State of Procurement Digital Transformation: Lessons Learned by Early Adopters

by The Hackett Group

Does your procurement strategy align with your business goals?

Canon Business Process Services is pleased to offer important research from The Hackett Group. It highlights why procurement organizations must holistically assess their digital capabilities and business goals, measure the gap between the two, and use that analysis as the basis for preparing a digital transformation roadmap. The study also emphasizes that enhancing the customer experience and improving analytics capabilities are the highest-priority areas for digital investment. The paper discusses robotic process automation as a major contributor to operational efficiency along with undertaking initiatives to improve supplier integration into procurement’s digital ecosystem.
State of Procurement Digital Transformation, Part 2: Lessons Learned by Early Adopters

By Erik Dorr and Nic Walden

Executive Summary
Every business function’s digital transformation requires a strategy that aligns with enterprise goals. At the same time, procurement organizations must holistically assess their own digital capabilities and aspirations, measure the gaps between the two, and use that analysis as the basis for preparing a digital transformation roadmap. Hackett Group research has found that enhancing customer experience and improving analytics competencies are the highest-priority areas for digital investment. Robotic process automation, starting from a relatively low current capability level, promises to be a major contributor to procurement’s operational efficiency within a relatively short period; moreover, 43% of procurement organizations are undertaking initiatives to improve supplier integration in their digital ecosystem.

Procurement is increasingly being asked to deliver more to the enterprise to support business strategy and objectives. Our research and discussions with clients has yielded insights into how procurement is reinventing itself through digital transformation efforts. In Part 1 of this research series, we discussed value drivers of this transformation. Here we are looking at how organizations are planning for transformation, using data and analysis from a digital transformation performance study we conducted in 2017.

The study finds that 63% of procurement organizations now have a digital transformation strategy (Fig. 1). Among this group, a large majority indicate that their strategy is aligned with the enterprise digital strategy. However, the data shows a serious gap in resources and competencies: Only 39% of procurement organizations have both a digital strategy that is aligned with enterprise strategy and the resources and competencies to execute it. The takeaway is that, while most procurement organizations recognize the necessity of digital transformation, they largely lack the ability to execute. Early adopters report this may be at least partly due to the scarcity and marketplace maturity of digital solutions to fulfill skills and technology needs, especially as regards some of the most novel technologies like AI, blockchain and chatbots.

FIG. 1 Digital transformation strategy, alignment and resource and competency gaps

<table>
<thead>
<tr>
<th>Strategy gap</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Digital Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have developed a digital transformation strategy</td>
<td>45%</td>
<td>18%</td>
<td>37%</td>
</tr>
<tr>
<td>The strategy is aligned with or integral to the enterprise digital transformation strategy</td>
<td>42%</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>We have the resources and competencies today to execute the strategy</td>
<td>34%</td>
<td>5%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: Digital Transformation, The Hackett Group, 2017
Digital transformation defined
The Hackett Group defines digital transformation as going beyond digitalization and automation to fundamentally change the way business services are delivered, using digital technologies as the enabler of holistic transformation to improve customer experience and operational excellence, and to accelerate decision-making.

Digital capabilities defined
- Digital customer engagement: The design and optimization of customer experiences, through digitization and integration of customer interactions across channels and leveraging customer data.
- Digitally enabled workforce: The use of digital tools and platforms to maximize productivity, creation of IP and knowledge, and value contribution of individual workers and the (virtual) teams they operate in.
- Digital service optimization: The use of digital tools and platforms to maximize the efficiency and effectiveness of the delivery of business services and execution of underlying processes.
- Digital ecosystem: The ability to create value through interactions (including commercial transactions, collaboration, exchange of information and knowledge creation) in a highly scalable, digitally interconnected, self-organizing and adaptive network of businesses, customers, service providers, individuals and devices.
- Analytics-driven business insight: The ability to manage information throughout the lifecycle as a strategic asset and support business decisions with analytics.

Approaching the Implementation of Procurement’s Digital Capabilities
The Hackett Group’s Digital Transformation Framework defines five critical capabilities for business services (e.g., procurement, finance, HR and IT) (see sidebar at left), each broken down into capabilities specific to each function (Fig. 2).

