HOW TO IMPROVE AN ALREADY HIGH PERFORMING PROCUREMENT ORGANISATION WITH GAME THEORY

LIGHTHOUSE CASE: FINANCIAL SERVICES
THE CUSTOMER CHALLENGE

The entire financial services industry is heavily disrupted by new challenger banks and fintechs. In order to remain competitive, TWS Partners’ client, an industry and market leading financial services provider, had to transform itself and change its service offerings, while delivering significant cost benefits to the organisation. This posed a particular challenge given the client had already gone through continuous loops of optimising their Procurement organisation, achieving substantial commercial benefits every single time. The question therefore arose as to **how to improve an already high performing Procurement organisation and support delivery of the transformation journey** with substantial third-party spend in new technology and services?
THE TWS APPROACH

THE INITIAL ANALYSIS
At the outset of the collaboration, TWS Partners and its client ran a pilot study to identify the ‘pain points’ of the current organisation through a number of pilot projects. The study revealed that Procurement was being held back by several factors. Some of those naturally resulted from the operational services, which the client typically purchased under legally rigorous frameworks, whilst others resulted from the lack of competition found in their suppliers’ highly specialised and regulated oligopolistic markets. The greatest factor, however, came from the client’s own internal processes. Although Procurement was involved and in the lead throughout the entire sourcing process, cross-functional stakeholders maintained the right to deviate from Procurement’s recommendations at various points throughout the process. Far too often, the teams were tasked with sourcing pre-identified suppliers and negotiating pre-defined contracts, i.e. Procurement was unable to truly influence the sourcing strategies and thus could not approach their supply base with committed offers or credible threats.

THE SOLUTION
To improve and build competitive pressure in their difficult markets, the client needed to enhance the design of their cross-functional sourcing process, giving Procurement transformational power and the ability to create an aligned strategy on a business-wide level. To drive this change, TWS Partners worked with all functions to develop a game-theoretically enhanced sourcing process from the ground-up, based on the findings and insights from the pilot study. This new process served as a blueprint for all future sourcing projects, delivering exceptional results.

THE KEY CHANGES
1. Re-engineering of the sourcing process: The aim was to be able to speak with one voice to suppliers at every step of the sourcing process, in particular in the last stages of sourcing decisions. This meant Procurement should be able to make committed promises or threats to both incumbent suppliers, as well as new contenders. By giving both the chance to win (or lose) the business, Procurement thereby has the chance to leverage advanced negotiation techniques.

2. Competition building: TWS Partners, together with the Procurement team, used this new-found commitment to implement a game-theoretically optimised toolkit, enhancing performance in every negotiation. Using offers and threats with credible follow-throughs, action-reaction maps and bespoke auction mechanisms, the client and TWS Partners drove competition among the previously tough market of financial services suppliers.

3. Holistic decision making: In the new process, legal positions and other non-commercial properties were considered key criteria for the sourcing decision. No longer were they either fixed as part of the specification, nor negotiated in parallel/after the commercial negotiation had identified a “pre-selected” winner. Instead, they were included in the single committed negotiation, making it possible for suppliers to improve their position, in order to increase their chances of winning in a predictable, mechanistic and measurable way.
THE BENEFITS

The process which TWS Partners and the client implemented, immediately showed its worth through hard realised savings. In collaboration with TWS Partners, the client was able to exceed budgeted savings by more than 200%.

In addition to the commercial benefits, it formed the groundwork for long-term trust and partnership building, not only between Procurement and their supplier base, but also between Procurement and other internal functions. Through their new ability to generate holistic long-term strategies, the Procurement function was elevated to a true value driver in the client’s business during the transformation.