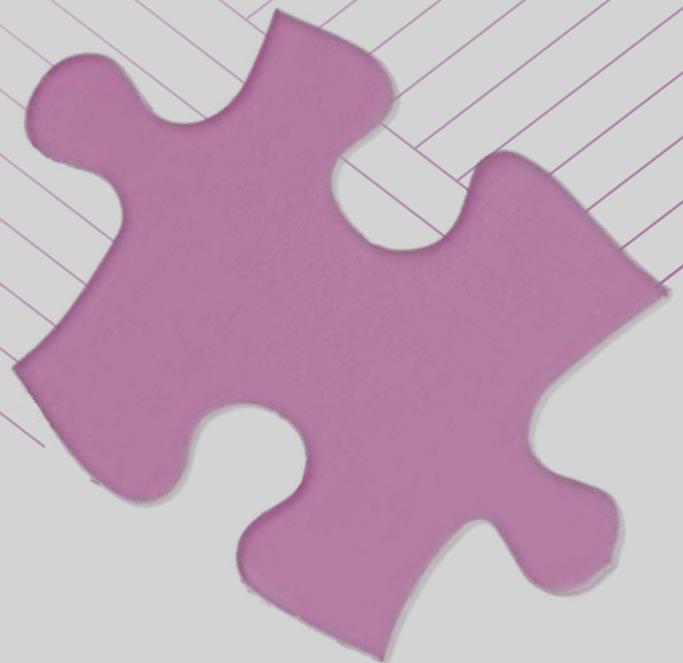


The Procurement Puzzle

Piecing together the
perfect system



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Companies upgrading procurement systems amid digital disruption face a strategic choice: single vendor, or build from different suppliers. This report explores a tough choice that may affect critical business functions for a decade or more.

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Software solutions to the procurement puzzle

Solve it and unleash
real transformation.

There are now many types of procurement software, from bespoke solutions to all-in-one suites. Getting the right mix can be complicated, but the rewards are great.

Over the past decade, companies of all shapes and sizes have shifted to digital business models. Many have had to completely rethink the way they buy goods and services, which has lifted procurement as a theme up the organizational hierarchy. It's no longer seen as a backwater for underperforming employees, a place where suppliers get squeezed and invoices rubber-stamped and little else. Instead, it's the heart of a more agile, innovative and data-driven organization: the key to success in an increasingly open, complex world.

This is partly due to the vast amount of data that flows through procurement departments. Harnessed effectively, it can provide deep insights into business spending and supply chains, the ability to find cost savings that would otherwise be missed. But this can only be achieved with the right procurement software – and that's where things start to get complicated.

Numerous software-as-a-service companies now jostle for space in a crowded market, each offering to supercharge procurement with their best-of-breed solution. Many address a specific element of the procure-to-pay or source-to-pay (S2P) process; the relatively low cost of a monthly subscription means they're typically cheaper to implement than an all-in-one suite.

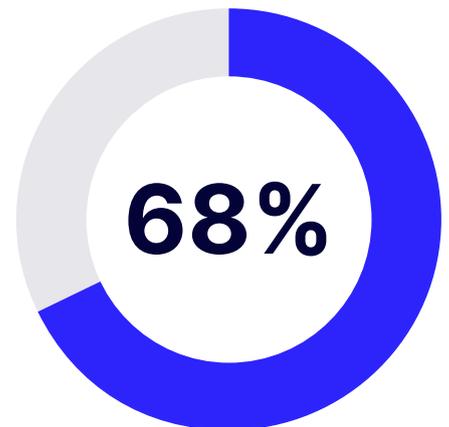
Meanwhile, these suites – including SAP Ariba, Coupa, Ivalua and Jaggaer – have responded to the challenge by incorporating similar features into their products or launching best-of-breed buying sprees to quickly enhance their capabilities.

So where does that leave procurement leaders who are looking to upgrade their technology environment? Should they opt for an all-in-one suite or build a bespoke system with best-of-breed software? And which technologies are most likely to live up to the promises made by their vendors?

