© Spend Matters. All rights reserved.

Spend Matters™

RESEARCH

The Procurement Services Market: Backdrop and Challenges

By: Pierre Mitchell, Chief Research Director, Azul Partners, Inc. / Spend Matters

This content originally appeared on Spend Matters. It has been reprinted with permission for corcentric™

Introduction

With all the focus on Software as a Service (SaaS) in the procurement market, many forget the importance of procurement services as a, well, service. What do these services include?

These services include not just consulting, but:

- Business process outsourcing (BPO)
- Knowledge process outsourcing (KPO)
- Supplier management
- Quality and auditing services
- Content/information services
- Network services
- Intelligence services
- Training/certification services
- Adjacent services (e.g., working capital, asset disposition, transportation, legal, group buying, M&A support)

Some of these areas are procurement-specific, but many also are part of a broader services spectrum.

Procurement practitioners have gotten smarter and more sophisticated in how they buy procurement services; however, they do face numerous challenges that prevent them from unlocking more value from the market and making their lives easier. Here are 10 of them:

10 Challenges Procurement Practitioners Have When Buying Procurement Services

- Typically, procurement organizations do not have a lot of their own budget being spent externally; a common range is around 0.1-0.3% of spending (obviously more if they're more heavily outsourced).

- As such, they will work with other stakeholders to latch on to their budgets for technology (IT), talent management (HR), working capital (Finance), etc. But this is a dual-edged sword, and is often manifested when McKinsey and others have the CEO's ear and use their magical database to run the G/L and AP history against to highlight x% additional savings that procurement should be delivering.

© Spend Matters. All rights reserved.

- The specter of outsourcing will always loom, and as procurement organizations themselves refine their own internal service delivery, external service providers can be "co-opetition." The CPO needs to have a clear point of view on external services firms and whether they just deliver results or also help build new capabilities.

- There are many factors that influence the previous point, which we'll discuss in future briefs, but the biggest issue deals with learning how to consume the services better. Rotating consultants, non-lasting results, non-productive consultant time, bureaucracy, etc. usually starts upstream with dysfunctional aspects of company processes (e.g., budgeting, contract/vendor management) and culture (e.g., poor change management and high management turnover).

- It's easy to focus on individual services deals (e.g., consulting projects) without seeing the bigger picture of how the services firms are trying (or not trying) to accommodate market demands. Knowing where they are going or where they should go is key to influencing them.

- Procurement is not necessarily regarded internally as the architect for maximizing the strategic value from third-party relationships. Competencies need to be expanded in sourcing, supplier relationship management, knowledge management, talent management, and internal customer management.

- Providers themselves get locked into their individual business models and often are lacking in innovation and product development/management processes for their 'service products'. For example, management consultants are often slaves to the billable hour and will not easily part with their knowledge in terms of advice or written intellectual property for fear of cannibalization. Being generalists and 'buffalo hunters' chasing big deals with predominantly onshore resources is not a recipe for long-term growth.

- Providers don't play nicely together. This isn't just about direct competitors not playing well together, but also getting complementary providers to work together in various ways. Yet, practitioners would like to make the services more modular and easier to consume while also having a greater breadth of services within a provider.

- Procurement itself and other functions are internal service providers, and need to commoditize lower-value service and raise their game to the next level. Service providers can be enablers in this equation if engaged early, but they might also enter in the equation if procurement doesn't do this (e.g., large scale BPO firms taking over procurement organizations who've not evolved).

- The procurement services market, broadly defined, is very fragmented, and there are many sub-segments that are increasingly overlapping. For example, take supply market intelligence (SMI) for indirect procurement. This is an area supported by management consultants, BPO/KPO firms, SMI specialist firms, research & advisory firms, and others. Unfortunately, there aren't many good one-stop-shops for getting market intelligence on this vast landscape of segments. Some are covered by IT analyst firms, others from specialist advisory firms, and many are not covered at all!

There are clearly many challenges to getting more value from service providers, but where there are challenges, there also opportunities. Consider how procurement organizations that know how to engage services providers for maximum benefit for their own requirements are also likely to become better vendor managers across other categories of professional services spend areas. ■

© Spend Matters. All rights reserved.

About the Author

Pierre Mitchell leads the procurement research activities at Spend Matters. He has 25 years of procurement and supply chain industry and consulting experience, and is a recognized procurement expert specializing in supply processes, practices, metrics, and enabling tools and services. Prior to Spend Matters, he was the first industry analyst to put procurement research on the map for both AMR Research (now Gartner) and later at The Hackett Group. He has also led numerous operations and systems transformations at Fortune 500 organizations. Industry positions include manufacturing project manager at The Timberland Company, materials manager at Krupp Companies and engineer at EG&G Torque Systems. He holds an engineering degree from Southern Methodist University and an MBA from the University of Chicago. His recent writing can be found at: http://spendmatters.com/author/pierre/

Further information on this topic and others can be found at the website: www.spendmatters.com. Reproduction of this publication in any form without prior written approval is forbidden. The information in this report has been obtained from sources believed to be reliable. Spend Matters disclaims all warranties as to the accuracy, completeness, or adequacy of such information and shall have no liability for errors, omissions, or inadequacies in the information contained herein or for interpretations thereof. The reader assumes sole responsibility for the selection of these materials to achieve its intended result. The opinions express herein are