Transforming procurement operations through advanced operating models

Procurement executives believe there is untapped potential for advanced operating models to address the top enterprise challenges
In 2014, Genpact commissioned a research project conducted by an independent research firm. The goal was to assess the potential for new operating models across a wide spectrum of industry sectors and functions. More than 900 senior-level executives completed the survey. Respondents were screened based on their ability to materially influence functional decisions. This analysis complements other research and insight derived from Genpact’s experience designing, transforming, and operating business processes and operations.

This document presents findings drawn from 121 senior procurement executives from across all industries. About 60% of the procurement executives surveyed are based in North America, predominantly with large companies with more than 10,000 employees.
CPOs and other senior executives are challenged to adapt to a rapidly changing business environment and to create greater business value. Transforming business processes to implement advanced operating models is a big part of the solution, but levels of process maturity and preparedness for transformation vary widely across business functions. The three levers of operating model transformation—technology, process reengineering, and advanced organizational structures (shared services, business process outsourcing, and hybrids)—create impact differently. Using commissioned research, Genpact has examined these trends to understand how institutions are driving transformation to achieve business impact.
Procurement executives cited reducing costs as the top challenge confronting their company more frequently than counterparts in other functions.

Procurement executives believe cost reduction is the top challenge, by far, facing their enterprises

- About 65% of procurement executives identified cost reduction as one of the top three challenges facing their company.
- Regulatory compliance (46% of respondents) and customer satisfaction (41%) ranked far behind.
- These responses contrast somewhat with those of executives in other functions who were more likely to point to regulatory compliance or growth and scalability as their firms’ top challenges (Figure 1).

% of respondents from various functions stating challenge as among the ‘top 3’ for their company

![Figure 1](image-url)
The majority of procurement executives said that sourcing/category management can have material impact on nearly every enterprise challenge.

Sourcing/category management is seen as addressing the biggest challenges

- The majority of procurement executives said that sourcing/category management can have material impact on multiple challenges.
- “Impact indexes” weighed the impact of each function according to the importance of the business challenges the function addresses.
- This analysis showed that sourcing/category management is most likely to have a broad impact, followed by supplier risk and performance management and business intelligence and reporting (Figure 2).

**Function impact index** combining stated importance of challenges and stated ability of a function to address them

<table>
<thead>
<tr>
<th>Function</th>
<th>Impact Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sourcing/category management</td>
<td>191</td>
</tr>
<tr>
<td>Supplier risk and performance management</td>
<td>174</td>
</tr>
<tr>
<td>Business intelligence and reporting</td>
<td>156</td>
</tr>
<tr>
<td>MDM</td>
<td>136</td>
</tr>
<tr>
<td>Transactional procurement</td>
<td>122</td>
</tr>
</tbody>
</table>

Impact of a function on company’s challenges is defined as \( f(x_j) = \sum y_j \cdot x_{ij} \), where \( x_{ij} \) is the % of respondents who believe that improvement in the function \( x_i \) will have a material impact on the challenge \( y_j \); \( y_j \) is the % of respondents citing the challenge as among the ‘Top 3’

Figure 2

n=121 procurement executives
Business intelligence (BI) and reporting as well as master data management (MDM) were least mature and least prepared to evolve further

- Transactional procurement was seen as the most mature function, with 72% of procurement executives rating it mature or very mature.
- The sourcing/category management function, however, was more frequently seen as prepared to transform further, with 76% of executives rating it prepared or fully prepared.
- Business intelligence and reporting as well as master data management were at the other side of the spectrum (Figure 3).

![Figure 3](image-url)
Procurement executives saw advanced organizational structures as more broadly applicable, but technology initiatives may generate slightly greater monetary impact

- Advanced organizational structures (shared service centers, business process optimization, or a hybrid) were regarded by most procurement executives as having a bigger material impact on key business challenges than other levers of operating model transformation.
- The research has shown that improved use of technology can provide the biggest financial impact where the technology is applicable, though the expected impact varies substantially depending on the maturity of the procurement function.
- Executives who rated their company’s procurement functions as immature expected larger financial impacts from advanced organizational structures and business process reengineering (but not technology) than executives who rated these functions as mature (Figure 4).

**Figure 4**

| Column width proportional to % of respondents stating that the initiative will have a material impact |

<table>
<thead>
<tr>
<th>OVERALL PROCUREMENT</th>
<th>MATURE</th>
<th>IMMATURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>TECH: $120m</td>
<td>$121m</td>
<td>$106m</td>
</tr>
<tr>
<td>BPR: $99m</td>
<td>$82m</td>
<td>$126m</td>
</tr>
<tr>
<td>SSC/BPO/Hybrid: $84m</td>
<td>$65m</td>
<td>$107m</td>
</tr>
</tbody>
</table>

n=121 procurement executives (77=mature; 44=not mature)

**Average $ Impact**

1Annual $ impact is the impact of operating model initiatives in US$ per annum including reduction of cost, capital required, improvement of cash and revenue growth.
In conclusion

Senior procurement executives are challenged to adapt to a rapidly changing business environment in an economy that remains unpredictable. The researchers examined how those challenges can be tackled with three levers of operating model transformation: Technology, process reengineering, and advanced organizational structures.

The related transformation of operations is an untapped strategic lever for the CPO as well as the CEO. However, it is sometimes seen as a formidable undertaking.

Our experience of advanced operating models clearly indicates that there are agile and practical ways to drive positive change. The key is to design, transform, and run the processes that power advanced operating models so that they closely align with measurable business goals, thus avoiding saddling the company with unnecessary and often unmanageable complexity.

This approach focuses more rigorously on the sources of impact and deliberately disregards any practice that does not yield material outcomes. It also takes a more objective and holistic and practical look at technology, analytics, and organizational practices.

Finally, this approach harnesses the process and organizational levers available from established disciplines, such as reengineering, shared services, outsourcing, and global delivery. We think there is a smarter way to transform operating models and address the most complex strategic challenges. This is a way for CPOs to make their enterprises more intelligent and generate material impact.

This document presented the highlights of research findings. Discover more in the full report.
Genpact Research Institute

The Genpact Research Institute is a specialized think tank harnessing the collective intelligence of Genpact - as the leading business process service provider worldwide - its ecosystem of clients and partners, and thousands of process operations experts. Its mission is to advance the “art of the possible” in our clients’ journey of business transformation and adoption of advanced operating models.

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About Genpact

Genpact (NYSE: G) stands for “generating business impact.” We design, transform, and run intelligent business operations including those that are complex and specific to a set of chosen industries. The result is advanced operating models that foster growth and manage cost, risk, and compliance across a range of functions. We have hundreds of long-term clients including more than one-fourth of the Fortune Global 500 and currently employ over 66,000 employees in 25 countries, with key management and corporate offices in New York City. Behind our passion for process and operational excellence is the Lean and Six Sigma heritage of a former General Electric division that has served GE businesses for more than 16 years.

For more information, contact procurement.services@genpact.com and visit www.genpact.com/home/solutions/direct-procurement and www.genpact.com/home/solutions/indirect-source-to-pay

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