The answers will be partly dictated by the industry in question, the current IT environment, available funds and wider business objectives. Organizations with minimal legacy technology, for example, are arguably in a better position to adopt bespoke solutions.

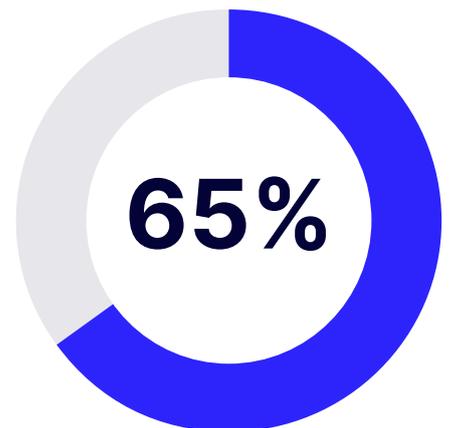
But supply chain consultants reckon large organizations that are heavily invested in their current IT setup shouldn't discount the best-of-breed vendors, either.

"You may have a very strong ERP [enterprise resource planning] platform or a very strong single-suite solution that covers the end-to-end view," says Iain Kirwan, a director in Deloitte's UK supply chain consulting practice.



CPOs who are improving and automating their processes

Deloitte global survey, 2019



US procurement leaders believing out-of-date systems block progress

Efficio/Cranfield survey, 2018

“However, you might want to accelerate the performance of these solutions by adopting some maturing or emerging technologies, or some additional bespoke solutions.” On the other hand, if you’ve invested very little in your S2P processes “then you might be looking for some point solutions [systems that can improve capability in a single, high-importance area] to leapfrog where you currently are”.

Chief procurement officers (CPOs) who haven’t got to grips with modernizing their processes are already falling behind their peers. According to Deloitte’s Global CPO Survey 2019, roughly two thirds of CPOs are getting their house in order by implementing modern S2P applications that automate core workflows, which can free up staff to focus on more strategic work. Meanwhile, complexity masters – CPOs who outperform the survey population in terms of making key technology investment decisions – have a 30 per cent higher adoption of “upstream” technology such as spend analytics, sourcing, supplier relationship management (SRM), contract management, and supply risk management.

Interestingly, however, a large percentage of companies that have fully implemented these technologies aren’t satisfied with the results.

This is because best-of-breed solutions have a mixed level of maturity, Mr Kirwan says, which means some of the newer solutions “probably aren’t at the level that they need to be”.

At the same time, the big single-suite providers often claim to be able to do sourcing, supply chain risk, supplier management, contract management and more. However, “I think we’ve found that the maturity of some of the single suite providers [in some of these areas] is not at the level it needs to be at either”, Mr Kirwan explains. The fact that even some of the big established players still only have very immature offerings serves to demonstrate the importance of proof of concepts.

Integration issues

Integration is about data, creating a bedrock of accurate information that is available whenever, however it is needed. Although best-of-breed tools are increasingly able to integrate with existing ERP platforms and other software tools, pulling them all together into a bespoke system can still be complicated. “If you move to best-of-breed solutions to improve your efficiency or effectiveness, then you do have to deal with increased complexity,” Mr Kirwan says. “They are more fragmented applications, you’ve got more vendors to manage.

That potentially increases the complexity – and therefore the cost – of integrating them.”

CPOs looking to invest in new technology also need to be sure that their staff and suppliers will embrace the tools they have in mind.

For instance, it’s vitally important to consider the day-to-day user experience;

if people don’t like using a tool or module – or worse, can’t use it – then you can bet that maverick spending will occur. And once your core procurement workflows and processes are automated, will your staff be capable of taking on a more strategic role?

“I would suggest that strategic procurement functions fail not because of technology,” says Roy Anderson, CPO and digital transformation officer at Tradeshift and former vice president of global procurement at MetLife. “They fail because they haven’t reinvigorated their staff to meet the new levels of skill required.”

