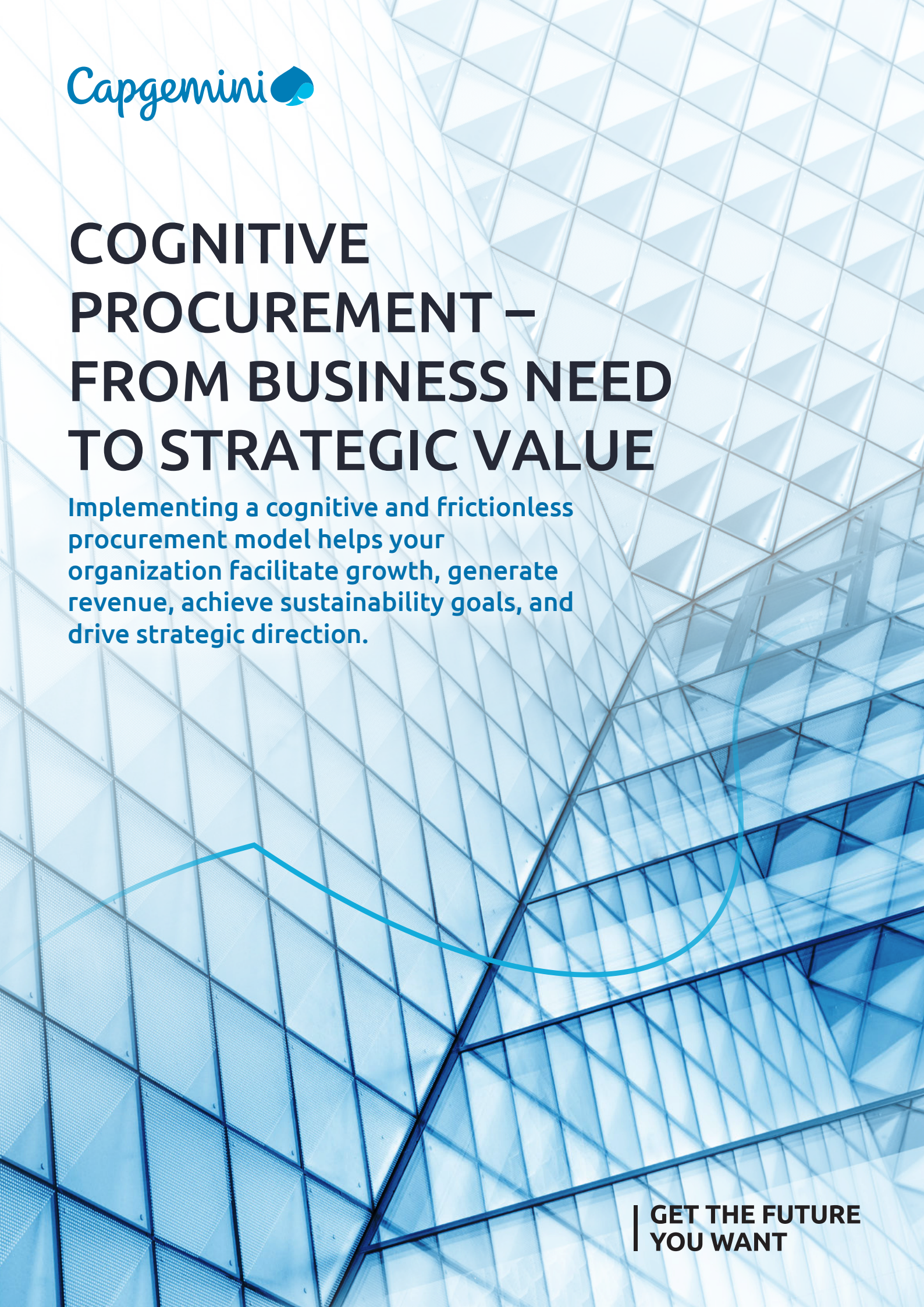
Capgemini

COGNITIVE PROCUREMENT – FROM BUSINESS NEED TO STRATEGIC VALUE

Implementing a cognitive and frictionless procurement model helps your organization facilitate growth, generate revenue, achieve sustainability goals, and drive strategic direction.



