile provides the right culture, tools and methodologies to achieve it. The resulting benefits range from increased procurement value, customer focus and upskilling, the removal of conventional organisational boundaries, and the streamlining of processes from an agile perspective.
The only constant is change, and the imperative to future proof your procurement organisation is clear.

How Deloitte can help

Our clients look to us to support their procurement organisations on their transformation journey. We have assessed delivery models in different industries against evolving business requirements and improved procurement's added value by offering a broad range of end-to-end services. These services include:

Procurement Transformation

Enhancing the ability of an organisation to drive value through improved capabilities, organisational structures and operating models (e.g.: Diagnostics, Strategy Development, Procurement Technology, Operating Model Design, Organisation/Talent Transformation, Culture & Leadership Development, Tax-advantaged models, the design and evaluation of Business Process Outsourcing and Shared Service Centres)

Supply Optimisation

Leveraging existing and disruptive technology (e.g.: cognitive learning) to improve sourcing insights and source-to-pay process efficiency

Digital Procurement

Helping our clients evaluate or identify the right procurement suites for their organisation by leveraging our extensive knowledge, both of those used by major players and best-of-breed niche solutions

Sustainability Management

Helping our clients master their sustainability challenges (e.g.: sustainable sourcing, regulatory developments, carbon footprint) on their journey towards a more sustainable future

Growth & Supplier Innovation

Enhancing top-line performance, speed-to-market and margin improvement through supplier collaboration, supplier lifecycle management and innovation

Organisation and Performance

Assessing the value delivery of your functional set-up, mapping the stakeholder ecosystem, process input/output, and evolving business landscape against evolving performance requirements

Capabilities and Procurement Talent

Mapping procurement capabilities against evolving business and market requirements. Developing strategies to upskill your talent and future ready your organisation

Cost & Cash Optimisation

Reducing third party spend across all indirect and direct materials categories through strategic sourcing, contract rationalisation and working capital optimisation

Supply Risk Management

Measuring and improving total landed cost and the social/environmental impact across geographies and the product/supplier life cycle.

Author profiles

Marcus leads the Deloitte Sourcing & Procurement Practice in Switzerland and EMEA and brings over 15 years' experience in management consulting where he successfully led large-scale procurement transformation. He combines process and technology expertise as well as intercultural working experience. He supported many leading international clients in the development and delivery of innovation, transformational and technology strategies as well as organisational operating model designs and cost reduction programmes. Marcus is targeting areas of digitalisation by using state of the art technology (e.g.: cognitive, machine learning, RPA, analytics and blockchain) for empowering people and organisations to reach their full potential and getting prepared for the future

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Sven leads the Business Agility Team as part of the Human Capital practice and is based in Basel. He brings over 10 years of consulting experience where he led large international projects (traditional & Agile) of moderate to high complexity, with a wide range of cross-functional partners within highly volatile environments. Sven has a proven track record of forming & managing high performing teams and leading Agile transformations.

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Gebran is a senior consultant in Deloitte Switzerland's Sourcing and Procurement practice. Following industry roles in procurement, he now advises clients and leads procurement programmes for companies in the consumer goods, industrial products and life sciences industries. He has helped organisations adapt their structure, processes and technological tools to meet evolving exogenous and endogenous requirements, while meeting tight deadlines, stringent budget requirements and risks.

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