“Strategic procurement functions fail... because they haven’t reinvigorated their staff to meet the new levels of skill required.”

Roy Anderson, CPO and digital transformation officer, Tradeshift

CPOs must also consider whether the best-of-breed vendor they're eyeing has sufficient funding to keep pace with larger competitors.

And they must also of course ensure that the solution they are considering genuinely fits with the requirements of the business.

Nic Walden, a senior advisor in The Hackett Group's procurement advisory program, says that whatever solution they choose "people say 'we probably relied too much on what the salespeople told us. We didn't do enough due diligence and actually test our own use cases, the way that we run our business processes, against what's actually in the solution.'"

Indirect access has posed challenges for SAP's ERP platform. This is essentially a licence violation that occurs

when SAP customers allow third-party applications to communicate with SAP system data. The issue came to a head in February 2017, when a UK court ruled in favor of SAP in the case of SAP vs Diageo. The latter had allowed customers and members of its customer support team access to SAP data via third-party systems – a licensing breach that ended up costing it £54 million. Naturally, other SAP customers were worried that they too might be at risk of litigation – concerns that SAP has sought to address with a new document-based pricing model.

The data dilemma

Deloitte's Global CPO Survey 2019 found that 57 per cent of CPOs see quality of data as one of the main barriers to the effective application of digital technology in procurement.

It's often said that one of the benefits of all-in-one solutions is the fact that data on areas like business spend or supplier risk is collated, stored and accessed in a single place, as opposed to ending up fragmented across several best-of-breed solutions. A more direct approach is to seek out a specialist supplier whose entire business is focused on data quality and deploy their system to provide this all-important bedrock. So is that the best way to address the data quality issue?

(API) functionality, which allow users to customize and enhance their solutions according to industry, region or simply personal ways.

Mr Anderson of Tradeshift suggests that the idea that a tool can meet the needs of every user - from the engineering team to the sales office in China - is ridiculous.

"People say 'we probably relied too much on what the salespeople told us. We didn't do enough due diligence and actually test our own use cases.'"

Nic Walden, Senior advisor, The Hackett Group

Suite providers seek to acquire success

In recent years, the big suite providers have acquired numerous best-of-breed vendors – a trend that looks likely to continue as the market consolidates.

Jaggaer, for instance, claims that it became the world's largest spend management solutions company when it bought BravoSolution in late 2017. This followed its acquisition of Pool4Tool – a European direct materials procurement specialist – earlier the same year.

Such deals underline just how quickly the procurement software market is evolving.

To take another example, Coupa recently acquired Exari, a leader in Contract Lifecycle Management (CLM). The acquisition added advanced CLM capabilities to the Coupa Contract Management solution, including functionality for contract creation, collaboration and discovery. The deal meant that Coupa went almost overnight from “having an average solution to having one of the best”, says Nic Walden, a senior advisor in The Hackett Group's procurement advisory program.

Such deals are generally good news for the acquirer's customers, who gain access to a market-proven solution.

However, mergers and acquisitions carry a risk of cultural, commercial or architectural incompatibility. In the past, some suites have struggled to properly fold their acquisitions into their existing solution.

“If you decide to go for an integrated solution because of the benefits around productivity, automation, master data and so on, what happens when they go out and buy all these different companies?”

Mr Walden asks. “They talk about having a unified application environment on a single code line, and they might have started out like that. But as soon as you add in all these extra companies you end up in a world where you lose some of those benefits.”

Customers of the acquired company might also be wary of the merger. Indeed, Synertrade, a provider of solutions for optimizing purchasing and finance processes, offers a “safe passage” program, a discount aimed at companies who have seen a much-loved vendor acquired and want to migrate because the technology is being damaged or important human relationships disrupted.

The company notes: “Thankfully many sourcing professionals put a change of control clause in their contracts with their providers and are now executing them when their provider is being acquired.”

Welcome to the app store

The future of procurement software may therefore look a lot more like business-to-consumer (B2C) software: an Android-like environment that allows users to install and delete thousands of different applications, all running on the same underlying master data, with zero disruption to business processes.

