Procurement’s Role in Enabling Enterprise Agility

By Patrick Connaughton and Amy Fong

Executive Summary
A confluence of high volatility, technology-led innovation and hypercompetitive market conditions has accelerated the rate of change in business to unprecedented levels. The key to success – or indeed survival – in this environment is enterprise agility. Agile enterprises manage to stay in sync with the rate of external change by accelerating their internal rate of change.

Enterprise agility defined
The Hackett Group defines enterprise agility as a company’s ability to synchronize external and internal rates of change. Business services – e.g., finance, human resources, procurement and information technology – are integral to enterprise agility; without an agile delivery model for business services, enterprise agility is elusive.

Unprecedented Change in Business Conditions
Observing the accelerating rate of change in business and its profound impact on General Electric (which he was running at the time), Jack Welch famously said, “If the rate of change on the outside exceeds the rate of change on the inside, the end is near.”

Since the days of Welch’s tenure at GE, the rate of change in business has accelerated dramatically, with no slow-down in sight. His comment about change is more relevant than ever, and a call to action for every business leader to understand the drivers of change in their industry and the ability of their company to change internally (i.e., their “enterprise agility”). Based on this understanding, leaders must develop and implement strategies to close the enterprise agility gap, or risk decline or failure.

The Accelerants of External Change: Volatility, Disruptive Innovation and Hypercompetition
External change manifests itself through volatility, disruptive innovation and hypercompetition. These three accelerants of external change are themselves related to myriad factors (some of which are shown in Fig. 1). An ever-faster rate of external change reduces predictability in the business environment, bringing with it an elevation of business risk. That being said, a high rate of change also offers unprecedented opportunities, at least for companies that are well positioned to respond to (or even instigate) change.
The three accelerators of external change shown above result in elevated business risk. According to our research data, companies believe intensified competition to be the greatest driver of business risk both today and in the future (Fig. 2). Further, over the next two years, they expect business risk to grow significantly. Disruptive innovation is also viewed as a major current risk as well as one that is expected to rise. Concerns about volatility, for example in exchange rates and supply chain (e.g., commodity prices), follow close behind.

FIG. 2  Business risks

**Disruptive Innovation**

Disruptive innovation is the second accelerator of external change. While innovation has always been at the heart of value creation in capitalist economies, innovation in information technology has shifted the pace of “creative destruction” into overdrive.

Today, opportunities for technology-led innovation (of product and service offerings or business models) are seemingly unlimited. The only limits are human ingenuity to find new value-creating applications of technology and organizations’ digital business transformation capability. Since no industry is immune to the threat of disruption, every executive team should be thinking through its implications for their business and exploring opportunities to be disrupters themselves.

**Disruptive Innovation Requires Companies to Be More Agile**

Hackett research confirms that disruptive innovation is at the forefront of enterprise strategies today (Fig. 3). The threats and opportunities of disruptive innovation require companies to become more agile. The most agile incumbents are in the best position to survive or even thrive when their industry is at risk of disruption. One strategy is to identify potential disrupters and preemptively acquire them. In this scenario, enterprise agility is a function of the ability to identify, acquire and integrate potential disrupters, a common strategy in high-tech industries. Companies’ expertise at adapting their business model to capitalize on their own innovations (which may involve cannibalization of existing product or service lines), is another (equally important) form of enterprise agility.

**FIG. 3 The role of innovation in enterprise strategy**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation will become a more important competitive differentiator in our industry in the next 5 years</td>
<td>98%</td>
</tr>
<tr>
<td>Creating disruptive innovation is an important part of our business strategy</td>
<td>62% 30% 8%</td>
</tr>
<tr>
<td>Our company has the right KPIs, processes and incentives in place to meet its innovation goals</td>
<td>33% 32% 35%</td>
</tr>
</tbody>
</table>


The appearance on the global stage of formidable competitors from emerging markets is a major driving force of hyper-competition. Our analysis of Global 1000 companies by revenue shows that the percentage of those based in emerging economies rose from 23% in 2003 to 33% in 2013. By 2021, the percentage is projected to be 43%.

Unprecedented merger and acquisition activity has also fed this trend (Fig. 4). M&A volume, estimated at $2.5 trillion in 2015, is expected to increase at a compound annual growth rate of around 6.3%, surpassing $3.5 billion by 2020.

