Achieving High Performance with Procurement Shared Services Centers

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Shared services is a model that is right for our times. Areas such as human resources, finance and accounting are frequently optimized in companies that centralize their key support functions.

But despite shared services many successes and adherents, it has been applied less successfully to the procurement function. Reasons vary. At some companies, the acquisition of direct, indirect and MRO materials is too fragmented, making it doubly difficult to adopt a model built upon strict governance, process standardization and contract adherence.

Other organizations do not realize that procurement is more than a transaction-intensive function. As a result, they end up folding only the few purely transactional pieces of procurement into a finance shared services (e.g., accounts payable) model. Not surprisingly, these organizations are usually disappointed by the low payback.

Most often, though, companies with cross-business-unit procurement organizations fall short for strategic and process reasons: They lack an integrated vision of procurement and an understanding of how to operationalize procurement in a shared services environment.

While the challenges are significant, the rewards for overcoming them are significant as well. Accenture's research into High-Performance Business confirms that a relationship exists between procurement mastery and superior financial performance. The research found that procurement masters achieve procurement savings that are 30 percent higher than low performers. Yet, masters' procurement organizations cost about half as much to run.

This Accenture Point of View brings into focus an integrated vision for shared services in procurement. It shows that when vision and "operationalization" are thoughtfully combined, companies nearly always find that shared services and procurement are extremely compatible. It discusses the operational features companies should strive to perfect, the rewards they can expect by doing so, and a case example of a company that successfully aligned shared services and procurement.

The Vision

"When vision and "operationalization" are thoughtfully combined, companies nearly always find that shared services and procurement are extremely compatible."

The mission of procurement is simple: Consistently purchase high-quality, minimally priced materials and services, and ensure they are delivered within the prescribed timeframe. However, an integrated vision—conceptualizing, designing and constructing the actions that make the procurement mission happen—is a great deal more complicated.

A fundamental starting point is acknowledging the existence and role of three distinct processes within sourcing and procurement: strategic, tactical and transactional. Tactical and transactional processes together are often referred to as "operational."

- Strategic activities encompass multi-year and annual planning of sourcing programs; identifying optimal sourcing strategies and suppliers; risk planning; and supplier relationship management (SRM).

- Tactical activities are high level, yet execution focused: supplier development, contract implementation, spot (one-off) buys, contract management and so forth.

- Transactional activities involve catalog maintenance, master data management, executing purchase orders, and following up day-to-day on deliveries and purchase orders.

A second aspect of the integrated vision is minimizing maverick buying. Maverick buying refers to off–contract buying of items and services for which company contracts have been established. It also implies purchase of one-off items and services (spot buying) without involving procurement people or following procurement channels or processes.

Most companies have this problem to one degree or another: A contract is forged with a specific vendor but employees still do "end runs" around the arrangement to quickly and informally get what they need. Generally their choice is dictated by convenience, so they wait until after the purchase to seek budgetary approval or reconciliation. Research shows that the procurement organization gets involved in only about 60 percent of a typical company's indirect-materials purchases. Few companies have been able to increase procurement coverage to the 86 percent level that Accenture associates with high performance in procurement Figure 1.

In net, the integrated procurement vision emphasizes 1) a high percentage of technology-enabled transactions that are consistent with contractual stipulations and 2) a procurement organization that is able to focus primarily on adding value by increasing sourcing and supplier-management coverage and involving itself in necessary one-off purchases. The difference between this vision and common current practice is illustrated in Figure 2.

KPI Defination	Mastery Value[1]
Procurement fully controlled spend	86%
Compliant spend to controlled spend	95%
TCO saving as a multiplier of procurement operating cost	10
Operating cost as percentage of purchase spend	0.8%[2]
Time spend on • Managerial tasks • Strategic tasks • Operational (tactical and transactional) tasks	 11% 46% 43%

Figure 1: Metrics identified by Accenture research as consistent with high performance in procurement. (1) Masters represent approximately 16 percent of 600 companies studied by Accenture during a study of high performance in procurement (indirect spend only). (2) CAPS benchmark = 0.84 percent

