

Truly effective collaboration requires more than just cooperation with business units and suppliers. These partnerships must be purposeful, planned, and well structured to deliver true strategic value.



Making collaboration pay off

Collaboration is one of those business buzzwords that virtually everyone accepts, without much examination, as a worthy goal. Certainly the procurement function has been preaching its virtues for years, and our global survey of over 500 procurement executives and 500 non-executive procurement workers confirms that collaboration is on the rise, both inside the firewall and beyond. This momentum is enhanced by technology—including business networks, social media and collaboration platforms, and mobile devices—that makes it easier than ever for procurement to play well with others.

But truly effective collaboration requires more than just cooperation with business units and suppliers. These partnerships must be purposeful, planned, and well structured to deliver true strategic value. The chief procurement officer of a large US financial services company told us that getting people to talk to one another was the easy part, because teamwork and consensus-building were engrained in his firm's corporate culture. What was missing was a strong sense of how procurement could help improve business performance.

“The challenge was not as much being collaborative from a ‘let’s build a relationship’ perspective, but getting our mind-set in a different place around what we are actually buying,” he says. Truly meaningful collaboration, internal and external, required a focus on clearly defined results. “I had to help the organization understand it isn’t always a bad thing to be challenging our business partners, and going through a competitive process is the best way to bring the most value to our company.”

That is the real point of collaboration: to pay off in terms of business performance. Our research shows a strong overlap between companies with more collaborative procurement functions and those expecting stronger revenue growth than their peers. Cause and effect are not clear from the data, so we cannot say for sure whether collaborative procurement organizations

tend to drive top-line growth or if it works the other way around and more successful companies tend to emphasize collaboration more than less vibrant ones. But by any interpretation, the business case for collaboration is a strong one.

Collaborative procurement across the enterprise

Collaboration that drives business value does not just happen. It requires a strategic approach to procurement that places the function firmly in the flow of overall corporate planning and execution. In this model, procurement is more than a niche player that provides a narrow set of services and then disappears—it is integrated into the structure and process of daily work.

So while it is notable that our surveys show internal collaboration on the rise—68% of executives and 70% of practitioners say procurement at their company is becoming more collaborative with other parts of the business—it is equally important that substantial majorities of both groups say procurement is playing a more strategic role within their organizations. About half of respondents say procurement is becoming more of a function and less of a service, and well over half say procurement data is being used strategically by

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other parts of the business. Substantial numbers of both practitioners and executives say that using strong spend-category-level analytics is an important way of gaining influence and bringing more spend under management.

Procurement executives and practitioners agree that collaboration is on the rise

To what extent do you agree with the following statements? “Agree” and “Strongly agree” responses



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At Verizon, collaboration between the finance and procurement functions helps the telecommunications giant optimize cash flow. This process involves negotiations with suppliers that are closely coordinated between senior executives from both parts of the company. “We have common objectives, and our teams work very well together around things like supply chain financing,” says Dominique Gaillard, Verizon’s vice president of financial operations. “There are things we cannot do without them and they cannot do without us, so that collaboration is actually quite key.”

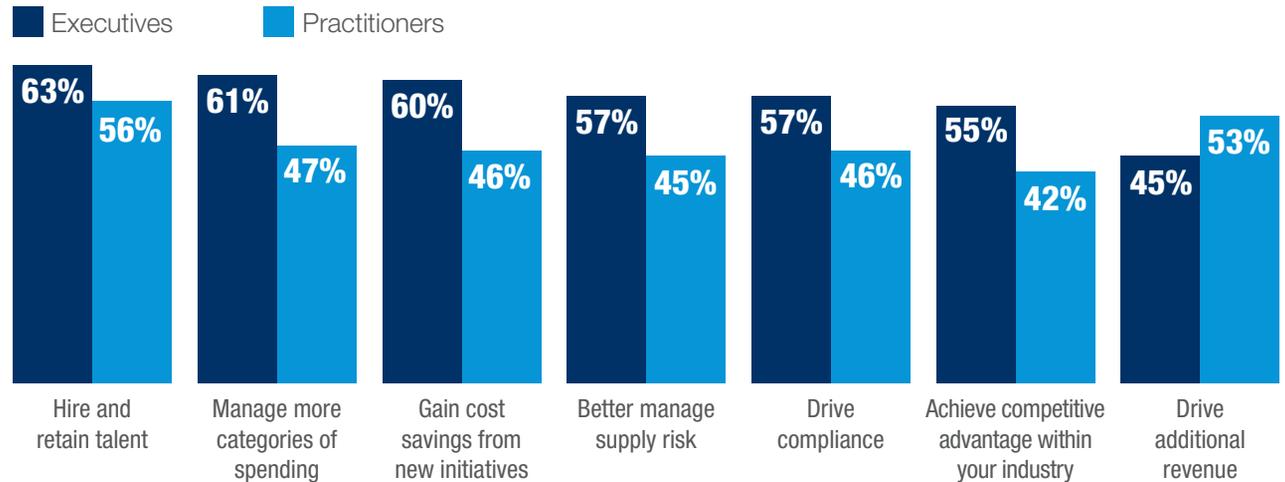
Benefits of a more strategic, collaborative procurement function include cost savings from new initiatives (according to 60% of executives), better management of supply risk and compliance (57%), achieving competitive advantage (55%), and driving additional revenue (45%). Executives from more profitable companies are somewhat more likely to say increased collaboration will have a strong impact on managing more categories of spending and gaining cost savings—both components of profitability.