**FIG. 4 Hypercompetition: M&A is strengthening competitors**

*Global M&A volume projection (US$ trillion)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (US$ trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.0</td>
</tr>
<tr>
<td>2014</td>
<td>2.5</td>
</tr>
<tr>
<td>2015</td>
<td>2.7</td>
</tr>
<tr>
<td>2016</td>
<td>2.9</td>
</tr>
<tr>
<td>2017</td>
<td>3.1</td>
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<tr>
<td>2018</td>
<td>3.3</td>
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<tr>
<td>2019</td>
<td>3.4</td>
</tr>
<tr>
<td>2020</td>
<td>3.6</td>
</tr>
<tr>
<td>2021</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: 2015 Insight Guru, Inc.
The Four Attributes of Agile Enterprises

Agile enterprises synchronize their internal rate of change with the outside rate of change. They are characterized by four distinct attributes (Fig. 5):

- Information-driven, proactive decision-making
- Digital value network
- Customer-centric
- Operationally responsive

FIG. 5  External change-drivers and the four attributes of agile enterprises

Attribute #1: Information-driven, proactive decision-making

Agile enterprises are not guided by a rigid, calendar-driven planning process. Instead, plans are fluid and adjusted in real time as business conditions change. Information and analytics are used effectively to support decision-making at all levels in the organization. Though it may seem counterintuitive, the more dynamic, volatile and unpredictable the business environment, the less their business decisions rely solely on factual information. Instead, decision-making under conditions of high uncertainty is supported by an understanding of the relationship between performance drivers and outcomes, scenario-building and simulation capability, and the best information available – in other words, calculated risk-taking. Our research indicates a substantial gap between top-performing organizations and peer-group companies in the use of business analysis in critical areas of business support.

Without an advanced information management capability, enterprise agility is impossible. Agile operations require a “sensory” system that monitors external conditions, plus analytical capabilities that comprehend this data within the business context. This flow of feedback information is the basis for business decision-making in agile enterprises. The hallmarks of information-centric, world-class procurement organizations are the presence of a sophisticated information/data architecture that makes effective data analysis possible; planning and analysis capability that is dynamic and information driven; and performance measurement that is aligned with the business. In essence, procurement teams have to become expert “information navigators,” using real-time and predictive data to formulate and execute on their strategy (Fig. 6).
To realize these goals, an ecosystem of technology solutions is likely required, coupled with relentless data governance. World-class procurement organizations spend 23% more on technology per FTE and invest a greater proportion of their budget than the peer group on systems and tools to enable analytics capability.

The following steps can be taken to better understand the needs of consumers of procurement-related information and deliver insights that are meaningful to them:

- **Engage key stakeholders.** Meet with important stakeholders or with procurement staff responsible for managing stakeholders to understand what problems they are facing and the types of data required to solve them.

- **Invest in a technology platform and tools.** It will usually be necessary to start doing analysis using existing tools (e.g., spreadsheets and presentation software) to demonstrate value and build trust with stakeholders. This will make it easier to obtain funding approval for more sophisticated analysis platforms and tools.

- **Look for opportunities to move from supplying information to solving business problems.** As trust and credibility grow, opportunities will arise to penetrate deeper into the business and use data to resolve key problems.
Attribute #2: Digital value network

Digital business transformation is defined as the pervasive use of digital technology in products, services and value chains, fundamentally transforming traditional business outcomes. Agile enterprises are leading their industry competitors in digitally transforming not only their internal operations, but also their supply and demand chains.

In fact, we believe the well-established value-chain framework no longer adequately reflects the nature of value creation and operating models of business in the digital era. A value chain (along with associated concepts like supply chain, demand chain and end-to-end processes) is based on a paradigm of linear execution of work and value creation. However, emerging digital-age business models are far from linear, having instead transformed into networks connecting customers, suppliers, internal processes and resources, and other trading partners.

Value-chain digitization is related to agility in a number of ways. In demand chains, agile enterprises engage with customers digitally. This allows them to collect real-time information about client interactions, which they use to inform their product development and marketing decisions; it also permits configuration or customization of products and services within milliseconds. In indirect distribution channels, digital integration between manufacturers and distributors offers superior visibility of demand trends, giving the upstream value chain a head start on adapting to changing business conditions.

In supply chains, digitization enables agility in many ways. First, by moving every aspect of the supply chain online – including procurement, billing, approvals and payments – more information can be captured, analyzed and used. The more digitally integrated the supply chain, the faster companies can respond to change. Once digitized, processes can be reconfigured far more quickly than manual processes. For example, a change in price or order quantity can be propagated virtually immediately throughout a digitized supply chain.

Second, digitization simplifies and speeds the exchange of information in collaborative design processes. Many manufacturers rely on strategic suppliers for innovation and the design of products or components. Co-design capabilities (such as exchange of digital models of designs) require digital integration. Third, collaborative supply-chain planning is critically dependent on the exchange of digital information. Supplier integration through e-procurement systems and portals reduces order cycle times, boosting agility as well.

