Procurement Strategy Do’s & Don’ts
By now you know that what passed as a procurement strategy in 1999 doesn’t bear much comparison to today’s modern procurement strategies, right? Everyone is well aware that today’s procurement departments should be focused on strategic efforts rather than tactical tasks, yet a large number of organizations are still operating in tactical mode, and it’s not necessarily clear for the leaders of these organizations how to get from point A to point B in their transformation into a strategic procurement department. Well if that describes you, you’re in luck. In the next 20 to 30 minutes you’ll learn some best practices for developing and implementing effective procurement strategies while avoiding some of the most common pitfalls.

Hello everyone and thank you for tuning into another edition of the Next Level Purchasing Association Podcast Series. This is your host Charles Dominick the President and Chief Procurement Officer of the Next Level Purchasing Association, and my guest for today is Ravi Thakur. Ravi is the Vice President of Services and Support for Coupa, a leading provider of cloud spend management solutions that help companies control their indirect spending and generate savings that go direct to the bottom line. Good afternoon, Ravi.

Good afternoon, Charles.

And thank you for joining me today. The theme of today’s podcast is procurement strategy dos and don’ts. So let’s start off by defining what a good procurement strategy is. What are the common characteristics of those procurement strategies that you see being particularly valuable to the organizations in which they are used?

Right. Thanks Charles. Well first off, thanks for having me on the show today. I’m excited to be here and sharing some of my knowledge of what we’ve been doing here at Coupa and what I’ve seen with our 200 plus clients. Some of the common characteristics that we’ve seen among the next generation of procurement strategies, the first thing is silent enforcement. This is really where employees of today’s generation, they don’t expect to see procurement policies per se, they just want these policies to be there as they’re going through and creating requisitions or as they’re going through buying the goods and services that they need in order to do their job.

The second thing is leveraging smart strategies. So this is where we’ve seen some scenarios where a particular client that we’ve
been working with where they were requiring a lot of documentation as an example, a lot of documentation where if a window broke at a store and they would require, say, a requisition in this particular case whereas the rain is flowing down and people are going away from their store, they’re not coming into the store, and they’re losing business. That’s an example where you don’t have a smart procurement strategy where you’re slowing the business down. So one of the things that we always focus on with our clients is enforcing and making sure that they have smart procurement strategies as it relates to allowing their employees to do their job as quickly as they can without being hindered with the process. The final common characteristic is around technologies that people are not trying to avoid.

So if you go and look at what an employee does when they go home at night, they’re on Facebook, they’re on Google, but they’re using consumer technologies and they expect to use the same thing within their day-to-day job, and once they don’t see that or if they’re working on tools or systems that don’t offer the same types of flexibility and usability they’re going to start avoiding using those tools, and what happens when you avoid those tools is those procurement policies that you worked so hard to put into place, they just go away. Companies aren’t able to sustain those procurement policies and the value that you provide as a CPO as an example goes down because you’re not able to enforce anything through your organization.

*Charles Dominick:* Good points. I think I hear kind of a common theme among all of those. It seems to me that people will seek out the path of least resistance, so as a procurement leader you want the path of least resistance to be also the path of maximum compliance with policies then.

*Ravi Thakur:* Absolutely.

*Charles Dominick:* Great. The activities and procurement department that use the procurement strategies that you’ve just described are probably quite different than the activities of many procurement departments, and in those lagging organizations the role of procurement can be very transactional focused on approving and processing purchase orders, making sure policies are complied with and so forth. So how does a leader in a type of situation that I just described make procurement more strategic to the business and make themselves more valuable to the company?
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*Ravi Thakur:* Charles, that’s a great question. We see that all the time with clients. They first come in and they talk to us about the bare x’s and o’s, “How do I improve my processing time for requisitions?” or “Talk to me about buyer cycle approval times”, and frankly that’s not how procurement organizations should function anymore. We’ve had the great recession. We’re hopefully getting out of it, and customers, clients, organizations, you can only cut so many employees. You have to have a certain amount of employees to keep your operations running in order to do your job. So where do you cut next? What do you do next?

So what we’ve seen a great deal of is organizations looking at that procurement expert, looking at what we’re dubbing as kind of that chief savings officer. Who is that person that’s gonna help us get our spend under control and save money because you’re not able to cut anymore employees, you’re not able to cut cost to the core piece of the business. There’s many different ways to do it, but the key way to do this is really partnering with your finance staff. It’s partnering with your CFO. It’s working with them to understand what metrics drive their business such that you can go ahead and work with them to cut costs where it matters, and it’s not simply cutting cost as in negotiating a 10 or 15 percent discount with the supplier.