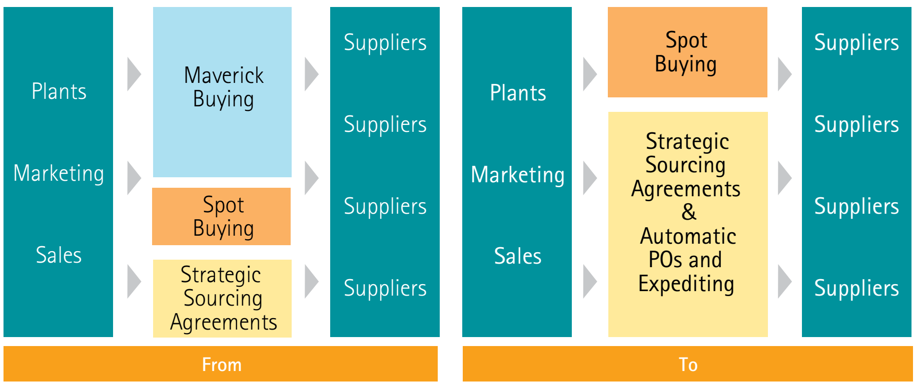

Figure 2: The centerpiece of an integrated vision of procurement is an operating model that supports and enables sourcing agreements, reduces spot buys and acts as a continuous improvement engine.

Translating the Vision into a Shared Services Operating Model

High performance in sourcing and procurement implies a high percentage of on-contract buying and a value-focused procurement organization. However, as noted earlier, a great deal more can be done to coordinate procurement activities more tightly and economically, increase procurement coverage, and raise compliance and service levels for internal business users and suppliers. The key is developing a procurement shared services center that features a "middle office."

Figure 3 illustrates a world-class, four-part model that embodies this extended shared services vision:

• The Front Office is a sourcing organization staffed by category managers who work in and across business units and excel at strategy.

• A Back Office operation consists of finance-governed, accounts-payable-focused, shared services operations whose core mission is to handle transactions. The only procurement transactions that are executed here are after-the-fact purchase orders or other transactional updates that require no procurement background or skills.

• The Middle Office is a "procurement shared services center" that connects the company's transactional (back office) activities with strategic (front office) operations. The middle office is what makes shared services work because it brings centralization (and therefore scale) to higher-value, non-transactional activities, such as spot buy management, reporting performance measurement and data/contract/compliance management. The middle office contains sourcing analysts who support category managers with analytical, e-sourcing and supplier-management expertise. They also research opportunities to help category managers reduce the frequency of spot buys.

• Local support and thus Local Operations are key to making the model work. Procurement requires a local arm to help implement contracts locally and support spot buys that require extensive collaboration or are difficult to centralize or offshore.

How does this model actually work in a shared services environment? The most effective way is through a portal. To launch a request for materials or services, authorized users access a portal that presents them with a menu of buying channels, catalogs, deals, etc. If they find what they need, the process is entirely self-serve and automatic, albeit contingent upon approval that can be solicited automatically. If their need is for a one-off (spot-buy), users can contact a local purchasing representative (LRP) who can either make the purchase, forward the requisition to the middle office where a team of professional spot-buyers obtain it, or forward the request to the front-office (category manager) if the item is of strategic or high value. This sequence is depicted in Figure 4.

Equally important, the model channels an ever-increasing percentage of requisitions into the automatic self-serve channel. In effect, an ongoing, continuous-improvement engine is enabled.

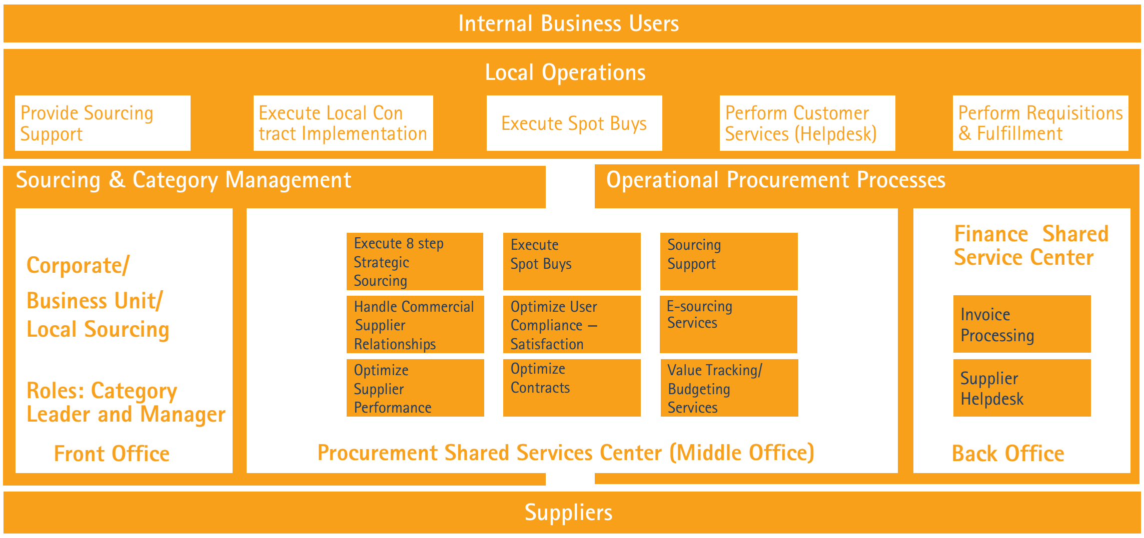

Figure 3: In a world-class procurement shared services model, four components reside between a company's internal business users and its suppliers.