Attribute #3: Customer-centric

Digital value chains and analytics monitor, integrate and contextualize customer information for decision-makers. This type of data is the primary feedback loop in agile enterprises. In customer-centric organizations, planning processes and business decisions are guided by their impact on customers. Of course, “customer impact” is used as shorthand for more specific and manageable concepts such as customer value, customer experience, customer satisfaction and customer service levels.

A customer-centric culture (Fig. 7) starts with leadership commitment, which is translated into a talent strategy. Talent is empowered, accountable and incentivized to focus single-mindedly on the customer. Product and service offerings are designed from the outside in, beginning with the customer experience. The innovation agenda itself is driven by customer feedback.
Understanding and managing the customer experience requires a holistic, structured approach, starting with a clear understanding of customers’ needs and then improving relevant elements of the procurement service delivery model. The customer must be the focal point of all principal activities and functions within procurement.

An important component of customer experience management is service design. It identifies the functionality desired and information needed from the perspective of the consumers of procurement services. In this approach, services are designed based on users’ wants and needs, rather than forcing them to change their behavior to accommodate procurement’s internal processes. The way each service needs to support customers’ work should influence the design of the delivery method/interface. World-class organizations are service-oriented and customer-centric in their approaches to procurement delivery. The result is a far better customer experience.

Self-service is a prime example of the difference this approach can make. Most self-service is designed to make processes more efficient, rather than enable the user to be more effective. World-class procurement organizations report high usage of both employee and manager self-service, largely because they create capabilities with the customer experience in mind. The following are actions that can be taken to promote customer-centricity:

- **Act holistically.** Create an end-to-end customer experience that cuts across multiple procurement (and sometimes other function) processes. Early in any project, therefore, it is essential to identify and engage the key players in the processes that affect the customer experience.
- **Prepare to hire and acquire new skills.** Service design demands a nontraditional project team and skill set. A traditional procurement project team is not sufficient. Participants must have expertise in communication and digital media. Not all team members need to be assigned to the project full-time.
- **Set up councils and focus groups to provide “voice of the customer” recommendations.** Use these to guide decisions regarding design of the process and supporting systems. Design councils should be treated as an investment in project success. They should be created early in the process and participants should be coached on their roles.

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**Customer-centricity: The emerging battlefield of competitive differentiation**

Many organizations are in the midst of a cultural transformation toward customer-centricity. As digitization reduces switching costs in many industries (e.g., airlines, telecommunications, media, online retailing, financial services), customer-centricity is shaping up as the future battlefield of competitive differentiation.

**Customer-centricity in action: Uber**

The customer experience, which is at the heart of Uber’s value proposition, is “designed” using digital-age methods such as design thinking, customer journey mapping and user interface design. Service delivery and fulfillment (i.e., via freelance drivers) is entirely digitally integrated into the network, as are business support services, payment processes and marketing channels. Big-data analytics supports Uber’s dynamic pricing and trip-optimization methodologies.

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**FIG. 7 Attributes of a customer-centric business culture**

![Diagram of customer-centric business culture](source: The Hackett Group)
Customer-centricity and enterprise agility cannot be separated. Agile enterprises must continually scan for signals of changes in customer preferences and adapt or enter new markets based on these insights. A digital “sensory system” and analytical capability are essential in this regard. But a customer-centric culture is as important as information to ensure that customer feedback is the guiding principle informing decisions.

**Attribute #4: Operationally responsive**

In traditional management theory, lack of operational responsiveness (to internal changes or those occurring in the supply chain, customer demand or competitive landscape) is often referred to as the “strategy-execution gap.” But in today’s business environment, when change is more likely to be externally driven and appear unexpectedly and rapidly, operational responsiveness extends far beyond the ability to execute changes in strategy. For example, “on demand” business models such as software-as-a-service (SaaS) in business applications and cloud computing in technology infrastructure are currently reshaping the technology industry.

Operational responsiveness is largely determined by three factors:

- Ability to sense or anticipate changes in business conditions that require an operational response.
- Ability to rapidly analyze the impact of the change and develop an adequate response (i.e., analytical and decision-making capability).
- Ability to swiftly execute the planned response.

The speed at which the response can be implemented depends on the cycle times of the processes involved. Changes may affect operational, commercial and business support processes, and may range from highly strategic to tactical in nature. For example, if an operational change dictates a strategic acquisition, how quickly an M&A candidate can be identified, due diligence completed, and the acquisition made and integrated all factor into operational agility.