It’s really once you negotiate those discounts or you work and you streamline, say, multiple suppliers or multiple commodities into a single set of contracts, but once you do that are you working with your CFO to make sure that you’re not just reallocating your money to a different group but really cutting it from the bottom line and making sure that as an organization like a Salesforce.com you’re able to save percentage points off of their operating expenditures, ‘cause once you do those negotiations and once you see the value that procurement is offering, make sure the value is kept, it’s simply not lost by reallocating funds to different groups.

*Charles Dominick:* Now value is really the key. As a procurement leader, a CPO, you have to have a department that delivers value and lots of it. Having employees perform the more strategic tasks of procurement that builds that value requires either adding head count or automating tactical work and sometimes both. Either way as the saying goes, you have to spend money to make money, but automating procurement is not always the priority of the CFO or CEO, so how do you sell the idea of procurement automation to management so that the procurement department is enabled to create the value you just described?
Another great question, Charles. What we see here is when you’re selling anything you need to put yourself in the shoes of who you’re selling, your goods, your service, your idea, your business plan to, and when you talk to the CFO or CEO, what do they care about? They care about hard dollar savings. That’s what drives the business. Are you gonna create a business plan for me that’s gonna create revenue or cut costs? That’s the only reason people will invest in the strategy, a process, or software. So what should you do?

It’s pretty straightforward from my standpoint. Make the business case for hard dollar savings, and whether that’s reducing head count because you’re able to bring in automation or that you’re able to reduce maverick spending because now you have visibility into all the spend happening within the company, or even what we’ve seen with some of our clients is once you get all of your spend within a single system such as travel and expense spend along with your requisition, purchase order, and invoicing spend, once you get all of that under a single system that’s where you’re able to go ahead and negotiate and do a lot more with driving costs down. All of that fits back into your business case, your ROI with management.

Another thing that we’ve also seen is if you look at where software was 20 or 30 years ago, people were going out and making a lot of money selling ERP solutions, enterprise resource planning solutions, and back then a lot of people were using spreadsheets to manage their finances, and now no company will ever run their operations without an ERP system. That’s kind of the same thing that we’re seeing with procurement and procurement automation technology like Coupa. Go talk to the CFO and ask them, “Are you actually maintaining your financials in Oracle and three different spreadsheets?”

The answer would never be yes. They’re always maintaining things within that single system. So why as a CFO or CEO, why do you ever wanna manage all of your spend in multiple systems? It makes no sense anymore. It’s a different paradigm that CFO’s, CEO’s, and even CPO’s, the chief procurement officers need to realize as it comes to managing spend and making sure that they’re getting their savings under control.

Okay, so let’s say that the procurement director has the full support of the CFO and CEO to make transformative changes. It would be nice to think that the procurement director with that approval could just wave a magic wand and voila, the procurement department
would instantly be strategic in every way and every problem would be solved, but in reality these types of transformations take time with some things worked on right away while others are left for later. So when embarking on a procurement transformation, what do you feel should be some of the highest priorities for a procurement leader? What should he or she focus on first?

**Ravi Thakur:**

What we do when we work with clients and help them understand what they’re doing and what they’re looking at, the first thing we kind of have to wade through is ego, and what I mean by that is the very first thing with working with clients or if you’re looking in the mirror and you’re running the procurement organization is obviously first you know what you’re doing today, but the first thing to do is get a handle or get an understanding or come to the realization that there are things that you don’t control or that you don’t understand.

We work with a lot of clients that may have 15 to 20 percent of spend under management and they may think that they have everything under control, but when you dig into it with these clients, when you dig into it and get underneath the numbers a little bit, then you start to realize that they don’t really have control. So the first thing is really just getting over the feeling or the thought that you actually understand and have every single dime under control. No one has that. So it’s first understanding what you don’t understand. Then the second thing is get a handle on that. Get a handle on the things you don’t understand.

Maybe as a procurement executive you never really talk to your accounting peers and maybe you have no idea how much spend the company is doing through travel and expenses, whereas maybe some of the expenses happening on people’s credit cards or e-cards are happening because they’re tired of using the systems or there’s an outdated process that’s forcing people to just go down to the local hardware store and buy things in order to fix a part on the factory line. So the first thing is understand what you do know and what you don’t know.