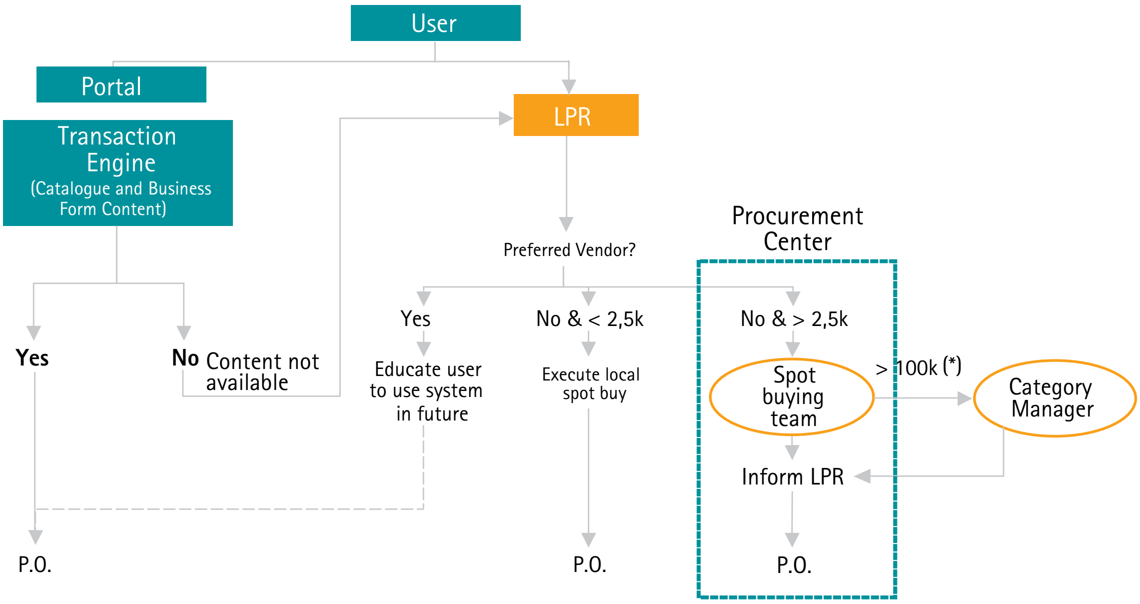

Figure 4: The critical role of a "middle office" in procurement shared services.

Building the Model

In broadest terms, companies have two options: Either they can build and operate a shared services capability (the middle office) themselves, or they can outsource that effort to a qualified services provider.

Regardless of whether the shared services program is outsourced or kept in house, numerous procurement activities will likely be located offshore. This is where much of the new model's savings come from—obtaining low labor rates for procurement activities that are not affected by distance, and for which the learning curve is not particularly steep. Examples include:

- Sourcing support: Leveraging specialized sourcing analysts who support category managers with data analysis, industry and supplier profiling, e-sourcing support, Request for Proposal (RFP) analysis and preparation for fact-based negotiations.
- Spot buys: Handling one-offs and ensuring proper follow up for on-time delivery.
- Contract services: maintaining all contracts centrally and monitoring contract-related follow up activities.
- Master data compliance and content assurance, requisition-to-pay and reporting-framework maintenance.

Activities for which an onshore presence remains preferable are usually those that are particularly detailed and/or that require ongoing face-to-face interaction with business decision makers and suppliers. An example would be complex spot buys for creative agencies in the area of marketing. Still, as much as 80 percent of shared services activities can legitimately be regarded as candidates for offshoring. The key is building mechanisms that accommodate the smooth and rapid transfer of requests and information.

When offshoring, close consideration should to be given to location(s) of the procurement center. Typically, the most important criterion is availability of abundant procurement, analytical and language skills. Significant advantage also can be obtained by finding a location where competition for the above capabilities is limited. Basically, first movers have a significant edge, since turnover and labor-rate increases can quickly compromise a business case. However, as shown in the case study box, making location the sole criterion is seldom a wise move.