The daunting language of APIs in procurement software is being replaced with phrases such as “app store” which signifies not only simplicity but empowerment. It signals that mixing vendors is not an option restricted to firms with a big IT department or unusual requirements, but is a normal and straightforward choice for firms who just want to get the job done well.

There’s still some way to go, of course. But for procurement professionals navigating an increasingly complex software market, that future may come as a welcome relief.

Sector of primary operations

According to procurement leaders in the US, UK, and Germany, what are the most important barriers to harnessing digital technology?

40%

Internal politics

87%

Lack of talent

50%

Incorrect/inaccurate expectations

66%

Lack of vendor support

52%

Procurement policies too restrictive

64%

New tech not supported by processes and skills

AutoNation and HICX see data dividends

Case study



AutoNation faced complex data challenges, but a partnership with HICX is bringing savings and presenting new opportunities.

Ask anyone in procurement to name their biggest challenge, and the answer is usually the same: data.

This was certainly true at AutoNation, the giant auto retailer that in 2018 sold Americans more than \$16 billion worth of vehicles.

AutoNation is a complex business. For new vehicles alone it sells 33 brands, while it has around 240 stores across the nation. It also runs 85 branded Collision Centers and offers a wide range of finance and maintenance services.

A single system was not capable of handling AutoNation's procurement volumes; it therefore had 14 systems deployed on a more or less regional basis. This meant that each time the supplier relationship was extended to a new region, the data had to be duplicated into a new system. This created huge data redundancies and inefficient processes, while a lack of insights about its suppliers meant the company was unable to leverage its size and consolidate spend between business units to get a better deal.

"It's not until you're in the midst of it that you realize the importance of not underestimating the data," according to a senior AutoNation executive.

"It's not until you're in the midst of it that you realize the importance of not underestimating the data"

The first step in addressing the problem was creating a supplier data strategy, understanding the gap between current systems and the needs of the future. Details were important: for example, verifying tax IDs was the first priority for AutoNation, enabling it to identify unique suppliers.

AutoNation chose HICX Solutions as its partner. First, new suppliers to the auto-retailing giant on-boarded themselves via a self-service portal, before existing suppliers were gradually led through the same process.

This self-service model was a big plus for HICX's solution. The support desk had been handling some 4,000 supplier inquiries a month, mostly from suppliers struggling to reconcile payments received from AutoNation's 14 accounts payable systems with multiple outstanding invoices. Moving suppliers to a self-service portal has brought considerable savings and benefits for both sides.

HICX's solution allows for both corporate oversight and local flexibility. The central team manages around 40 spending categories, but local stores and business units can also make decisions locally about the suppliers that do the job best for them.

More strategically, the integration – coupled with master data governance – means AutoNation now has a single source of truth on suppliers that feeds all ERP systems through an automated process, ensuring consistency in the data. Furthermore, HICX allowed for the seamless management of mismatches within the supplier record stemming from the two different types of ERP systems.

AutoNation has also realized substantial benefits through automating workflows and standardizing processes. Through comprehensive reporting, AutoNation scaled the ability to tap into real-time information, equipping the company with the information needed to manage and better negotiate with suppliers: for example, through gaining access to the insurance documents that vendors can upload into the portal. This helped drive effective governance and better control.

"Data doesn't generally excite people – it's very foundational," said one AutoNation executive. "But the opportunities that come from the consolidation and enhancement of data can have a healthy impact on the bottom line."

Build your system on a solid foundation of data

“The challenge for procurement
is data management.”



The challenge for procurement is not picking the best vendor, it is solving the problem of data management. Without this, any solution will disappoint.

What's your procurement problem? Is it colleagues who refuse to use technology and say it is "too difficult"? Is it overseas subsidiaries that do not link to corporate systems? Is it zero visibility and the impossibility of tying purchase orders with invoices?