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Dominique Gaillard, vice president of financial operations, Verizon

Collaboration expected to have a measurable impact across the business

To what extent are these changes having a measurable impact on performance in the following areas? “Significant impact” and “Very significant impact” responses



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But getting all of the different parts of a business to embrace procurement's changing role can be a challenge. Managers may have their own agendas, and disparate business units may have distinct cultures of their own. That means that the push for a strategic role and meaningful collaboration benefits from coordination at the highest levels. "You need a push from your CEO, your CFO, your division leaders, and people like that," says Tim Thomas, head of procurement at JBS, one of the world's largest meatpacking companies.

True integration of the type needed to support enterprise strategy at every level takes time to establish and an ongoing effort to maintain. Mr. Thomas says the pendulum is swinging toward company-wide collaboration, but JBS does not yet have a structure in place to support global purchasing across operations in the US, Brazil, Canada, and Australia. Until then, money is being left on the table. "It is something that we need to do if we're going to continue to improve and drive the value that we should as an organization throughout the entire world."

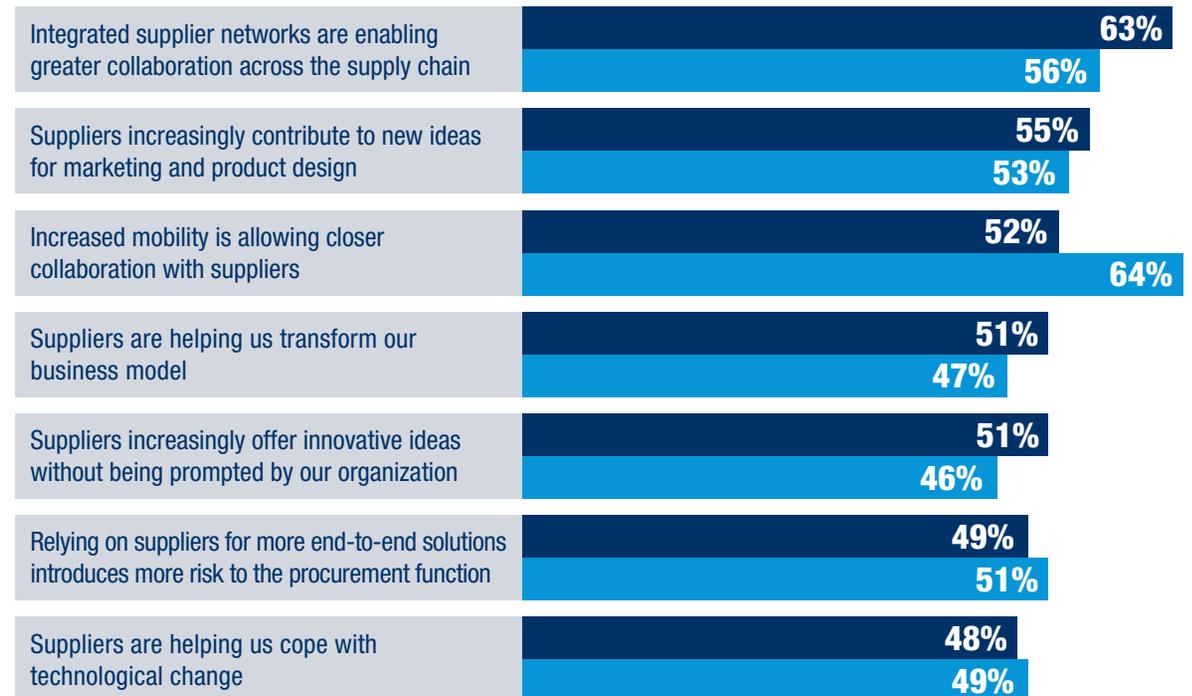
Thinking outside the firewall

Procurement also is increasingly collaborative with suppliers, according to over half of executive and practitioner respondents. But again, truly strategic collaboration is different from just working together well on routine tasks. We found strong examples of strategic work with suppliers at Las Vegas Sands Corp., the big gaming and hospitality company that owns famous casino hotels in the US and Asia. There, procurement is working with key suppliers to develop products that can reduce costs at scale (such as low-consumption lighting systems for the perpetually bright casinos) and drive revenue (e.g., slot machines with themes tailored for specific markets). This kind of co-development works well for both partners, as the vendor ends up with a highly desirable new product to market.

And joint product design is just one area where our survey shows that collaboration with suppliers is advancing. The trend is driven by factors such as integrated supplier networks and increased mobility, and is paying off in terms of greater supplier involvement in innovation and marketing, and even suppliers who offer new ideas without being asked. At the same time, this new level of integration of suppliers into internal processes is seen by half of all respondents as introducing more risk to procurement, and changing the way the function operates. Nearly two-thirds of executives say procurement owning the supplier relationship is changing day-to-day operations; executives from the retail industry are even more likely to say this is true (79%).

Collaboration with suppliers is paying off

*To what extent do you agree with the following statements?
"Agree" and "Strongly agree" responses*



