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RESEARCH

Connecting the Disconnected Dots of Risk, Return and Compliance in Strategic Procurement

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As modern procurement organizations strive to become more trusted business partners, they require best practices that optimally engage suppliers throughout the lifecycle to reduce costs and supplier risk, support top line growth, and ensure regulatory and policy compliance. This is a very tall order considering the number of stakeholders and their differing objectives. CEOs want growth. CFOs want hard cost savings. Business units want both, along with return on investment. Corporate risk managers want risk reduction. Legal wants it in writing. Auditors want compliance. You get the idea.

Procurement must support *all* of these stakeholder requirements, while connecting the dots between the often siloed processes that exist in the source-to-pay process. Let's even take the transactional procure-to-pay process off the table and hone in on strategic procurement, where we often see disconnected processes between **sourcing** (to reduce costs), **supplier assessments** (to ensure compliance), and **contracting** (to reduce risk).

New approaches, practices and tools exist to do more with less, thereby making better use of an organization's time and resources. "Connecting the dots" is possible between all of these divergent processes, but how?

To start, an integrated strategic procurement process must meet three key criteria:

1. Stakeholder needs must be satisfied *individually*, including implementing and managing the diverse business requirements they represent. Only then can procurement aggregate and satisfy these requirements *collectively*, whether it's for negotiations (where everything should be transparent and on the table), or for supplier risk management (where all key stakeholder risk requirements should be accommodated).
2. All procurement requirements, whether focused on risk or reward (e.g., cost savings), *must flow seamlessly* between all process participants and *the systems of record* that will govern the commercial relationships (RFx, contract, supplier profile, item/service master, compliance documents, etc.)
3. The *knowledge* that is gained must be *captured* and *fed back into the process* to improve downstream efficiency, effectiveness, and compliance. Given the talent management gap and ongoing staff turnover in procurement, there's an increased focus on capturing and reusing knowledge built during the strategic procurement process.

So why are the dots not connected?

Organically grown tools, legacy systems, and niche cloud applications all contrive to make a non-integrated process that's difficult to manage. Process participants (sourcing managers, contract specialists, risk management staff, budget owners, and suppliers) often have their own data sources, like spreadsheets and diverse tools that do not communicate with each other. This problem is compounded by version iterations and required re-integration work that raises total costs and wastes the procurement staff's precious time. What these process participants *don't* have is the *complete* data sets they really need to make informed decisions.

For example: if suppliers must be qualified before we can buy from them, the qualifications must be captured in some form of assessment tool, which is then factored into sourcing 'documents' (e.g., RFx documents and supplier bids), which must finally flow into contracts and associated scorecards.

However, the stove-piped processes used to manage this supplier lifecycle are often performed in isolated tools (or using no tool at all). This makes it difficult to leverage information and best practices across supplier assessments, sourcing negotiations, and contracts. Once a negotiation is initiated, it's tough to evaluate incoming bids (in a timely manner) and make an optimal award decision when upstream assessment data isn't utilized and when downstream contract data (e.g., payment terms) isn't considered.

Finally, after the award is made, the relationship must be formalized in a contract that specifies pricing and business expectations – even though supplemental supplier scorecards may also be used.

What's needed? One unified process to tie it all together. But there are hurdles!

What are the challenges to connecting the dots?

The largest challenge – even more than the nefarious than friction-creating process silos and isolated data – is the risk to business from the mismanagement of the procurement process itself.

Figure 1

	Source		Assess	Contract	Assess
	Discover	Negotiate	(Certify)		(Monitor)
RFx (reqs & bids)	■	■	▨		
Cert/Compliance Data			■		
Supplier Intelligence	▨		▨		
Contract Data				■	■
Supplier Master					
Scorecard		▨			■

Figure 1 illustrates the challenges that arise from fragmentation across the source-to-pay process:

- Cost and some risk-related data collected during the supplier bidding process are often trapped within an eSourcing system – unless it's re-keyed into another. The approved suppliers and associated historic information may not even be "re-used" in follow-on sourcing and re-assessment activities.