Second thing is bring in the technology to fill in the spots or fill in the gaps where you do have blind spots, and then the third thing and last thing really is optimize. Once you have the technology in place to have that visibility, optimize around that. Iterate through that. There’s so many different ways to optimize around the procurement area whether it’s the traditional stuff, running RFQ’s or contract compliance, but also being able to do things such as go up the value chain. Go talk to your suppliers.
We negotiate here all the time with our cloud providers and the way that we negotiate is we work with them and understand what are their margins, what are their things that are making them make these decisions on the pricing that they give us. All of these are different tools and mechanisms that the procurement organization has to optimize their procurement. Again you only asked me about one but I gave you three. Just to recap, the first thing was understand what you don’t know, bring in the technology, and then the third thing is just optimize and iterate.

Charles Dominick: Okay. So those would be some of the procurement strategy dos if you will. Now let’s talk about the don’ts. What are some of the common mistakes or pitfalls that lead to a procurement strategy failing to deliver the intended results?

Ravi Thakur: One thing that we see there is executive buy-in. You have a lot of organizations, a lot of CEO’s and VP’s of procurement that have a lot of great ideas and they go out and they try to enforce it, but unless you get the buy-in from the CFO or CEO in order to go out and proactively talk about that change and make it a key initiative for the organization it’s very difficult to get people to go and follow a transformation.

So the biggest mistake that we’ve seen, the common pitfall, is really making sure that the executive team is engaged, whether that’s a weekly meeting that you provide a ten-minute standing update or whether or not it’s partnering with the CFO and coming out with those baseline metrics that make sense to a CEO but making sure that he or she has that visibility and understanding such that they can talk about it in the halls, such that they can bring it up in company all-hands meetings. So it’s really around getting the buy-in and making sure that from top down people at all levels of the organization understand what you’re trying to do and how it can benefit them as either an employee, a shareholder, or really anyone associated with that company.

Charles Dominick: If you don’t have the buy-in you’re almost doomed to fail.

Ravi Thakur: Yep.

Charles Dominick: Well let’s drill down further into one aspect of a procurement strategy and that is implementing procurement automation tools like the one that Coupa offers. What are, say, three or four common things that a procurement department should consider when looking for procurement automation tools?
Ravi Thakur: Right. So the first thing that we talk to clients about is provide your employees with technologies that don’t inhibit them. Tools like what we do here at Coupa is we provide a best in class, easy to use solution, and what does that really mean? We’re not building tools in a vacuum, but we’re working with end users, we’re working with the people at our clients to make sure that we’re building the best software that we can. Same thing with coming out with procurement strategies. Work with your end users. Work with your clients to understand, work with your employees to understand the things that they need. What kind of tools do they need?

What we see by and large with that is employees, again as we see in this generation and companies of all sizes, it’s providing the tools that’s easy to use for these users. Second thing that we see is make sure you can invest in a solution that you can control or you can operate as owning the business. What I mean by that is traditional solutions. If you look at some of the traditional on premise solutions, solutions that are hosted and managed within your firewall by your IT department. Say you need a new report or say you wanna change an approval routing, or say that you wanna tweak something within the system in order to make an effective change such that you can operate your procurement organization in a way that’s changed or a way that’s updated as your business changes.

In the old world you have to talk to your IT department, you have to potentially log a ticket and you may have to wait to six weeks, maybe a couple months for an IT resource to free up. So make sure that you’re investing in solutions like software as a service solution that provides employees or the business owners the ability to make those changes without having to call IT. So by being able to do those investments your business can change and your technology can change with you in order for you to continue to make improvements to your process. The last thing I wanna talk about here is identify and understand what is your total cost of procurement.

With any sort of process or methodology or strategy there’s a cost to that, whether it’s labor charges within a procurement organization for strategic sourcing people or your buyers or transactional buyers or whatever it may be, there’s labor costs and there’s software costs. Typically what we’ve seen for on premise solutions those are high costs around obviously buying the software but then also professional services as it relates to making
those changes that we talked about earlier. So make sure that you understand and identify your total cost of procurement and that’s where we’ve really seen clients really going and evolving and really gearing towards software as a service solution ‘cause you’re able to really limit and keep a control on your total costs of procurement.

Charles Dominick: So jumping back to the second point that you made, and I think our listeners out there would be particularly interested in it, you contrasted the process of having installed on premise software with software as a service or cloud-based applications, and you indicated that it may be easier to get a new report or some type of customization in the cloud as opposed to an on premise solution. Am I understanding that correctly?

Ravi Thakur: That’s correct and really it’s not so much about customization per se but it’s configuration. As a software company delivering solutions in the cloud or software as a service we have to assume that IT is not gonna be involved, and what that means is providing the tools such as an easy way to say that for this cost center all of the approvals need to be routed to this person. Traditional on premise solutions that’s an IT person that has gone through six weeks of boot camp on that particular product in order to make those changes, but in SAS solutions, in software as a service solutions, it’s a little bit different now.