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At Las Vegas Sands Corp., procurement is working with key suppliers to develop products that can reduce costs at scale—and to create new offerings for the vendor to take to market.

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■ Executives
■ Practitioners

Collaboration requires the kind of trust that is built over time.

“If we hadn’t had relationships with our vendors, I think the company could have been done.”

Tim Thomas, head of procurement, JBS



Genuine collaboration requires real relationships and the kind of trust that is built over time. Mr. Thomas thinks back to the difficult period following the great financial crisis of 2008, when the chicken-products unit of JBS went into bankruptcy. “If we hadn’t had relationships with our vendors, I think the company could have been done,” he says. Instead, key suppliers kept shipping because people they knew well gave them confidence that a workable restructuring was underway. “We only had a couple of incidental suppliers walk away from us,” says Mr. Thomas. “They came back and said, ‘Hey, we’ve made a tactical error.’ ‘Yeah, sorry guys, we’ve already replaced you.’”

Technology and collaboration

Good things carry a price, and collaboration between procurement and its internal and external partners is no exception. Over half of practitioners say their collaboration efforts put serious demands on their time, citing one-on-one work with suppliers on strategic initiatives and one-on-one work with suppliers and others on administrative tasks as the most time-consuming parts of their jobs. That makes the rising role of technology as an enabler of collaboration all the more important.

Several technologies that can help support collaboration are rated as highly important by both executives and practitioners. In fact, business networks trail only high-level economic issues (e.g., globalization and commodity pricing) on our list of trends that executives expect to have the most significant impact on the function in the next three years, while mobile technology is the top non-macro trend among practitioners. Mobile, business-to-business commerce networks, and cloud also rate highly in terms of how important they are to the day-to-day work of procurement. Among the key benefits ascribed to these technologies: integrated supplier networks enable greater collaboration across the supply chain, and increased mobility allows closer collaboration with suppliers.

High performance, high collaboration

One way we looked at our survey data was through the lens of high-performing companies—those respondents at businesses that are expecting stronger revenue growth than their peers. Executives at these companies are more likely to say procurement is becoming more collaborative, that it is increasingly embedded in other parts of the organization, and that procurement data is being used across the company.

This is especially true of internal collaboration, where over three-quarters of executives from the highest-growth companies—those where revenues are expected to increase by 10% or more over the next three years—agree or strongly agree that procurement is becoming more collaborative with other parts of the business.