Case Study: Leveraging a Procurement Middle Office to Increase Profits and Performance

In recent years, raw material prices in the global beverage market have increased dramatically. Many companies thus have been working hard to reduce indirect spend. One good example is a global beverage manufacturer that is implementing procurement middle offices in Central and Eastern Europe.

Most core to the company's mission were 1) reducing the procurement organization's operating workload before offshoring and 2) maximizing "user-centricity." The second concept is particularly key: User centricity means that the complexity of the middle office should not be evident to the user. To make this happen, the company:

- Implemented a 70 person off-shore middle office

- Developed a procurement user portal as a content layer over the ERP system. Via the portal, users are quickly and smoothly guided to the right information through appropriate buying channels.

- Appointed a dedicated procurement representative to act as a central point of contact for all procurement-related issues.

These innovations (new technology and new organizational structure) involved a significant change management effort. Most important was preparing for centralization and offshoring by making necessary shifts in the nature and quantity of work. For example, procurement services were standardized across countries, supplier "e-readiness" programs were introduced, reductions were made in the quantity of spot buys, and a broad cleanup effort was done to the company's procurement master data.

To date, middle office capabilities have gone live in the Ukraine, Luxemburg, Russia and Belgium. Implementation activities are underway in the United Kingdom, Romania and Germany. Yet even at this stage, procurement coverage has increased from 65 percent to 85 percent, while operating costs have dropped by about 10 percent. The procurement user portal has helped increase compliance from 80 percent to 95 percent of procurement covered spend.

High Performance and the Rewards of Procurement Shared Services

Procurement is clearly an excellent candidate for shared services—provided that companies understand 1) how to organize and parse the function, and 2) that much of the operation is focused on the savvy use of offshore resources. When these facts are acknowledged, and followed by a quality implementation of a shared services sourcing model, the results can be significant.

In a strategic context, high-level buyers are freed up to focus more completely on proactive sourcing and supplier development. Procurement professionals also become part of the spot-buy equation, thereby reducing off-contract purchases and obtaining better deals. In effect, resources are deployed more effectively and solid groundwork is laid for greater levels of specialization—including sourcing analytics, e-sourcing, spot buying and contract management.

At the same time, governance and control are actually enhanced with an offshored (and potentially outsourced) structure. Many companies tend to fear that their insights and involvement will be compromised in such a situation. What generally happens, however, is the exact opposite: Buying channels are tightly controlled and monitored (all via a single point of entry) so compliance is higher. Increased levels of automation ensure more-complete visibility and performance reporting. Connectivity across all levels of the client organization and all levels of the procurement process (C-suite, strategists, transaction specialists and suppliers) is enhanced.

Naturally, these advantages offer broad cost-saving potential. The most significant arise from tighter adherence to contracted supply rates. Accenture research on high performance has shown that increasing on-contract buys from 60 to 95 percent can reduce a company's costs by up to 4 percent. Additional savings stem from:

- Aggregated spend across multiple buyers. Shared services organizations are better positioned to consolidate buys across an organization and thus acquire more volume discounts. In organizations with multiple procurement operations, it is not uncommon to find several relationships (and purchase contracts with varying stipulations) with a single supplier.
- The ability to pool experience, knowledge and skills, as well as purchases and contracts.
- Total cost of ownership reductions—particularly operating costs relating to centralization and offshoring.
- Higher percentage of cost-efficient product designs and introductions, due to increased and earlier involvement by the procurement organization.
- Higher share of suppliers managed through a formal process.
- All contracts logged and managed centrally.
- Leveraging technology more effectively. Shared services operations often have an easier time justifying and leveraging the acquisition of leading-edge technology, such as e-procurement and e-auction tools.
- Fewer missed opportunities to capture volume and early-payment discounts.
- Tight integration of sourcing and procurement with related processes such as inventory management, inbound transportation, and finance and accounting.

In the Accenture report mentioned earlier, researchers noted that procurement masters (roughly 16 percent of the survey population) "frequently implement mechanisms such as shared services and outsourcing that promote accountability across the purchasing cycle and in relationships with related business areas such as engineering, manufacturing and field service." Moreover, masters were found to be twice as likely as "laggards" to avail themselves of these opportunities. The message here is that development of a procurement shared services model is highly consistent with the characteristics and behaviors of companies that are committed to high performance. Like all high performers, organizations that develop shared services operations sincerely want innovative business approaches that reduce total cost of ownership, ensure continuous improvement and introduce new strategic advantages that hold long-term sway in the marketplace. In every respect, high performance and procurement shared services are desirable and compatible.

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Notes

[1] High Performance through Procurement: Accenture research and insights into procurement performance mastery, Accenture, 2007.

About the Authors

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