- Supplier qualification information is gathered during the supplier assessment phases (which can occur pre-RFP for screening and post-RFP for qualification and due diligence) - but is often collected in a one-size-fits all manner and captured in documents rather than in a database.
- Legal departments and contract administration staff author contracts, while the key clause-level contract data (where true risks are mitigated) cannot be properly leveraged to ensure their appropriate use and downstream compliance.
- Supplier information is captured too late because it's relegated to a vendor master file setup process owned by Accounts Payable to pay the bills rather than building a richer supplier "golden record" (supplier assessments, awards, payment terms, etc.) upstream in the process where it's used for multiple purposes.
- Supplier scorecards are created as separate artifacts, even though the evaluation criteria are (hopefully) built in sourcing and (hopefully) formalized in the contract. If it's important enough to have in the scorecard, then it's important enough to have in the contract!
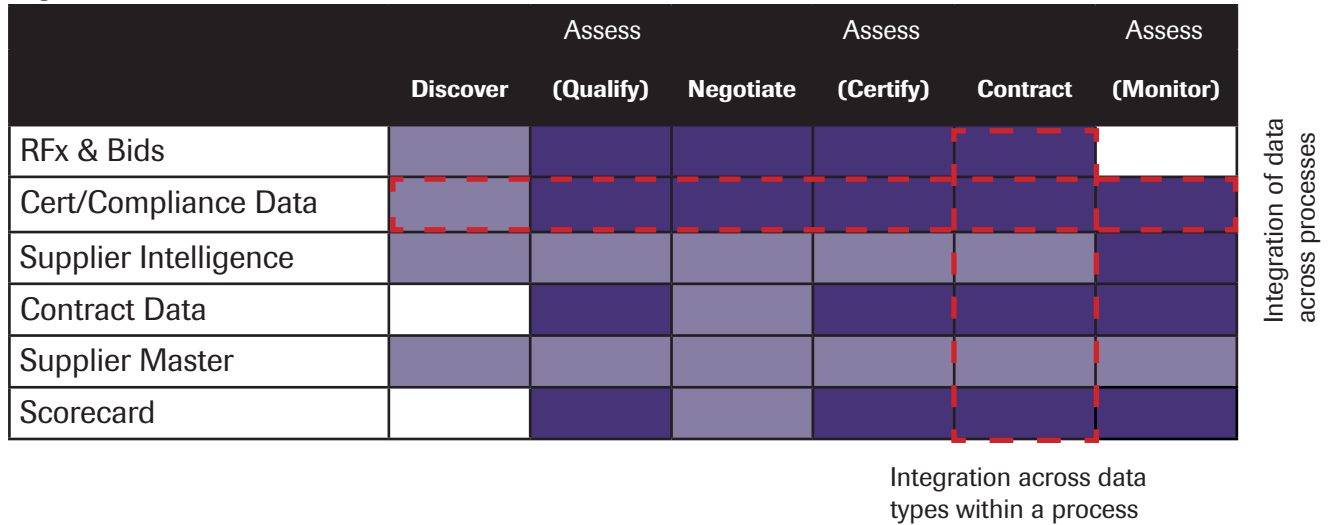
This type of fragmentation is particularly endemic to organizations using point solutions that are easy to implement, but much harder to integrate across the strategic procurement process.

How do you close the gaps and connect the dots?
- Here are some practical examples of process/data disconnects and how to re-connect them:

- **When business users can't find the products and services they need in an eProcurement system, they go "rogue" and buy their own.** Intelligent policies are needed to ensure compliant buying, quickly guiding buyers to approved suppliers, or in this case, to the right internal procurement resource for proper sourcing. Unfortunately, sourcing is often triggered by the purchasing process when a user is searching for a product or service that hasn't been sourced yet!
- **When power buyers use siloed eSourcing applications with no accompanying contract management applications to define the business relationship**, the best practice of factoring in the cost of managing risks is foregone. This is a missed opportunity to not only 'operationalize' contractual terms and diminish business risk, but to "connect the dots" between risk and cost. Don't just assume the supplier will accept your terms and conditions in downstream contracting. Bring them up front into the sourcing process.
- **When buyers are collecting supplier qualification (codes of conduct, regulatory compliance documents, background checks, third-party risk reports) merely for "checking the box" compliance requirements** – rather than systematically leveraging the information into a comprehensive assessment for that supplier. Using targeted supplier assessments (often augmented with third-party information) to identify real supplier risks is an example of "connecting the dots" between risk and compliance.
- **When detailed supplier assessments are not used to drive performance improvements.** Supplier assessments (including audits) can used as part of a collaborative diagnostic to highlight cost savings and risk reduction opportunities, so that total cost savings can be jointly negotiated and shared. This is an example of "connecting the dots" between cost, risk, and compliance.