GET THE FUTURE YOU WANT

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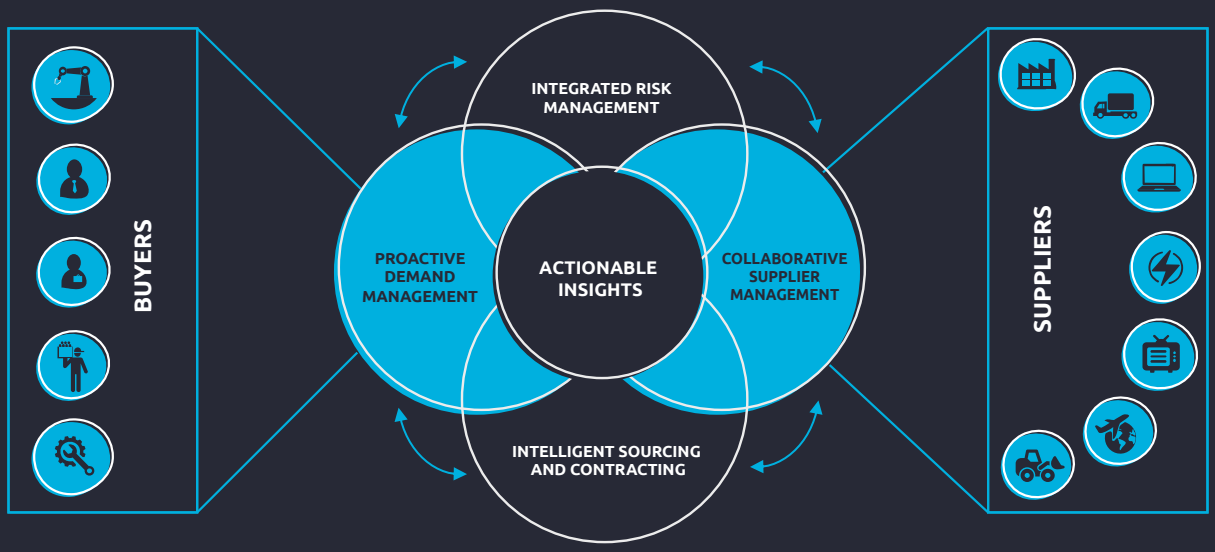
Procurement. In principle, it's so straightforward, isn't it?

A company buys in the general supplies and services it needs. If it's a manufacturer, it also buys in components and raw materials. Ideally, it would source everything competitively, and to the right specification. In short, if you don't buy it, you can't build it, make it, service it, or sell it! It's as simple as that.

Except it isn't. All kinds of factors are at work, and the larger the organization, the wider the complexity. For instance, while a business's quality requirements may be consistent and unified, they may equate to different local standards or class-marks across the many geographies and business area in which the enterprise operates.

THE FIVE PILLARS OF PROCUREMENT

Let's first consider what makes up a world-class procurement function. There to be five key elements:



Proactive demand management

Proactive demand management focuses on ensuring the needs of the business are met – which means the right thing, at the right price, at the right quality, and at the right time! However, it needs to be managed according to the agreed priorities and strategy of the business, with a focus on maximizing business value, not only reducing costs.

The typical demand management tasks include request validation; purchase order processing; expediting and receiving returns; and invoice exception management. We can also consider alternatives, for example, a video conference versus a face-to-face meeting. Ideally, these demands should be forecast where possible. While this is generally true for direct, it is less so for say MRO (maintenance, repair and operations) or indirect purchasing.

In a frictionless operating model, we procurement processes are fully aligned to the needs not only of the business, but also of the category or commodity being procured. Buying channels are also be customized accordingly, and should be easy to use. Where possible, demand is predicted or forecasted.

Typical measures of success include:

- Optimal procurement compliance (over 90%), including alignment of spend to buying channels
- Procurement demand to meet the needs to the business
- Significant reduction in cycle time
- Demand optimization savings (10–15%).

Intelligent sourcing and contracting

The sourcing and contracting function covers category management, strategic, tactical, and spot-buy sourcing activities, as well as the contracting. The focus is on securing the maximum possible value at the right level of risk in each sourcing activity.

In a frictionless context, sourcing leverages a myriad of data sources to determine the right sourcing strategies for the specific category. Analytics help shape the strategy around the needs of the business. This also extends to strong collaboration between business areas, suppliers, and the sourcing team.