These rapidly growing companies are somewhat more likely to use as a key performance indicator the number of suppliers with automated collaboration capabilities, and to say that suppliers increasingly contribute new ideas for marketing and product design. They are much likelier to say that integrated supplier networks are enabling greater collaboration across the supply chain, and that suppliers are helping transform their business models. These companies are also much likelier to use social media for procurement purposes, and to use business-to-business commerce networks, both now and looking ahead two years.

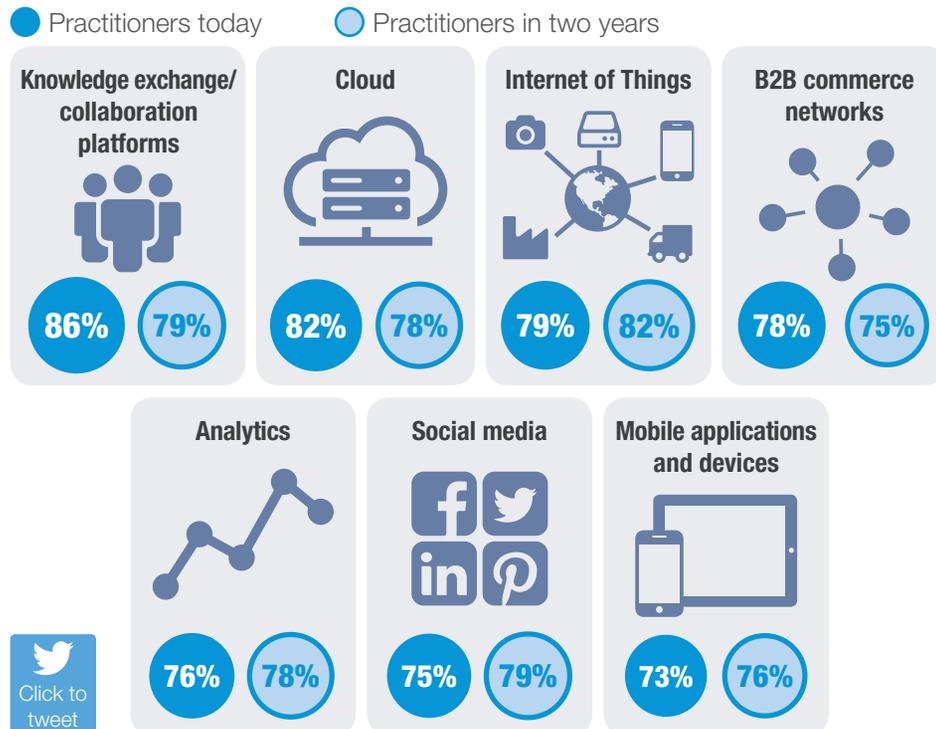
Again, we cannot say for sure if the data indicates that a collaborative procurement function leads to higher revenue growth or that strong, healthy companies are bigger on collaboration, or both. Under any scenario, it seems clear that collaborative procurement shops and successful businesses go together.

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But no tools are having a greater impact on procurement than social media and knowledge exchange/collaboration platforms. While our conversations with executives did turn up some meaningful uses for external social media (for example, identifying minority- or women-owned suppliers via LinkedIn), our strong sense is that internal networks are more important. Knowledge exchange platforms and B2B commerce networks are cited as quite or very important by 57% and 47% of practitioners, respectively, and a larger number say these technologies are at least moderately important (see below). Practitioners from financial services companies are even more likely to emphasize the importance of these technologies today.

Collaboration technology solutions are growing in importance for practitioners

To what extent are the following technologies important to day-to-day work in the procurement function? “Very important”, “Quite important,” and “Moderately important” responses



The procurement head at the big financial services company cited above says use of an internal social media system is “high and growing” at his firm, allowing his team to work with internal partners to manage projects and get feedback on anything from vendor engagement to regulatory compliance. The conversations can be about broad topics or tightly focused to draw on expertise from disparate parts of the huge enterprise. “We have a heck of a lot going on from a supplier/ risk management perspective right now,” he says.

Conclusion

Ariba’s ground-breaking 2010 paper on the future of procurement, *Vision 2020*, includes a chapter entitled “Collaboration Reigns.” Our survey shows that this prediction is well on the way to coming true, with a handful of key technologies hastening the change.

But the real value of collaboration depends on quality, not just quantity. To that end, procurement is taking a more strategic role as collaboration increases. Working together is nice. Doing so according to a plan and in the service of a strategic vision is where the real value lies.

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