ADOPT A SMART(ER) PROCUREMENT PROCESS TO COPE WITH FUTURE CHALLENGES

HOW TO USE GAME THEORY AND DATA INSIGHTS TO GENERATE NEGOTIATING POWER

The need for a modernised procurement process is one of the crucial differentiators decision-makers identified in a recent survey conducted by TWS Partners.

87% of CPOs and CFOs believe that a digitalised, modernised procurement process is needed to cope with future challenges. 84% think this can be achieved through a change in organisation, structure and processes, and 55% think innovative approaches and methods, such as game theory, are a necessity.

Forget the ‘modern’ sourcing processes which are often a mere ‘tick the box’ exercise collecting hoards of useless transactional ‘insights’. Instead, the focus should be on a process better pursuing your strategic goals, fostering competition and creating company value by enabling better sourcing decisions, but also by using data-driven insights to improve company processes. In short: it is ultimately about ‘defining the game’ instead of just playing it.

But how?
Designing, not just managing!

In order for companies to meet future challenges head on they need to act with a future goal in mind, rather than simply react at every crossroad a transactional process takes them to.

This means that Procurement needs to start designing - not just managing - the process. By considering the important questions of strategic relevance, data can be generated to identify crucial points for improvements.

Traditional sourcing processes focus heavily on transactional documentation and work in retrospect. They look at what has happened as opposed to why. By asking the ‘why’ and not just the ‘what’, big transactional data can become smart strategic data.

Why game theory?

Game theory is a well-known and proven methodology for providing competitive advantage in Procurement organisations, particularly in designing the later stages of complex tenders and the ‘external game’ with the supply base. By applying this mindset of defining the desired result first and then the steps leading there, the ‘internal game’ in terms of the sourcing process can be optimised as well. The key result is then sourcing data which delivers strategic insights in a Smart Procurement Process (SPP), taking game theory’s impact one step further.

What is a Smart Procurement Process?

A Smart Procurement Process (SPP) changes the game by focusing on the strategic questions, decisions, and insights, making the conscientious execution of transactional administrative tasks happen almost ‘incidentally’.

The SPP does not detail a thousand individual small steps which nobody later adheres to because they try to squeeze individual projects into a one-size-fits-all format. And, more importantly, which would never be able to be escalated anyway – who would stop a project if step #873 was not done?

Instead, the SPP is characterised by the core element of a small number of gates which are tailored to a company’s DNA, linked to other processes and can be enforced via incentives for fulfilment. At each gate a project is checked to ascertain whether it is sufficiently well positioned in terms of quality to be allowed to move into the next phase - similar to the Andon principle in a production line. There can be gates assessing whether the project strategy is fit-for-purpose or whether the cross-functional requirements are understood and agreed well enough to start approaching the supply base. The questions asked should not be limited to transactional ones, but also consider those that are strategic differentiators. For example, how to qualify additional suppliers in an incentivised pre-RfQ phase to not end up in a monopoly situation.

This approach enables Procurement to ask the right questions at the right time, when the result can still be influenced – making decision-makers ‘differentiators’ rather than ‘administrators’. This in turn means that Procurement becomes more agile.
How to generate and to use smart data?

The medium and long term effect of introducing such strategic questions is that data is generated which can retrospectively identify crucial points for improvement – across cross-functional sub processes. The results can then be used in predictive and prescriptive Procurement applications to “change X today so that Y does not happen tomorrow”.

In order for the data of a purchasing process to really optimise the company results, and for it to be used for cross-functional improvements, it must be relevant to the result and provide strategic insights instead of merely transactional insights. Figuratively speaking, it is certainly important to know that you have run into a wall. However, far too often current processes lose themselves in describing the impact in detail (transactional insights), while the questions of what caused it and, above all, how it can be prevented in the future, remain unnoticed (strategic insights).

With a SPP, a diagnostics and forecasting system & application suite is used to analyse process data in a targeted manner. Predictive Procurement methods are used to generate the insights that have been defined during the initial process design phase of the SPP, enabling ‘big data’ to be turned into ‘smart data’ – data which helps to continuously improve an organisation.

Again, this approach is the essence of what game theory stands for: thinking from the end (via defining the desired insights) and then adjusting the preceding steps accordingly (via defining which data is captured and analysed).

**Smart data and their insights generate the negotiation power that companies need to face the challenges ahead.**

The benefits of a Smart Procurement Process

Adopting a SPP will ensure that an organisation can work efficiently and achieve its individual goals of being ‘on time’, ‘on cost’ and ‘on quality’ much more frequently.

A defined SPP takes the targeted use of game theory, utilises data insights and uses the unique ‘DNA’ of an individual company, to create a bespoke process designed to improve negotiation power. It opens strategic decision-making options early, allowing markets, competition and commodities to be influenced, and ensures the fulfilment of Procurement and corporate goals – in every single project.

**Ultimately, it ensures companies can ‘define the game’.**