FIG. 2 Digital procurement capabilities

<table>
<thead>
<tr>
<th>Capability area</th>
<th>Digital customer engagement</th>
<th>Digital workforce</th>
<th>Digital service optimization</th>
<th>Digital ecosystem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer experience optimization</td>
<td>360-degree customer view</td>
<td>Knowledge management</td>
<td>Process automation</td>
<td>Extended value network</td>
</tr>
<tr>
<td>Social media engagement</td>
<td>Workforce collaboration</td>
<td>Service execution monitoring</td>
<td>Knowledge network</td>
<td>Internet of things</td>
</tr>
<tr>
<td>Analytics-driven business insight</td>
<td>Market</td>
<td>Customer</td>
<td>Operational</td>
<td>Financial</td>
</tr>
</tbody>
</table>

Source: The Hackett Group

This framework was used as the basis for a digital capability assessment, gap analysis and investment priority analysis, which were part of the digital transformation study referenced earlier. Respondents were asked to self-assess their current capability level and to rank capabilities by priority of improvement (Fig. 3).

FIG. 3 Digital procurement: Current capability level and improvement priority*

<table>
<thead>
<tr>
<th>Capability area</th>
<th>STRONG EXISTING CAPABILITY</th>
<th>EXISTING CAPABILITY</th>
<th>IMPROVEMENT INITIATIVE IN PROGRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital customer engagement: Customer-centric digital service delivery design</td>
<td>69%</td>
<td>25%</td>
<td>14%</td>
</tr>
<tr>
<td>Digital workforce: Decision-support analytics</td>
<td>63%</td>
<td>34%</td>
<td>14%</td>
</tr>
<tr>
<td>Digital service optimization: Robotic process automation</td>
<td>58%</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Digital ecosystem: Supply network operational integration</td>
<td>43%</td>
<td>23%</td>
<td>19%</td>
</tr>
<tr>
<td>Analytics-driven business insight: Operational risk analytics</td>
<td>33%</td>
<td>28%</td>
<td>19%</td>
</tr>
</tbody>
</table>

* Capabilities shown are those with the highest level of transformation activity within each capability area as defined in Fig. 2.

Source: Digital Transformation, The Hackett Group, 2017

Digital customer engagement
Engaging procurement’s customers1 in the digital era means providing 24-hour access to applications via users’ preferred channels, plus real-time information and status on performance, requests and transactions. Fifty-eight percent of procurement organizations believe they already have the ability to design customer-facing systems and user interfaces for usability and customer experience optimization, offering personalization, mobility support and universal access. Nonetheless, 69% have a major improvement initiative planned or in progress, underscoring that improving customer experiences is still one of the biggest challenges and an important focus of procurement digital transformation strategy. This finding also reflects a demand for personalization of experiences from business users. Providing consistent, customized and simple access to procurement technology is essential.

Beyond transactional purchasing technology, procurement must also support stronger engagement with budget owners and stakeholders through the category management process. Digital applications offer better visibility to market insights and the supply base.

1 In this report, “customer” refers to procurement’s internal customers (i.e., shoppers, executives, end users in procurement) and suppliers.
Digital customer engagement: Lessons learned by early adopters

- Procurement and its customers lag other business services functions use of technology. To overcome the challenges of adoption and utilization, digital channels should be as simple and intuitive as possible (while remaining compliant).
- New solutions can be deployed, or existing user interfaces redesigned, to provide a simple, easy-to-use, intuitive experience able to capture 100% of spend. Update ways of working and promote the use of preferred channels, whether for shopping, onboarding or accessing information about supplier performance.
- Use technology to deliver personalized and optimized service to different stakeholder groups (e.g., executives, occasional shoppers, shoppers using self-service).
- Increased speed and positive feedback on ease of use are often cited as justification for digital investments.

Digital workforce

“Digital ways of working” means the provision and use of core automation as well as analytics, collaboration, intelligence, knowledge and productivity tools. Taking the example of analytics: Forty-eight percent of the study respondents indicate their current decision-support analytics capability is adequate or even strong, but 63% have an improvement initiative planned or underway, reflecting a recognition of the high priority procurement is giving to becoming more data- and insight-driven. A new generation of integrated analytics and insights tools offers unprecedented capabilities in sourcing, contract management and supplier management. Embedded artificial intelligence can help procurement make sense of market, production and even process utilization data, allowing types of recommendations and insights not possible before. It also speeds up and relieves workers of the more routine aspects of conducting risk assessments and analyzing contracts and company financials.