No matter what the issues are, the chances are someone has offered you a one-stop solution. Someone has recommended or tried to sell you a suite that promises control, efficiency, visibility, and ease of use, all from a single vendor.

It is an enticingly easy way out of the procurement puzzle that has led to an explosion in procurement software.

The problem is the single platform solution does not always work.

It has been the dominant force in procurement for some time, but plenty of organizations are wrestling with the fall out (ask global drinks company Diageo, which two years ago had to pay nearly £60 million to SAP, a leading ERP software provider, after using third-party systems to access data associated with SAP software).

Companies that had previously bought into the supposed magic of a sole provider are now discovering drawbacks. Maybe there is a hot new software service but they can't use it because they are locked into a licensing agreement. Maybe they have outgrown the solution that worked five years ago, but it would cost too much to ditch it.

Maybe they are finding that systems bought from one vendor are still proving difficult to tie up because the vendor has grown by buying other software companies.

It is time to stop, step back, and think about what you want. Is traditional procurement still the best way for the future? No company is static; high growth companies will need different solutions, sometimes at a dizzying pace. Is one vendor always going to be the best provider? Nobody can be good at everything, while businesses are so diverse that the best solution for one is far from the best for another; the procurement needs of a Middle Eastern retailer with revenues of £1 billion are very different to a multinational conglomerate with £100 billion of turnover.

Let's face it; procurement departments are wrestling with a moving target. Not only is each company changing all the time, but there is constant technology innovation. Flexibility and agility are critical to cope with corporate change, and a series of plug-and-play apps that will move, flex, and grow with your organization and its requirements may well be the best solution.

But it is worth remembering that there is no best solution in technology, only the best solution for today. What remains constant, however, is the foundation stone of data. Without good data, all the software patches in the world won't improve the procurement function. Without good data, you can spend without achieving any of the promised efficiencies. Without good data, software integration is always going to fail in its outcome.

Too many procurement functions jump at a solution, before envisioning the end result. But technology is a distraction if it takes attention away from the real problem, that for many firms there is no single "source of truth." So the challenge for procurement is not finding the perfect technology solution but solving the problem of data management, enabling information to flow smoothly from one system to another.

Instead of focusing on outsourced software, many companies would do better to focus on what is demanded of their data. Data by its very nature gets corrupted over time; developing a process of data governance and continuous curation to ensure information is the bedrock of your ProcureTech could be the best investment you ever make. It could lead you into a future outside the four walls of your company, to suppliers, partners, and customers interacting with common systems across the value chain. This is critical if there is to be a move towards "lights out" procurement, where automation replaces the fallible human. A plug-and-play model will allow solutions to be adapted to best suit the needs of those using them.

Solving the procurement puzzle requires good systems for specific tasks, seamlessly integrated. But whether those systems are bought from one or many vendors matters less than the management of the raw data on which those systems feed.

60%



CPOs citing poor master data and governance as a barrier to mastering digital complexity

Deloitte global survey, 2019

54%



Firms using manual processes to move data between procurement systems

Jaggaer/EdgeVerve global survey, 2019

Single suite vs best-of-breed: sorting myths from reality

Getting to the facts.

The right procurement system can deliver benefits for a decade or more. Focusing on the facts is the first step to making it happen.

“No one ever got fired for buying IBM,” so the saying goes, meaning it’s generally safer to go with a household name when you’re in the market for new technology. But does that still hold true in 2019? And given the speed of technological development, is buying a suite really the “safe” option today?

“Let’s be clear, the vast majority of the clients that we currently work with prefer the single-suite solution,” says Iain Kirwan, a director in Deloitte’s UK supply chain consulting practice. “It provides end-to-end capability in one place, with one vendor to deal with.”

However, Nic Walden, a senior advisor in The Hackett Group’s procurement advisory program, says that while an all-in-one may offer more across the board, “if you need to be the best in supply chain risk management ... then a best-of-breed solution in that area might actually be better for you”.