Typical measures of success include:

- Spend savings (3–5% on strategic and 10–15% on tactical spend)
- Organization value added (revenue, margin, risk reduced)
- Improved contract compliance (up to 5% of spend)
- Reduction in supplier base (over 15%).

Collaborative supplier management

Supplier management should focus on establishing the right relationships with an organization's suppliers. Typical supplier management tasks include assessment of supplier performance and compliance; supplier enablement and support; contract management; quality management; supplier innovation; and accounts payable.

In the frictionless enterprise, supplier management is digitally enabled to provide real time connections and feedback that can effectively collaborate with suppliers throughout the entire procurement cycle.

Typical measures of success include:

- Increased supplier compliance
- Reduced net cost per supplier
- Optimized supplier base
- Increased revenue (through innovation)
- Payment on time (over 99.9%).

Integrated risk management

Typical risk management tasks include assessments in three key areas – environmental, social, and governance (ESG). The focus is on minimizing risk in line with the requirements of the business.

Frictionless risk management not only leverages internal data collection, but also includes external data points collated from a wider range of sources, leveraging AI for data point confidence. This enables a more responsive approach to risk management as we can cover more data points in near real time.

Typical measures of success include:

- Reduced supply risks
- Reduced business loss
- Increased social capital.

Actionable insight

Actionable insight is at the core of the procurement function, bringing in data points from the areas above, as well as external inputs to support the continued development of the procurement function at an operational, tactical, and strategic level.

Typical tasks associated with insight include analysis of spend and working capital; maintaining and interpreting intelligence about individual suppliers, and individual commodities; and analyzing category trends. These insights result in tangible actions.

Typical measures of success include:

- Increased spend visibility
- Identification of savings and value opportunities
- Continuous improvement to processes.

Procurement and sustainability

It's no surprise that the procurement function is playing an increasingly important and strategic role in achieving a company's sustainability objectives. In fact, in a survey conducted in recent years,* 81% of procurement organizations said that over the previous three years, their commitment to sustainable procurement had increased moderately or significantly.

Environment

Indirect carbon emissions can account for up to 90% of the total carbon impact of a company. For those engaged in a Net Zero Carbon neutrality, procurement can help suppliers continue to reduce their carbon footprint.

Society

Promote diversity and responsibility inside the procurement organization as well as through supplier selection by encouraging local suppliers' partnerships and solidarity sourcing.

Social

Ensure suppliers' compliance with international regulations and promote those favoring development, diversity, and fair treatment of their employees.

Sustainable economy

Raise internal stakeholders' awareness to seek economic performance through consumption reduction and green projects.

* Source: Ecovadis & NYU, Sustainable Procurement Barometer, 2019

ENABLING THE FRICTIONLESS ENTERPRISE

As organizations and business models have become more complex, the technology that supports the procurement and payables functions has struggled to make this key connection between the operational needs of the business, the compliance needs of finance, and partnership requirements from the suppliers.

In response, there is now a large number of new technology players that support various elements of the procurement function, many of them crossing into the domain of traditional platform providers such as Ariba, Coupa, and Ivalua. With new opportunity, however, comes complexity, as processes and technology are added and integrated across the various functions of the business.

The challenge for most organizations is to successfully execute on this integration to get the right alignment. The more this happens, the greater value the procurement function can bring – not only in cost savings, but in revenue growth and in an increase in social capital.

To meet these goals, the technology integration mentioned above needs to be comprehensive. It's an approach that we at Capgemini call the Frictionless Enterprise.

Delivering Cognitive Procurement – part of the Frictionless Enterprise

The Frictionless Enterprise enables a smooth and seamless flow of information and collaboration between the various stakeholders in a business process. For procurement, this typically includes production, requestors, suppliers, logistics, finance, legal, and risk.

While in the past, technology, rules, and processes may have developed and deployed on an as-needed basis, the Frictionless Enterprise is more holistic. It entails new and digital ways of end-to-end thinking and working, together with the flexibility to adapt constantly to new contexts. It considers the way stakeholders interact with and adopt technology to drive value within the organization.