Digital workforce: Lessons learned by early adopters

- Many procurement teams like “doing deals” and thus view digital tools as a threat to their jobs. Respond by developing a culture that is open to change and collaborative. Teams should be pushed to embrace digital and update skills and ways of working to become more agile.
- New and specialist roles are being added: head of digital procurement, head of cognitive sourcing, head of digital transformation, and digital subject-matter experts in areas like AI, blockchain and RPA.
- Modernize the procurement team’s analytics, category and sourcing capabilities to become more data and intelligence-driven. Rapid access to up-to-date internal and external market insights in digital formats reduces spent collecting category data, in some cases from weeks to days.

Digital service optimization

Cloud and agile methods enable rapid deployment and API-based integration of new technology platforms. Other capabilities can reduce or eliminate the constraints of legacy systems or investment restrictions. For example, 58% of respondents are looking for suitable opportunities to automate high-volume, repetitive, rule-based systems, using robotic process automation (RPA). Hackett Group research has found that RPA can improve the execution efficiency of such tasks by as much as 30% by eliminating the need for rekeying data in separate systems, improving data quality, and turning the workers formerly responsible for conducting these activities into managers of the robots while handling more judgment-based, creative work that is unsuited to RPA. Another 36% of respondents have some capability in this area today, largely in the form of pilot projects in their early stages.
**Digital service optimization: Lessons learned by early adopters**

- Digital transformation brings new challenges and highlights existing ones, including: Procurement is rarely at the top of the list for investment; the focus tends to be on operations and efficiency from RPA; and the opportunity for significant value-add in sourcing and contracting from AI and analytics is not widely understood to date.  
- Take a systematic approach to digital, focusing first on core automation for sourcing, contracting and performance management. Modern cloud tools offer lower-cost and faster deployment options. Only after that should procurement leaders follow with newer technologies like AI.  
- Top RPA opportunities include PO conversion and release, catalog price updates, master data cleansing, contract setup, reporting and other repetitive tasks. AI and analytics opportunities include opportunity identification, compliance and risk tracking, and targeting stakeholder groups.

**Digital ecosystem**

In a digital ecosystem, procurement organizations connect with suppliers, users and other parties, from the supplier’s provision of raw materials to the manufacturer, all the way through to the finished product’s delivery to the end user. Adding to the richness of the ecosystem are an increasing number of sensors and assets able to communicate status and other data through the internet of things (IoT). Thirty-six percent of study respondents are able to integrate suppliers into their corporate systems today, permitting sharing of inventory levels, forecast demand and usage data, and expected delivery times; another 43% report an improvement initiative planned or in progress in this area. The interconnectedness of this extended value network facilitates collaboration on innovation, for example through increased visibility and incorporation of user feedback into the design of new products and services.

**Digital ecosystem: Lessons learned by early adopters**

- Supplier onboarding and enablement have been designed for major and high-spend suppliers, leaving challenges for the significant remainder of the supplier base. Only a few teams have information on tier-2 and tier-3 suppliers.  
- Procurement strategy is no longer just about cost savings, but also leveraging the benefits of knowledge and relationships. This has important implications for supplier integration and the number of suppliers.  
- For broad access to digital information flows (e.g., forecasts, orders, performance, stock levels), connect with supply chain partners.  
- The traditional practice of supply base consolidation/reduction must be balanced with pre-qualification of newer, more innovative suppliers. Knowledge about the capabilities of existing and new suppliers allows procurement to act quickly, especially as business requirements change.  
- Manufacturers and other direct spend teams are utilizing digital to better understand and map the supply chain beyond tier-1 suppliers in terms of opportunities, capabilities and risk. New technology platforms can help with intelligence to determine the composition of bills of materials and ingredients, plus any competitive, pricing and risk impacts.