The paradigm has shifted. It’s allowing all of those changes, those configurations, again not customizations per se but configurations to allow approval changes or hierarchy changes or reporting changes. Really whatever the business needs in order for them to change their solution or change how it’s configured such that six months after an implementation as their business changes they can go ahead and just keep the solution updated as well.

Charles Dominick: So is it fair to say that different procurement automation providers would have different degrees of configurability of their solutions then?

Ravi Thakur: Yes that’s correct.

Charles Dominick: Okay.

Ravi Thakur: One of the things we do with Coupa as an example is we make everything available to an end user to configure. If you look at a solution like a SalesForce.com for the CRM space they kind of follow the same paradigm. So it’s allowing the business owners to
Charles Dominick: Okay. Well if you’re just evaluating solutions as a customer or as a potential customer, how would you know whether one solution is more configurable than another?

Ravi Thakur: That’s a great question. What we like to do with our clients is just encourage them, ask the questions. When you’re going down the evaluation process of a solution, ask the question. Say, “Show me a demo and show me how to change x, y and z”, and I want you as a salesperson or you as the solution consultant to go ahead and show that to me. Don’t show me screen shots. Don’t talk to me about it. Just show it to me, and by just visually seeing that and seeing how you can simply log into a web browser and navigate to a page and then changes something through the user interface and then go back and create a transaction just to see how that’s changed or how those configurations are now updated, that’s very powerful. By being able to prep you as a buyer of a solution, prep you with those questions, then it’s just something that’s ingrained with how you expect solutions to work.

Charles Dominick: So I guess the more prepared an organization is in terms of understanding its processes, understanding its unique reporting requirements and so forth, the more value they’ll get out of a demonstration like that.

Ravi Thakur: Absolutely.

Charles Dominick: So the time to learn your processes might be before you go shopping for a procurement automation solution and not afterwards when you’re trying to figure out, well I never thought of this oddball way we do things or that we have to do things I should say, so how do we make it work now after we’ve invested x number of dollars? So kind of expanding on that, not every procurement solution is created equal. Some are better than others, and enterprise software is a very big investment. Implementation can be a long drawn out process. Some people who go through these big software implementations will say afterwards, “Gosh, I wish I would’ve known about such-and-such thing before we got started.” So what are some of the things that these people learned too late, and how might they have softened the pain involved with implementation?

Ravi Thakur: Yeah, that’s a great question. What we’ve seen here is, especially in this area, is making sure that the technology relates back to what
I like to call the culture of the organization. We work with companies like Pandora and SalesForce.com. These are very hip and younger generation, and making sure that what you’re providing to your employees, making sure that what you’re putting in front of them on a day-to-day basis is something that they can use and really not avoid. What we see with this is, is your company really geared for change? This comes into the whole change management paradigm.

What I mean by that is as you embark on a software purchase or a software implementation, remember a good procurement tool, a good procurement platform is typically the second most used piece of software within the company besides email. What I mean by that is a solid and a good procurement tool is gonna get you 80 to 100 percent of all your spend under management, and that means your marketing folks, that means your engineering folks, that means your facilities folks, that means people in your mailroom. Everyone within the company is going to be leveraging and using that technology. There’s very few solutions out there of any type of software that’s really used by most people within an organization.

So make sure that you first off understand that and that should be your goal as a procurement executive, ‘cause if you don’t have that as your procurement strategy odds are that it’s gonna fail. So make sure you understand it. Make sure you have the right change management plan in place such that when you roll it out you have the executives talking about it as we talked about before. Make sure that you’ve kicked it off such that your best friend that runs operations, that they’re the first people to go on it before you roll it out to other groups because that person is gonna talk really highly of it and create that snowball effect, making sure that within the organization everyone is able to see the value and hear the stories about the great successes that you’ve done with this organization or this organization or this organization as you continue to roll it out.

One of the real successes that we’ve seen with Coupa is we rolled out to one of the largest rent to own companies in the United States, about 3,500 locations, and we didn’t have to train them. They had a vast training program ready to go in order to get their employees to start using the solution, start using Coupa, and they cancelled the training program because once it rolled out people saw how intuitive it was to use. That’s an example of where you’re able to leverage a technology or a solution that employees can see and they can grasp and they understand it, that you avoid
the training costs, you avoid a lot of the change management, which fails procurement technology and which fails procurement strategies.

