

Shifting the Procurement Paradigm to Support Agile Customers

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INTRODUCTION

Companies today are migrating *en masse* from traditional to agile methodologies primarily, but not exclusively, for product development. Among other things, this means support organizations must update their traditional support models and change the way they work to better serve their customers. It hasn't been an easy journey for some groups, like those focused on procurement, which have operated with mature processes and time-tested policies and procedures with their roots in 1990s-era procurement fundamentals. But if procurement professionals cling to the traditional techniques to perform strategic sourcing and category management functions, it is increasingly likely they will face conflict with internal customers that are embracing modern agile processes to rapidly develop products and services and differentiate their companies in the marketplace.

The fact is, traditional sourcing methods take too much time for agile proponents. Today, the amount of savings that might be achieved in the traditional RFP process is likely to be outweighed by the lost opportunity of being first to market with a new product. This ISG white paper examines how the rise of agile techniques has disrupted traditional procurement organizations and explores how they must shift the procurement paradigm so that it no longer focuses solely on spending and savings but aligns more closely with the business to support its objectives.



HOW HAS AGILE CHANGED THE PROCUREMENT LANDSCAPE?

Agile business practices value speed, open collaboration and rapid results, and they do not require negotiating for the lowest price. Instead they focus on the value delivered to the organization. Traditional procurement groups have been comfortable using the competitive process to normalize quality, delivery and requirements so that complex sourcing activities come down largely to comparing lowest price and risk. Simple, right? But the problem with traditional methods is that they take too much time for agile proponents.

A buyer can proudly claim to have saved 11 percent by conducting an eight-week competitive sourcing activity, but the business might regard that as an utter failure because it needed the project to be underway in three weeks, and as a result, it compromises its entire product development timeline. The 11 percent savings might be more than offset by the costs of the business going into a holding pattern while the sourcing process gets underway. Even more dramatic (but tougher to measure) could be the cost of failing to be first to market with a new product, allowing the competition to gain the upper hand.



Agile requires us to shift the focus of procurement to the value we provide to the business, and that isn't just about cost savings.

When procurement adheres rigidly to rules and procedures that are not responsive to business needs, the business perceives procurement professionals as “blockers” and obstacles, rather than value-add colleagues. Motivated to succeed and overcome obstacles, some business units assign their own people to perform the collaboration and negotiation functions without the procurement group’s involvement. After the employees have completed their shadow functions, the business presents a purchase requisition to the procurement group, expecting that the deal is already done, and the shadow negotiation has resulted in adequate value for money. The value obtained then would justify the procurement group “rubber stamping” the requisition and placing the order for services. When this happens, procurement professionals are reduced to “order placers.”

To counteract this trend, procurement organizations constantly search for ways to become more efficient and to better satisfy internal agile demands. The focus on collaborative contracting long ago smashed the nine-month time-to-contract lead time after both the buyer and seller became more transparent and open about their intentions and requirements. Continued use of panel agreements (blanket ordering) help position service providers to more readily and rapidly satisfy demand for their services. Procurement is educating itself to be competent in DevOps concepts, including how agile contracts are priced and what new types of metrics apply to this different way of contracting.



MORE THAN JUST “BETTER BUYERS”

But the job is not only about being a more responsive and efficient procurement group. The biggest challenge procurement faces today is establishing itself as a relevant and value-add organization, particularly in support of new agile processes arising for software development. This is not just about re-inventing procurement processes – or simply focusing on spending and savings, it is about striving for closer alignment and interaction with business units and supporting their objectives. Procurement groups should recognize two important tenets:

- Although minimizing cost and effective spending management will always be primary parts of the procurement professional's job, procurement must align its activities to support internal customer objectives and support an agile enterprise.
- The objectives of “agile procurement” should become a priority for everyone in the purchasing function. Customer satisfaction is achieved by not only minimizing cost, but also by providing services in a more agile manner.



Until and unless you begin operating strategically with the business, procurement will never be regarded as more than a tactical, response-oriented organization.

MOVING FROM TACTICAL TO STRATEGIC

The pathway for procurement groups to provide increased value is to spend more time with the business at the strategic level and less time performing procurement activity at the tactical level. For procurement professionals dealing with a mountain of tactical purchase requisitions, the challenge to move from a tactical to a strategic mindset can be daunting. Support from upper management will be key to shifting away from a reactive mode and toward a proactive one.

Procurement should demonstrate thought leadership and expertise when advising the business on commercial realities and the structure of the marketplace. Notice that this is about helping with **solutions** not solely about **spending management**. Procurement strategies that focus predominantly on spend-based commodities automatically pre-disposition procurement as a tactical organization. They reinforce the stereotype of procurement “buyers” who have no visibility into bigger plans and objectives. Until and unless you begin operating strategically with the business, procurement will never be regarded as more than a tactical, response-oriented organization.

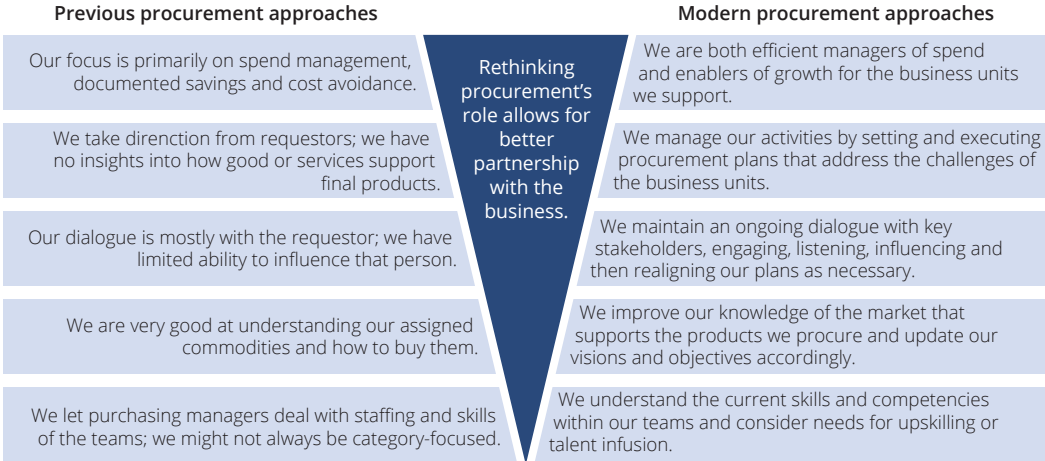
While it may be true that business units do not always have the time or desire to accommodate a wave of multiple procurement professionals knocking on their door, one strategy could be to appoint business unit liaisons to present a single point of contact between procurement personnel and the major stakeholders in the business.



THE NEW PARADIGM

Figure 1 below illustrates the contrast between the previous, traditional approaches to procurement and the new focus that is needed to ensure procurement gets a seat at the table with the business.

Figure 1: The Procurement Paradigm Shift



While most procurement personnel are adept at dealing with procurement problems because they work in a mature discipline and well-established business function, addressing business problems may be a new concept. The procurement mindset needs to align more closely with the business and find ways to drive value. Procurement professionals must evolve into more than just spending and risk managers and embrace their potential to help transform how the business delivers results.

ABOUT THE AUTHOR

SHIFTING THE PROCUREMENT PARADIGM TO SUPPORT AGILE CUSTOMERS



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Warren Smith is a director in ISG's Sourcing Solutions organization. With 15 years of experience working for a service provider followed by over 18 years of consulting experience with ISG, Warren engages in constructing, negotiating and managing sourcing transactions. As a former procurement manager, he helps procurement and governance organizations improve their effectiveness.



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