The five fundamental elements on which the Frictionless Enterprise rests are as applicable to procurement as they are to any other major area of business. They are as follows:

- **Hyperscale automation** to focus on efficiency, time to market, and quality, making use of touchless processes, of a scalable and flexible architecture based on procurement platforms, microservices, and APIs
- **Cloud agility** to ensure the enterprise is liberated from its own data center, and that it is digitally transformed to make it ready for and responsive to change
- **Data fluidity**, enabling organizations to control, understand, and analyze the execution of each process in real time so they can identify future frictions
- **Sustainable planet** to ensure frictions are addressed, while being mindful of the global context in which the enterprise operates
- **Secure business** of cybersecurity, compliance, privacy, trust, and transparency, to provide safety and reassurance internally, and also across the ecosystem of customers, suppliers, and partners.

Intelligent automation (including carefully selected platforms, robotics, machine learning, and intelligent document processing) should be fully embedded across all these elements, and should provide cognitive support to business functions through machine learning and predictive analytics.

In short, the Frictionless Enterprise is best expressed as an attitude to how organizations can create best-in-class processes and services that deliver increased efficiency, faster time to market, and an enhanced user experience. Without this comprehensive attitude – without this joined-up thinking – it is much more difficult to gather and organize the data needed to make decisions, and to use machine learning and artificial intelligence to interpret it and act upon it.

What we at Capgemini term – Cognitive Procurement – builds on these principles, with a proven framework to help identify, deploy, and evolve the required technology architecture to support your business processes.

The FrictionlessEnterprise

The Frictionless Enterprise seamlessly connects processes and people, intelligently, as and when needed. It dynamically adapts to your organization's circumstances to address each and every point of friction in your business operations.

At Capgemini, we have applied the Frictionless Enterprise to enhance cohesion across our entire suite of products and services. This enables us to respond rapidly to your changing requirements and deliver your specific business outcomes in a value-focused way.

We implement ways to detect, prevent, and overcome frictions – leveraging our latest thinking, organizational design, and intelligent solutions to achieve our goal of effortless operations.

THE INTELLIGENT DIGITAL ECOSYSTEM FOR PROCUREMENT

For many years, Capgemini has been building and implementing operating models around our Digital Global Enterprise Model (D-GEM). This framework serves as a blueprint for procurement around seven levers: Pyramid, Location, Competency, Process, Technology, Governance, and Pricing.

There are two key changes in our next generation of D-GEM for procurement:

- An additional lever for Knowledge, bringing together the cumulative internal and external knowledge ("know how") required to bring the intelligence to the procurement function. This may include, for example, category playbooks, as well as external benchmark information.
- Extension of the Technology lever around our Intelligent Digital Ecosystem for Procurement (IDE-P) framework.

The core of IDE-P is the Cognitive Foundation, which comprises four key components that sit on top of an organization's ERP and other core technologies:

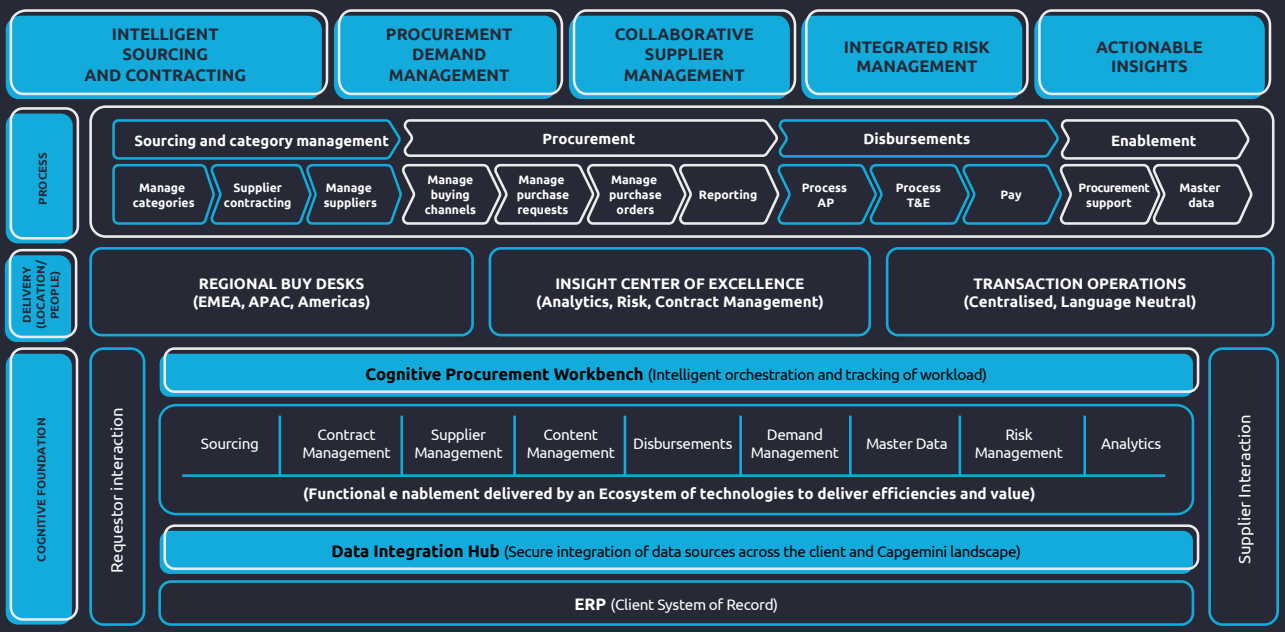
- **Data Integration Hub** – either the platform or the approach for integration of the various technology components utilized across an organization
- **Functional Enablement** – for each key function across the source-to-pay landscape, the tools that can be deployed to generate further value or efficiencies. This could be either point solutions, or an end-to-end platform
- **Cognitive Orchestration** – how work is managed across the various players. This can either be managed within individual functional tools, or as an additional service layer
- **Collaboration** – the mechanics of how procurement interacts with suppliers, requestors, and other stakeholders.