*Charles Dominick:* That’s kind of an underestimated cost, the training cost. Before Next Level Purchasing I had worked at a university in a procurement management role, and basically after we implemented e-procurement, which was way back probably before the big dot com boom or in the early stages of it, I had people in my group doing the training, training the users, and yeah for its time it was a pretty easy procurement solution to use, but we had to do training on it and the time that I had my people doing training had taken away from the time they could’ve been spending negotiating contracts, collaborating with suppliers, or doing other things that could add value.

It was a short term project, training people across the university, but still it’s time that you just can’t get back. So that is something to say for some of the modern procurement automation tools. If you can avoid having to train people because the solution is so easy, you’ll tend to get much more compliance and you’ll tend to avoid some of these costs that you might not have anticipated.

*Ravi Thakur:* Yeah, and even with that, attrition happens. Employees leave universities, they leave companies, they leave organizations all the time. So when you have that attrition you’re training your folks back at the university, you had new people coming in year after year. A lot of their day would have to go to that.

*Charles Dominick:* Exactly. Now what else should procurement professionals know about creating and implementing new procurement strategies and automating their procurement processes?

*Ravi Thakur:* The biggest thing here is don’t do it in a vacuum. I was working with a human capital management company, and they had two contracts with a very large server provider, and they had one contract with their operations team and they had another contract with their IT team. Two different contracts, same server provider, hardware server provider, and the same company, and because their organizations were working in silos they were not able to leverage the joint buying power of their company, of their single company to negotiate with that hardware provider.

That’s an example where when organizations don’t talk, when you have organizations or procurement organizations that are afraid to go out and work with their peers, when you have that, those are
examples where procurement strategies, anything that you really try to do fails. My recommendation to my clients all the time is, look, you’re in procurement. You’re the quarterback. You’re the quarterback of saving money and managing everything going through your supply chain, so what are you doing with that power?

Are you going and working with your peer, your VP of R&D or your VP of operations and looking at their costs and giving them recommendations for, “Well if this server doesn’t work and you’re seeing these types of issues then we have this other supplier with a better warranty and by the way, the folks in facilities are already buying from them”, and looking at everything holistically we could save x million dollars a year by potentially switching suppliers, or we’ve worked with clients to help them with looking at replacing parts within a particular item that they’re selling, and if they’re able to replace a part with something else that’s very similar that’s being used with someone else in the organization you’re able to again help that particular division with the company.

So as a procurement leader the single biggest thing that I always talk to my clients about is don’t do things in a vacuum. Partner with your CFO around the metrics. Partner with your VP’s of all the different revenue producing and cost center organizations within the company, because you have all the data. You’re the only one within the company that has visibility across all the spend, across what everyone’s doing, so leverage that. Leverage it in a way that can not only provide you more value within the company but then as you go out and you wanna invest in new tools, new policies, you’re able to do that with a lot more ease because everyone understands what you bring to the table.

Charles Dominick: Great points. Ravi, we have just a little time for you to tell us about Coupa, what it does, and how someone interested in Coupa’s solutions can get in touch with the company.

Ravi Thakur: Great. So what Coupa does is we provide a spend optimization platform and what that really means is getting all spend under control, purchase orders, inventories, requisitions, travel and expenses, such that you have everything under one room and you’re able to then optimize against that through reporting, through analytics. In addition to all of that we also do offer some inventory, some contract compliance, RFQ capabilities, so really rounding out what a procurement organization and really what a CFO needs in order for them to get his or her business under control.
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We are delivered software as a service using delivery mechanisms using the cloud, so we are a true multi-tenant software as a service offering. There are no on-premise installations allowing our companies to see greater value from all of the energy and efficiency that we put into the product. We’ve had explosive growth over the past 13 quarters, 225 plus customers across 40 different countries and over 70,000 users on daily basis now, and you can find out more about Coupa at www.coupa.com.

Charles Dominick: Perfect. Well there you have it, folks. Hopefully you now have some new ideas for creating or revising a procurement strategy in such a way that it will maximize your results. If you’re looking for procurement automation you’ve been introduced to one of the key players in the field, Coupa. So Ravi, thank you so much for joining me today.

Ravi Thakur: Charles, thank you very much for inviting me.

Charles Dominick: And on behalf of Next Level Purchasing I’d like to say a special thank you to all of our listeners out there. I hope the information in today’s program helps you all in having a more successful and rewarding purchasing and supply management career. Don’t forget, if you want to have a more rewarding purchasing career or if you’re a purchasing leader and want to get the best results from your purchasing team, the most effective approach to achieving these results is the SPSM Certification offered exclusively through the Next Level Purchasing Association. You can get more information at www.nextlevelpurchasing.com. So until our next podcast this is Charles Dominick signing off from this edition of the Next Level Purchasing Association Podcast Series. Good day.