**Analytics-driven business insights**

Updating analytical capabilities is at the heart of digital transformation. However, a narrow focus on upgrading technology will yield poor results without a parallel upgrade of talent. Staff must be able to support internal and external data capture and integration; interpret data; effectively communicate analysis to internal customers and management; and integrate analytics into everyday decision-making processes.
One of the main hurdles to fully unlocking the value of information is lack of integration between processes and information across functions and geographies. The “islands of excellence” that result may optimize sub-processes but do not address the bigger picture, and thus fail to enhance end-to-end processes and services. A poll conducted during one of our Procurement Advisory member webcasts found that they are not sufficiently prioritizing improvements of analytical capabilities. At the time, just one-third of respondents were planning initiatives addressing procurement operational risks, risk drivers, operational impact and risk exposure. And, only 47% reported they currently possess capabilities in these areas. For all other types of analytics, activity levels are even lower.

Issues with data cleanliness (accuracy, completeness, consistency) and availability (accessibility, timeliness) are also long-standing and widespread. Many companies still don’t capture spend data at the line-item level or all necessary components of supplier information – simply put, the information isn’t even there to analyze. High-quality data is a prerequisite for conducting analytics and assurance of its value in decision-making.

### Analytics-driven business insights: Lessons learned by early adopters

- New tools offer a wealth of opportunities to combine and display internal and external data in near real time. However, extracting the maximum analytics value from these tools requires overcoming basic challenges with data quality; procurement teams’ ability to use them; and justifying the investment in terms of reduction of supply risk, etc.

- As teams go beyond sourcing to add supplier management capabilities, the quality and timeliness of insights about supplier value delivery, opportunity and risk become more important. Dashboards that automatically collect and display a broad set of category or supplier performance information in a single place have been well received by teams where deployed. Data analytics can also assist with forecasting spend information based on past performance and business drivers, plus predict commodity prices and other trends.

- Near-real-time analytics and process mining tools can significantly improve visibility of source-to-pay process performance and identify optimization opportunities.

### Allocation of Resources and Technology Investment Toward Digital Transformation in Procurement

As with other business services, procurement is largely responsible for paying for new technology and skills through operating-cost takeouts. These are being achieved by streamlining processes and rationalizing technology infrastructure and application platforms. Thus, developing digital capabilities in each area of the digital transformation framework outlined in the previous pages means developing new skills internally, supplemented by strategic outside hires, and allocating sufficient technology resources and budgets toward digital initiatives.

We asked procurement practitioners about the percentage of technology cost in the total procurement operating budget (12%) and the component of digital transformation in this technology budget (16%) (Fig. 4). While presently a modest 16%, the number is expected to increase rapidly to 73%. Well-established technologies (i.e., cloud, master data management, mobile) and, increasingly, emerging ones (i.e., AI, RPA, blockchain) will likely become an extension of existing investments in traditional sourcing and procurement technology platforms. The number of procurement resources involved in digital transformation (expressed as a percentage of total FTEs involved in transformation) displays a similar pattern.

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Given the resource gaps projected previously in this research (between the expected level of digital transformation in procurement and the required capabilities and skills), it is a concern that only 16% of procurement FTEs involved in performance improvement and transformation work are being assigned specifically to digital transformation initiatives. On the other hand, 73% of organizations expect this percentage to rise in the next two to three years.

Finally, 87% of procurement organizations expect an increase in the percentage of roles that will be transformed by digital, a significantly jump from the 14% reported today. In view of these projected increases in key resource allocation ratios, procurement managers must stay focused on the long-term vision even as they address short-term, tactical issues.

Digital transformation’s profound impact on roles and the nature of work will in turn affect staff requirements. Entirely new roles will be created and others will be redesigned as the value of some skills will rise and others become outmoded. Technical expertise in RPA, cognitive computing, blockchain, analytics and innovation will be scarce for some time to come, making internal development and hiring of specialists critical.