Three myths about all-in-one suites

They're big and bloated



Drew Hofler, vice president of portfolio marketing at SAP Ariba, says there is a common misconception that all-in-one suites are a big, bloated package that you have to implement (and pay for) all at once – even though your employees might only need some of the features it offers. “That’s simply not the case,” he explains. “You don’t have to buy it all at once; you can just buy the tool you need at that moment.” Additional modules that will “seamlessly fit” with those you already have can be added at a later date. SAP Ariba “can grow and evolve with your business”, he says.

They offer the lowest common denominator user experience



There’s a widely held belief that a suite won’t deliver the kind of precise functionality required, driving users to develop workarounds or simply avoid using it. However, Mr Hofler says the idea that a suite will only ever provide a monolithic, homogenized, lowest common denominator user experience is simply wrong. While the different features of a suite are designed to work well together, the platform is purposefully designed to handle distinct processes and user experiences, including through APIs, he says.

They're more expensive than best-of-breed solutions



For small to medium-sized businesses, a suite may seem too expensive for their needs. Even with a modular approach to implementation, there may be features that seem like overkill. But once you start investing in multiple solutions from multiple best-of-breed vendors – and factor in the IT spend needed to maintain the connections between them over the course of numerous updates – you might find that the suite option suddenly looks a lot more affordable. What’s more, says Mr Hofler, the modular nature of a solution like SAP Ariba means there’s no need to go scouting for a bespoke vendor every time you want to improve one of your processes, further saving time and resources.

Three myths about best-of-breed solutions

They're riskier than a well-known suite



Many CPOs and IT teams believe a suite is the straightforward and reliable choice, but all-in-one platforms are arguably harder to remove once they're in place. The sunk costs and daunting management effort of a total replacement mean you are effectively locked in to one vendor. It's also arguably a risk to invest significant time and resources in implementing a large suite that might not turn out to be an effective solution for the organization's needs.

What's more, if there's a problem with a suite, it will typically affect numerous business processes. Best-of-breed solutions, by comparison, are more compartmentalized and can be removed with relatively little fuss or expense. It isn't as easy as downloading a new app on a phone, but it's easier than a company-wide change.

The big suites offer the same functions



It's fair to say the big suites offer an increasing array of features and options. Indeed, some of the big players have snapped up numerous best-of-breed vendors to improve their offerings. Still, many best-of-breed solutions retain an edge over the suites in their particular vertical. "One of the myths that has been pushed by some of the single suite providers is that they can do everything," says Iain Kirwan, a director in Deloitte's UK supply chain consulting practice. "And I think that we're now seeing that actually ... there may be gaps that need to be addressed within a single suite solution." Specialist vendors have built their entire business on delivering excellence on their part of the procurement lifecycle, which should drive constant innovation.

Also, they are smaller companies so your business is more valuable to them and you have a better chance of being a VIP customer.

They're hard to integrate with other solutions



Vivek Bharti, general manager of product management at Icertis, a specialist provider of contract management systems, says executives often believe that suites integrate the different elements of the procurement process more efficiently than best-of-breed solutions. "They think it's going to be like it was ten years ago, when you had two different systems that could never talk to each other," he explains.

But times have changed. Best-of-breed solutions are much more user-friendly than they once were, and the vendors behind them are a lot more proactive when it comes to developing and maintaining integrations with other software tools. In addition, the increasing range of APIs has further helped to dispel the myth that best-of-breed tools are a source of major integration headaches. If the underlying data is accurate – and if it isn't, no type of solution is going to deliver results – piping data around the different pieces of software is no longer a challenge. By embracing the strengths of all the different players, businesses can have the best of all worlds at their fingertips.

HICX is the Low Code Platform for Supplier Management.

We enable business to find, maintain, and re-use trusted Supplier Data and Information across their Enterprise, across any spreadsheet, app or system. Our solutions enable your businesses to be more reliable, flexible, and scalable. Building from a rock solid platform of good quality data, we help businesses become digital in supplier management, third party management, compliance and risk, master data and finance management.