The integrated processes and data of modern procurement organizations that are connecting these dots via best practices will look more like Figure 2:

Figure 2

		Assess		Assess		Assess
	Discover	**(Qualify)**	**Negotiate**	**(Certify)**	**Contract**	**(Monitor)**
RFx & Bids						
Cert/Compliance Data						
Supplier Intelligence						
Contract Data						
Supplier Master						
Scorecard						

Integration of data across processes

Integration across data types within a process

The biggest takeaway from Figure 2 is that supplier assessment is a continuous process. Assessment takes many forms, qualifying suppliers in sourcing, certifying suppliers as a pre-onboarding activity, and continually evaluating key suppliers as part of ongoing supplier management (including quality, compliance, and risk management).

Connecting the dots provides the foundation for knowledge management needed to support advanced category management

"Connecting the dots" is not just a technology issue focused on application integration: it's a business issue. The importance is highlighted particularly well in category management – the most prevalent "mega practice" in procurement.

Category management:

• Transcends category sourcing to cover the entire supplier lifecycle.
• Tailors process workflow and information requirements to the nature of the spend category.
• Builds supplier profiles and related intelligence that serves not only as a commercial system of record, but also as a knowledge management system to capture and re-use key supplier knowledge and intelligence that's pertinent to the category.

Organizations that are looking to do true category management must inherently connect the spend category to demand from internal stakeholders and supply from relevant suppliers who are assessed, sourced, and managed throughout the supplier lifecycle.

The benefits of connected dots

In the end, this type of integration means more effectiveness ("do the right things") and efficiency ("do things right") to safeguard against risk, ensure maximized value, and guarantee compliant spending via:

• Information being acquired earlier and used throughout the process.
• Commercial information flowing seamlessly across the systems of record (especially the contract) and leveraged across the supplier lifecycle.

- Using contract management as an example, granular contract data (clause libraries and related reference data) are tied to equally granular supplier data (supplier master fields, digitally signed documents, third party certifications, unstructured intelligence, etc.). In fact, we're seeing flexible master data management capabilities becoming a key differentiator in technology solutions to help integrate processes, but also as a key enabler for analytical solutions that are increasingly used to spot new value creating opportunities.

Looking forward: greater connections will lead to greater intelligence

As spend categories become more complex, granular, and multidimensional, category management processes are becoming more data-driven, and therefore, managing them requires more intelligence.

Modern cloud-based applications that streamline the qualification, sourcing, and contract management (including authoring and compliance) processes are not just increasing in functional depth, but are becoming more modular and open (e.g., via published APIs). This allows procurement organizations to increasingly build flexible AND integrated procurement systems. This integration in turn supports purpose-built data analytics for stakeholders that inject new insights and alert them to new opportunities (or risks), which in turn improves business outcomes. If you can tap this power, you can connect the dots between supply market power and customer value, elevating procurement's value in the organization and the broader value chains in which it operates. ■

About the Author

Pierre Mitchell leads the procurement research activities at Spend Matters. He has 25 years of procurement and supply chain industry and consulting experience, and is a recognized procurement expert specializing in supply processes, practices, metrics, and enabling tools and services. Prior to Spend Matters, he was the first industry analyst to put procurement research on the map for both AMR Research (now Gartner) and later at The Hackett Group. He has also led numerous operations and systems transformations at Fortune 500 organizations. Industry positions include manufacturing project manager at The Timberland Company, materials manager at Krupp Companies and engineer at EG&G Torque Systems. He holds an engineering degree from Southern Methodist University and an MBA from the University of Chicago. His recent writing can be found at: http://spendmatters.com/author/pierre/

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