These components, and the elements within them, can be seen in Figure 2.

Execution in line with this framework will impact key value levers to, in turn, deliver key business objectives and ultimately business value:

- **Adoption:**
  - Requestors are connected with compliant suppliers
  - Faster cycle times are achieved between request and delivery
  - Category insight is improved, to help make better sourcing decisions
  - Optimal buying channels are utilized
- **Control:**
  - Understanding of the supply chain is clearer, including spend and risk control
  - Frictionless connections to other parts of the business when making product decisions
- **Visibility:**
  - Full visibility of supplier performance and risk (ESG)
  - Visibility of the entire process is improved – from source to pay
  - Upstream compliance issues are identified and addressed, avoiding downstream blockages
- **Accuracy:**
  - Increased accuracy and reduced re-work of financial data
  - Improved financial control and reduced risk
  - Reduced time-to-report with continuous compliance
- **Integrity:**
  - Supplier master data is automatically updated
  - Integrity of contract and pricing data is improved, and is consistently monitored for non-compliance

Figure 2: IDE-P complements your investment in frictionless procurement



IDE-P – a closer look

One of the main things Figure 2 shows is that procurement processes and delivery functions are built upon a solid base of intelligent, integrated technologies: it's clearly called the cognitive foundation for a reason.

Achieving that combination of intelligence and integration is both the challenge and the objective:

- To start, organizations need to assess the technology tools they already have.
- Then, using IDE-P as a reference point, they can identify not only gaps, but overlaps, and identify the right tools and relevant processes to fill them.
- Lastly, they can bring all those point solutions, both legacy and new, together in a frictionless, digital operating model that enables organizations to pursue their strategic goals while also remaining responsive to circumstances.

The aim is to boost and sustain not just savings, but value – across the entire organization.

NEXT STEPS

Through working closely with experienced and knowledgeable people, with the right frameworks (and an open mind!), it's possible for your organization to build and implement a cognitive and frictionless procurement model that facilitates growth, generates revenue, continues to achieve ambitious sustainability goals, plays a major part in the strategic direction of the organization.

Greg Bateup leads Capgemini's **Cognitive Procurement Services** function. He has worked with clients to deliver business transformation and BPO services for almost 30 years. For the last few years, Greg has focused on the digital transformation of the source-to-pay function, and how organizations can not only drive efficiencies in the procurement function, but also drive compliance and savings.

About Capgemini

Capgemini is a global leader in partnering with companies to transform and manage their business by harnessing the power of technology. The Group is guided everyday by its purpose of unleashing human energy through technology for an inclusive and sustainable future. It is a responsible and diverse organization of 325,000 team members in more than 50 countries. With its strong 55-year heritage and deep industry expertise, Capgemini is trusted by its clients to address the entire breadth of their business needs, from strategy and design to operations, fuelled by the fast evolving and innovative world of cloud, data, AI, connectivity, software, digital engineering and platforms. The Group reported in 2021 global revenues of €18 billion.

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