One of the biggest challenges facing procurement organizations is deploying people with skills that are more relevant to the core activities of the business. Top management looks to procurement to help the business execute purchasing strategies more successfully and, in turn, enable the business to become more agile and innovative. If a company needs to expand its internal organization to capitalize on a commercial opportunity or ramp up capacity, the pace at which open positions can be filled affects operational agility. In this scenario, faster employee onboarding also improves operational responsiveness, and hence, agility. **Fig. 8** features examples of processes related to operational responsiveness.
FIG. 8 Sample high/low cycle-time agility performance gaps

<table>
<thead>
<tr>
<th>Low/high agility gap</th>
<th>Industry example</th>
<th>Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product development lead time</td>
<td>30%/70%</td>
<td>Automotive, consumer electronics, pharma, technology</td>
</tr>
<tr>
<td>M&amp;A integration</td>
<td>40%/80%</td>
<td>Energy, pharma, technology</td>
</tr>
<tr>
<td><strong>Commercial</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Application processing/approval (e.g., insurance, mortgage, license)</td>
<td>50%/95%</td>
<td>Financial services, insurance, public sector</td>
</tr>
<tr>
<td>Product launch</td>
<td>40%/80%</td>
<td>Consumer electronics, media, technology</td>
</tr>
<tr>
<td><strong>Business services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier onboarding</td>
<td>40%/80%</td>
<td>CPG, manufacturing, retail, services</td>
</tr>
<tr>
<td>Days to fill open headcount</td>
<td>50%/90%</td>
<td>All industries</td>
</tr>
<tr>
<td>Employee onboarding</td>
<td>50%/90%</td>
<td>All industries</td>
</tr>
</tbody>
</table>
The customer-centric value network

Customer-centric value networks like the one shown in Fig. 9 represent the synthesis of agile enterprises: information-driven decision-making, customer-centricity, digital value network and operational responsiveness.

These networks express the evolution of the value-chain model, which no longer adequately reflects the nature of value creation and operating models. Formally linear value chains have become digitally integrated value networks.

These networks represent interconnected internal and external resources and services providers, and networked consumers of goods and services, both digital and physical. Business services such as finance, human resources, information technology and procurement play a crucial role in value creation through their management of information, talent and performance, and provisioning of infrastructure.

**FIG. 9 The customer-centric digital value network**
Apple’s customer-centric digital value network

Apple Computer is an often cited example of what is arguably the most successful embrace of the principles of customer-centricity and digital value networks. The company’s customer-centricity and leadership in value-chain digitization can be traced back its 2001 launch of iTunes. This business model innovation put the customer at the center of music acquisition, consumption and library management, digitizing the entire music value chain.

In the intervening past 15 years, Apple has evolved from a traditional computer hardware manufacturer launching a digital music delivery platform to the world’s most valuable company. Apple is universally recognized as a global supply chain leader and its value chain has evolved into a digitally integrated value network (as introduced on the previous page). Further, the Apple customer experience – considered an industry benchmark – has earned it an exceptional level of brand loyalty and the envy of competitors in a range of industries, including consumer electronics, computer hardware and digital content.

Apple’s value network (Fig. 10) includes all the elements of The Hackett Group’s framework, including product development, which is accelerated by acquiring licenses and third-party business. The company has established strategic supplier partnerships based on very high expectations (including innovation) in exchange for volume guarantees. Apple has begun to raise the number of suppliers in its value network to mitigate supply risk and foster competition. Its demand network supporting sales, marketing and customer support consists of company-owned stores, partner retail channels and digital channels such as Apple’s e-commerce site and App Store. All are digitally integrated throughout the customer lifecycle. Further, while Apple’s monopoly on digital music delivery has eroded since the early days of iTunes, its vast network of App Store content providers now provides a 100% digital revenue stream.

Customer-centricity is deeply engrained in Apple’s culture, showing up in such practices as senior executives reading customer feedback emails and the use of net promoter scores in Apple stores.

FIG. 10  Apple’s customer-centric digital value network
Related Hackett Research

“Measuring Agility in Business Services,” March 2016


About the Advisors

Patrick Connaughton
Senior Research Director

Mr. Connaughton leads the development of The Hackett Group’s intellectual property in the areas of strategic sourcing and procurement. He has over 15 years of experience in supply chain and procurement research and advisory roles. He has published groundbreaking research in areas like spend analysis, contract life cycle management, supplier risk assessments and services procurement. Prior to joining The Hackett Group, he was principal analyst at Forrester Research, where he focused primarily on helping executives mitigate risk through more effective supplier relationship management. Previously, Mr. Connaughton was a consulting manager at Manhattan Associates and Accenture.

Amy Fong
Senior Procurement Advisor and Purchase-to-Pay Process Advisory Program Leader

Ms. Fong has 20 years of experience in industry and consulting with a focus on procurement, supply chain and organizational effectiveness. She helps business leaders improve source-to-pay processes, manage complex supply chain partnerships and mature their organization’s service delivery model. She also performs primary research in source-to-pay and operations and is the author of a number of publications on these and other topics.

The Hackett Group

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