**Conclusion and Recommendations**

While 63% of procurement respondents to our digital transformation study have a function-specific digital transformation strategy today, deficiencies in alignment with enterprise efforts, resources and competencies need remediation as soon as possible. The following are insights from early digital adopters:

- **Understand the vision and purpose for a digitally enabled procurement function:** Many early adopters have a mandate from executives who are committed to extracting the potential benefits from digital technologies. They make it acceptable for teams to experiment and innovate; further, they create a culture in which failure is not career-ending. Companies emphasizing savings as the primary benefit of digital initiatives may instinctively focus initiatives on more productive sourcing, but the opportunity can be much broader than that. For example, capability augmentation by blending technology with human capabilities should also be considered. Procurement should take action to meet the current requirements of its stakeholders but also position itself to stay one step ahead of those requirements as they evolve.
• **Recognize market maturity:** Buyers are challenging existing BPO service providers to deliver required changes and benefits from digital capabilities. This presents challenges, as providers need to replace existing revenue and profits in order to change at the pace clients require. In terms of digitally enabled technology platforms on the market, innovations are coming fastest from new procurement technology startups, not the traditional top-tier providers. Consulting firms continue to offer opportunity assessment and roadmaps as they compete to build expertise and knowledge.

• **Understand process architecture:** Developing a fit-for-purpose future-state design blueprint requires a clear understanding and documentation of current procurement processes. Implementing a new digital service delivery model that leverages emerging technologies requires harmonizing existing processes with services as configured in these technology platforms. Customer journey mapping and lean methodologies may also be applied to solve existing problems and challenges. Both require understanding the current-state process architecture.

• **Invest in digital skills and talent:** Whether by outsourcing, acquiring expert contingent talent externally or developing it internally, knowledge based on experience is essential. Many leaders have built their own store of in-house institutional knowledge, which allows them to become educated buyers and ready the organization to handle future changes. Investigate current technical and analytical talent levels internally – is there an opportunity to recruit talent from elsewhere in the company? Is the expertise of non-traditional resources, such as data engineers, applicable? The relationship between talent and culture has never been stronger. These relationships are self-reinforcing: A dynamic, change-oriented culture attracts change-oriented, agile talent. One large financial services company held a week of in-person and virtual events to enlighten new teams about the potential of digital technologies and skills.

• **Co-innovate with other departments/functions and third parties:** Learn what other departments (such as IT) or partners have piloted or tried as part of their digital endeavors. Speed is important in any transformation project but, when digital technology is involved, circumventing the IT organization for the sake of speed is a recipe for failure. Learn what IT’s digital strategy is. Does it have skills and funding for analytics projects or experience in RPA or AI? Ask existing technology and business process outsourcing providers about opportunities to pilot new developments. Discern any linkages among teams from finance, treasury, and supply chain that are working on their own digital transformation. Co-development may illuminate avenues for creating value by investing in similar technologies or using outside services.

**Related Hackett Group Research**

*State of Procurement Digital Transformation, Part 1: Value Drivers and Expectations*, May 2018

*Unlocking Digital Value: Nine Common Themes From The Hackett Group’s 2018 Best Practices Conference*, June 2018

*Business Services Must Transition to Digital Operating Models to Thrive in 2018 and Beyond*, February 2018
About the Advisors

Erik Dorr
Vice President, Research

Mr. Dorr has over 20 years of experience in consulting, research and advisory roles in information technology strategy, enterprise application suites and business process reengineering. Before being named to his current position, he was Senior Enterprise Research Director. Prior to joining The Hackett Group, he held a number of senior management positions, including Vice President of IT at a global manufacturing company, where he was also a member of the executive leadership team.

Nicolas R. Walden
Senior Advisor, Procurement and Purchase-to-Pay Advisory Programs

Mr. Walden has 15 years of experience helping senior executives transform their procurement and finance organizations. Equipped with a broad background in consulting and industry, he has deep expertise in effective sourcing; development and management of procurement’s internal brand; and purchasing technologies and associated change management. Mr. Walden speaks frequently at conferences and events throughout the United Kingdom. Further, he is a regular contributor to print and online resources for procurement and finance professionals, such as CFO magazine, LinkedIn and Procurious.

The Hackett Group (NASDAQ: HCKT) is an intellectual property-based strategic consultancy and leading enterprise benchmarking and best practices digital transformation firm to global companies, offering digital transformation including robotic process automation and enterprise cloud application implementation. Services include business transformation, enterprise analytics, working capital management and global business services. The Hackett Group also provides dedicated expertise in business strategy, operations, finance, human capital management, strategic sourcing, procurement and information technology, including its award-winning Oracle and SAP practices.

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Email: info@thehackettgroup.com
www.thehackettgroup.com

Atlanta +1 770 225 3600
London +44 20 7398 9100
Sydney +61 2 9299 8830